

ANNUAL REPORT 2017

البنك الأول
Alawal bank



بنك البلاد



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



His Royal Highness
Prince Mohammad Bin Salman Al-Saud
Crown Prince and Deputy Prime Minister and
Minister of Defense



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Financial Highlights

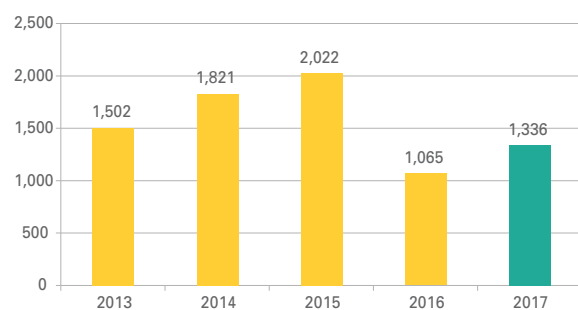
2013 - 2017

CONSOLIDATED INCOME STATEMENT (IN SAR MILLION)	2017	2016	2015	2014	2013
Special commission income, net	2,766	2,507	2,298	1,966	1,624
Total non-special commission income	946	1,178	1,302	1,216	992
Total operating income	3,712	3,685	3,600	3,182	2,616
Operating expenses	1,266	1,336	1,159	1,011	895
Net Operating income	2,446	2,349	2,441	2,171	1,721
Impairment charge for credit losses & investment, net	1,120	1,288	418	346	219
Net income	1,336	1,065	2,022	1,821	1,502
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IN SAR MILLION)	2017	2016	2015	2014	2013
Shareholders' Equity	13,600	12,663	12,027	10,742	9,401
Customers' deposits	78,275	85,359	89,088	76,814	61,875
Loans and advances to customers, net	63,639	72,743	76,412	65,148	53,211
Investment, net	16,689	21,258	21,263	18,784	16,849
Total assets	99,870	104,990	108,070	96,619	80,468
NO OF SHARES OUTSTANDING (IN THOUSANDS)	1,143,072	1,143,072	571,536	476,280	396,900
NUMBER OF EMPLOYEES	1,706	1,713	1,691	1,637	1,534
NO OF BRANCHES	67	65	60	55	48
FINANCIAL INDICATORS	2017	2016	2015	2014	2013
Net earnings per share (SAR)	1.17	0.93	1.77	1.59	1.31
Payout ratio (dividend/net profit) %	12.83	0.00	14.70	34.00	31.19
Net asset value per share (SAR)	11.90	11.08	10.52	22.55	23.69
RATIOS	2017	2016	2015	2014	2013
Return on average equity %	10.17	8.62	17.76	18.08	16.96
Return on average assets %	1.30	1.00	1.98	2.06	2.02
Capital adequacy ratio % (Tier 1 plus Tier 2)	20.34	17.62	15.58	15.85	18.32
Efficiency ratio %	34.10	36.25	32.20	31.78	34.22

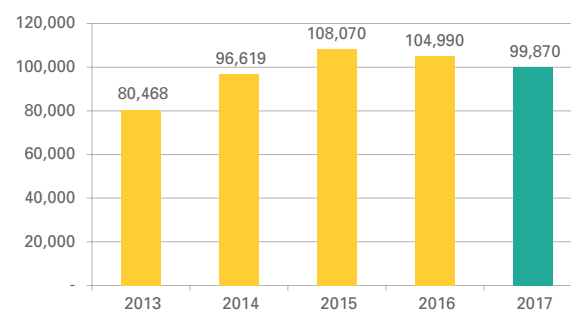
Credit Ratings

Rating Agency	Long-Term	Short-Term	Outlook
Moody's	A3	P-2	Stable
Fitch Group	BBB+	F2	Stable

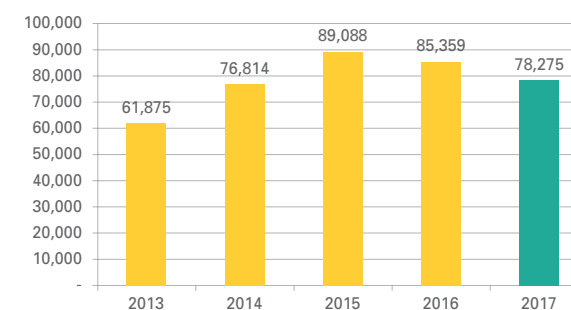
Net Profit (Amounts in SAR Millions)



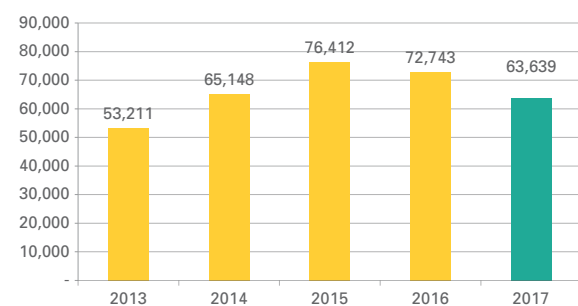
Total Assets (Amounts in SAR Millions)



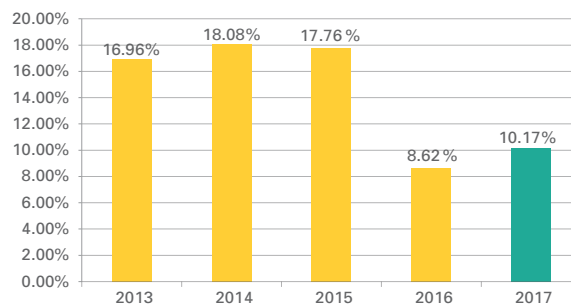
Customers' Deposits (Amounts in SAR Millions)



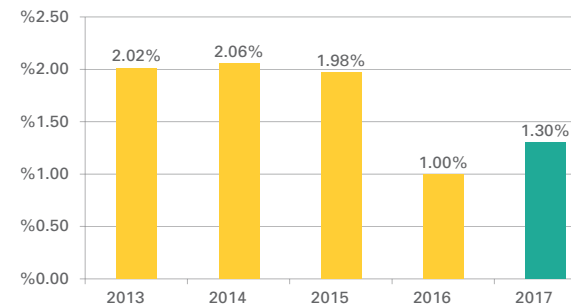
Loans & Advances (Amounts in SAR Millions)



Return on Average Equity (%)



Return on Average Assets (%)





	2017	2016	2015	2014	2013	2012
Total Assets	99,870	104,990	108,070	96,619	80,468	68,506
Total Liabilities	86,270	92,327	96,043	85,877	71,067	60,200
Net Asset	13,600	12,663	12,027	10,742	9,401	8,306

DISCLOSURES UNDER BASEL III FRAMEWORK


Certain qualitative and quantitative disclosures are required under the Basel III framework on quarterly, semi-annual or annual basis. These disclosures are made available on the Bank's website www.alawwalbank.com within prescribed time as required by SAMA. Such disclosures are not subject to audit by the external auditors of the Group.

Board of Directors

 **Alawwal Bank**
A Saudi joint stock company


 **Commercial Registration Number**
1010064925

 **Share Capital**
SAR 11,430,720,000 fully paid represented by 1,143,072,000 shares of SAR 10 each

 **Shareholders**
Saudi nationals 60%, ABN AMRO Bank N.V. 40%

 **Head Office**
P. O. Box 1467, Riyadh 11431, Saudi Arabia

 **Website**
www.alawwalbank.com

 **Telephone**
+ 966 11 401 0288



Engr. Mubarak Abdullah Al Khafrah
Chairman



Mrs. Lubna Sulaiman Olayan
Vice Chairperson



Mr. Sulaiman Abdullah Al-Kadi
Board Member



Mr. Abdulhadi Ali Shayif
Board Member



Mr. Martin Powell
Board Member



Mr. Eyad Abdulrahman Al-Hussain
Board Member



Mr. Javier Maldonado
Board Member



Mr. Frank Vermeulen
Board Member



Mr. Ahmed Al-Aulaqi
Board Member



Mr. Soren Kring Nikolajsen
Managing Director

Our First 91 Years

1926

The seeds for the establishment of the Bank are sown when King Abdulaziz sends his son, Foreign Minister Prince Faisal bin Abdulaziz (later King Faisal), to visit the Netherlands on a diplomatic mission to highlight Saudi-Dutch relations and trade cooperation.



1928

The Bank plays a key role in one of the most important events in the contemporary economic development of modern Saudi Arabia – the issuance of the first independent currency, the Saudi Riyal.



1930

Continuing its pioneering role in the development and modernization of the Kingdom, the Bank provides financing for the first ever imports of Ford motorcars into the country – a venture that would transform the landscape of the Kingdom and the lives of its people.



1945

The Bank performs an historic transfer of millions of Gold sovereigns into the Kingdom at the request of the Arab American Oil Company (ARAMCO).

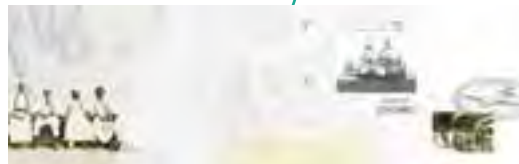


1926



Ushering in a new era for the people of the Kingdom, the Bank (then the Netherlands Trading Society) opens its office in Jeddah and becomes the first commercial bank to operate in the country.

1927



More than 52,000 pilgrims arrive at Jeddah Port from the Dutch East Indies in 1927, representing 42 percent of all overseas pilgrims that year. In the newly established Bank they find a partner ready to serve their financial needs and support them in completing their pilgrimages.

1933



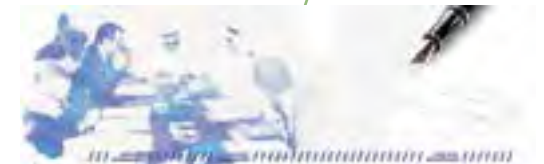
Signaling the rise of a new era in the modern development of the Kingdom, a royalty contract is signed between Saudi Arabia and the Standard Oil Company of California (SOCAL), and the first oil payment is received.

1950



The 1,700-km Trans-Arabian Pipe Line (TAPLINE) is completed, an astounding technical achievement that linked the oil fields of the Eastern Province to Lebanon and the Mediterranean.

1977



The highly revered Hussein Al Attas is appointed the Bank's first Chairman, and a network of new branches is developed with offices in Riyadh, Jubail, Makkah, Hofuf, Madinah and Qatif.

1990

The Bank reinforces its position as an innovative force for Saudi banking by installing the first automated teller machine (ATM) in Dhahran Airport, while the Jeddah main branch inaugurates its first Corporate Banking department.



1990

The Bank adopts a fresh logo for a new decade, reflecting the changing ambitions and demographics of its customers, and the people and businesses across the Kingdom.



2003

Reflecting the latest technological developments in banking services around the world, the Bank issues the first ever Smart Credit Card to customers in the Kingdom.



2017

Alawwal Qitaf Credit Card was launched in partnership with STC, opening a new world of rewards for our customers.



2017

Launched our best digital branch initiative "IBDA", creating a social space for people to enjoy a coffee and do their banking at the same time.

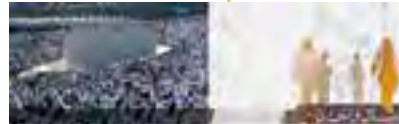


1996



Launching homegrown satellites into orbit put the power of modern telecommunications into Arab hands. People, businesses and governments across the Arab world became more connected, entertained and secure thanks to two Arabsat satellites financed by the Bank.

2005



Adding to its history of supporting pilgrims to Makkah Al Mukarrama that stretches back to its earliest years, the bank leads a consortium of eight Saudi Arabian banks in financing the new SR 1.5 billion Jamarat bridge project in Mina.

2016



Alawwal Bank embarks on a strategic path to focus on its people: to align with the shifting times and prepare for the new era with a new image and focus.

2017



In continuation to our constant development and closer presence towards our customers, we have expanded our branch network to 68 branches and increased our total number of ATMs to 560 around the Kingdom. In addition, we have also launched our innovative new generation mobile banking application.

An abstract graphic on the left side of the page, consisting of a complex network of thin, light blue lines that resemble a circuit board or a digital signal path. The lines are interconnected and branch out, creating a sense of movement and connectivity. The background is a solid dark blue-grey color.

DIRECTORS' REPORT

Directors' Report

For The Year Ended
31 December 2017

INTRODUCTION

A record year for revenue and operating profit

The Board of Directors of Alawwal bank is pleased to present its annual report to the bank's valued shareholders for the financial year ended 31 December 2017.

Despite a challenging economic backdrop, 2017 has been a record year for both revenue and operating profit for Alawwal Bank while cost of risk remained above normalised levels. In a difficult year for the financial services industry, Alawwal bank's strength and depth ensured 2017 was a year of both resilience and progress.

Alawwal bank reported net profit of SAR 1,336 million, up 25.4% year-on-year. Total operating cost, excluding impairment charge for credit losses and impairment charge for available for sale investments, reduced by 5.2% resulting in operating profit of SAR 2,446 million (+4.1%). The bank's total assets finished the year at SAR 99.9 billion, down 4.9% compared to the end of 2016. Alawwal bank's capital ratio improved significantly with Tier 1 capital adequacy ratio reaching 16.2% and total capital adequacy at 20.3%.

Innovation and expansion

2017 saw Alawwal bank continue to build on its proud legacy of supporting its customers and the Kingdom through continuous improvement of its services.

Expansion in the retail banking business continued with focus also on diversifying the bank's credit portfolio, revenue mix and funding base. The bank extended its reach across the Kingdom, increasing the total number of branches to 67 and the ATM network to 558. Alawwal bank opened its first digital branch 'IBDA' in Riyadh - a new concept of branch banking in the GCC, offering a range of new services, faster account opening and instant card issuance - in a coffee shop setting.

2017 was a year of continuous investment in innovation, establishing an unrivalled range of digital banking services in the Kingdom. Alawwal bank's online and mobile platforms saw significant growth in active users, rising 66% and 41% respectively. Mobile and online transactions grew by 51% year-on-year. The bank also introduced a more competitive range of digital services for businesses. A package of new digital payment services, as well as payroll and receivables

solutions helped improve efficiency for business customers, as well as increasing online channel utilisation by 86%.

Industry recognition

The significant achievements of the bank in 2017 secured a number of high profile endorsements from respected regional and international institutions. Alawwal bank won a number of awards including: 'Best Retail Bank' and 'CEO of the year (Banking)' for the Middle East from Le Fonti, 'Best Digital Bank in Saudi Arabia', 'Best Mobile/Apple Watch Application in Saudi Arabia' and 'Best Loyalty Program in Saudi Arabia' from The Banker Middle East, and 'Best Loyalty & Rewards Program in the MENA' from MasterCard International.

Merger discussions

Alawwal bank announced on 25 April 2017 that its board of directors resolved to start initial discussions with Saudi British Bank (SABB) to study the possibility of merging the two banks.

If an agreement is finalised, this will be subject to a number of conditions including, without limitation, the approval of the relevant regulatory authorities in the Kingdom of Saudi Arabia and the approval of the extraordinary general assembly of each of Alawwal bank and SABB.

More information on performance, the business segments and their markets can be found in the Business Review section of this report.

1. FINANCIAL HIGHLIGHTS

Alawwal bank recorded a net profit of SAR 1,336 million for the year 2017, an increase of 25.4% compared to 2016 net profit of SAR 1,065 million. The variance in operating results of the bank for the year 2017 compared to 2016 is summarized below.

The bank generated a 10.3% growth in net special commission income year-on-year. After a decrease in fee and commission income by 12.1%, a gain on non-trading investments by 66.6% and certain other non-special commission based revenue streams, the bank achieved a 0.7% growth in total operating income.

The bank reduced operating expenses by 5.2%, excluding the impairment charges for available for sale investments and credit losses. This reduction was achieved mainly through decreases in

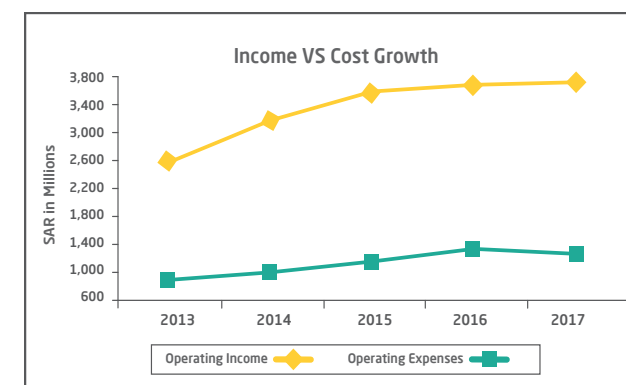
general and administrative expenses by 23.5%, as well as salaries and employees related expenses by 3.2%. These were offset by an increase in depreciation and amortisation by 35.4%. The impairment charges for available for sale investments and credit losses reduced by 100% and 4%, respectively.

The cost-income ratio for the year stood at 34.1% versus 36.2% in 2016. The decrease was partially due to one-off costs associated with the bank's re-branding in 2016.

The balance sheet contracted by SAR 5.1 billion, or 4.9% year-on-year. Loans and advances decreased to SAR 63.6 billion or 12.5% versus 2016. Customers' deposits decreased by 8.3% compared to 2016. Alawwal bank's strong capital and liquidity positions were further strengthened. The bank's total capital adequacy ratio ended at 20.3% with the Loan-to-Deposit ratio at 78.6%.

During 2017, there was a continued emphasis on credit quality and risk-reward ratios, with the bank maintaining its conservative approach towards credit provisioning. Provision coverage of non-performing loans at the end of 2017 was 139.6%, compared to 130.0% the prior year. Alawwal bank's provisions to total loans stood at 4.2%, up from 2.9% in 2016.

The income vs. costs growth graph below, (excluding provisions for credit losses and impairment charge for available for sale investments), displays the success of the bank's tight cost management over the years.



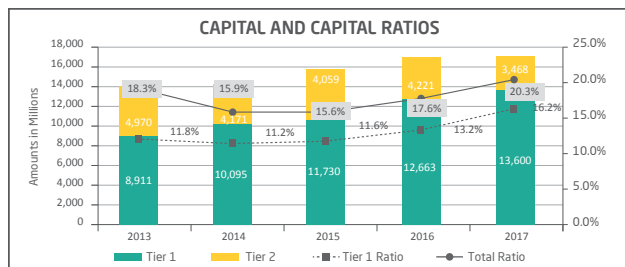
Key operating segment financial data

2017 SAR' 000	Corporate banking	Personal banking	Investment banking and investment services	Central treasury and ALCO	Total
Total assets	43,661,906	19,977,577	748,030	35,482,317	99,869,830
Total liabilities	22,392,629	27,180,681	208,884	36,487,940	86,270,134
Net income for the year	351,491	580,568	6,752	396,707	1,335,518

Key Financial Information for last five years

SAR millions and rounded off	2017	2016	2015	2014	2013
Loans and advances	63,639	72,743	76,412	65,148	53,211
Investments, net	16,689	21,258	21,263	18,784	16,849
Total assets	99,870	104,990	108,070	96,619	80,468
Customers' deposits	78,275	85,359	89,088	76,814	61,875
Due to banks and other financial institutions	3,345	1,348	1,357	3,055	2,494
Subordinated debt	2,505	3,910	3,907	3,900	4,625
Shareholders' equity	13,600	12,663	12,027	10,742	9,401
Net income for the year	1,336	1,065	2,022	1,821	1,502
Earnings per Share - SAR	1.17	0.93	1.77	1.59	1.31
Net Dividends per share - SAR	0.25	-	0.25	1	1

	2017	2016	2015	2014	2013
NPLs	1,986	1,656	824	842	739
NPL to Net Loans (%)	3.1	2.3	1.1	1.3	1.4
Coverage (%)	139.6	130.0	166.8	160.6	161.5
Capital ratios (%)					
- Tier 1	16.2	13.2	11.6	11.2	11.8
- Total (Tier1+ Tier II)	20.3	17.6	15.6	15.9	18.3
Loans to deposit (%)	78.6	81.3	82.3	80.9	80.3
Liquidity ratio (%)	34.7	25.9	25.7	24	25.8



Conclusion

Despite one of the most challenging economic environments in recent years, Alawwal bank's core business continued to perform well with record revenue and record operating profit. Prudent provisions for potential credit losses were taken and the bank maintained a disciplined approach to asset quality and risk-returns. Alawwal bank's capital base strengthened significantly with the Tier 1 capital at 16.2% and Total capital at 20.3%. These robust capital levels will allow the bank to meet its growth strategy and dividend policy in future years.

2- BUSINESS SEGMENTS

The bank is organised into three main business segments: Corporate Banking, Personal Banking and Treasury. In addition, it provides brokerage, asset management and investment banking services through Alawwal Invest, a wholly-owned subsidiary. Other subsidiaries are the bancassurance distribution arm, Alawwal Insurance Agency, Alawwal Real Estate and Alawwal Financial Markets Limited Company. The bank also holds a 20% shareholding in Wataniya Insurance Company.

The key services provided under each of the main operating business segments are:

2.1) Corporate Banking

The Corporate Banking Group provides institutional, corporate, and commercial customers with a wide range of products and services including term loans, trade finance, guarantees and corporate finance and advisory (in cooperation with Alawwal Invest). It also offers an extensive range of Shari'ah-compliant corporate products under Islamic structures.

2.2) Personal Banking

The Personal Banking Group operates through a national network of branches and ATMs, complemented by a range of phone banking, e-banking, and mobile banking services.

Products in this segment include: current and time deposit accounts, personal loans, home finance, and credit cards. Tailored "Preferred Banking" and "Taqdeer" services are available to qualifying customers who place

sufficient funds with the bank, while Private Banking is offered to high net worth individuals as an exclusive banking relationship with bespoke products and the highest level of personalized services through assigned senior relationship managers. Share trading services and fund management products are available through Alawwal Invest. The bank also offers a wide range of ladies banking services through a network of ladies branches.

2.3) Treasury

Alawwal bank's Treasury provides hedging and investment products for the bank's customers. The Treasury department has retained its leading position in foreign exchange cash products as well as in its structured derivatives businesses in foreign exchange and special commission rates. Moreover, Treasury is among the most active interbank market makers in Saudi Riyal-denominated foreign exchange and special commission rate products. Treasury is also responsible for managing the overall commission rate, liquidity and currency risk on the bank's balance sheet on behalf of the Asset and Liability Committee (ALCO).

The assets, liabilities and results of these segments are set out in Note 26 to the consolidated financial statements.

The activities and services of Alawwal bank's subsidiaries and an associate are:

Alawwal Invest (AI)

Alawwal Invest, a Closed Joint-Stock company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank, was formed in accordance with the Capital Market Authority's (CMA) Resolution number 1-39-2007 under commercial registration number 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to January 9, 2008) to take over and manage the Group's Investment Services and Asset Management activities regulated by CMA related to dealing, managing, arranging, advising and taking custody of securities. Alawwal Invest commenced its operations effective on 2 Rabi'ul 1429H (corresponding to April 8, 2008). Alawwal Invest was converted from a Limited Liability Company to a Closed Joint-Stock Company during the year.

Alawwal Real Estate Company ("AREC").

AREC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010250772 dated 21 Jumada I 1429H (corresponding to May 26, 2008) with the approval of the Saudi Arabian Monetary Agency (SAMA). The Company was formed to register real estate assets under its name which are received by the Bank from its borrowers as collaterals.

Alawwal Insurance Agency Company ("AIAC").

AIAC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company was formed to act as an agent for

Wataniya Insurance Company (WIC), an associate, for selling its insurance products.

Alawwal Financial Markets Limited ("AFML").

Alawwal Financial Markets Limited, an effectively wholly-owned subsidiary of the bank was established and licensed to operate on 04 Jumada I 1438H (corresponding to February 01, 2017), with the approval of SAMA. The Company was formed to engage in derivatives trading, repo and reverse repo activities on behalf of the bank. It was registered in Cayman Islands under incorporation number 319452.

Wataniya Insurance Company ("WIC").

The bank purchased a 20% equity stake in Wataniya Insurance Company in 2008 which enabled the bank to broaden its insurance agency capabilities to complement its retail banking offering. Wataniya was incorporated in 2010.

Further details of subsidiaries and associates are covered in Note 1 and Note 8 to the consolidated financial statements respectively and section 11 of this report.

3. STRATEGY

The bank's strategy supports the pursuit of its primary objectives: to become the bank of choice for its chosen customer segments in Corporate and Personal Banking through maximising customer value by providing comprehensive, personalised, quality service. This core objective will continue to drive business planning and management decision making.

The following are highlights of the strategy for each segment:

The Personal Banking Group

The Personal Banking Group offers a comprehensive product suite, as well as high quality personalized services and market leading online and mobile banking. In 2017, Personal Banking continued its focus on leveraging network expansion to further build and maintain assets and liabilities.

The group continued its investment in innovation, expanding digital channels with new services and creating greater levels of convenience for customers. Consequently, Alawwal online and Alawwal Mobile are fast becoming the channels of choice for retail customers. Online and mobile user penetration stands at 66% and 41% respectively - with registered users increasing 23% overall. The number of online and mobile transactions increased by 51%, with 97% of comparable branch transactions now being conducted through self-service digital channels.

In 2017 the bank launched IBDA, its first digital branch. IBDA is a technology-empowered branch, offering a unique self-service approach in a dual-purpose café environment. The branch is coupled with advisers who complement a true omnichannel experience, increasing customer engagement and offering a popular new banking experience.

The bank's branch network grew by 2 to a total of 67. A further 20 ATMs were installed, taking the total Kingdom wide to 558. The group also maintained emphasis on product development and risk management across the Consumer Loans, Home Finance, Cards, and Deposits businesses. As part of the product innovation approach, in partnership with Saudi Telecom (STC), the bank launched the Alawwal Qitaf credit card, a co-branded card that rewards customers with Qitaf points and other privileges from Alawwal and STC. Personal Banking's focus on innovation and customer experience was recognized with multiple awards, in 2017, including the 'Best Retail Bank in the Middle East' from Le Fonti, 'Best Retail Bank in Saudi Arabia' from The Banker Middle East and 'Best Retail Bank in the Kingdom' from The Asian Banker.

The Corporate Banking Group

Alawwal bank offers a comprehensive range of products and services to help businesses of all sizes trade successfully, as well as supporting them through each stage of their growth cycle. The Corporate Banking Group at Alawwal bank, comprises two segments: Institutional Banking for large corporations and Corporate Banking for small and medium-sized enterprises and mid-tier corporations. During 2017, Corporate Banking Group continued its strategy to consolidate its position in this critical

segment and maintain support for some of the most respected businesses in the Kingdom. The bank has continued investment in its digital channels with new and improved services, offering more convenient banking and greater efficiency for businesses. New services in auto bill payments, high volume payments, payroll services and the Kingdom's first end-to-end receivable management system have added to the bank's competitive standing in the market, as well as increasing online channel utilization by 86%. The bank also introduced multiple account cash deposit machines across the Kingdom, improving accessibility to a key banking service for many businesses in remote areas.

SME Banking

SME Banking at Alawwal bank forms part of the Corporate Banking Group. Alawwal bank puts special focus on assisting this important segment of the economy. A wide range of products and services are offered to support SME's in their business needs. Alawwal bank's SME banking are located in all three main regions of the Kingdom where customers are served by dedicated SME Relationship teams. Alawwal bank's SME solutions include among others, working capital financing, project financing, treasury solutions as well as a range of Cash Management and Trade services. In addition to financial services, SME banking at Alawwal bank is also

pioneering Non-Financial Services "NFS" to SME's through its industry leading web based Business Owners Toolkit portal. The portal can be accessed at <https://sme.alawwalbank.com/en>.

During 2017, Alawwal bank continued to actively support various SME development initiatives. Commitment to the Kafalah Guarantee program is one such example. The bank is working closely with Kafalah Guarantee Program to provide financing to this important segment. Active engagement with the 9/10ths SME entrepreneur development initiative was also initiated during 2017. Alawwal bank will continue to develop ways to support SME's, recognising the sectors important role in the Kingdom's economic development.

SMEs training initiatives and workshops are as follows:

	2017
Number of man days training provided to staff	417
Number of man days training provided to customers	-
Total number of staff in SME	38

31-Dec-17 (SAR x 000)	Micro	Small	Medium	Total
Loans to MSMEs-On balance Sheet (B/S)*	-	822,197	776,168	1,598,365
Loans to MSMEs-Off balance Sheet	-	216,479	300,623	517,102
On B/S MSMEs Loans as a % of total on B/S loans	-	1.20%	1.13%	2.33%
Off B/S MSMEs Loans as a % of total Off B/S loans	-	0.83%	1.15%	1.98%
Number of loans (On and Off)**	-	1,124	827	1,951
Number of customers for loans (on and Off)**	-	519	146	665
Number of Loans granted by Kafalah Program (On and Off) **	-	81	-	81
Amount of Loans granted by Kafalah Program (On and Off)	-	132,498	-	132,498
31-Dec-16 (SAR x 000)	Micro	Small	Medium	Total
Loans to MSMEs-On balance Sheet (B/S) *	-	1,117,426	727,878	1,845,304
Loans to MSMEs-Off balance Sheet	-	177,723	315,711	493,434
On B/S MSMEs Loans as a % of total on B/S loans	-	1.46%	0.95%	2.42%
Off B/S MSMEs Loans as a % of total Off B/S loans	-	0.61%	1.09%	1.71%
Number of loans (On and Off)**	-	1,222	841	2,063
Number of customers for loans (on and Off)**	-	562	161	723
Number of Loans granted by Kafalah Program (On and Off) **	-	147	-	147
Amount of Loans granted by Kafalah Program (On and Off)	-	203,031	-	203,031

* The data provided is total loans under Business Banking. For the year 2017 and earlier, SAMA definition of MSMEs provided for in circular (381000064902) is not applied which will be applicable to the year 2018 and onwards.

** These are actual numbers and not rounded off in SAR thousands.

Treasury, Alawwal Invest, Alawwal Real Estate, Alawwal Financial Markets Limited and Islamic Banking.

Treasury, Alawwal Invest, Alawwal Real Estate and Alawwal Financial Markets Limited provide products, services and advisory expertise to the bank's corporate and personal banking customers. The Treasury unit provides corporate and personal banking customers with hedging solutions and investment yield enhancement offerings. Alawwal Invest offers a full range of brokerage, asset management and investment banking products. Alawwal Real Estate provides real estate purchase and registration services in support of the bank's Home Finance business. Alawwal Financial Market Limited's business purpose is to facilitate trading of certain derivative financial instruments.

Additionally, the bank continues to invest in its Islamic business and is aiming to be a leader in this field. To this end, the Islamic Banking Unit provides expertise and support to all business units in the bank.

4. RISK MANAGEMENT

4.1 Introduction

Risk management is of paramount importance in a banking environment. Sound risk management ensures that all material risks are identified, measured, monitored and reported and that the risk appetite set by the Board is adhered to in the pursuit of the bank's strategic objectives.

Alawwal bank's risk management approach is guided by its Risk Governance Framework. This Framework sets out the bank's risk management principles, the roles and responsibilities of the Risk Management function and the methods used to manage risk. These methods include: internal policies; procedures; limits; stress-testing; risk monitoring; and reporting as well as fully complying with all regulatory requirements as set out by the Saudi Arabian Monetary Authority (SAMA). Risk management methods extend to specific guidance and techniques to be considered when structuring transactions.

The bank's Board Risk Committee (BRC) provides guidance and strategic direction to management with respect to the bank's Risk Governance Framework. The BRC is responsible for advising the Board on matters such as risk appetite and strategy, risk assessment processes, policies, regulatory developments and risk infrastructure considerations, and to provide remedial guidance should material breaches of limits occur.

4.2 Overview of risk-weighted assets and capital approach

Alawwal bank's main business activities are corporate relationship banking and retail banking in the Kingdom of Saudi Arabia. Many of the bank's corporate customers have a long-standing relationship with the bank and have stable credit histories and experience in operating through multiple economic cycles enabling the bank to take a long term view.

Over recent years, the bank has improved asset diversification by significantly growing its retail business. This has been achieved in part through the expansion of the bank's branch network and also through extending the retail product offering, notably the Home Finance product. Being predominantly a commercial bank, Alawwal bank's balance sheet is dominated by Credit Risk assets, as demonstrated in the Pillar I risk-weighted assets as at the end of 2017.

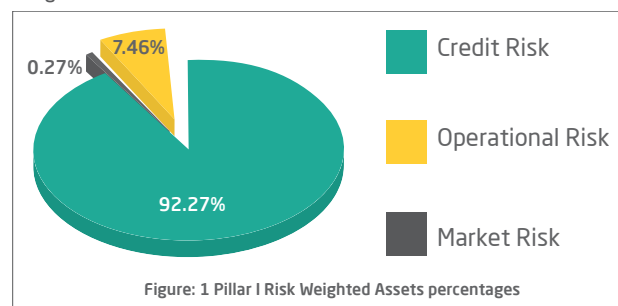


Figure: 1 Pillar I Risk Weighted Assets percentages

4.2.1 Capital adequacy approach

SAMA requires all banks in the Kingdom of Saudi Arabia to operate in accordance with the Basel III framework. In addition to setting minimum international capital requirements, Basel III introduces minimum standards for Liquidity Risk: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

The Basel framework consists of three pillars which are intended to increase robustness and transparency within the financial system:

- **Pillar I:** refers to Minimum Capital Requirements relating to Credit Risk, Operational Risk and Market Risk. Alawwal bank prepares its Pillar I capital requirements under the standardised approach; further financial details are provided in Note 35 to the consolidated financial statements;
- **Pillar II:** the Internal Capital Adequacy Assessment Plan (ICAAP) requires banks to assess and demonstrate to the supervisor that the level of capital held adequately supports all relevant current and future risks in their business;
- **Pillar III:** aims to promote market discipline through regulatory disclosure requirements by enabling market participants to access key information relating to a bank's regulatory capital and risk exposures in order to increase transparency and enable comparison.

4.2.2 Pillar II ICAAP overview

An internal assessment of the sufficiency of capital against all the risk types to which the bank is exposed is performed through its annual Internal Capital Adequacy Assessment Plan (ICAAP) process. Applying a range of quantitative and qualitative techniques, the ICAAP is an assessment of the bank's current and projected capital adequacy. Through the ICAAP management ensures and is able to demonstrate to the bank's Board of Directors and to SAMA that the

bank holds sufficient capital to support all material risks to which it is exposed. Together with the bank's stress-testing programme, the ICAAP demonstrates the bank's capability to withstand stress events at varying levels of severity. It, therefore, reinforces the link between risks and capital so that the bank's risk appetite is integrated with its capital planning.

4.2.3 Stress testing overview

Alawwal bank's stress testing programme is performed at the enterprise-wide level and focuses on the key risk types to which the bank is exposed. 'Stress testing' refers to various techniques (quantitative and qualitative) used to gauge the bank's vulnerability to exceptional but plausible events. The bank's stress testing programme incorporates the guidelines set out by SAMA and the principles set out by the Basel Committee and is a key-component of the bank's Risk Governance Framework.

In conjunction with the ICAAP, a major objective of stress testing is to demonstrate that the bank is adequately capitalised and sufficiently liquid to withstand a stress event and, in particular, would be able to restore its financial standing and operations to normal levels without undue reliance on external parties. Sensitivities that are identified during the stress-testing process are followed up with management actions with the intention of mitigating their potential impact in the event of an actual stress event.

The primary stresses focus on credit events - in both the corporate and retail portfolios - together with a reduction in earnings, stressed levels of operational losses and market risk stresses. In total, eight stress scenarios are modelled ranging from mild, severe to reverse. Liquidity stress testing scenarios consider a range of cash metrics and stressed Basel III and other regulatory liquidity.

4.3 Principal risk-types and controls

The following section provides an overview of the principal risk-types the bank is exposed to and the associated risk management approach.

The vast majority of principal risk-types have an associated risk appetite metric forming part of the Risk Appetite Statement set by the Board. On a regular basis, the Board, and its committees, monitor the results of these risk appetite metrics to obtain assurance that the bank is operating within appetite and, where adverse trends or breaches may occur, to assess the adequacy of remedial action taken by management.

The bank's Risk Appetite Statement and metrics are reviewed at least annually. Changes to risk-appetite levels may be recommended taking into account the business environment and strategic developments.

4.3.1 Credit Risk

Credit Risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the bank. Credit Risk arises from the bank's direct lending operations,

its issuance of guarantees, bonds and like instruments, trade finance activities and its investment and trading activities.

The granting of credit to customers is a core business of the bank and accounts for a major portion of the bank's balance sheet and profitability. The quality of the credit portfolio has a direct and important impact on the bank's performance and strength. Credit policies, manuals and procedures specify lending guidelines to manage Credit Risk across the bank's portfolios.

The bank's Corporate Credit Policy & Procedures Manual (CCPPM) ensures that Credit Risk is managed to the highest standard and in a consistent manner throughout the organisation. The CCPPM embodies the core principles for identifying, measuring, approving and managing Credit Risk in all Corporate Banking lending activities and some aspects of Small Medium Enterprises, interbank and Retail Banking lending activities. The CCPPM is reviewed by the Board Risk Committee and approved by the Board.

Credit risk is monitored using a variety of Credit Risk management techniques such as assigning credit ratings, setting limits, monitoring credit exposures, limiting transactions with specific counterparties, continually assessing the creditworthiness of counterparties and through the appropriate structuring of transactions including the use of collateral. Management monitors the market value of collateral on a regular basis and requests additional collateral in accordance with the underlying agreement, if required. In addition, management also assesses the market value of collateral when reviewing the adequacy of allowances for impairment losses.

The bank manages credit exposure relating to its treasury trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. The bank's Credit Risk exposure on derivatives represents the potential cost of replacing the derivative contracts if counterparties fail to fulfill their obligations. To control the level of Credit Risk taken, management assesses counterparties using the same techniques as for lending activities.

Alawwal bank's financial performance could be affected by concentrations of Credit Risk. Concentrations of Credit Risk arise when a number of obligors are engaged in similar business activities or have similar attributes that would cause their ability to meet contractual obligations to be similarly affected by a particular change in economic, political or other conditions. Concentration Risk can also arise from large exposures to a single borrower or group of related borrowers. Management seeks to manage concentration of Credit Risk through the diversification of lending activities and through the use of internal and regulatory limits.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by class of obligor / issuer is provided in Note 6 of the consolidated financial statements. For

details of the composition of loans and advances refer to Note 7 to the consolidated financial statements. Further information on Credit Risk relating to derivative instruments and commitments and contingencies are provided in Notes 29, 11 and 19, respectively, to the consolidated financial statements. Further information on the bank's maximum credit exposure by operating segment is provided in Note 28 to the consolidated financial statements.

4.3.2 Operational Risk

Operational Risk is the risk of loss, whether direct or indirect, to which Alawwal bank is exposed due to inadequate or failed internal processes or systems, human error, or external events. Operational Risk covers 3 main areas: i) financial losses through operational errors, ii) reputational damage and iii) adverse regulatory impact through legal breaches.

The bank follows the accepted 'best practice' methodology of risk assessments and control evaluations for the identification of residual Operational Risks for both existing products and processes as well as for proposed new products and processes. Operational Risks are identified and assessed using the Risk and Control Self-Assessment and Key Risk Indicator tools. A register of risks, controls and mitigating actions is maintained in a central control repository.

Operational Risk Management (ORM) manages Operational Risk for new or changed initiatives/products through an Operational Risk Assessment Procedure (ORAP) the use of which is governed by the bank's ORAP Policy.

All operating losses and issues are recorded in the bank's Governance, Risk and Control system (GRC). GRC is a joint initiative between Operational Risk Management, Compliance, Internal Audit, and Information Security. This unified platform collects and monitors the risks, controls, deficiencies and actions to ensure that the control activities form an integral part of the daily activities of the bank. The control activities are defined for every business level and every department with automated follow-up on non-compliance through approval workflows. Information in the GRC system is analysed by the ORM function; this can result in policies and processes being revised or other controls being adopted to mitigate the prospect of any similar loss re-occurrence.

4.3.3 Market Risk

Market Risk is the risk of losses arising from movements in financial market prices (including foreign exchange, commission rates, credit spread, equities, and commodities) that will change the carrying value of certain of the bank's assets and liabilities.

The bank is exposed to Market Risk due to its trading activities. The bank's appetite for Market Risk is low and limits and controls are in place to ensure that market risk positions are maintained within appetite. The limited nature of the bank's market risk taking can be seen in figure 1 on page 18, which shows that just 0.27% of risk weighted assets derive from market risk positions.

The Market Risk for the trading book is managed and monitored using a variety of measures including a Value at Risk (VaR) methodology. Market Risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

4.3.3.1 Market Risk - Trading book:

The Board of Directors has set limits for the acceptable level of risk in managing the trading book. In order to manage Market Risk in the trading book, management applies a VaR methodology daily to assess the Market Risk positions held and to estimate the potential loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The bank uses simulation 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. Therefore, the use of VaR has limitations as it is based on historical correlations and volatilities in market prices and assumes that future movements will follow a statistical distribution. The VaR model that management uses provides 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 a 99% confidence level implies that within a one-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

Whilst a useful tool, VaR does have a number of limitations. In particular, VaR is calculated by the bank based on the risk of portfolios at the close of a business day. Further, VaR does not account for losses that may occur beyond the defined confidence interval and VaR models rely on historic or implied price movements and correlations being good predictors of future market moves. Actual trading results may differ from the VaR calculations, and the metric needs to be considered with particular care in stressed market conditions.

To overcome the VaR limitations mentioned above, management maintains a framework of non-modeled limits that show potential loss for a given change in a market factor and makes no assumption about the behaviour of market factors. Furthermore, management employs stop loss limits on Market Risk positions and carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Asset and Liability Committee (ALCO) for review.

4.3.3.2 Market Risk-Non-Trading / Banking Book:

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

• Special Commission Rate Risk

Special commission rate risk in the banking book arises from the changes to cash flows on financial assets and liabilities as a result of commission rate changes. The bank is exposed to commission rate

risk as a result of mismatches or gaps in the amount of assets and liabilities and other derivative financial instruments that mature or re-price in a given period. This risk is managed by matching the re-pricing of assets and liabilities through risk management strategies. The Board of Directors has established commission rate gap limits for stipulated periods. These limits are monitored daily by the bank's Treasury Division. Management monitors positions and where necessary uses hedging strategies to ensure maintenance of positions within established gap limits.

The bank identifies, measures and reports Special Commission Rate Risk in accordance with regulatory requirements and within the parameters of its internal Rate Risk Management framework. Special Commission Rate Risk measurement methodologies assess the effects of interest rate changes using an earnings basis and an economic value basis across a number of regulatory prescribed scenarios. These provide meaningful measurements of current levels of interest rate risk exposure, and facilitate management of this risk.

• Currency Risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Exposure to the effects of fluctuations in prevailing foreign currency exchange rates on the bank's financial position and cash flows is managed by the Board of Directors setting limits on the level of exposure by currency and in total. These limits are monitored daily. Hedging strategies are also used to ensure that positions are maintained within these limits.

• Equity Price Risk

Equity price risk refers to the risk of a decrease in the fair values of equities in the bank's non-trading investment portfolio as a result of changes in levels of equity indices or the value of individual stocks. The bank does not have equity price risk as at December 31, 2017. See Note 31, of the consolidated financial statements for further information.

4.3.4 Liquidity Risk

Liquidity Risk is the risk that Alawwal bank may be unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of repurchase transactions, and lending and investment commitments. To mitigate Liquidity Risk, diversified funding sources are sought by the bank and assets are managed considering liquidity positions to maintain a healthy balance of cash, cash equivalents and readily marketable securities.

The management of liquidity is a core function of any bank, being inherent in the maturity transformation process that underlies corporate and retail banking. Given its wide scope, a single measurement to identify Liquidity Risk rarely suffices. The bank therefore applies two broad approaches in managing Liquidity Risk - forward looking and historical. These are underpinned by the bank's Liquidity Risk Management Framework that contains a variety of risk management-techniques, which are consistent with the Basel Committee on Banking Supervision principles for Sound Liquidity Risk Management and Supervision.

Forward looking approaches assess funding needs across the foreseeable future, this is undertaken by the Treasury function, who

manage funding needs across a variety of time horizons. Regular control and monitoring is undertaken by the Risk Management and Finance functions with select reporting extending to senior committees. Historical monitoring includes a wide range of liquidity ratios, both regulatory and internal applied to the actual balance sheet. Product behaviouralisation based on assumptions are applied to actual balance sheet positions to assess the potential emergence of increasing Liquidity Risk.

Alawwal Bank's Contingency Funding Plan sets out the plan of action the bank would use to fund business activity in crisis. The Contingency Funding Plan comprises of two main parts:

- **Part 1:** Analysis and Identification - the risk factors, key reports and metrics that are reviewed on an ongoing basis to identify whether the bank is entering a stressed liquidity environment that necessitates the activation of the Liquidity Crisis Action Plan. It includes the stress scenarios that are deemed to be relevant.
- **Part 2:** The Liquidity Crisis Action Plan - describes in detail the bank's responses to a liquidity crisis. This includes identification of key individuals and formulation of the decision making and communication trees. It further details specific actions and mitigants that could be applied and the individuals responsible for executing them.

The Contingency Funding Plan (CFP) includes a number of stress scenarios, which are tested on an annual basis. As part of the annual CFP testing, the effectiveness of the Liquidity Crisis Action Plan and the suitability of the stress scenarios are observed. The results and recommendations are presented to the bank's ALCO.

The bank performs liquidity stress-testing that, amongst other objectives, is designed to meet SAMA stress-testing requirements. The Basel III 30-day liquidity stress measure, the Liquidity Coverage Ratio (LCR), is the basis of the bank's liquidity stress-testing. Stress scenarios are created by adjusting the assumed behaviour of assets and liabilities. These scenarios are then applied to generate stressed LCRs and other key regulatory and internal liquidity measures including a stressed Net Stable Funding Ratio. The Bank stresses its intraday position based on the Basel scenarios combined with bank specific scenarios.

4.3.5 Macro-Economic and Business Cycle Risk

Macro-Economic and Business Cycle Risk is the risk to earnings as a result of fluctuations in the business cycle. Alawwal bank considers increased financial risk from an economic downturn as part of its assessment of Credit Risk, Market Risk and special commission rate risk. Having done this, the bank assesses potential incremental risks to financial performance, not covered by the aforementioned risk types, such as a reduction in fee income.

The risks posed from an economic downturn and the severity and length thereof are uncertain, and historical data can be no more than indicative. As such, specific risk-mitigants cannot be precise. An economic downturn reduces business activity and therefore reduces the bank's ability to write new business and generate income.

4.3.6 Reputational Risk

Reputational Risk covers the risk of losses due to other market participants, including customers, forming an adverse opinion of the bank, irrespective of whether this opinion is based on fact or merely

perception. Reputational Risk is primarily a risk derived from other risk types, such as Liquidity Risk, Credit Risk or Operational Risk.

Reputation plays a key role in determining whether the bank has a sustainable future. It helps strengthen the trust and confidence of the bank's major stakeholders, which serves to bolster its safety and soundness, competitiveness and business value. A good reputation may also increase the bank's chance of overcoming a market crisis when it occurs. If, however, the bank's reputation has been badly damaged, and public confidence in the bank is undermined, its business prospects and even survival could be in doubt. Managing Reputational Risk (or, more precisely, those risks consequently affecting reputation) and having in place appropriate plans to identify and mitigate these risks warrant special attention and priority.

The bank's principal strategy for managing Reputational Risk is focused on guiding corporate and employee behaviour using the following core components:

- **Alawwal bank's corporate values;**
- **Alawwal bank's business principles;**
- **Alawwal bank's Reputational Risk management policy;**
- **Policies and procedures covering day to day activities of the bank.**

Among the applicable policies and standards are those dealing with customer Acceptance and Anti-money Laundering, credit policies, the bank's Code of Conduct, and the staff whistle-blowing policy.

Alawwal bank adopts a systematic approach to identify, assess and control any risk or potential threat that may adversely affect the bank's reputation. In terms of measurement, the bank conducts an annual Reputational Risk Survey. The purposes of the survey is to identify whether risk management policies and processes and operational controls are operating effectively so as to promote the bank's aim of avoiding Reputational Risk. Reputational Risk is a standing agenda item for the bank's Operational Risk Committee.

4.3.7 Risks in the Islamic Banking Division

Alawwal bank considers risks within its Islamic Banking Division separately. The principal risk areas are commodities fulfillment and handling, Operational Risks and Reputational Risks. For all these areas, specific processes, controls and procedures are in place.

Any failure by the bank to conduct its business in compliance with Shari'ah approvals issued by its Shari'ah Board could cause a serious Reputational Risk. The bank follows a strict policy of zero tolerance in failure to comply with the Shari'ah Board's approvals and therefore places emphasis on the following:

- A. It is mandatory for all staff who are involved with any aspect of Islamic Banking business to complete the Al Yusr Accreditation Programme that consists of basic and advanced level Islamic Banking training;
- B. Product and business/branch level workshops are conducted to enhance staff understanding of Islamic Banking business;
- C. Prior to the launch of any new Islamic product, all staff involved in the product are given training on the product structure and procedures;
- D. The bank regularly arranges customer seminars to increase its

customers' understanding of Islamic Banking and finance concepts in general, and Islamic products offered by the bank in particular;
E. Shari'ah audits are carried out on a regular basis to ensure Shari'ah compliance.

4.4 Other Risk Types / Control Areas

4.4.1 Business Continuity Management

Business Continuity Management (BCM) is defined as the capability of the organisation to continue the delivery of products and services at acceptable, predefined levels following a disruptive event. In order to minimise the risk of business disruption, to respond in an organised way to any potentially disruptive incident and to resume 'business as usual' as soon as possible, the bank has in place a Business Continuity Plan (BCP).

The activation of the BCP is authorised through the Command & Control Centre (CCC), which is the decision making authority during the entire period of a crisis until 'business as usual' resumes. The CCC team is comprised of senior management with nominated alternates for back-up. This centralised approach ensures efficiency and effectiveness in the business recovery process whilst minimising uncertainty in responsibilities and avoiding potential duplication of effort. A number of key business continuity risk scenarios are identified of varying severity levels that could give rise to the BCP being initiated.

Regular reports are circulated to senior management that cover the status of all the key BCM initiatives, completed tasks as well as ongoing tasks.

4.4.2 Information Security

As part of its core business processes, Alawwal bank handles various types of customer information and data relating to its customers. Handling

of information and data includes its storage, processing and transmission. The bank has established an Information Security Department that aims to minimize the risk of damage to or misuse of data held by Alawwal bank. The Department acts as the central point of control and processing of any changes in user access rights to the bank's computer systems; it addresses potential security weaknesses of Alawwal bank's enterprise network and aims to provide and maintain a secure information network infrastructure. Further, the Information Security Department conducts on-line monitoring to ensure Alawwal bank's network is secure and is in compliance with Information Security Policies; promotes system security awareness for staff and clients in coordination with concerned business departments and acts as a liaison with SAMA and other regulatory bodies. The bank maintains awareness of industry security trends, developments and methods to ensure constant application of the most appropriate system security practices.

4.4.3 Strategic Risk

Strategic Risk is concerned with risks arising from institutional changes in strategy and changes in fundamental market conditions.

Strategic Risk is a key consideration when business planning is undertaken. Excessive Strategic Risk may arise as the result of planning to enter into new markets, into new products, or through geographical expansion. Management does not believe that there are any high risk initiatives currently envisaged that would give rise to undue Strategic Risk.

Alawwal bank has several committees that contribute to the management and mitigation of Strategic Risk. The Strategic Business & Technology Steering Committee provides the governance framework for the effective selection of investments in portfolios of projects for the bank. The Contracts Committee closely governs the contract

approval process. Additionally, senior management has regular sessions at which performance is reviewed against the assigned strategic and tactical goals.

4.4.4 Other

Other risks that the bank considers when the course of business dictates include securitisation and syndication risk. However, the bank has not contracted any new business in these areas during 2017. So-called Global risk is considered in the context of macro-economic and business cycle risk.

Further details on the risks the bank is exposed to are detailed in Notes 29, 31 and 32 of the consolidated financial statements.

5. CREDIT RATING

Alawwal bank's credit rating has been assessed by Moody's and Fitch Group as follows:

Credit Rating Agency	Rating
Moody's	A3
Fitch Group	BBB+

6- GEOGRAPHICAL CONCENTRATION

6.1 Geographical distribution of credit risk is as follows:

2017 (SAR '000)	Saudi Arabia	GCC and Middle East	Europe	Americas	South East-Asia	Other countries	Total
Assets							
Cash and balances with SAMA	15,137,005	-	-	-	-	-	15,137,005
Due from banks and other financial institutions	572,792	653,680	770,483	102,999	330	14,987	2,115,271
Positive fair value derivatives	107,535	45,526	59,157	-	-	-	212,218
Investments, net	16,025,085	98,374	188,281	377,007	-	-	16,688,747
Loans and advances, net	63,639,483	-	-	-	-	-	63,639,483
Investment in an associate	45,507	-	-	-	-	-	45,507
Property and equipment, net	1,347,009	-	-	-	-	-	1,347,009
Other assets, net	312,516	298,525	45,487	28,062	-	-	684,590
Total	97,186,932	1,096,105	1,063,408	508,068	330	14,987	99,869,830
Commitments and Contingencies	22,522,530	573,609	1,075,683	363,892	-	1,629,242	26,164,956
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	11,324,416	290,596	485,532	174,116	-	418,680	12,693,340
Derivatives	461,616	190,555	248,405	475	-	-	901,051

The four subsidiaries of the bank, Alawwal Invest, Alawwal Real Estate Company, Alawwal Insurance Agency Company and Alawwal Financial Markets Limited have no exposures outside the Kingdom. Further details are provided in Note 30 to the consolidated financial statements.

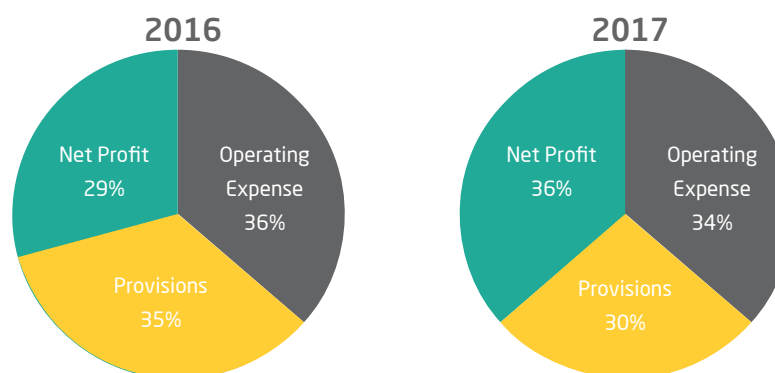
6.2 Geographical Analysis of Income

Alawwal bank generates its operating income from its activities in the Kingdom and has no branches, subsidiaries or associates established or operating outside the Kingdom, except for Alawwal Financial Markets Limited which has been incorporated in the Cayman Islands solely to facilitate the bank's derivatives trading, repo and reverse repo activities. The following table shows the distribution of operating income in accordance with the geographical classification of the Kingdom's regions at Group level including all the subsidiaries of the bank.

Year	Central Province	Western Province	Eastern Province
Saudi Riyal (millions)			
2017	1,901	1,034	777

7- KEY PROFIT AND LOSS ITEMS AS A PERCENTAGE OF TOTAL INCOME

The graphs below display the major income statement lines as a percentage of total income.



The table below shows the variation in the key profit and loss lines between 2017 and 2016:

SAR'000	2017	2016	Change %
Total operating income	3,711,622	3,684,797	0.7%
Operating expenses	1,265,615	1,335,566	(5.2%)
Provisions (net)	1,120,299	1,287,635	(13%)
Share in earnings of an associate	9,810	3,130	213.4%
Net profit	1,335,518	1,064,726	25.4%
Earnings per share (SAR)	1.17	0.93	0.24

8. FINANCIAL REPORTING STANDARDS & AUDIT

Alawwal bank prepares its consolidated financial in accordance with 'International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and 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 tax.

Proper books of account have been maintained. The bank has an Internal Audit department which submits its reports to the Audit Committee which in turn reports to the Board of Directors who have oversight of the bank's Internal

Audit processes. The Audit Committee oversees the proper functioning and independence of the Internal Audit department and considers its recommendations. The Audit Committee has periodic discussions with the management, the internal auditors and the external auditors on matters affecting consolidated financial statements, internal controls and various governance and control issues and advises the Board of Directors accordingly. The Board acknowledges receipt of that advice.

9. EFFECTIVENESS OF INTERNAL CONTROL SYSTEM

The Board of Directors, assisted by the Audit Committee, is responsible for ensuring that an adequate and effective internal control system exists in the bank and that senior management is maintaining and monitoring the performance of that system.

Management is responsible for the appropriate design and functioning of the internal control system, while the Risk Management, Internal Audit, Compliance and other internal control departments are responsible for the continuous monitoring and evaluation of the system. The external auditors are responsible for determining the adequacy of the system of internal controls to decide on the level of reliance they can place on the effectiveness of the bank's internal controls and to design their audit procedures.

All employees are ultimately responsible for operating and maintaining an efficient internal control system at their respective levels.

Systems and procedures have been designed to ensure effective and efficient operations, safeguarding assets against unauthorised use or dispositions, maintaining proper accounting records, providing reliable financial information used within the business or for publication, compliance with applicable laws and regulations and for monitoring internal policies in relation to business performance. The system in place is designed to manage, rather than to eliminate, the risks of failure to achieve business objectives. It can only provide reasonable and not absolute assurance against material errors, losses or fraud.

During its normal course of business, the bank is exposed to credit, market and operational risks. Policies, procedures and processes are in place to identify, measure, control, and mitigate such risks. There is an ongoing process for identifying, evaluating, and managing the significant risks faced by the bank and for ensuring there are appropriate controls in place to manage them. In addition to regular reviews by the concerned departments, exposures to these risks are reviewed by various management committees within the bank.

Systems and procedures are in place to identify, control, and report on the major risks including credit risk, changes in the market prices of financial instruments, liquidity, operational risks, and fraud. Exposure to these risks throughout the bank is monitored by the Operational Risk Committee, the Asset and Liability Committee (ALCO), and the Head Office Credit Committee (the bank's Senior Credit Committee). These exposures are also monitored by the Executive Committee and the Board Risk Committee.

The Internal Audit function provides management with an independent and objective assessment of the effectiveness of the internal control

framework. This objective is achieved by following a risk-based Audit plan, which is approved by the Audit Committee. The Operational Risk Management and Compliance functions also monitor the control environment during their respective reviews in close coordination with each other.

As part of Alawwal bank's commitment to provide an effective internal control a state-of-the-art Governance, Risk and Control system (GRC) has been put in place. GRC ensures that all material risks that could adversely affect the achievement of the bank's goals are recognised and are continually assessed. The GRC initiative is a joint effort by Operational Risk Management, Compliance, Internal Audit, and Information Security. This unified platform to collect and monitor the risks, controls, deficiencies and actions also ensures that the control activities form an integral part of the daily activities of the bank. The control activities are being defined for every business level and every department with automated follow-up on non-compliance through approval workflows.

Alawwal bank's GRC thus facilitates a unified picture of risk factors and thresholds. It clarifies responsibilities and creates more transparency in risk ownership allowing the bank to close any control gaps and to present full coverage of the various types of risks. Moreover, the bank's GRC goes hand in hand with the integration of risk management with the bank's governance processes as it consolidates all risk registers and controls to optimise the functions of all the bank's internal control departments. The bank also continually refines and realigns its GRC initiatives as markets and circumstances change to avert future risks. The initiative has also involved a communication and training programme to ensure that all staff fully understand and adhere to policies and procedures affecting their duties and responsibilities.

By considering all the factors in the preceding paragraphs, the control environment in place and the yearly reviews of its effectiveness, and the confirmation made by Management, the Audit Committee and the Board are of the opinion that the functioning of the internal control system is effective and nothing has come to their attention that causes them to believe that the system of internal control has not been properly designed or implemented or that effective and efficient internal controls have not been in place throughout the year 2017.

10. ALAWWAL BANK'S ETHICAL STANDARDS AND CODE OF CONDUCT

Alawwal bank's Ethical Standards and Code of Conduct represent a standard and guide for high ethical principles and professional business dealings practices. Through its Code of Conduct, the bank is committed to instill and maintain a culture of professionalism where the utmost ethical standards prevail. The bank's Code of Conduct is based on fundamental principles of integrity, confidentiality and professionalism. It applies to all Directors, employees, consultants, affiliates and any other person associated with the bank. The bank's Board of Directors oversees the implementation and effectiveness of the bank's Ethical Standards and Code of Conduct.

11. SUBSIDIARIES AND ASSOCIATES

A. Alawwal Invest (AI)

Alawwal Invest was formed in accordance with the Capital Market Authority's (CMA) Resolution number 1-39-2007 under commercial registration number 1010242378 dated 30 Dhul Hijja 1428H (corresponding to January 09, 2008) to take over and manage the bank's Investment Services and Asset Management activities related to dealing, managing, arranging, advising and taking custody of securities regulated by the CMA. Alawwal Invest is a wholly-owned subsidiary of the bank through direct ownership and commenced its operations effective 2 Rabi'ul 1429H (corresponding to April 8, 2008). Alawwal Invest head office is in Riyadh, and it operates within the Kingdom. Alawwal Invest was converted from a Limited Liability Company to a Closed Joint Stock Company during the year.

The authorised, issued and fully paid-up share capital of Alawwal Invest is SAR 400 million, consisting of 40,000,000 shares of SAR 10 each.

B. Alawwal Real Estate Company (AREC)

Alawwal Real Estate Company, a wholly-owned subsidiary of the bank through direct ownership, was established under commercial registration number 1010250772 dated 21 Jumada I 1429H (corresponding to May 26, 2008), with the approval of the Saudi Arabian Monetary Agency (SAMA). AREC engages in the activities of the purchase, sale and leasing of real estate. It further engages in the registration of real estate title deeds of financed products and manages real estate funds. AREC head office is in Riyadh, and it is operating within the Kingdom.

The authorised, issued and fully paid-up share capital of Alawwal Real Estate is SAR 500 thousand, consisting of 500 shares of SAR 1,000 each.

C. Alawwal Insurance Agency Company (AIAC)

Alawwal Insurance Agency, a wholly-owned subsidiary of the bank through direct ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011), with the approval of SAMA. The Company was formed to act as an agent for Wataniya Insurance Company, an associate, selling its products. AIAC head office is in Riyadh, and it is operating within the Kingdom.

The authorised, issued and fully paid-up share capital of Alawwal Insurance Agency is SAR 500 thousand, consisting of 50,000 shares of SAR 10 each.

D. Alawwal Financial Markets Limited. (AFML)

Alawwal Financial Markets Limited., a wholly-owned subsidiary of the bank was established and licensed to operate on 04 Jumada I 1438H (corresponding to February 01, 2017), with the approval of SAMA. The Company was formed to engage in derivatives trading, repo and reverse repo activities on behalf of the bank. It was registered in Cayman Islands under incorporation number 319452.

The authorised, issued share capital of Alawwal Financial Markets Limited is USD 50 thousand, consisting of 50,000 shares of USD 1 each.

E. Wataniya Insurance Company (WIC)

The bank purchased a 20% equity stake in the Wataniya Insurance Company during 2008 at a cost of SAR 20 million. During the year 2016, a one-for-one right issue was made by WIC, which was fully subscribed by the bank and resulted in the total cost of investment reaching SAR 40 million. WIC is classified as an associate company. This strategic investment enables the bank to have an insurance capability to complement the existing retail banking offering. Wataniya was incorporated on 15th May 2010 and commenced trading on 1st July 2010.

12. LONG TERM BORROWINGS

As of 31st December 2017, the bank's long-term borrowings comprise of one outstanding Shari'ah-compliant subordinated Sukuk. The 2013 Sukuk issue of SAR 2,500 million will mature in 2023. The bank has the option, subject to the prior written approval of SAMA, to redeem the Sukuk at their redemption amount in December 2018 or in the event of certain changes affecting the taxation and regulatory capital treatment of these Sukuk.

In November 2017, the bank exercised the option of early redemption of its 2012 Sukuk issue of SAR 1,400 million. All the required approvals from regulatory authorities were obtained for the purpose of redemptions.

Further details are provided in Note 14 of the consolidated financial statements.

13. DIVIDEND POLICY

A. Article (49) of the bank's Articles of Association states that the net annual profits shall be distributed after deducting all general expenses, other expenses and after taking necessary provisions for possible credit and investment losses and contingent liabilities and any other necessary deductions proposed by the Board of Directors in accordance with the Saudi Arabian Banking Control Law. After these deductions, dividend distribution is subject to the following:

1. The Zakat due on the Saudi Shareholders and Tax due on the non-

Saudi Shareholders will be calculated according to the laws of the Kingdom of Saudi Arabia. The bank shall settle these amounts to the concerned Authority on behalf of Saudi and foreign shareholders.

2. 25% (Twenty Five percent) of the net profit shall be allocated for the purpose of constituting a Statutory Reserve. The General Assembly may reduce or suspend such allocation in case the total reserve has reached an amount equal to the paid up capital.
3. Out of the remaining net profit after deducting the Statutory Reserve, 0.1% (one tenth of a percent) at least of the paid up capital shall be allocated for distribution to the Saudi and non-Saudi shareholders based on their respective contribution in the share capital as per recommendations of the board of directors and approved by the shareholders' General Assembly. In case such remaining net profit is not sufficient for paying such dividend, shareholders will not be entitled to claim the balance of said percentage in the subsequent year or years. The shareholders General Assembly cannot resolve to pay dividends unless the Board recommends the payment of such dividends, nor can the General Assembly pay dividends at a higher percentage than what was recommended by the Board.
4. The remaining amount after deducting the amounts in para (2) and (3) if any, shall be utilized at the Board's recommendation and as approved by the shareholders' General Assembly.
5. The bank must maintain the share percentage of Saudi and non-Saudi shareholders when determining the necessary deduction for the Statutory Reserve and other reserves from the net profit, provided these two groups (Saudi and non-Saudi Shareholders) shall contribute in these reserves in pro-rata to their share in the capital which shall be deducted from their respective share in the net profit.

B. Guiding Principles

In reviewing and setting the annual dividend policy the Board and senior management will be guided by the following principles:

1. Dividend sustainability:

To build long-term shareholder value and market confidence in the bank's future, the amount and frequency of dividends to be paid shall be evaluated based on the bank's ability to continue paying at an equal or increased level in the foreseeable future. Risks that may threaten

the bank's ability to maintain current levels of dividends need to be identified and evaluated;

2. Growth of the bank:

The amount, frequency and type of dividends paid shall not impede the ability of the bank to meet its strategic growth plans;

3. Capital management:

During the annual review and while setting the dividend policy for the current year, the Board and senior management must ensure that the bank:

- Maintains sufficient levels of capital to meet the minimum regulatory requirements as set by SAMA;
- Maintains sufficient levels of capital levels to support the bank's strategic growth objectives as presented in the bank's ICAAP;
- Considers any proposed changes to future minimum capital levels made by the Basel Committee; does not hold capital in excess of the requirements as summarized in items 1) and 2) above.

14. PROPOSED DIVIDEND

The Board of Directors in its meeting held on December 25, 2017 has proposed a cash dividend of SAR 400.1 million (2016: Nil). After deducting Zakat, this dividend will result in a net payment of SAR 0.25 per share (2016: Nil) to Saudi shareholders, representing 2.5% of the nominal share value. The income tax liability of the foreign shareholders will be deducted from their share of current and future dividend. The proposal will be subject to the approval of the Extraordinary General Shareholders Assembly due in the first half of 2018.

15. SIGNIFICANT SHAREHOLDINGS

Material shareholdings (i.e. in excess of 5%) during 2017

	31 December 2017		1 January 2017		
	Shares Held	%	Shares Held	%	Change%
ABN AMRO Bank N. V.	457,228,800	40	457,228,800	40	-
Olayan Saudi Investment Company	248,445,723	21.73	248,760,002	21.76	(0.03%)
General Organisation for Social Insurance	120,116,916	10.51	120,116,916	10.51	-

16. RELATED PARTY TRANSACTIONS

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

The balances at reporting date, unless reported elsewhere in the financial statements, resulting from such transactions are as follows:

(SAR '000)	2017	2016
ABN AMRO Bank N. V		
Due From Banks and other financial institutions	189,337	243,509
Due to Banks and other financial institutions	1,990	3,129
Derivatives at fair value, net	239	(1,710)
Commitments and contingencies	45,769	81,256
Associates & other major shareholders and their affiliate entities with significant influence:		
Loans and advances	576,689	749,019
Derivatives at fair value, net	9,366	9,972
Investments	-	40,028
Customers' deposits	4,656,774	9,644,108
Subordinated debt	424,533	698,696
Commitments and contingencies	289,146	15,447
Mutual funds managed by the group:		
Investments	153,347	151,227
Subordinated debt	15,271	15,028
Customers' deposits	167,453	259,574
Derivatives at fair value, net	311	3,210

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the bank's issued share capital. Income and expenses pertaining to transactions with related parties included in the consolidated financial statement are as follows:

(SAR '000)	2017	2016
Special commission income	12,880	14,262
Special commission expense	190,336	196,769
Fees from banking services, net	944	1,218
Fees from management services	17,732	14,898
General and administrative expense	41,320	25,769
Directors' remuneration and other related expenses	4,763	4,792
Compensation paid to key management personnel	34,381	48,641
End of service benefits paid to key management personnel	691	3,949

The business and contracts to which the bank is a party and in which a director, a senior executive or any person related to any of them has a direct and/or indirect interest during 2017 are as follows:

No.	Related Party	Name of the party with direct and / or indirect interest	Amount of the Business & Contracts	Duration of the Business & Contracts	Nature of the Business & Contracts	Conditions of the Business & Contracts
1	Al-Bustan Company Ltd	Mrs. Lubna Al-Olayan (Board Member)	SAR 1,762,574	Annual Contracts	Staff Housing Contract	usual business activity, without any preferential conditions or benefits
2	Schindler Olayan Elevator Company	Mrs. Lubna Al-Olayan (Board Member)	SAR 67,044	Annual Contracts	Elevator Maintenance Contract	usual business activity, without any preferential conditions or benefits
3	Arabian Business Machines Company (ABM)	Mrs. Lubna Al-Olayan (Board Member)	SAR 27,650	Annual Contracts	X-Ray Machine Maintenance Contract	usual business activity, without any preferential conditions or benefits
4	Saudi Xerox Agencies Company (SXL)	Mrs. Lubna Al-Olayan (Board Member)	SAR 2,916,000	Annual Contracts	Printing Services Contract	usual business activity, without any preferential conditions or benefits

17. BOARD OF DIRECTORS

Members of the Board of Directors:

The membership status of the bank's directors during 2017, their current and previous positions, qualifications and experience are as follows:

1- Eng. Mubarak Abdullah Al-Khafrah (Chairman) : Independent	
Current Positions	Chairman of the National Industrialization Company (TASNEE) and Tasnee & Sahara Olefins Company
Previous Positions	<ul style="list-style-type: none"> • Member of the Council of Al-Riyadh Region (2009-2017). • Member of the Board of the U.S.-Saudi Arabian Business Council and Co-Chairman of Saudi-German Business Dialogue. • Member of the Shura Council (1997-2001) • Undersecretary of the Ministry of Industry and Electricity (1986-1997). • Acting Undersecretary of the Ministry of Industry and Electricity (1984-1986). • Secretary General of the Foreign Capital Investment Committee of the Ministry of Industry and Electricity (1977-1984).
Qualifications	<ul style="list-style-type: none"> • Bachelor's degree in Industrial Engineering from Western Michigan University, USA, 1973. • Postgraduate Diploma in Management from Canada 1976.
Experience	Over 40 years of experience in Government Affairs and Business Management.
2- Mrs. Lubna Sulaiman Al-Olayan (Vice Chairperson): Non-Executive	
Current Positions	Deputy Chairperson and Chief Executive Officer of Olayan Financing Company (OFC) (1986 - Present)
Previous Positions	<ul style="list-style-type: none"> • Assistant to the Chairman of Olayan Financing Company (OFC). (1983-1986) • Financial Analyst at J.P. Morgan. (1979-1983)
Qualifications	<ul style="list-style-type: none"> • Bachelor's degree in Science from Cornell University, USA, 1977. • Master of Business Administration (MBA) from Indiana University, USA, 1979. • Honorary PhD in Law from Trinity College, Dublin, Ireland, 2011.
Experience	Over 35 years of experience in investment, banking and business management.

3- Mr. Abdulhadi Ali Shayif: Independent

Current Positions	-
Previous Positions	Held various positions at the National Commercial Bank the latest of which was NCB's General Manager. (1975-2005)
Qualifications	Bachelor's degree in Economics from the American University of Beirut (AUB) 1970.
Experience	Over 35 years of experience in banking and general management.

4- Mr. Sulaiman Abdullah Al-Kadi: Independent

Current Positions	-
Previous Positions	<ul style="list-style-type: none"> • President and CEO of the Saudi Electricity Co. (2000-2006). • General Manager of the Saudi Electricity Company-East (1983-2000). • Held various positions at Saudi Aramco, the latest of which was VP of Saudi Aramco. (1965-1983).
Qualifications	Bachelor's degree in Petroleum Engineering from the University of Texas, USA, 1964.
Experience	Over 40 years of experience in business management and human resources.

5- Mr. Eyad Abdulrahman Al-Hussain: Non-Executive

Current Positions	Assistant Governor for Financial and Administrative Affairs - the General Organization for Social Insurance "GOSI".
Previous Positions	Held various positions at the General Organization for Social Insurance (2000- Present)
Qualifications	<ul style="list-style-type: none"> • Bachelor's degree in Accounting from King Saud University (KSU) 2000. • Master of Commerce (Applied Finance) from the University of Adelaide 2007.
Experience	Over 17 years of experience in general management, accounting and finance.

6- Mr. Ahmed Farid Al-Aulaqi: Independent

Current Positions	Co-founder & President of Aspect Investment Partners. Ltd.
Previous Positions	<ul style="list-style-type: none"> • President of Safanad International Company (2010-2016) • Held various positions in the National Commercial Bank in Saudi Arabia and the United Kingdom, the latest of which was the Chief Executive Officer of NCB Capital Company.
Qualifications	<ul style="list-style-type: none"> • Bachelor's degree in Business Administration from King Abdulaziz University (KAU) 1985. • Master of Business Administration (MBA) from the University of Stirling, UK, 1987.
Experience	Over 30 years of experience in business management, banking, treasury, capital markets, investment services and brokerage.

7- Mr. Martin Powell: Non-Executive

Current Positions	-
Previous Positions	Held various positions at the Royal Bank of Scotland PLC (RBS) since 1973, the latest of which was the Chief Risk Officer Capital Resolution Group.
Qualifications	ACIB - The Chartered Institute of Bankers, 1977.
Experience	Over 40 years of senior management expertise in banking, financial services and risk management.

8- Mr. Javier Maldonado: Non-Executive

Current Positions	Senior Executive, Vice-President of Santander Bank, Head of the Santander Group's Corporate Costs area, Vice Chairman of Santander Holdings USA (SHUSA)
Previous Positions	<ul style="list-style-type: none"> • Held various positions at Santander Bank. (1995- present) • Head of the Corporate and International Law Department at J.Y. Hernandez-Canut Law Firm (1991-1994). • Attorney at Baker & McKenzie Law Firm (1987-1991).
Qualifications	<ul style="list-style-type: none"> • Juris Doctor Degree from Northwestern University Law School in Chicago, Illinois, USA, 1988. • Law Degree from Madrid University in Spain, 1984.
Experience	Over 30 years of experience in banking, law, general management, acquisitions, insurance & asset management, wealth management and corporate banking.

9- Mr. Frank Vermeulen: Non-Executive

Current Positions	Consultant at Olayan Financing Company (OFC), Advisor to the Board of Jarir Marketing Company and member of its Audit Committee.
Previous Positions	<ul style="list-style-type: none"> • Senior advisor for the Middle East of Mitsubishi Chemical Company (MMC). • Head of Corporate Banking & Int'l at Saudi Hollandi Bank. • Treasurer and CFO of Olayan Financing Company.
Qualifications	<ul style="list-style-type: none"> • Master's degree in Dutch Law (majored in civil and commercial law) from the University of Utrecht 1970. • Bachelor's degree in Dutch Law from the University of Utrecht in 1967. • Certificate of the Dutch Institute for the Banking & Securities Industry.
Experience	Over 45 years of law, audit and international banking and private sector experience in Europe, Canada and Saudi Arabia.

10- Mr. Soren Kring Nikolajsen: Executive

Current Positions	Managing Director - Alawwal bank
Previous Positions	<ul style="list-style-type: none"> • Held various positions at the Royal Bank of Scotland, the latest of which was Head of Executive Office , Corporate and Institutional Banking. (2008-2016). • Held various positions at Lehman Brothers, the latest of which was Executive Director- Structured Credit Products- UK, Europe and the Middle East. (2000-2008). • Senior Associate Director - Money Market/Repo Sales in the Nordic Region, Deutsche Bank AG London (1996-2000).
Qualifications	<ul style="list-style-type: none"> • Module of Master of Finance Program in Investment Management from London Business School 1999. • Module of Master of Finance Program in Corporate Finance from London Business School 1998. • HD Degree in International Trade from Copenhagen Business School 1990. • Bachelor's Degree in Business Studies from Frederica Business School 1984.
Experience	Over 30 years of experience in investment, corporate banking, international trade, business management, corporate governance and treasury.

The bank's Board Members current directorships in other companies inside and outside the Kingdom of Saudi Arabia during 2017 were as follows:

Name	Current Memberships	Previous Memberships
Eng. Mubarak Al-Khafrah (Chairman)	National Industrialisation Co. (Tasnee) (JS), Malath Insurance Co., (JS), Tasnee & Sahara Olefins Co., (CJS), Al-Khafrah Group Companies, Air Liquide Al-Khafrah Industrial Gases, Saudi Carbonate Company (SCC), Geotextile and Staple Fiber (TEXOFIB), Saudi Bitumen Industries Co. Ltd. (SABIT), National Lighting Company (NLC).	Saudi Basic Industries Corporations (SABIC), Saudi Consulting Housing, Gulf Organization for Industrial Consulting (GOIC), Saudi Industrial Development Fund (SIDF), Arabian Axles Manufacturing Co., Arabian Industrial Investments Co., General Organization of Petroleum and Mineral (PETROMIN), Saudi Arabian Standards Organization, General Organization of Technical Education and Vocational Training, Royal Commission of Jubail and Yanbu, Technical Committee for Customs Duties Exemption on Imported Industrial Goods, Eastern Petrochemical Co. (SHARQ), Saudi Methanol Co. (AR RAZI) National Company for Glass Industries (ZOUJAJ), National Petrochemical Industrialization Co.(NPIC).
Mrs. Lubna Al-Olayan (Vice Chairperson)	Schlumberger Co. (Ltd.), Saudi Arabian Mining Company (Ma'aden) (JC), Olayan Financing Company (OFC) (Ltd.)	WPP plc. Chelsfield plc.

Mr. Sulaiman Al-Kadi	Saudi Electricity Co. (JS), Chemical Development Co. (CJC), Basic Chemical Industries Co. (JC), Saudi United Cooperative Insurance Company, (JC)	-
Mr. Abdulhadi Shayif	Bupa Arabia Insurance Company (JS), Saudi Ground Services Company (JS), Deutsche Securities Saudi Arabia (Ltd), Al Majdouie Group, Atthieh Steel Co. (Ltd), Health Water Bottling Co. (Ltd), FWU International Advisory Board, Munich	Byblos Bank (Beirut), Arab Cement Co. (Ltd), Saudi Arabian Airlines, National Commercial Bank, Saudi Railways Organization, the General Organization for Social Insurance (GOSI), Al Obeikan Group, Saudi Cable Company, SABB Takaful Co., Arab Financial Services Company (AFS-Bahrain), Arab Insurance Group (ARIG), Housing Bank (Jordan), Arab Academy for Banking and Financial Sciences(Jordan), Arab Jordan Investment Bank, Amwal Investments (Jordan), Union Arab Banks (Beirut), MAF Trust (Majed al Futtaim Trust- Dubai), the Advisory Board of NBK Capital (Dubai), Emirates Global Islamic Bank (Pakistan), Qatarana Cement Co. (Jordan).
Mr. Eyad Al-Hussain	National Medical Care Co. (Care) (JS)	-
Mr. Ahmed Al-Aulaqi	Aspect Investment Partners(Ltd.)	Safanad Investment Company, Saudi Tunisian Bank, The Company for Cooperative Insurance (Tawuniya), Saline Water Conversion Corp, Saudi Stock Exchange (Tadawul)
Mr. Martin Powell*	-	Babcock Critical Services Limited, Chadmore Assets PLC, Cheriton Resources 10 Limited, Cheriton Resources 12 Limited, Credit Suisse One Cabot Square Number 3 (UK) Limited, Dealer Development Services Limited, DJS Contracts Limited, Farming and Agricultural Finance Limited, First National Tricity Finance Limited, GL Trains Limited, Growcash Limited, L H Mechanical Handling Limited, Lex Vehicle Leasing (Holdings) Limited, Lombard Asset Finance Limited, Lombard Asset Leasing Limited, Lombard Charterhouse Limited, Lombard Commercial Limited, Lombard Corporate Finance Limited, Lombard Discount Limited, Lombard Facilities Limited, Lombard Finance Leasing Limited, Lombard Finance Limited, Lombard Industrial Limited, Lombard Initial Finance Limited, Lombard Initial Leasing Limited, Lombard Leasing Limited, Lombard Leasing Metropolitan Limited, Lombard Leasing Network Limited, Lombard Leasing Services Limited, Lombard Lessors Limited, Lombard Maritime Limited, Lombard North Central Leasing Limited, Lombard North Central PLC, Lombard North Central Wheelease Limited, Lombard Plant Finance Limited, Lombard Plant Leasing Limited, Lombard Property Facilities Limited, Lombard Venture Leasing Limited, Masterdrive Limited, Motability Operations Limited, Natwest Properties Limited, Transfleet Distribution Limited, Transfleet Truck Rentals Limited, XEL European Holdings Limited
Mr. Javier Maldonado	Produban Servicios Informáticos Generales S.L., Ibérica De Compras Corporativas S.L., Geoban, S.A., Ingenieria de Software Bancario S.L. (ISBAN), Santander Holdings USA, Santander Bancorp, Banco Santander Puerto Rico, Santander Consumer USA Holdings Inc., Santander Consumer USA, Santander Bank, N.V., Santander Investment Securities INC, Banco Santander International, TotalBank.	ABN AMRO Bank
Mr. Frank Vermeulen	-	Bank of London & the Middle East LeasePlan Corporation, Saudi Swiss Securities (later named Credit Suisse Saudi Arabia), Egyptian Finance Company (EFC), Abu Soma Development Company
Mr. Soren Nikolajsen	Alawwal Invest (CJS), Wataniya Insurance Co. (JS)	RBS (China) Co (Ltd.)

* Mr. Jan Koopman resigned from the Board on 02 July 2017. The Board approved Mr. Martin Powell's appointment replacing Mr. Jan Koopman in the membership of the Board as of the same date.

Board Meetings Attendance:

The Board of Directors convened four times during the year as per the table below. Board members attendance of the bank's Board of Directors meetings during 2017 is as follows.

Name	Sessions Attended	23 Jan 2017	25 Apr 2017	14 July 2017	31 Oct 2017
Eng. Mubarak Abdullah Al-Khafrah (Chairman)	4	✓	✓	✓	✓
Mrs. Lubna Sulaiman Al-Olayan (Vice Chairperson)	4	✓	✓	✓	✓
Mr. Abdulhadi Ali Shayif	4	✓	✓	✓	✓
Mr. Sulaiman Abdullah Al-Kadi	4	✓	✓	✓	✓
Mr. Eyad Abdulrahman Al-Hussain	4	✓	✓	✓	✓
Mr. Ahmed Farid Al-Aulaqi	4	✓	✓	✓	✓
Mr. Javier Maldonado	2	✗	✓	✗	✓
Mr. Martin Powell*	2	✗	✗	✓	✓
Mr. Frank Vermeulen	4	✓	✓	✓	✓
Mr. Soren Kring Nikolajsen	4	✓	✓	✓	✓

* ✓ : Present ✗ : Absent

* Mr. Jan Koopman resigned from the Board on 02 July 2017. The Board approved Mr. Martin Powell's appointment replacing Mr. Jan Koopman in the membership of the Board as of the same date.

Board Committees:

The Board of Directors has four committees: the Executive Committee, the Audit Committee, the Nomination and Remuneration Committee, and the Board Risk Committee.

1. Executive Committee

The Executive Committee is empowered by the Board of Directors in accordance with article 26 of the bank's Bylaws. The Executive Committee shall assist the Board of Directors within the powers determined for it by the Board, and deal with all matters referred to it by the Board, though the Committee shall not have power to alter any decision, rules or regulations taken or laid down by the Board. The Executive Committee consists of the Chairman and four members of the Board.

The Executive Committee convened seven times during the year.

Members	Sessions Attended	10 Jan 2017	27 Feb 2017	28 Mar 2017	21 May 2017	19 Sept 2017	21 Nov 2017	19 Dec 2017
Eng. Mubarak Abdullah Al-Khafrah (Chairman)	7	✓	✓	✓	✓	✓	✓	✓
Mrs. Lubna Sulaiman Al-Olayan	6	✓	✓	✗	✓	✓	✓	✓
Mr. Abdulhadi Ali Shayif	6	✓	✓	✓	✗	✓	✓	✓
Mr. Martin Powell*	2	✗	✗	✗	✗	✗	✓	✓
Mr. Soren Kring Nikolajsen	7	✓	✓	✓	✓	✓	✓	✓

* Mr. Eyad Al-Hussain stepped down as a member of the Executive Committee on 01/09/2017. Mr. Martin Powell replaced Mr. Al-Hussain in the Committee's membership as of the same date.

2. Audit Committee

The Audit Committee is a sub-committee of the Board of Directors, and is formed by a resolution of the General Assembly of Shareholders. The Committee is responsible for monitoring all control issues of the bank. This Committee oversees the functioning and independence of the Internal Audit department and considers its recommendations. The Committee has periodic discussions with management, the internal auditors and the external auditors on matters affecting consolidated financial statements and internal controls and advises the Board of Directors accordingly.

The Audit Committee convened four times during the year.

Members	Sessions Attended	29 Jan 2017	30 Apr 2017	12 Sept 2017	25 Oct 2017
Mr. Sulaiman Abdullah Al-Kadi (Chairman)	4	✓	✓	✓	✓
Mr. Saleh Hassan Husain	4	✓	✓	✓	✓
Mr. Yousif Mohammed Al-Mubarak	4	✓	✓	✓	✓

The Audit Committee is composed of 3 members, two of which are from outside the Board and their current and previous positions, qualifications and experience are as follows:

1. Mr. Saleh Hassan Hussain

Current Positions	President of Saleh Hussain Consultancy, Bahrain.
Previous Positions	<ul style="list-style-type: none"> Held several positions during a span of 27 years at the National Commercial Bank - Bahrain (NCB - Bahrain), the latest of which was Regional Head of NCB in the Eastern Province based in Dammam. (1981- 2007). Held various positions at the British Bank of the Middle East (currently HSBC), Bank of Bahrain and Kuwait and Grindlays Bank (1970-1981).
Qualifications	Master of Business Administration (MBA) from Brunel University 1993.
Experience	Over 35 years of experience in various fields of banking in the GCC as well as Asia Pacific, most prominently in retail banking, corporate finance and capital market activities.

2. Mr. Yousif Mohammed Al-Mubarak

Current Positions	Managing Partner, Al Mobarak CPA & Financial Consulting
Previous Positions	<ul style="list-style-type: none"> Chief Internal Auditor of the Saudi Telecom Company (STC) (2003 - 2006). Secretary General of the Saudi Organization for Certified Public Accountants (SOCPA) (1991 -2003). Held several positions at Al-Rashed Consultants and Accountants (1983 -1991).
Qualifications	Bachelor's Degree in Accounting from Cairo University
Experience	Over 30 years of experience in accounting, auditing, risk management and corporate governance.

3. Nomination and Remuneration Committee

In accordance with article (15) of the Corporate Governance regulation Issued by CMA decision no. 1-212-2006 dated 21/10/1427H corresponding to 12/11/2006 and after having the approval of General Shareholders Assembly in its meeting held on 29th March 2008, the Board of Directors established a separate committee for nomination and remuneration. The duties and responsibilities of the Nomination and Remuneration Committee include the following:

1. Recommendation of appointments to the Board;
2. Annual review of the requirement of suitable skills for membership of the Board of Directors;
3. Review the structure of the Board of Directors and the absence of conflict of interest of their membership;
4. Establish clear policies for the remuneration of Board members and the bank's senior management.

The Nomination and Remuneration Committee convened four times during the year.

Members	Sessions Attended	27 Feb 2017	28 Mar 2017	21 Nov 2017	19 Dec 2017
Mr. Abdulhadi Ali Shayif (Chairman)	4	✓	✓	✓	✓
Mrs. Lubna Sulaiman Al-Olayan	3	✓	✗	✓	✓
Eng. Mubarak Abdullah Al-Khafrah	4	✓	✓	✓	✓
Mr. Sulaiman Abdullah Al-Kadi	4	✓	✓	✓	✓
Mr. Ahmed Farid Al-Aulaqi	1	✗	✓	✗	✗
Mr. Eyad Abdulrahman Al-Hussain	4	✓	✓	✓	✓

The bank's compensation policies have also been amended where necessary to comply with the Basel accord.

4. Board Risk Committee

In accordance with article (78) of the Saudi Arabian Monetary Agency's Corporate Governance Principles issued in June 2012, the Board of Directors established a separate committee for risk governance, headed by a non-executive director to assist the Board in overseeing the risk management process. The Board Risk Committee reports directly to the Board of Directors. The Committee's responsibilities include the following:

1. Provide oversight and advice to the Board in relation to current and potential risk exposures, including, but not limited to, credit, market, liquidity, operational, compliance, legal, strategic and reputational risks;
2. Evaluate, monitor and oversee the adequacy and effectiveness of the banks' risk management framework to ensure appropriate risk identification, measurement, aggregation and reporting including the determination of risk appetite and tolerance;
3. Assist the Board on any other matter upon request.

The Board Risk Committee convened four times during the year.

Members	Sessions Attended	22 Jan 2017	24 Apr 2017	18 Sep 2017	30 Oct 2017
Mr. Ahmed Farid Al-Aulaqi (Chairman)	4	✓	✓	✓	✓
Mr. Eyad Abdulrahman Al-Hussain	4	✓	✓	✓	✓
Mr. Frank Vermeulen	4	✓	✓	✓	✓

Board & Board Committees Evaluation:

Alawwal bank Board of Directors adopted the Board and Board Committee Evaluation Policy which outlines the requirements for the evaluation of the effectiveness of the Board of Directors' collective and individual performance as well as the collective performance of the Board Committees in the exercise of their mandate, as stipulated in their terms of reference, and to evaluate their accomplishments in relation to the bank's strategy. As per Policy, the Board utilizes assessment surveys to evaluate its performance and the performance of its Committees.

18- SENIOR EXECUTIVES

1- Abdullah Al Oraini

Current Positions	Chief Financial Officer
Previous Positions	<ul style="list-style-type: none"> • Head of Accounting , Asset liability & Capital Management and Investor Relations at Saudi British Bank (SABB) (2012-2016) • Held a number of positions at the National Commercial Bank (NCB), the latest of which was Head of Capital and Liquidity Management - Office of the Group Chief Financial Officer. (2003 - 2011)
Qualifications	<ul style="list-style-type: none"> • Master's Degree in Management Sciences from the University of Waterloo, Canada 2007 • Bachelor of Science in Electrical Engineering from King Fahad University of Petroleum and Minerals 2003
Experience	Over 14 years of experience in financial management and control, investor relations and capital and asset liability management.

2- Hussam Al Khayal

Current Positions	General Manager Corporate Banking Group & Acting Head of Personal Banking Group
Previous Positions	<ul style="list-style-type: none"> • Held a number of positions in SAMBA Financial Group in Corporate Banking Group (2001 - 2012) • Worked with Saudi Industrial Development Fund in various positions (1996 - 2000) • Worked with Fairbourne Ltd., London UK as Property Manager (1990 - 1991)
Qualifications	<ul style="list-style-type: none"> • Master of Science (MSc) in International Marketing from Strathclyde University - Glasgow , UK 1998 • Master of Business Administration (MBA) from Loyola University Chicago, USA 1996 • Bachelor of Science in Business Administration (B.Sc) from Illinois State University, USA 1994
Experience	Over 20 years of expertise and a broad background in the Corporate and Retail Banking Segments.

3- Khaldon Al Fakhri

Current Positions	Chief Risk Officer
Previous Positions	<ul style="list-style-type: none"> • Held several positions at Al Rajhi Bank, the latest of which was the Acting Chief Risk Officer. • Held several position at SAMBA Financial Group, the latest of which was Senior Credit Officer Corporate & Commercial Markets (1990-2008).
Qualifications	<ul style="list-style-type: none"> • Master of science in accounting from Colorado State University, USA 1989 • Bachelor of science in computer information system from Weber State University, USA 1987
Experience	Over 27 years of experience in risk management, operations, and corporate banking.

4- Maha Al-Sudairi

Current Positions	Deputy Chief Compliance Officer, Chief Governance Officer and Board Secretary
Previous Positions	Held several positions at Alawwal bank (2009-Present)
Qualifications	<ul style="list-style-type: none"> • MSc International Finance (Honors) Kingston University - United Kingdom 2012 • BA English Translation - King Saud University, Saudi Arabia 2009
Experience	Over 8 years of experience in the Saudi banking system, compliance, corporate governance, and board matters, acquired through formal training locally and abroad.

5-Majed Al Ghanemi

Current Positions	Chief Operations Officer and Chief Information Officer
Previous Positions	<ul style="list-style-type: none"> • Chief Information Officer at Alawwal bank (2006-2016) • General Manager, Technology & Managed Services at Xeca International (2004 -2006) • Vertical Integration Manager at Saudi Telecom - (2003-2004) • Project Executive at Cerner (2001-2003)
Qualifications	<ul style="list-style-type: none"> • MBA degree - King Saud University 2004 • MS degree in Computer Science - King Saud University 1999 • BS degree in Computer Science - King Saud University 1994
Experience	More than 23 years of experiences in banking, general management, and information technology.

6- May Al Hoshan

Current Positions	General Manager - Human Resources
Previous Positions	<ul style="list-style-type: none"> • Head of Human Capital Management & Member of the Executive Management Committee at NCB Capital (NCBC) - (2007 -2014) • Management Associate - Leadership Department at NCB (2005-2007)
Qualifications	<ul style="list-style-type: none"> • Masters in Engineering Management - George Washington University 2004 • Bachelor of Science in business administration - Boston University 2002
Experience	Over 14 years of experience in HR within the financial sector, particularly, in organizational development, performance management and leadership development.

7- Mofeed Al Jishi

Current Positions	General Manager - Institutional Banking Group
Previous Positions	<ul style="list-style-type: none"> • Acting CRO and Head of Corporate Risk Management at Alawwal bank (2010), • Held various management positions at NCB, the latest of which was Chief Corporate Banker in the East \ Senior Credit Officer (1993- 2009)
Qualifications	Bachelor of Science in accounting (AICPA Curriculum), King Fahad University of Petroleum and Minerals.
Experience	Over 24 years of banking experience, mostly in corporate banking including project finance & syndications, facility structuring, corporate relationship management, institutional banking, and private banking.

8- Mohammed Al Shaikh

Current Positions	General Manager of Treasury
Previous Positions	Held several positions at Samba Financial Group the latest of which was Assistant General Manager - Treasury (1994- 2011)
Qualifications	Bachelor degree in Finance - King Saud University 1994
Experience	Over 23 years of experience in finance, banking, general management, trading and asset and liability management.

9- Saqib Iqbal

Current Positions	Acting Chief Internal Auditor
Previous Positions	<ul style="list-style-type: none"> • Senior Audit Manager Internal Audit at Alawwal bank (2014 - 2017) • Senior Lead Auditor at Reinsurance Group of America, (RGA) UK - (2012-2014) • Audit Manager at Deloitte, UK - (2012) • Senior Associate Auditor at PWC, UK - (2006 - 2011) • Senior Supervisor, Audit and Information Risk Management at KPMG - (2001 -2006)
Qualifications	Bachelor of Commerce from University of Karachi - Pakistan - 2000 (FCCA, CIA,CISA, CRISC)
Experience	Over 16 years of experience in audit, risk and controls.

10- Yaqoob Al Oraini

Current Positions	Chief Compliance Officer
Previous Positions	<ul style="list-style-type: none"> • Corporate Support Division Head & Corporate Compliance Officer at Alawwal bank (2008-2011) • Senior Relationship Manager at Arab National Bank, Private Banking (2006-2008) • Held several positions at Samba financial Group: Senior Relationship Manager in the Corporate Division & Senior Compliance Manager (1998-2006)
Qualifications	Bachelor of Social Science from University of Northern Colorado Greeley, Colorado USA 1998
Experience	Over 19 years of banking experience in field of compliance, corporate banking, private banking and operations.

19. BOARD OF DIRECTORS AND SENIOR EXECUTIVE COMPENSATION

Board of Directors Compensation:

The Board and the Board Committees Remuneration Policy, approved by the Shareholders General Assembly on 19/12/2017, aims at providing the guidelines governing the remuneration of the members of the Board and Board Committees. The bank's Board of Directors and members of the Board Committees are remunerated with an annual fixed fee free of any sort of incentive related pay. The annual fixed fee is set in compliance with the Rules on Compensation Practices as set by the Saudi Arabian Monetary Agency (SAMA), the Companies Law, and all the related rules and regulations issued in that regard. The annual fixed fee shall reflect competences and qualifications of members Board and its Committees as well as the scope of work handled by the Board member.

Fixed Remunerations*								Variable Remunerations								
	Specific Amount	Allowance for Attending Board Meetings	Total Allowance for Attending Committee Meetings	In - Kind Benefits	Remuneration for Technical , Managerial & Consultative Work	Remuneration for Chairman, Managing Director or Secretary, if a Member	Total *	Percentage of the Profit	Periodic Remuneration	Short-Term Incentive Plans	Long-Term Incentive Plans	Granted Shares (Value)	Total	End of - Services Award	Aggregated Amount*	Expenses Allowance
Independent Directors																
Total	1,750,000	80,000	170,000	-	-	-	2,000,000		-	-	-	-	-	-	2,000,000	-
Non-Executive Directors **																
Total	2,058,000	90,000	115,000	-	-	-	2,263,000		-	-	-	-	-	-	2,263,000	-
Executive Directors																
Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	3,813,000	165,000	285,000	-	-	-	4,263,000	-	-	-	-	-	-	-	4,263,000	-

* Remuneration is capped at SAR 500,000

** The remuneration of non-executive directors include the remuneration of Mr. Jan Koopman who resigned from the Board on July 2, 2017

Board Committees Compensation:

	Fixed Remuneration (Except for the Allowance for Attending Committee Meeting)*	Allowance for Attending Committee Meetings*	Total
Audit Committee			
Total	350,000	60,000	410,000
Nomination and Remuneration Committee			
Total	300,000	100,000	400,000
Board Risk Committee			
Total	150,000	60,000	210,000
Executive Committee			
Total	350,000	105,000	455,000

*The amounts paid to Board members for Committee membership are included as part of the total remuneration paid to the Board, which is capped at SAR 500,000

Senior Executives Compensation:

Compensation recommendations are determined based on clear understanding of the intended total reward package and decisions are taken considering the balance between external competitiveness and affordability together with focusing attention on building motivational and performance related compensation arrangements. The Group's compensation policy is aimed at rewarding both risk-adjusted performance and appropriate behavior in line the Group's core values. To this end, performance measurements are risk adjusted and reviewed by the independent Risk Management function.

SAR' 000													
	Fixed Remunerations				Variable Remunerations								
Five Executive Managers in the Bank Receiving Highest Compensation, including MD and CFO	Salaries	Allowances	In - kind Benefits	Total	Periodic Remunerations	Profits	Short-term incentive plans	Long term incentive plans	Granted shares (value)	Total	End of Service award	Total Remuneration of Executive Board Members, if any	Aggregated Amount
Total	7,823	3,104	-	10,927	3,728	-	-	-	1,960	5,688	-	-	16,615

20. DIRECTORS & SENIOR MANAGEMENT INTERESTS (INCLUDING THEIR SPOUSES AND MINORS)

Board Members

Including the 1,000 qualification shares held by each Board Member during their term of office, shares held by the Directors at the beginning and end of 2017 are set out in the table below.

Name	Shares Held as of 31st Dec 2017	Shares Held as of 1st Jan 2017
Eng. Mubarak Abdullah Al-Khafrah (Chairman)	6,320	6,320
Mrs. Lubna Sulaiman Al-Olayan (Vice Chairperson)	60,912	60,912
Mr. Ahmed Farid Al-Aulaqi	3,456	3,456
Mr. Sulaiman Abdullah Al-Kadi	35,778	35,778
Mr. Abdulhadi Ali Shayif	40,000	40,000
Mr. Eyad Abdulrahman Al-Hussain	-	-
Members appointed ABN AMRO Bank N. V.	-	-

Senior Management:

Shares held by senior management at the beginning and end of 2017 are set out in the table below:

Name	Shared Held as of 31st Dec 2017	Shared Held as of 1st Jan 2017
Mrs. May Al Hoshan	9,916	Nil
Mr. Hussam Al Khayal	36,484	Nil
Mr. Mofeed Al Jishi	30,000	Nil
Ms. Maha Mohammed Al-Sudairi	1,251	Nil

21- SHAREHODERS GENERAL ASSMBLIES

Alawwal bank held three Shareholders General Assemblies throughout the fiscal year as follows:

	General Assembly	Date
1	Ordinary General Assembly	22 January 2017
2	Extraordinary General Assembly	29 March 2017
3	Ordinary General Assembly	19 December 2017

Board members attendance of the bank's Shareholders General Assemblies held during 2017 is as follows, noting that non attending members were absent for legitimate excuse of which the Chairman of the Board was informed by prior notice.

Name	Meetings Attended	22 Jan 2017	29 Mar 2017	19 Dec 2017
Eng. Mubarak Abdullah Al-Khafrah (Chairman)	3	✓	✓	✓
Mrs. Lubna Sulaiman Al-Olayan (Vice Chairperson)	0	✗	✗	✗
Mr. Abdulhadi Ali Shayif	1	✗	✗	✓
Mr. Sulaiman Abdullah Al-Kadi	1	✗	✓	✗
Mr. Eyad Abdulrahman Al-Hussain	2	✗	✓	✓
Mr. Ahmed Farid Al-Aulaqi	0	✗	✗	✗
Mr. Javier Maldonado	0	✗	✗	✗
Mr. Martin Powell*	1	✗	✗	✓
Mr. Frank Vermeulen	0	✗	✗	✗
Mr. Soren Kring Nikolajsen	3	✓	✓	✓

* Mr. Jan Koopman resigned from the Board on 02 July 2017. The Board approved Mr. Martin Powell's appointment replacing Mr. Jan Koopman in the membership of the Board as of the same date.

Alawwal bank is committed to promoting effective and open communication with all shareholders, ensuring consistency and transparency of disclosures at all times. With that in mind, the bank has procedures in place to ensure that the shareholders suggestions and remarks in relation to the bank and its performance have been communicated to the Board.

Shareholders Records Request:

During 2017 the bank made eleven requests for shareholders records as follows:

	Request Date	Request Reason		Request Date	Request Reason
1	01/01/2017	Company Procedures	6	25/04/2017	Company Procedures
2	22/01/2017	AGM	7	26/04/2017	Company Procedures
3	15/03/2017	Company Procedures	8	24/07/2017	Company Procedures
4	29/03/2017	AGM	9	30/10/2017	Company Procedures
5	24/04/2017	Company Procedures	10	19/12/2017	AGM

22- EXTERNAL AUDITORS

At the Extraordinary General Meeting of the bank's shareholders held on 01/07/1438H (29 March, 2017), Messrs KPMG Al Fozan & Partners and Messrs Ernst & Young were appointed as joint external auditors for the year ended 31 December 2017.

23. PAYMENT OF ZAKAT, INCOME TAX & OTHERS

Zakat and income tax liabilities for the year 2017 are as follows:

a. Saudi Shareholders

Zakat attributable to Saudi Shareholders for the year is estimated to be SAR 27 million (2016: SAR 25 million), which will be adjusted against their share of current and future dividends.

b. Non-Saudi Shareholders

Income tax payable on the current year's share of income of foreign shareholders is estimated to be SAR 102 million (2016: SAR 95 million), which will be adjusted against their share of current and future dividends.

c. Governmental agencies

The below table displays the major payments made to governmental agencies.

Statement Description Reasons	SAR'000		
	2017	2016	Due and outstanding until the end of the annual financial period
Zakat & Income Tax	83,674	326,637	NIL
GOSI	59,356	58,351	NIL
Visas and passports	1,179	690	NIL
Labor Office Fees	37	38	NIL
Total	144,246	385,716	NIL

24. SHARE PLAN

In January 2008, the Group launched an equity settled share-based payment plan (the "Plan") for executives and senior employees ("Eligible Employees"). The initial Plan was approved by the Board of Directors in their meeting held on 10 Dhu-al-Qa'dah 1428H (corresponding to November 20, 2007) and SAMA in their letter dated 26 Safar 1429H (corresponding March 4, 2008). The vesting conditions were amended in 2009 as approved by the Board of Directors in their meeting held on 5 Shabaan 1430H (corresponding July 27, 2009) and SAMA in their letter dated 20 Dhu-al-Qa'dah 1430H (corresponding November 9, 2009). According to the amendment made in the Plan during 2017, Eligible Employees will receive shares in the bank if the following terms and conditions are met:

- Eligible employees are required to continue their employment with the Group for a period of one year from the grant date to have 1/3rd of shares vest, two years from the grant to have another 1/3rd of shares vest and three years from the grant to have remaining 1/3rd of shares to vest; and

- The Group achieves specific growth thresholds as approved by the Board of Directors where each threshold will accrue a certain value of shares to the Eligible Employees.

The amendments made in the Plan during 2017, with respect to vesting period of the grant is applicable to 2017 grant only and the vesting period of the prior grants will be subject to the policy applicable before the aforementioned amendment. Before the amendments, Eligible employees were required to continue their employment with the Group for a period of 2 years from the grant date to have half of their shares vest and another year for the remainder to vest.

Under the provisions of the Plan, the Group at no point becomes the legal owner of the underlying shares. Until such time as these shares vest they will not carry voting rights. As per the Plan, Alawwal Invest manages the Staff Share Plan Fund (the Fund) which will operate in accordance with the terms and conditions as approved by the Board of Directors in their above referred meeting and by SAMA in their above referred letter. Any further modifications in the terms and conditions of the Plan require prior approval of SAMA.

During 2008, the Fund purchased 2.15 million bank's shares for a total consideration of SR 114 million which are held by it in fiduciary

capacity until the shares vest to the eligible employees. The Fund purchased one million shares in 2012 and 999,063 shares in 2016 worth of SAR 27 million and 25 million, respectively. At the vesting date the ownership of these shares will pass to the employees. The number of shares granted is calculated in accordance with the performance based formula approved by the Board of Directors and is subject to approval of the Nomination and Remuneration Committee.

25. APPLICABLE REGULATIONS

Alawwal bank has adhered to the provisions of the Banking Control Law, Saudi Companies' Law, and regulations issued by the Saudi Arabian Monetary Agency (SAMA) and the Capital Market Authority (CMA). In the event of conflicting regulation, the bank adheres to the existing rules governing banks and joint stock companies prior to the foundation of the Capital Market Authority.

During 2017 the bank paid SAR 691,000 in respect of penalties levied by regulatory authorities in the Kingdom as per the following table:

Penalty	Penalty Subject/ Reasons	Authority Imposing the Penalty	Penal sanctions	Amount (SAR)	Measures Undertaken to Remedy and Avoid the Penalties Imposed
SAMA Penalty	Violation of SAMA's supervisory regulations	Saudi Arabian Monetary Agency	8	311,000	Various corrective and preventive measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the SAMA regulations.
SAMA Penalty	Violation of SAMA's instructions on service level agreement of ATMs and POS	Saudi Arabian Monetary Agency	1	90,000	Various corrective and preventive measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the SAMA regulations.
CMA Penalty	Non-compliance with CMA regulations	Capital Market Authority	3	290,000	Various corrective and preventive measures have been taken with respect to changes in processes, policies and procedures to avoid such violations and ensure compliance with the CMA regulations.
			Total	691,000	

26. ALAWWAL BANK & THE COMMUNITY (CORPORATE SOCIAL RESPONSIBILITY)

As a major financial institution serving communities throughout the Kingdom, Alawwal bank takes the responsibility of being a good corporate citizen extremely seriously. The bank plays an active role in the social and economic development Kingdom-wide through various programs, events and initiatives aimed at promoting innovation, education, employment and charity and awareness.

INNOVATION

For a sixth consecutive year, Alawwal bank has partnered with Microsoft to organize a series of events, academic programs and entrepreneurship initiatives at schools and universities across the Kingdom. This unique partnership has also included a number of workshops aimed at developing young people's creative ideas and entrepreneurial skills. During the year, Alawwal bank has also sponsored Asbar World Forum, facilitating debate on building the Knowledge Economy with international and local speakers, as well as leading figures from the world of science.

EDUCATION

Alawwal bank believes sustainable economic development cannot be reached without substantial investment in education and human capital. The bank has supported various educational programs to help people of all ages advance and better their lives. Alawwal bank has sponsored 'Deaf Girls Center' within the Saudi Deaf Sports Federation to help provide cultural, social and recreational activities. Moreover, the bank has partnered with the General Directorate of Education in Jeddah to support its beneficiary service center. In cooperation with Honna Establishment, the bank has supported the 'Young Entrepreneur' program, helping develop the financial and investment skills of young people. Furthermore, the bank has supported "Lifelong Learning -

Elementary School", a program designed by Acnaf Association to help orphans academically develop and integrate into society.

EMPLOYMENT

The bank actively participates in events that seek not only to introduce individuals to job opportunities but also help better prepare them for successful careers in the workplace. By sponsoring Glowork, one of the leading career fairs in the Kingdom, the bank has helped many women find employment and contribute to towards increasing female participation in the workplace. Furthermore, Alawwal bank has supported Alfaisal University's sixth Career Expo, helping provide the labor market with new qualified graduates. Such investment in human capital and recruitment stems from the bank's commitment to reduce the unemployment rates through Saudization.

CHARITY & AWARENESS

Since its inception, Alawwal bank has always aimed to promote cultural awareness, national identity and social unity through effective coordination with many charitable associations. The bank participated in the campaign organized by the King Salman Humanitarian and Relief Center for the Syrian people, supporting national Saudi relief efforts for Syrian children and families affected by ongoing conflict in the region. In addition, Alawwal bank has supported charities focused on spreading awareness on a number of health and social issues. The bank has actively participated in the Anti-Smoking Charity Association "Naqa" campaign. In addition, Alawwal bank has supported the Zahra Association's efforts to spread awareness on breast cancer prevention, provide specialized care services for patients and support scientific studies. Other equally worthy causes the bank has been proud to support are Sanad Children's Cancer Support Association, the Bunyan Charity and the Eta'am Charity Association.

27. DECLARATIONS

The Board of Directors hereby declares that:

- Proper books of account have been maintained;
- The system of internal control is sound in design and has been effectively implemented;
- There is no significant doubt concerning the bank's ability to continue as a going concern.
- The bank has no existing contracts in which a Director, the MD, the CFO or a party related to any of them has a material interest, except for those that were mentioned in the related party transactions section of this report;
- After the review of the Audit Committee, the Board of Directors approved the consolidated financial statements for the year 2017 on February 15, 2018 as recommended by the Committee.

The bank has implemented all provisions of the Corporate Governance Regulations issued by CMA.

CONCLUSION

The Board of Directors of Alawwal bank extends its regards and gratitude to the government of the Custodian of the Two Holy Mosques, His Majesty, and to HRH the Crown Prince, HE the Minister of Finance, HE the Minister of Commerce & Investment, HE the Governor of the Saudi Arabian Monetary Agency and HE the Chairman of the Capital Market Authority for their continued support to the banking community.

The Board of Directors also extends its thanks and appreciation to the shareholders, customers and correspondents of Alawwal bank for their continuing confidence and support.

Finally, appreciation must be given to the bank's management and staff for their dedication and team work, without which this year's achievements would not have been possible.

Board of Directors

Statement of Internal Control

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

The scope of the Internal Audit department, independent from line management, includes the assessment of the adequacy and effectiveness of the internal control system across the Bank, as well as to provide reasonable assurance as to whether management has implemented and complied with prescribed policies and procedures. All significant and material findings of Internal Audit assessments are reported to the Audit Committee of the Board. The Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interest of the Bank.

Concerted and integrated efforts are made by all functions of the Bank to improve the Control Environment at grass root level through continuous reviewing and streamlining of procedures to prevent and rectify any control deficiencies. Each function, under the supervision of the senior executive management, is entrusted with the responsibility to oversee rectification of control deficiencies identified by internal and external auditors. The Compliance function, through centrally automated applications and physical examinations, ensures adherence to regulatory requirements and the Bank's internal policies and procedures.

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

Management has adopted The Internal Controls integrated framework as recommended by SAMA through its guidelines on Internal Controls.

The Audit Committee also reviews the assessment report on the effectiveness of the internal control system, as prepared by the Internal Audit department of the Bank. The report on the assessment of internal controls does not contain material weaknesses in the bank's internal control framework that have not been adequately addressed by the management.

Based on the results of the ongoing evaluation of internal controls carried out by Management during the year, Management considers the Bank's existing internal control system to be adequately designed, operating effectively, and monitored consistently. Nevertheless, Management continuously endeavors to enhance and further strengthen the internal control system of the Bank.

Based on the above, the Board of Directors has duly endorsed Managements' evaluation of the internal control system, as prescribed by SAMA.

2017 Achievements

"IBDA"

Launched our best digital branch initiative "IBDA", creating a social space for people to enjoy a coffee and do their banking at the same time.

Best Retail Bank in the Kingdom

Our continuous improvements in the way we serve our customers, won us the Best Retail Bank in Saudi Arabia from The Asian Banker.

Alawwal Online and Mobile

Introduced 4 new services providing our customers more convenience and flexibility.

Alawwal Qitaf Credit Card

Alawwal Qitaf Credit Card was launched in partnership with STC, opening a new world of rewards for our customers.

Best Loyalty & Rewards Program award in the MENA

Our Alfursan Credit Card won the Best Loyalty & Rewards Program award in the Middle East and North Africa from MasterCard.

Best Digital Bank in Saudi Arabia

Innovative initiatives in digital banking won us recognition as the Best Digital Bank in Saudi Arabia, from The Banker Middle East.

Branch and ATM expansion

We continued to expand our reach across the Kingdom, growing our total number of branches to 68 and our ATM network to 560.

Record Operating Profit

We became more efficient with our record operating profit of 2,446 million Riyals, and a stronger and safer bank with our highest ever capital levels. The bank's tier 1 and total capital ratio increased to 16.2% and 20.3% respectively.

Best Retail Bank in the Middle East

Ended our successful year with a recognition of the Best Retail Bank in The Middle East from Le Fonti awards.

"Tahseel" Receivables Management System

Introduced to our Corporate Customers a fast, efficient and fully automated solution for managing their receivables.

Members of the Bank's Senior Management



FROM LEFT TO RIGHT

Mr. Salem Al-Onazi
Legal

Mr. Khalid Al-Muammar
Institutional Banking

Mr. Abdullah Aloraini
Finance

Ms. Maha Al Sudairi
Compliance & Governance

Mr. Khaldon Al Fakhri
Risk Management

Mr. Bandar Al Gaeiti
Branch Network

Mr. Hai Liang Yu
International & transaction
banking

Mr. Hussam Al Khayal
Corporate Banking &
Personal Financial Services

Mrs. May Al Hoshan
Human Resources

Mr. Majed Al Ghanemi
Chief Operating Officer

Mr. Mohammed Al Shaikh
Treasury

Mr. Saqib Iqbal
Internal Audit

Mr. Soren Nikolajsen
Managing Director

Alawwal bank & the Community



INNOVATION

- Launched 8 initiatives to promote creativity and innovation.
- Hands-on training and workshops for more than 4800 students of both genders.
- Involving more than 30 universities, technical colleges and many schools across Saudi Arabia.
- Training programs for 500 young Saudis of both genders, to establish start-up businesses.



EDUCATION

- Launched more than 2000 workshops, hands-on training & seminars.
- Distributed more than 6000 application codes for students to access technical programs and tools.
- Reaching more than 60000 students from both genders through educational initiatives.



EMPLOYMENT

- Sponsored Glowork Career Fair the number one female career fair and recruitment aimed at supporting the role of Saudi women in employment to activate their role in the economic development and presence in the labor market.
- Sponsoring the 6th employment exhibition for Alfaisal University.
- Training more than 100 Young males and females to join the labor market.



COMMUNITY & CULTURE

- Sponsored 14 initiatives in community services, health and culture in cooperation with various charity associations.
- Our sponsorships covered the support of families in needs, humanitarian initiatives, sports and programs to raise awareness on health and volunteering.

Alawwal bank & the Community

Partners among others



An abstract graphic on the left side of the slide, consisting of a complex network of white and light blue lines that resemble a circuit board or data pathways. The lines are interconnected and branch out, creating a sense of digital connectivity. The overall design is modern and tech-oriented.

AUDITORS' REPORT

Independent Auditors' Report on the Audit of the Consolidated Financial Statements

For The Year Ended
31 December 2017

TO THE SHAREHOLDERS OF ALAWWAL BANK

(A Saudi Joint Stock Company)

OPINION

We have audited the consolidated financial statements of Alawwal 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 40.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional 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:

Key Audit Matter

Impairment of loans and advances:

At December 31, 2017, the gross loans and advances were Saudi Riyals 66,412 million; against which an impairment provision of Saudi Riyals 2,773 million was maintained. This includes impairment against specific loans and collective impairment recorded 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 amount of 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 calculate 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 models to make those calculations;
- An assessment of the Group's exposure to certain industries affected by current economic conditions.

Refer to the significant accounting policies note 3 l(i) to the consolidated financial statements for the significant accounting policy relating to impairment of loans and advances, note 2d(i) which contains the disclosure of significant accounting estimates relating to impairment against loans and advances and note 7(b) which contains the disclosure of impairment against loans and advances.

How our audit addressed the key audit matter:

We assessed the design and implementation, and tested the operating effectiveness of the key controls over the following:

- identification of impaired loans and advances; and
- management's processes for establishing and monitoring both specific and collective impairment.

We tested a sample of loans and advances to form our own

assessment as to whether impairment events had occurred and to assess whether impairment had been identified and recorded in a timely manner.

Where impairment was individually calculated, we tested, on a sample basis, the calculation of impairment including forecasted future cash flows, discount rates and estimated recovery from any underlying collateral etc. The sample of loans and advances tested by us also included exposures in sectors adversely affected by the current economic conditions.

For collective impairment model used by the Group we tested:

- On a sample basis, the extracts of historical data to the underlying systems.
- Management's assumptions including loss rates and delinquency days analysis in the models.
- On a sample basis, the calculations within the models

Key Audit Matter

Zakat

The Group files its zakat return with the General Authority of Zakat and Tax ("GAZT") on an annual basis. The GAZT has issued assessment orders for the years from 2005 up to 2013, which resulted in additional demand of Saudi Riyals 282.1 million. The additional exposure is mainly related to zakat arising due to disallowance of certain long-term investments and the addition of long term financing to the zakat base by the GAZT. The interpretation of the GAZT is being challenged by the Group and the appeal proceedings are underway at various levels of available appellate forums. Management expects a favourable outcome on the appeals, however, the Group has recorded appropriate provision against the additional exposure.

Assessments for the years 2014 onwards are yet to be raised. However, in line with the assessments finalized by the GAZT for the years 2005 to 2013, if long-term investments are disallowed and long-term financing is added to the zakat base this would result in additional exposure. The amount of the potential additional exposure is not disclosed in the consolidated financial statements as management believes that this might affect the Bank's position in this matter.

Management makes judgments about the incidence and quantum of zakat liability (which is subject to the future outcome of assessments by the GAZT) and based on such judgments,

Independent Auditors' Report on the Audit of the Consolidated Financial Statements

For The Year Ended
31 December 2017

management is confident of a favourable outcome of the appeal process.

We considered this as a key audit matter as it involves significant management judgment and the additional assessments by the GAZT are material to the consolidated financial statements.

Refer to note 3(y) for the accounting policy relating to zakat and note 26(c) for the related disclosures for zakat.

How our audit addressed the key audit matter:

In order to assess the status and likely outcome of the matter, we obtained correspondence between the Group, GAZT and the Group's zakat consultants to determine the amount of the additional demand made by the GAZT.

We held meetings with those charged with governance and senior management of the Group to obtain an update on the zakat matter and the results of their interactions with the relevant appellate forums.

We also used our internal specialist to assess the adequacy of the exposures disclosed for the years assessed by the GAZT and the appropriateness of management's judgments relating to the zakat matter in light of the facts and circumstances of the Group.

We also assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group.

Key Audit Matter

Fee from banking services

The Group charges loan transaction and service fees upfront to customers on corporate and retail loan financing. Due to the large volume of transactions with mostly insignificant fee amounts, adjustments to the effective yield of loan financing is made by management based on certain thresholds and such adjustments are recognised within consolidated income statement.

All such fees which are an integral part of generating an involvement with the resulting financial instrument should be recognized, regardless of the thresholds, as an adjustment to the effective yield of loan financing.

We considered this as a key audit matter since the use of assumptions for setting these thresholds by management could result in a material over / under statement of the Group's profitability.

Refer to the significant accounting policies note 3(g)(i) and (iii) to

the consolidated financial statements.

How our audit addressed the key audit matter:

We assessed the design and implementation and tested the operating effectiveness of the control over the consistent application of the thresholds by management.

We considered and evaluated the thresholds established by the Group for making adjustments to the effective yield of loan financing.

We obtained management's assessment of the impact of the use of the aforementioned thresholds and:

- On a test basis, traced the current and historical data used by management to the underlying accounting records; and
- Assessed the management estimation of impact of the use of thresholds (along with the related assumptions used in this calculation) on the recognition of fee and commission income and special commission income.

Key Audit Matter

Other assets

As at 31 December 2017, other assets of the Group included an amount of Saudi Riyals 437.15 million. This amount was originally disbursed to a third party who defaulted on payment and the management expects to recover this balance from a related party. The Group has reached a settlement agreement with the related party for recovery of this amount.

The Group maintains an impairment allowance of Saudi Riyals 149.91 million as at 31 December 2017 against the outstanding balance due to uncertainty around the timing of recoverability of this balance.

This is considered a key audit matter due to uncertainty around the timing of the recovery of the amount and conditions attached to the settlement agreement that may impact the recoverability of the balance.

Refer to note 10 to the consolidated financial statements for disclosure of the aforementioned receivable.

How our audit addressed the key audit matter:

We performed the following procedures:

- Read the settlement agreement reached with the related party to assess the terms and conditions attached to the settlement agreement.

- Held meetings with those charged with governance and senior management of the Group to obtain an update on this matter and the results of their interactions with the related party.
- Held meetings with the representative of the related party to discuss the progress on the settlement.
- Evaluated the basis used by management to assess the adequacy of the impairment allowance against the receivable.
- Assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group

Other Information included in the Bank's 2017 Annual Report

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

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

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

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

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

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

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a

Independent Auditors' Report on the Audit of the Consolidated Financial Statements

For The Year Ended
31 December 2017

going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

Report on other legal and regulatory requirements

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

Ernst & Young

P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arab



Fahad M. Al-Toaimi
Certified Public Accountant
Registration No . 354

KPMG Al Fozan & Partners

Certified Public Accountants
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia



Nasser Ahmed Al Shutairy
Certified Public Accountant
Registration No . 454

6 Jumad Thani 1439 H
(22 February 2018)

An abstract graphic on the left side of the slide, consisting of a complex network of thin, light blue and white lines that resemble a circuit board or a digital data path. The lines are interconnected and branch out, creating a sense of movement and connectivity. The overall aesthetic is modern and technological.

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31,
Amounts in SAR'000

	Notes	2017	2016
ASSETS			
Cash and balances with SAMA	4	15,137,005	7,487,379
Due from banks and other financial institutions	5	2,115,271	1,024,369
Positive fair value derivatives	11	212,218	393,779
Investments, net	6	16,688,747	21,258,498
Loans and advances, net	7	63,639,483	72,743,097
Investment in an associate	8	45,507	35,697
Property and equipment, net	9	1,347,009	1,281,023
Other assets, net	10	684,590	766,212
Total assets		99,869,830	104,990,054
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	12	3,344,671	1,347,732
Negative fair value derivatives	11	91,679	270,793
Customers' deposits	13	78,274,963	85,358,788
Subordinated debt	14	2,505,026	3,909,905
Other liabilities	15	2,053,795	1,440,111
Total liabilities		86,270,134	92,327,329
SHAREHOLDERS' EQUITY			
Share capital	16	11,430,720	11,430,720
Statutory reserve	17	600,062	266,183
General reserve		130,000	130,000
Other reserves	18	13,129	41,147
Retained earnings		1,297,728	854,003
Proposed dividends	26	171,461	-
Share based plan reserve	37	(43,404)	(59,328)
TOTAL SHAREHOLDERS' EQUITY		13,599,696	12,662,725
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		99,869,830	104,990,054

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended December 31,
Amounts in SAR'000

	Notes	2017	2016
Special commission income	20	3,903,289	4,082,624
Special commission expense	20	1,137,527	1,575,307
Net special commission income		2,765,762	2,507,317
Fee and commission income, net	21	689,799	784,741
Exchange income, net		129,885	160,848
Trading income, net	22	95,916	129,787
Dividend income from available for sale investments		-	11,446
Gain on non-trading investments	23	30,260	90,658
Total operating income		3,711,622	3,684,797
Salaries and employee-related expenses	24	670,845	693,225
Rent and premises-related expenses		140,230	142,169
Depreciation and amortisation	9	165,191	122,039
General and administrative expenses		289,349	378,133
Impairment charge for available for sale investments		-	120,246
Impairment charge for credit losses, net	7b (ii)	1,120,299	1,167,389
Total operating expenses		2,385,914	2,623,201
Operating income		1,325,708	1,061,596
Share in earnings of an associate	8	9,810	3,130
Net income for the year		1,335,518	1,064,726
Basic and diluted earnings per share (Expressed in SAR per share)	25	1.17	0.93

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31,
Amounts in SAR'000

	Notes	2017	2016
Net income for the year		1,335,518	1,064,726
Other comprehensive income:			
Items that are or may be reclassified to consolidated income statement in subsequent periods:			
Available for sale investments:			
- Net changes in fair values	18	(4,060)	(4,457)
- Impairment charge for available for sale investments		-	120,246
- Net amounts transferred to consolidated income statement		(24,360)	(37,230)
		(24,360)	83,016
Total available for sale investments		(28,420)	78,559
Cash flow hedge:			
- Net changes in fair values	18	402	279
Total other comprehensive income		(28,018)	78,838
Total comprehensive income for the year		1,307,500	1,143,564

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31,
Amounts in SAR'000

2017	Notes	Share capital	Statutory reserve	General reserve	Other reserves		Reserve for bonus shares	Retained earnings	Proposed dividends	Share based plan reserve	Total shareholders' equity
					Available for sale	Cash flow hedges					
Balance at beginning of the year - as reported		11,430,720	266,183	130,000	40,868	279	-	1,054,072	-	(59,328)	12,862,794
Effect of restatement - provision for Zakat and income tax	26	-	-	-	-	-	-	(200,069)	-	-	(200,069)
Balance at beginning of the period - restated		11,430,720	266,183	130,000	40,868	279	-	854,003	-	(59,328)	12,662,725
Net income for the year		-	-	-	-	-	-	1,335,518	-	-	1,335,518
Net changes in fair values	18	-	-	-	(4,060)	402	-	-	-	-	(3,658)
Net amounts transferred to the consolidated income statement	18	-	-	-	(24,360)	-	-	-	-	-	(24,360)
Total comprehensive income for the year		-	-	-	(28,420)	402	-	1,335,518	-	-	1,307,500
Transfer to statutory reserve	17	-	333,879	-	-	-	-	(333,879)	-	-	-
Proposed dividends	26	-	-	-	-	-	-	(171,461)	171,461	-	-
Provision for Zakat for the year	26	-	-	-	-	-	-	(26,884)	-	-	(26,884)
Provision for income tax for the year	26	-	-	-	-	-	-	(102,188)	-	-	(102,188)
Provision for Zakat and income tax for prior years	26	-	-	-	-	-	-	(257,381)	-	-	(257,381)
Share based plan transactions	37	-	-	-	-	-	-	-	-	15,924	15,924
Balance at the end of the year		11,430,720	600,062	130,000	12,448	681	-	1,297,728	171,461	(43,404)	13,599,696
2016											
Balance at beginning of the year - as reported		5,715,360	1	130,000	(37,691)	-	5,715,360	255,528	297,199	(48,563)	12,027,194
Effect of restatement - provision for Zakat and income tax	26	-	-	-	-	-	-	(80,446)	(159,341)	-	(239,787)
Balance at beginning of the period - restated		5,715,360	1	130,000	(37,691)	-	5,715,360	175,082	137,858	(48,563)	11,787,407
Net income for the year		-	-	-	-	-	-	1,064,726	-	-	1,064,726
Net changes in fair values	18	-	-	-	(4,457)	279	-	-	-	-	(4,178)
Net amounts transferred to the consolidated income statement	18	-	-	-	83,016	-	-	-	-	-	83,016
Total comprehensive income for the year		-	-	-	78,559	279	-	1,064,726	-	-	1,143,564
Transfer to statutory reserve	17	-	266,182	-	-	-	-	(266,182)	-	-	-
Bonus shares issued		5,715,360	-	-	-	-	(5,715,360)	-	-	-	-
Dividends paid		-	-	-	-	-	-	-	(137,858)	-	(137,858)
Provision for Zakat for the year - restated	26	-	-	-	-	-	-	(25,106)	-	-	(25,106)
Provision for income tax for the year - restated	26	-	-	-	-	-	-	(94,517)	-	-	(94,517)
Share based plan transactions	37	-	-	-	-	-	-	-	-	(10,765)	(10,765)
Balance at the end of the year - restated		11,430,720	266,183	130,000	40,868	279	-	854,003	-	(59,328)	12,662,725

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31,
Amounts in SAR'000

	Notes	2017	2016
OPERATING ACTIVITIES			
Net income for the year		1,335,518	1,064,726
Adjustments to reconcile net income to net cash from operating activities:			
(Accretion of discounts) and amortisation of premium on non-trading investments, net		(4,405)	(81,592)
Loss on disposal of property and equipment		-	1,445
Gains on non-trading investments	23	(30,260)	(90,658)
Derivative fair value, net		2,447	36,135
Subordinated debt		(4,879)	2,930
Depreciation and amortisation	9	165,191	122,039
Impairment charge for available for sale investments		-	120,246
Impairment charge for credit losses, net	7 b (ii)	1,120,299	1,167,389
Share in earning of an associate	8	(9,810)	(3,130)
Share based plan transactions	37	13,686	10,805
		2,587,787	2,350,335
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		321,273	48,668
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		5,000	(145,000)
Loans and advances, net		7,983,315	2,501,704
Other assets		83,860	32,926
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,996,939	(9,435)
Customers' deposits		(7,083,825)	(3,729,386)
Other liabilities		227,231	(381,201)
Net cash from operating activities		6,121,580	668,611
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		7,121,398	13,865,828
Purchase of non-trading investments		(2,545,000)	(13,730,188)
Investment in an associate	8	-	(20,000)
Purchase of property and equipment	9	(231,177)	(603,461)
Net cash from / (used) in investing activities		4,345,221	(487,821)
FINANCING ACTIVITIES			
Dividends paid	16	-	(137,858)
Repayment of subordinated debt	14	(1,400,000)	-
Cash used in financing activities		(1,400,000)	(137,858)
Net increase in cash and cash equivalents		9,066,801	42,932
Cash and cash equivalents at beginning of the year		3,939,264	3,896,332
Cash and cash equivalents at end of the year	27	13,006,065	3,939,264
Special commission received during the year		3,949,633	3,846,068
Special commission paid during the year		1,304,750	1,436,244
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated income statement		(28,018)	78,838

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

1) GENERAL

Alawwal bank (the "Bank"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and was formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 21, 1976). The Bank commenced business on 17 Shaaban 1397H (corresponding to August 2, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumada II 1407H (corresponding to February 5, 1987) through its 67 branches (2016: 65 branches) in the Kingdom of Saudi Arabia. The registered address of the Bank's head office is:

Alawwal bank
Head Office
Al-Dhabab Street
P O Box 1467
Riyadh 11431, Kingdom of Saudi Arabia

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

During the current year, the board of directors of the Bank, in its meeting dated 25 April 2017, resolved to enter into preliminary discussions with The Saudi British Bank (SABB), a bank listed in Kingdom of Saudi Arabia, to study the possibility of merging the two banks. The entry into these discussions does not mean that the merger will happen between the two banks. If a merger is agreed, it will be subject to various conditions including, without limitation, approval at the extra ordinary general assembly of each bank and approval of the Saudi Arabian regulatory authorities.

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries. The details of these subsidiaries are set out below:

Alawwal Invest (AI)

Alawwal Invest, is a Saudi Closed Joint Stock Company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank, was formed in accordance with the Capital Market Authority's (CMA) Resolution number 12007-39- under commercial registration number 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to January 9, 2008) to take over and manage the Group's Investment Services and Asset Management activities regulated by CMA related to dealing, managing, arranging, advising and taking custody of securities. Alawwal Invest commenced its operations effective on 2 Rabi'II 1429H (corresponding to April 8, 2008). Alawwal Invest was converted from a Limited Liability Company to a Closed Joint Stock Company during the year.

Alawwal Real Estate Company (AREC)

AREC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010250772 dated 21 Jumada I 1429H (corresponding to May 26, 2008) with the approval of the Saudi Arabian Monetary Agency (SAMA). The Company was formed to register real estate assets under its name which are received by the Bank from its borrowers as collaterals.

Alawwal Insurance Agency Company (AIAC)

AIAC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company was formed to act as an agent for Wataniya Insurance Company (WIC), an associate, for selling its insurance products.

In addition to the subsidiaries stated above, during the current year, the Bank established a Special Purpose Vehicle (the «SPV») Alawwal Financial Markets Limited, a wholly owned subsidiary of the Bank, which is formed with the approval of SAMA solely to facilitate trading of certain derivative financial instruments. Being a subsidiary, the SPV is consolidated in these consolidated financial statements as the Bank controls the SPV.

2) BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared;

- In accordance with 'International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and 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 tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat tax ("SAMA Circular"), the Zakat and tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.
- 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 note 3 (i) and 3 (y) for the accounting policy of zakat and income tax and note 26 for the impact of change in the accounting policy resulting from the SAMA Circular.

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the following items measured at fair value:

- derivatives;
- available for sale investments;
- recognised financial assets designated as hedged items in qualifying fair value hedge relationships which are adjusted for changes in fair value attributable to the risk being hedged.

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c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

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

(i) Impairment for losses on loans and advances

Management reviews its loan portfolio to assess specific and collective impairment on a monthly basis. In determining whether an impairment loss should be recorded, management applies judgement when assessing 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 similar credit risk characteristics where objective evidence of impairment exists. 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 (See note 7).

(ii) Fair value measurement

The Group measures financial instruments, such as, derivatives and available for sale investments at fair value at each reporting date. Fair values of investments held at amortised cost and held to maturity are disclosed in note 6(d).

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

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

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the annual consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole

Level 1

Quoted (unadjusted) market prices in active primary markets

Level 2

Adjusted market prices in active markets for identical assets or liabilities using valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3

Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. For assets and liabilities that are recognised in the annual

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

In certain cases external valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the valuation committee after discussion with and approval by the Bank's audit committee. Selection criteria includes market knowledge, reputation, independence and whether professional standards are maintained.

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

The Group exercises judgement to consider impairment on the available-for-sale equity and debt investments at each reporting date. This includes determination of a significant or prolonged decline in the fair value below its cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition of equity instruments. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

The determination of what is "significant" requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in instrument price, deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

In assessing objective evidence of impairment of available for sale debt investments at the reporting date, the Group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the

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issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

(iv) Classification of held-to-maturity investments

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

(v) Determination of control over investees

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

Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors rights to remove the Fund Manager. The Group has conducted a detailed assessment and as a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated any of these funds. See notes 6 and 36.

(vi) Provisions for liabilities and charges

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

vii) Going concern

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

viii) Defined benefit plan

Group operates an end of service benefit scheme for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit credit method in accordance with the periodic actuarial valuation.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

Change in accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year ended December 31, 2016, except for:

i) Change in the accounting policy in relation to accounting for Zakat and income tax

The Group has amended its accounting policy relating to Zakat and income tax and has started to accrue Zakat and income tax on a quarterly basis and charge it to consolidated statement of changes in shareholders' equity in accordance with SAMA guidance, as mentioned above, on accounting for Zakat and income tax. Previously, Zakat and income tax were deducted from dividends upon payment to the shareholders. In case no dividends were paid, Zakat and income tax were accounted for on a payment basis. The effect of this change has been accounted for retrospectively and is disclosed in note 26.

ii) Amendments to following existing standard have no significant financial impact on the consolidated financial statements of the Group on the current or prior periods and is expected to have no significant effect in future periods:

- Amendments to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after January 1, 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.
- This adoption has no material impact on the consolidated financial statements other than certain additional disclosures.

The Group has chosen not to early adopt the amendments and revisions to the IFRSs which have been published and are mandatory for compliance for the accounting years beginning on or after January 1, 2018.

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Alawwal bank and its subsidiaries drawn up to December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank and changes have been made to their accounting policies where necessary to align them with the accounting policies of the Bank.

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. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the date of the acquisition or up to the date of disposal, as appropriate. The consolidated financial statements

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

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

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns
- When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
 - The contractual arrangement with the other vote holders of the investee
 - Rights arising from other contractual arrangements
 - The Group's voting rights and potential voting rights granted by equity instruments such as shares

The Group 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 commences when the Group obtains control over the subsidiary and ceases when the Group loses control of 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.

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

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated

financial statements except when the Group controls the entity.

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

- Derecognises the assets (including goodwill, if any) 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
- Reclassifies the parent's share of components previously recognised in the consolidated comprehensive income to consolidated income statement or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

b) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting based on annual audited or latest available financial statements. An associate is an entity in which the Group has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. Investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets, less any impairment in the value of individual investments. The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in statement of comprehensive income is recognised in the consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the

associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

The Group's share of profit / loss of an associate is shown on the face of the consolidated income statement. This is the earnings / (losses) attributable to equity holders of the associate and, therefore, is earnings / (losses) after tax and non-controlling interests in the subsidiaries of the associate. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of earning of an associate' in the consolidated income statement.

c) Trade date accounting

All 'regular-way' purchases and sales of financial assets are initially recognised and derecognised on trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. 'Regular-way' purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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.

d) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, foreign exchange and commodity forward contracts, commission rate swaps, commodity options, futures and forward rate agreements, currency and commission rate swaps, currency

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and commission rate options (both written and purchased) are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position with transaction costs recognised in the consolidated income statement.

All derivatives are carried at their fair value and classified as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are derived by applying discounted cash flow models or pricing models as appropriate. The treatment of changes in their fair value depends on their classification into the following categories:

i) Derivatives held for trading

Any changes in the fair value of derivatives held for trading are taken directly to the consolidated income statement and disclosed in net trading income. Derivatives held for trading include all those derivatives which do not qualify for hedge accounting including 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 fair value through income statement (FVIS). Embedded derivatives separated from the host contracts are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement.

iii) Hedge accounting

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

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges that hedge the exposure to

changes in the fair value of a recognised asset or liability (or assets or liabilities in case of portfolio hedging) or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or losses; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that affects the reported net gains or loss.

In order to qualify for hedge accounting, hedge should be expected to be highly effective, i.e. changes in the fair value or cash flows of the hedging instruments should effectively offset corresponding changes in the hedged items, 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 management will assess the effectiveness of the hedging relationship. Subsequently hedges are assessed for effectiveness on an on-going basis.

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

Fair Value Hedges

When a derivative is designated as a hedging instrument in a fair value hedge relationship, any gain or loss from re-measuring the hedging instruments to fair value is recognised in the consolidated income statement together with the change in the fair value of the hedged item attributable to the hedged risk.

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

Cash Flow Hedges

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

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

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

e) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Bank'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 spot rates prevailing at transaction dates. Monetary assets and liabilities at year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into Saudi Arabian Riyals at rates of exchange prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective interest rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non-operating income in the consolidated income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity.

Foreign exchange gains or losses from settlement of transactions and translation of period end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated

income statement, except for differences that are deferred in other comprehensive income relating to qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment, unless the non-monetary items have an effective hedging strategy. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

f) 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 recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

g) Revenue / expense recognition

i) Special commission income and expenses

Special commission income and expenses for all financial instruments, except for those classified as held for trading or at fair value through income statement (FVIS), are recognised in the consolidated income statement using effective special commission rate.

The effective special commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense. Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, special commission income continues to be accounted for in consolidated statement of financial position on the effective special commission rate basis, on the asset's carrying value. The calculation of the effective special commission rate takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or a liability.

ii) Exchange income / (loss)

Exchange income / (loss) is recognised when earned / incurred, as discussed in the foreign currencies policy earlier.

iii) Fee and commission income

Fee and commission income that are integral to the effective special commission rate are included in the measurement of the relevant assets. Fee and commission income that are not integral part of the effective special commission rate calculation on a financial asset or liability are recognised when the related service is provided as follows:

- Portfolio and other management advisory and service fees are recognised over the period of applicable service contracts usually on a time proportionate basis.
- Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the services are being provided.
- Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to

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the effective special commission rate on the loan. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

- Other fee and commission expense relate mainly to transaction and service fees and are expensed as the services are received and are disclosed net of the related fee and commission income.

iv) Dividend income

Dividend income is recognised when the Group's right to receive dividend is established. Dividends are reflected as a component of net trading income, net income from FVIS financial instruments or other operating income based on the classification of the related equity instrument

v) Gains / (loss) from FVIS (Fair value through Income Statement) financial instruments

Net income from FVIS financial instruments relates to financial assets and liabilities designated as FVIS and include all realised and unrealised fair value changes, special commission, dividends and foreign exchange differences.

vi) Trading income / (loss), net

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

h) Day one profit or loss

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

only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets are continued to be measured in accordance with related accounting policies for investments held as FVIS, available for sale, held to maturity and other investments held at amortised cost. The transactions are treated as collateralised borrowing and counterparty liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customer deposits", as appropriate.

The difference between sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective special commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective special commission rate basis.

j) Investments

Initial recognition

All investment securities are initially recognised at fair value plus incremental direct transaction costs except for FVIS instruments where incremental direct transaction costs are charged to the consolidated income statement. These are subsequently accounted for depending on their classification as either held to maturity, FVIS, available for sale or other investments held at amortised cost. Premiums are amortised and discounts accreted using the effective special commission rate basis and are taken to special commission income.

Determination of fair value

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

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.

Reclassification

Investments at FVIS are not reclassified subsequent to their initial recognition, except for non-derivative FVIS instrument, other than those designated as FVIS upon initial recognition (i.e. trading investments) which may be reclassified out of the FVIS category if they are no longer held for the purpose of being sold or repurchased in the near term, and the following conditions are met:

- If the investments would have met the definition of "held at amortised cost" and had not been required to be classified as held for trading at initial recognition, these may be reclassified if the Group has the intention and ability to hold the investments for the foreseeable future or until maturity.
- If the investments would not have met the definition of held at amortised cost, and then it is reclassified out of the trading category only in 'rare circumstances'.

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

Subsequent measurement

The investments under each class are accounted for and presented

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using the basis set out in the following paragraphs:

i) Held as FVIS

Investments in this category are classified if they are held for trading or designated by management as FVIS on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short term and are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognized in net trading income / (loss).

An investment may be designated at FVIS by the management, at initial recognition if doing so significantly reduces measurement inconsistencies which would otherwise arise except for equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

Investments at FVIS are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are recognised in the consolidated income statement for the year in which it arises. Special commission income and dividend income on financial assets held as FVIS are reflected as either trading income or income from FVIS financial instruments in the consolidated income statement.

ii) Available for sale

Available-for-sale investments (AFS) are those non-derivative equity and debt securities which are neither classified as held to maturity (HTM) investments, other investments held at amortized cost (OI) nor designated as FVIS, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices. Investments which are classified as AFS are initially recognised at fair value plus direct and incremental transaction costs and subsequently measured at fair value except for certain unquoted equity securities whose fair value cannot be reliably measured and are carried at cost. Unrealised gains or losses arising from a change in its fair value is recognised in other comprehensive income until the investment is de-recognised or impaired whereupon any cumulative gain or loss previously recognized in

other comprehensive income is reclassified to consolidated income statement.

iii) Held to maturity

Investments with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity (HTM). Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective special commission rate method. Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

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

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

iv) Other investments held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as Other investments held at amortised cost (OI). Such investments whose fair values have not been hedged are stated at amortised cost using effective special commission rate method basis, less provision for impairment.

Any gain or loss is recognised in the consolidated income statement when the investment is derecognised or impaired.

k) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments. Loans and advances are recognised when cash is advanced to borrowers. They are derecognised when either the borrower repays the obligations, the loans are written off or substantially all the risks and rewards of ownership are transferred. All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances.

Subsequently loans and advances that are not quoted in an active market and for which fair value has not been hedged, are stated at amortised cost less any amount written off and impairment for credit losses. For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

(l) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is an objective evidence that a financial asset or group of financial assets may be impaired.

If such evidence exists, the net present value of future anticipated cash flows from that asset is determined and any impairment loss, is recognised for changes in its carrying amounts. The Group considers evidence of impairment for loans and advances and held to maturity investments at both a specific asset and collective level.

When a financial asset is uncollectible, it is either written off against the related allowances for impairment or is charged directly to the consolidated income statement. 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 recognised (such as an improvement in the debtor's credit rating), the previously recognised

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impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated income statement in impairment charge for credit losses.

(i) Impairment of financial assets held at amortised cost

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

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

Consumer loans are considered to be impaired when a payment is overdue for specified number of days as per related product programs. Since the risk metrics for consumer loans are based on a collective "pool" basis, rather than on individual loans, the provisions for consumer loans are also computed on a "pool basis" using the 'flow rate' methodology. The provision coverage is 70% for the non-performing loans (other than home finance), which are overdue by 90 days whereas the loans are considered as a total write off once overdue by 180 days. In case of home finance, exposure is downgraded to non-performing loans and special commission income is suspended once the loan is overdue by 90 days. Specific provision is raised for non performing loans overdue by 180 days and above and are written off once overdue by 720 days.

In addition to specific provision for credit losses, provision 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. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated

based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience that the Group has had in dealing with a borrower or group of borrowers and available historical default information.

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

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

(ii) Impairment of available-for-sale financial assets

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

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

m) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate assets are 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 assets. Rental income from other real estate is recognised in the consolidated income statement. Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement. Any subsequent revaluation gain in the fair value less costs to sell these assets to the extent this does not exceed the cumulative write down is recognised in the consolidated income statement. Gains or losses on disposal are recognised in the consolidated income statement.

n) Impairment of non-financial assets

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

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sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

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

o) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. The cost of other items property and equipment is depreciated / amortised on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 Years
Leasehold improvements	Over the shorter of lease period or economic useful life i.e 5 years
Furniture and fixtures, computer hardware and software and motor vehicles	3 to 10 years

Gains and losses on disposals are determined by comparing proceeds with 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. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

p) Financial Liabilities

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

Financial liabilities are designated as FVIS on initial recognition if doing so significantly reduces measurement inconsistencies which would otherwise arise. After initial recognition these liabilities are measured at fair value and the resulting gain or loss is included in the consolidated income statement.

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

q) Financial guarantees and loan commitments

In the ordinary course of business, the Group issues financial guarantees, letters of credit 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 recognised in the consolidated financial statements at fair value in other liabilities, being the value of

the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated income statement in "impairment charge for credit losses, net". The premium received is recognised in the consolidated income statement in "fees and commission income, net" on a straight line basis over the life of the guarantee.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

r) Provisions

Provisions are recognised when management can reliably estimate a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

s) Accounting for leases

Leases entered into by the Group as a lessee are all operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

When an operating lease is terminated before the lease period has expired, any penalty required to be paid to the lessor is recognised as an expense in the period in which termination takes place.

t) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" include notes and coins on hand, balances with SAMA excluding statutory deposit, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

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u) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when contractual rights to receive the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. In instances where the Group is assessed to have transferred a financial asset, the asset is derecognised if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Group has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

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

v) Share based plan transactions

The Group's share plan is classified as an equity settled plan. The fair value of shares which the Group expects will eventually vest is determined at the grant date and is expensed on a straight line basis over the vesting period with corresponding increase in share based plan reserve. Details regarding the plan and determination of the fair value are set out in note 37.

At each reporting date, management revises its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the share base plan reserve.

w) 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.

x) Short term employee benefits

Short term employee benefits are measured on a undiscounted

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

y) Zakat and income tax

Zakat is computed on the Saudi shareholders' share of Zakat base or adjusted net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders' share of adjusted net income for the year. Zakat and income tax are accrued on a quarterly basis and charged to consolidated statement of changes in shareholders' equity with a corresponding liability to be recognized in consolidated statement of financial position.

z) Investment management services

The Group offers investment services to its customers through its subsidiary AI. The services include the management of certain investment funds in consultation with professional investment advisors. The Group's share of these funds is included in available-for-sale investments and fees earned are disclosed under related parties' 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.

aa) Non-special commission based banking products

In addition to conventional banking, the Group also offers its customers certain non-special commission based banking products, which are approved by its independent Shariah Board, as follows:

All non-special commission based banking products are included in loans and advances, customers' deposits and due from and to banks and other financial institutions and are in conformity with the related accounting policies described in these consolidated financial statements.

High level definitions of non-special commission based products:

(i) Murabaha

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

(ii) Ijarah

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

(iii) Musharaka

is an agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

(iv) Tawaruq

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

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4) CASH AND BALANCES WITH SAMA

	2017	2016
Cash in hand	876,270	767,363
Current accounts	145,524	123,532
Balances with SAMA:		
- Statutory deposit	4,106,211	4,427,484
- Reverse repo with SAMA	10,009,000	2,169,000
Total	15,137,005	7,487,379

In accordance with the requirements of the Banking Control Law and Regulations issued by SAMA, the Group 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 Group's day-to-day operations and therefore does not form part of cash and cash equivalents (note-27).

5) DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017	2016
Current accounts	914,899	428,893
Money market placements	1,200,372	595,476
Total	2,115,271	1,024,369

The credit quality of due from banks and other financial institutions is managed using credit ratings from reputable external credit rating agencies. The table below shows the credit quality of balances due from banks and other financial institutions.

	2017	2016
Investment grade (credit rating AAA to BBB-)	2,103,319	1,015,728
Unrated	11,952	8,641
Total	2,115,271	1,024,369

6) INVESTMENTS, NET

a) Investments are classified as follows:

	DOMESTIC		INTERNATIONAL		TOTAL	
i) AVAILABLE- FOR- SALE, NET	2017	2016	2017	2016	2017	2016
Floating rate securities	169,795	169,352	-	-	169,795	169,352
Equities	4,330	142,410	-	-	4,330	142,410
Mutual funds	153,347	151,227	-	-	153,347	151,227
Total available-for-sale, net	327,472	462,989	-	-	327,472	462,989

Equities reported under available for sale investments include unquoted shares of SAR 4.3 million (2016: SAR 3.4 million) that are carried at cost which approximates the fair value of these investments.

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	DOMESTIC		INTERNATIONAL		TOTAL	
ii) Other investments held at amortised cost	2017	2016	2017	2016	2017	2016
Fixed rate securities	8,000,584	12,936,357	38,223	342,751	8,038,807	13,279,108
Floating rate securities	7,697,028	7,011,349	565,289	443,261	8,262,317	7,454,610
Total other investments held at amortised cost	15,697,612	19,947,706	603,512	786,012	16,301,124	20,733,718

	DOMESTIC		INTERNATIONAL		TOTAL	
iii) Held to maturity	2017	2016	2017	2016	2017	2016
Fixed rate securities	-	1,640	-	-	-	1,640
Floating rate securities	-	-	60,151	60,151	60,151	60,151
Total held to maturity	-	1,640	60,151	60,151	60,151	61,791
Total investments, net	16,025,084	20,412,335	663,663	846,163	16,688,747	21,258,498

b) Investments reclassification

Management identified certain AFS investments, for which at July 1, 2008, it had a clear intention to hold the instruments for the foreseeable future rather than to exit or trade in the short term. As a result those instruments were reclassified at that date from AFS to other investments held at amortised cost at fair value. The investments were fully matured during the year and a loss of SAR 0.43 million (2016: SAR 1.15 Million) was transferred to the consolidated income statement being the amortization of AFS reserve created at the time of reclassification.

The following table shows carrying values and fair values of the reclassified investments:

	2017		2016	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Available for sale securities reclassified to other investments held at amortised cost	-	-	65,725	64,860

c) The composition of investments is as follows:

	2017			2016		
	QUOTED	UNQUOTED	TOTAL	QUOTED	UNQUOTED	TOTAL
Fixed rate securities	242,306	7,796,501	8,038,807	344,335	12,936,413	13,280,748
Floating rate securities	325,189	8,167,074	8,492,263	756,511	6,927,602	7,684,113
Equities	-	4,330	4,330	138,972	3,438	142,410
Mutual funds	153,347	-	153,347	151,227	-	151,227
Total investments, net	720,842	15,967,905	16,688,747	1,391,045	19,867,453	21,258,498

Unquoted securities principally comprise of Saudi Government Bonds and floating rate notes. Such securities are traded in the inter-bank market within Saudi Arabia and values are determined according to an appropriate pricing model.

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d) The analysis of unrealised gains and losses and fair values of other investments held at amortised cost and held to maturity are as follows:

	2017				2016			
i) OTHER INVESTMENTS HELD AT AMORTISED COST	CARRYING VALUE	GROSS UNREALISED GAINS	GROSS UNREALISED LOSSES	FAIR VALUE	CARRYING VALUE	GROSS UNREALISED GAINS	GROSS UNREALISED LOSSES	FAIR VALUE
Fixed-rate securities	8,038,807	8,423	(89,232)	7,957,998	13,279,108	14,302	(74,743)	13,218,667
Floating rate securities	8,262,317	22,510	(17,944)	8,266,883	7,454,610	26,219	(866)	7,479,963
Total	16,301,124	30,933	(107,176)	16,224,881	20,733,718	40,521	(75,609)	20,698,630

	2017				2016			
ii) HELD TO MATURITY	CARRYING VALUE	GROSS UNREALISED GAINS	GROSS UNREALISED LOSSES	FAIR VALUE	CARRYING VALUE	GROSS UNREALISED GAINS	GROSS UNREALISED LOSSES	FAIR VALUE
Fixed-rate securities	-	-	-	-	1,640	12	-	1,652
Floating rate securities	60,151	-	(99)	60,052	60,151	-	(1,730)	58,421
Total	60,151	-	(99)	60,052	61,791	12	(1,730)	60,073

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

	2017	2016
Government and quasi-government	13,552,992	18,108,293
Corporates	1,907,080	1,719,768
Banks and other financial institutions	1,070,998	1,275,772
Others	157,677	154,665
Total investments, net	16,688,747	21,258,498

Other investments held at amortized cost amounting to SAR 8 million (2016: SAR 638 million) are pledged under repurchase agreements with customers. The market value of these investments is SAR 8 million (2016: SAR 638 million).

f) Credit risk exposures of investments

	2017				2016			
	AVAILABLE FOR SALE	HELD TO MATURITY	OTHER INVESTMENTS HELD AT AMORTIZED COST	TOTAL	AVAILABLE FOR SALE	HELD TO MATURITY	OTHER INVESTMENTS HELD AT AMORTIZED COST	TOTAL
Saudi Sovereign bonds	-	-	12,031,861	12,031,861	-	1,640	16,464,695	16,466,335
Investment grade securities	-	60,151	2,922,332	2,982,483	-	60,151	3,109,220	3,169,371
Unrated securities	169,795	-	1,346,931	1,516,726	169,352	-	1,159,803	1,329,155
Total credit risk exposure of investments	169,795	60,151	16,301,124	16,531,070	169,352	61,791	20,733,718	20,964,861
Equities and mutual funds	157,677	-	-	157,677	293,637	-	-	293,637
Total investments, net	327,472	60,151	16,301,124	16,688,747	462,989	61,791	20,733,718	21,258,498

Investment grade includes those investments having an external agency ratings of AAA to BBB-. Where specific bonds are not rated, but the issuer of the bond has been rated, issuer ratings have been used. Bonds falling in this category amounted to SAR 634 million (2016: SAR 1,888 million).

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7) LOANS AND ADVANCES, NET

a) Loans and advances held at amortised cost

2017	OVERDRAFT	CREDIT CARDS	CONSUMER LOANS	COMMERCIAL LOANS	TOTAL
Performing loans and advances, gross	1,945,893	380,945	18,248,471	43,851,432	64,426,741
Non performing loans and advances, net	374,345	15,269	145,647	1,450,343	1,985,604
Total loans and advances	2,320,238	396,214	18,394,118	45,301,775	66,412,345
Allowances for impairment of credit losses	(444,237)	(15,590)	(281,279)	(2,031,756)	(2,772,862)
Total loans and advances, net	1,876,001	380,624	18,112,839	43,270,019	63,639,483

2016	OVERDRAFT	CREDIT CARDS	CONSUMER LOANS	COMMERCIAL LOANS	TOTAL
Performing loans and advances, gross	2,339,317	370,036	19,257,443	51,273,005	73,239,801
Non performing loans and advances, net	303,541	20,807	160,567	1,170,621	1,655,536
Total loans and advances	2,642,858	390,843	19,418,010	52,443,626	74,895,337
Allowances for impairment of credit losses	(374,291)	(21,770)	(326,305)	(1,429,874)	(2,152,240)
Total loans and advances, net	2,268,567	369,073	19,091,705	51,013,752	72,743,097

b) Movements in allowances for impairment of credit losses:

2017	NOTES	OVERDRAFT	CREDIT CARDS	CONSUMER LOANS	COMMERCIAL LOANS	TOTAL
Balance at beginning of the year		374,291	21,770	326,305	1,429,874	2,152,240
Provided during the year	7 b (i) and (ii)	97,637	38,628	146,475	921,376	1,204,116
Recoveries of amounts previously provided	7 b (ii)	-	-	-	(7,746)	(7,746)
		97,637	38,628	146,475	913,630	1,196,370
Bad debts written off		(19,421)	(44,808)	(191,501)	(291,443)	(547,173)
Impairment allowances against indirect exposure transferred to other liabilities		(8,270)	-	-	(20,305)	(28,575)
Balance at end of the year		444,237	15,590	281,279	2,031,756	2,772,862

2016	NOTES	OVERDRAFT	CREDIT CARDS	CONSUMER LOANS	COMMERCIAL LOANS	TOTAL
Balance at beginning of the year		332,538	7,889	178,627	855,986	1,375,040
Provided during the year	7 b (i) and (ii)	110,137	31,500	294,206	833,293	1,269,136
Recoveries of amounts previously provided	7 b (ii)	(3,478)	-	-	(28,706)	(32,184)
		106,659	31,500	294,206	804,587	1,236,952
Bad debts written off		(64,906)	(17,619)	(146,528)	(162,819)	(391,872)
Impairment allowances against indirect exposure transferred to other liabilities		-	-	-	(67,880)	(67,880)
Balance at end of the year		374,291	21,770	326,305	1,429,874	2,152,240

7 b (i) Impairment charge for the year includes charge for collective impairment amounting to SAR 185 million (2016: SAR 302 million).

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7 b (ii) Impairment charge for credit and other losses, net	2017	2016
Impairment charge for credit losses	1,204,116	1,269,136
Less: Recoveries of amounts previously provided	(7,746)	(32,184)
Recoveries of amounts previously written-off	(76,071)	(69,563)
Total impairment charge for credit losses, net	1,120,299	1,167,389

c) Credit quality of loans and advances

i) Loans and advances neither past due nor impaired

The Group has categorised the loans and advances portfolio that is neither past due nor impaired into three sub categories according to its internal rating system, i.e. strong, satisfactory and watch.

Loans and advances under the strong category are performing, have sound fundamental characteristics and include those that exhibit characteristics that are expected to allow them to weather adverse business, financial or economic conditions without materially impairing the obligor's ability to meet its commitments.

Loans and advances under the satisfactory category are loans where borrowers are capable to meet their financial obligations and are expected to remain able to do so in the medium term. However, unexpected adverse business, financial or economic conditions could impair the obligor's ability to meet its commitments in future.

The watch category includes loans and advances that are performing, current and up-to date in terms of principal and special commission payments. However, the obligors require close management attention as their ability to meet their financial commitments has deteriorated and currently exhibits vulnerability to default or non-payment. Such borrowers may be dependent upon more favorable business, financial, and economic conditions to meet their financial commitments in full and on time.

2017	OVERDRAFT	CREDIT CARDS	CONSUMER LOANS	COMMERCIAL LOANS	TOTAL
Strong	9,800	-	-	6,894,234	6,904,034
Satisfactory	1,758,940	346,320	17,598,009	34,986,344	54,689,613
Watch	171,556	-	-	1,786,844	1,958,400
TOTAL	1,940,296	346,320	17,598,009	43,667,422	63,552,047

2016	OVERDRAFT	CREDIT CARDS	CONSUMER LOANS	COMMERCIAL LOANS	TOTAL
Strong	69,141	-	-	7,842,235	7,911,376
Satisfactory	2,061,727	330,652	18,485,875	42,078,834	62,957,088
Watch	145,559	-	-	666,992	812,551
TOTAL	2,276,427	330,652	18,485,875	50,588,061	71,681,015

ii) Ageing of past due but not impaired loans and advances

2017	OVERDRAFT	CREDIT CARDS	CONSUMER LOANS	COMMERCIAL LOANS	TOTAL
Up to 30 days	4,979	25,323	506,958	88,470	625,730
From 31 days to 90 days	19	9,302	143,504	18,402	171,227
Above 90 days	599	-	-	77,138	77,737
TOTAL	5,597	34,625	650,462	184,010	874,694

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2016	OVERDRAFT	CREDIT CARDS	CONSUMER LOANS	COMMERCIAL LOANS	TOTAL
Up to 30 days	29,187	26,411	615,314	265,941	936,853
From 31 days to 90 days	20,875	12,973	156,254	164,628	354,730
Above 90 days	12,828	-	-	254,375	267,203
TOTAL	62,890	39,384	771,568	684,944	1,558,786

Past due but not impaired loans and advances provided above comprise of total loan values except for overdraft and commercial loans which comprise overdue instalment amounts. Overdraft and commercial total loans and advances past due but not impaired at December 31, 2017 amounted to SAR 1,655.98 million (2016: SAR 2,913.40 million).

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

2017	PERFORMING	NON PERFORMING	ALLOWANCES FOR IMPAIRMENT OF CREDIT LOSSES	LOANS AND ADVANCES, NET
Government and quasi-government	1,003,218	-	-	1,003,218
Banks and other financial institutions	1,125,709	-	-	1,125,709
Agriculture and fishing	751,622	304	(304)	751,622
Manufacturing	10,401,382	374,748	(374,748)	10,401,382
Electricity, water, gas and health services	1,406,932	7,193	(7,193)	1,406,932
Building and construction	8,943,814	909,639	(709,607)	9,143,846
Commerce	13,330,292	454,562	(432,245)	13,352,609
Transportation and communication	2,475,835	7,654	(7,654)	2,475,835
Services	3,404,209	68,413	(68,413)	3,404,209
Consumer loans and credit cards	18,629,416	160,916	(104,276)	18,686,056
Others	2,954,312	2,175	(2,175)	2,954,312
	64,426,741	1,985,604	(1,706,615)	64,705,730
Portfolio impairment allowance	-	-	(1,066,247)	(1,066,247)
Total	64,426,741	1,985,604	(2,772,862)	63,639,483

2016	PERFORMING	NON PERFORMING	ALLOWANCES FOR IMPAIRMENT OF CREDIT LOSSES	LOANS AND ADVANCES, NET
Government and quasi-government	1,149,699	-	-	1,149,699
Banks and other financial institutions	2,044,140	-	-	2,044,140
Agriculture and fishing	722,426	654	(654)	722,426
Manufacturing	12,282,007	285,590	(270,590)	12,297,007
Electricity, water, gas and health services	1,973,663	92,957	(92,957)	1,973,663
Building and construction	9,724,878	709,891	(411,709)	10,023,060
Commerce	16,253,841	308,781	(308,781)	16,253,841
Transportation and communication	2,765,637	6,737	(6,737)	2,765,637
Services	3,610,316	69,552	(69,552)	3,610,316
Consumer loans and credit cards	19,627,479	181,374	(110,323)	19,698,530
Others	3,085,715	-	-	3,085,715
	73,239,801	1,655,536	(1,271,303)	73,624,034
Portfolio impairment allowance	-	-	(880,937)	(880,937)
Total	73,239,801	1,655,536	(2,152,240)	72,743,097

Loans and advances, include Islamic products amounting to SAR 43 billion (2016: SAR 50 billion).

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e) Collateral

The Group, in the ordinary course of its lending activities holds collaterals to mitigate the associated credit risk. These mostly consists of time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. Collaterals are mainly held against commercial and consumer loans and are managed against relevant exposures at their net realisable value. Total collateral fair value at December 31, 2017 amounted to SAR 26.2 billion (2016: SAR 30.68 billion).

8) INVESTMENT IN AN ASSOCIATE

	2017	2016
Balance at beginning of the year	35,697	12,567
Additional investment made during the year	-	20,000
Share in earning of an associate	9,810	3,130
BALANCE AT END OF THE YEAR	45,507	35,697

Investment in an associate represents a 20% (2016: 20%) shareholding in Wataniya Insurance Company (WIC) formed in the Kingdom of Saudi Arabia, pursuant to Royal Decree No. M/53 dated Shawwal 21, 1430H (corresponding to October 10, 2009). During the year 2016, one-for-one right issue was made by WIC which was fully subscribed by the Bank and resulted in total cost of the investments to reach SAR 40 million.

9) PROPERTY AND EQUIPMENT, NET

Property and equipment details are as follows:

2017	LAND AND BUILDINGS	LEASEHOLD IMPROVEMENTS	SOFTWARES	COMPUTER HARDWARE	FURNITURE / FIXTURES	MOTOR VEHICLES	CAPITAL WORK IN PROGRESS (CWIP)	TOTAL
COST:								
Balance at beginning of the year	783,825	317,715	635,707	422,406	282,304	5,351	244,989	2,692,297
Additions during the year	-	-	-	-	-	-	231,177	231,177
Transfers from CWIP during the year	21,546	90,869	102,706	78,036	59,537	-	(352,694)	-
BALANCE AT END OF THE YEAR	805,371	408,584	738,413	500,442	341,841	5,351	123,472	2,923,474
ACCUMULATED DEPRECIATION / AMORTISATION:								
Balance at beginning of the year	59,861	291,441	448,564	413,696	193,357	4,355	-	1,411,274
Charge for the year	11,992	15,328	78,862	26,960	31,659	390	-	165,191
BALANCE AT END OF THE YEAR	71,853	306,769	527,426	440,656	225,016	4,745	-	1,576,465
NET BOOK VALUE AS AT DECEMBER 31, 2017	733,518	101,815	210,987	59,786	116,825	606	123,472	1,347,009

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2016	LAND AND BUILDINGS	LEASEHOLD IMPROVEMENTS	SOFTWARES	COMPUTER HARDWARE	FURNITURE / FIXTURES	MOTOR VEHICLES	CAPITAL WORK IN PROGRESS (CWIP)	TOTAL
Cost:								
Balance at beginning of the year	396,715	317,715	563,737	408,746	226,405	5,533	172,335	2,091,186
Additions during the year	387,110	-	-	-	-	-	216,351	603,461
Disposal during the year	-	-	-	(2,162)	(6)	(182)	-	(2,350)
Transfers from CWIP during the year	-	-	71,970	15,822	55,905	-	(143,697)	-
Balance at end of the year	783,825	317,715	635,707	422,406	282,304	5,351	244,989	2,692,297
Accumulated depreciation / amortisation:								
Balance at beginning of the year	57,185	279,587	372,292	397,081	180,009	3,986	-	1,290,140
Charge for the year	2,676	11,854	76,272	17,337	13,349	551	-	122,039
Disposal during the year	-	-	-	(722)	(1)	(182)	-	(905)
Balance at end of the year	59,861	291,441	448,564	413,696	193,357	4,355	-	1,411,274
Net book value as at December 31, 2016	723,964	26,274	187,143	8,710	88,947	996	244,989	1,281,023

10) OTHER ASSETS, NET

	2017	2016 (Restated)
Accounts receivables, net	612,665	646,787
Others	71,925	119,425
TOTAL	684,590	766,212

As at 31 December 2017, other assets of the Group included an amount of SAR 437.15 million (2016: SAR 437.15 million). This amount was originally disbursed to a third party who defaulted on payment and the Management expects to recover this balance from a related party. The Group has reached a settlement agreement with the related party for recovery of this amount. The Group has maintained an impairment allowance of SAR 149.91 million as at December 31, 2017 (2016: SAR 149.91 million) against the outstanding balance due to uncertainty around the timing of recoverability of this balance.

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11) DERIVATIVES

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

a) Swaps

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

b) Forwards and futures

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

c) Forward-rate agreements

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

d) Options

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

Derivatives held for trading purposes

Most of the Group'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 favourable movements in prices, rates or indices. Arbitrage involves identifying price differentials between markets or products with the expectation of profiting.

Derivatives held for hedging purposes

The Group has adopted a comprehensive process for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to acceptable levels as determined by the Board of Directors and management.

The Board of Directors has established risk appetite for market risks including currency and special commission rate risk. Management, through the Bank's Asset and Liability Committee, have established a framework of limits to ensure that risk is maintained within the appetite set by the Board. As part of its asset and liability management process, positions are monitored regularly and the Group uses derivatives for hedging purposes in order to adjust its exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions.

The Group uses commission rate swaps to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Group 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 fair value or cash flow hedges.

Cash flow hedges

The Group is exposed to variability in future commission cash flows on non-trading assets and liabilities which bear commission at a variable rate. The Group 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 Group is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect the consolidated income statement:

AMOUNT IN SAR '000	WITHIN 1 YEAR	
	2017	2016
Cash inflows (assets)	8,366	7,062
Cash out flows (liabilities)	(14,569)	(7,071)
Net cash out flows	(6,203)	(9)

The schedule reflects special commission income cash flows expected to arise on the hedged items in cash flow hedges based on the repricing profile of the hedged assets and liabilities.

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DERIVATIVE FINANCIAL INSTRUMENTS 2017	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE	NOTIONAL AMOUNT TOTAL	NOTIONAL AMOUNTS BY MATURITY				
				WITHIN THREE MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	MONTHLY AVERAGE
HELD FOR TRADING:								
Special commission rate swaps	125,130	53,192	31,843,039	864,120	3,791,360	24,713,833	2,473,726	29,836,618
Foreign exchange and commodity forward contracts	59,419	29,916	11,062,273	7,146,516	3,560,189	355,568	-	14,372,492
Currency and commodity options	20,208	3,765	6,179,525	2,854,363	3,230,053	95,109	-	12,848,144
Special commission rate options	7,461	3,871	2,121,768	-	-	-	2,121,768	2,242,809
HELD AS FAIR VALUE HEDGES:								
Special commission rate swaps	-	366	37,500	-	-	37,500	-	37,502
HELD AS CASH FLOW HEDGES:								
Special commission rate swaps	-	569	4,196,137	4,196,137	-	-	-	2,598,801
TOTAL	212,218	91,679	55,440,242	15,061,136	10,581,602	25,202,010	4,595,494	
Fair values of netting arrangements	843,727	843,727						
Fair values before netting	1,055,945	935,406						

DERIVATIVE FINANCIAL INSTRUMENTS 2016	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE	NOTIONAL AMOUNT TOTAL	NOTIONAL AMOUNTS BY MATURITY				
				WITHIN THREE MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	MONTHLY AVERAGE
HELD FOR TRADING:								
Special commission rate swaps	116,100	50,653	25,076,726	410,841	2,802,459	19,319,854	2,543,572	28,269,978
Foreign exchange and commodity forward contracts	96,914	45,370	17,856,697	7,369,207	6,150,260	4,337,230	-	26,826,551
Currency and commodity options	175,345	167,044	24,792,586	6,034,674	13,414,469	5,343,443	-	36,104,810
Special commission rate options	5,420	3,638	1,021,720	-	-	-	1,021,720	898,710
HELD AS FAIR VALUE HEDGES:								
Special commission rate swaps	-	928	37,519	-	-	37,519	-	37,510
HELD AS CASH FLOW HEDGES:								
Special commission rate swaps	-	3,160	5,103,617	5,103,617	-	-	-	2,870,892
TOTAL	393,779	270,793	73,888,865	18,918,339	22,367,188	29,038,046	3,565,292	
Fair values of netting arrangements	1,414,441	1,414,441						
Fair values before netting	1,808,220	1,685,234						

The net fair value of the derivatives is SAR 120.54 million (2016: SAR 122.99 million).

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

Description 2017	HEDGED ITEMS			HEDGING INSTRUMENTS		
	FAIR VALUE	HEDGE INCEPTION VALUE	RISK	HEDGING INSTRUMENTS	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE
Fixed special commission rate investments	40,249	37,504	Fair value	Special commission rate swaps	-	366
Fixed special commission rate deposits	3,035,372	3,026,186	Cash flow	Special Commission rate swaps	-	569

Description 2016	HEDGED ITEMS			HEDGING INSTRUMENTS		
	FAIR VALUE	HEDGE INCEPTION VALUE	RISK	HEDGING INSTRUMENTS	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE
Fixed special commission rate investments	42,185	37,504	Fair value	Special commission rate swaps	-	928
Fixed special commission rate deposits	2,555,877	2,552,438	Cash flow	Special Commission rate swaps	-	3,160

The net gains on the hedging instruments held for fair value hedge are SAR 0.56 million (2016: SAR 0.54 million).

Approximately 26.42% (2016: 19.2%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 9% (2016: 21.5%) of the total positive fair value of the derivatives are with any single counterparty at the reporting date. Derivative activities are carried out by the Group's treasury segment. Margins placed with and received from counter parties for derivative instruments at December 31, 2017 amounted to SAR 38.06 million and SAR 23.21 million (2016: SAR 62.51 million and SAR 74.64 million), respectively.

12) DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017	2016
Current accounts	422,838	638,336
Money market deposits	2,921,833	709,396
TOTAL	3,344,671	1,347,732

13) CUSTOMERS' DEPOSITS

	2017	2016
Time	47,387,509	51,208,243
Demand	29,370,600	31,752,853
Saving	403,046	463,904
Others	1,113,808	1,933,788
TOTAL	78,274,963	85,358,788

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Time deposits include:

	2017	2016
i) Deposits against repurchase agreements with customers	8,000	638,000
ii) Islamic deposits	28,177,231	24,686,222

Customers' deposits include SAR 815 million (2016: SAR 1,665 million) of margins held for irrevocable commitments and other non-special commission based deposits amounting to SAR 30 billion (2016: SAR 32 billion). Foreign currency deposits at December 31 are as follows:

	2017	2016
Time	5,331,353	3,985,231
Demand	2,494,703	3,218,274
Saving	26,877	34,833
Others	79,640	71,129
TOTAL	7,932,573	7,309,467

14) SUBORDINATED DEBT

Subordinated debt represents the following debt securities:

Issued on December 12, 2013:

The Group issued SAR 2,500 million unsecured subordinated Tier II Sukuk which is due in 2023. The Group has the option, subject to the prior written approval of SAMA, to redeem these Sukuk at their redemption amount in December 2018 or in the event of certain changes affecting the taxation and regulatory capital treatment of these Sukuk. The commission rate paid on the above averaged 6 months SIBOR plus 155 basis points (2016: 6 months SIBOR plus 155 basis points).

Issued on November 26, 2012:

The Group issued SAR 1,400 million unsecured subordinated Tier II Sukuk which was due in 2019. The Group exercised the option of early redemption of these certificates at their redemption amount in November 2017. The commission rate paid on the above averaged 6 months SIBOR plus 115 basis points (2016: 6 months SIBOR plus 115 basis point). All the required approvals from regulatory authorities were obtained for the purpose of redemptions.

The Group has not defaulted on any principal or commission repayments and there has been no breaches with regard to any of these liabilities during 2017 or 2016.

15) OTHER LIABILITIES

	2017	2016 (Restated)
Accrued expenses and accounts payable	1,100,330	779,391
Zakat and tax	386,453	119,623
Others	567,012	541,097
TOTAL	2,053,795	1,440,111

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16) SHARE CAPITAL

The authorised, issued and fully paid share capital consists of 1,143.07 million shares of SAR 10 each (2016: 1,143.07 million shares of SAR 10 each).

The ownership of the Bank's share capital is as follows:

	PERCENTAGE	2017	2016
Saudi shareholders	60 %	6,858,432	6,858,432
ABN AMRO Bank N.V	40 %	4,572,288	4,572,288
TOTAL	100 %	11,430,720	11,430,720

17) STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the Article 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 333.88 million (2016: SAR 266.18 million) has been transferred from retained earnings to the statutory reserve.

18) OTHER RESERVES

	2017	2016
Balance at beginning of the year	41,147	(37,691)
Net changes in fair value	(3,658)	(4,178)
Net amounts transferred to consolidated income statement	(24,360)	83,016
BALANCE AT END OF THE YEAR	13,129	41,147

19) COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2017 and 2016, there were certain legal proceedings outstanding against the Group that arose in the normal course of business. No provision was raised during the year (2016: Nil) as professional legal advice indicates that it is not probable that any further losses will arise with respect to these proceedings.

b) Capital commitments

The Group has capital commitments of SAR 40.6 million (2016: SAR 96.7 million) in respect of leasehold improvements and computer hardware and software purchases.

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c) Credit related commitments and contingencies

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

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

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

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

Irrevocable commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss of 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 the commitments could expire or terminate without being funded.

i) The contractual maturities of the Group's commitments and contingencies are as follows:

2017	WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Letters of guarantee	1,556,321	9,442,183	5,931,634	212,303	17,142,441
Letters of credit	2,770,839	2,263,983	240,588	-	5,275,410
Acceptances	1,192,645	533,982	8,276	-	1,734,903
Irrevocable commitments to extend credit	-	32,008	72,856	1,907,338	2,012,202
TOTAL	5,519,805	12,272,156	6,253,354	2,119,641	26,164,956

2016	WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Letters of guarantee	1,647,581	9,384,876	8,371,940	174,590	19,578,987
Letters of credit	2,199,274	2,449,522	313,422	-	4,962,218
Acceptances	1,324,996	874,903	31,143	-	2,231,042
Irrevocable commitments to extend credit	-	-	176,934	1,952,475	2,129,409
TOTAL	5,171,851	12,709,301	8,893,439	2,127,065	28,901,656

Outstanding and unused portion of commitments that can be revoked unilaterally at any time by the Group amounts to SAR 28.6 billion (2016: SAR 38.06 billion).

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ii) Commitments and contingencies by counterparty are as follows:

	2017	2016
Government and quasi-government	101,987	86,636
Corporate	21,495,747	24,261,880
Banks and other financial institutions	4,137,773	3,168,426
Other	429,449	1,384,714
TOTAL	26,164,956	28,901,656

d) Operating lease commitments

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

	2017	2016
Less than 1 year	19,849	16,588
1 to 5 years	39,989	47,986
Over 5 years	5,459	7,086
TOTAL	65,297	71,660

20) SPECIAL COMMISSION INCOME AND EXPENSE

Special commission income on:

INVESTMENTS :	2017	2016
Available for sale	7,029	6,787
Held to maturity	1,763	2,043
Other investments held at amortised cost	349,710	381,659
	358,502	390,489
Due from banks and other financial institutions	82,114	15,401
Loans and advances	3,462,673	3,676,734
TOTAL	3,903,289	4,082,624

Special commission expense on:

	2017	2016
Due to banks and other financial institutions	16,144	40,137
Customers' deposits	986,320	1,406,969
Subordinated debt	135,063	128,201
TOTAL	1,137,527	1,575,307

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21) FEE AND COMMISSION INCOME, NET

FEE AND COMMISSION INCOME FROM:	2017	2016
Corporate finance and advisory	261,641	335,227
Trade finance	266,876	305,338
Card products	157,149	146,098
Share brokerage and fund management	28,739	39,473
Others	70,907	76,922
TOTAL FEE AND COMMISSION INCOME	785,312	903,058
FEE AND COMMISSION EXPENSES ON:		
Card products	72,612	69,902
Others	22,901	48,415
TOTAL FEE AND COMMISSION EXPENSES	95,513	118,317
FEE AND COMMISSION INCOME, NET	689,799	784,741

22) TRADING INCOME, NET

	2017	2016
Derivatives and others, net	95,916	129,787
TOTAL	95,916	129,787

23) GAINS ON NON-TRADING INVESTMENTS

	2017	2016
Realised gain on disposal of non-trading investments	30,260	90,658
TOTAL	30,260	90,658

24) SALARIES AND EMPLOYEE-RELATED EXPENSES

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

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2017	NUMBER OF EMPLOYEES	FIXED COMPENSATION PAID	VARIABLE COMPENSATION PAID		TOTAL
CATEGORIES OF EMPLOYEES			CASH	SHARES	
Senior executives who require SAMA's no objection	15	23,969	6,838	3,574	34,381
Employees engaged in control and risk management functions	137	40,091	5,180	1,046	46,317
Employees engaged in risk taking activities	643	141,333	15,672	4,558	161,563
Other employees	1,683	258,741	22,429	2,678	283,848
Total	2,478	464,134	50,119	11,856	526,109
Variable compensation accrued during the year		59,325			
Other employee related expenses paid during the year		75,722			
Other employee related expenses accrued during the year		71,664			
Total salaries and employee related expenses		670,845			

2016	NUMBER OF EMPLOYEES	FIXED COMPENSATION PAID	VARIABLE COMPENSATION PAID		TOTAL
CATEGORIES OF EMPLOYEES			CASH	SHARES	
Senior executives who require SAMA's no objection	16	26,531	12,070	10,040	48,641
Employees engaged in control and risk management functions	133	39,990	6,024	2,118	48,132
Employees engaged in risk taking activities	648	138,797	23,109	8,656	170,562
Other employees	1,803	271,218	29,211	5,488	305,917
Total	2,600	476,536	70,414	26,302	573,252
Variable compensation accrued during the year		48,096			
Other employee related expenses paid during the year		82,578			
Other employee related expenses accrued during the year		86,015			
Total salaries and employee related expenses		693,225			

Senior executives requiring SAMA's no objection:

This comprises senior management having responsibility and authority for formulating strategies and directing and controlling the activities of the Group. This covers the Managing Director (MD) and certain other employees directly reporting to the MD.

Employees engaged in control and risk management functions:

This refers to employees working in divisions that are not involved in risk taking activities but are engaged in review and control functions, for example Risk Management, Compliance, Internal Audit, Operations and Finance. These functions are fully independent from the risk taking units.

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Employees engaged in risk taking activities:

This comprises staff within business lines (Corporate Banking, Personal Banking, Treasury and Alawwal Invest), who are responsible for executing and implementing the business strategy on behalf of the Group, for example staff involved in recommending credit limits, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

Other employees:

This includes all other employees of the Group, excluding those already mentioned above.

Group Compensation policy:

The purpose of the policy is to establish and apply compensation policies and processes which support delivery of business strategy, reinforce the desired organisational culture, reflect prudent risk management and comply with SAMA Regulations.

The Group's compensation policy is aimed at rewarding both risk-adjusted performance and appropriate behaviour in line with the Group's core values. To this end, performance measurements are risk adjusted and reviewed by the independent Risk Management function. In addition, the Compensation Policy is reviewed by Risk Management to ensure rewards are adjusted for the level of risk incurred.

The Board of Directors are responsible for ensuring the effective implementation of the compensation policy. The Board is advised by the Nominations and Remuneration Committee (the "Committee"), which comprises of six Non Executive Directors out of which two are independent. The Committee receives reports and recommendations from Executive Management supported by Human Resources. The Committee reviews and approves all compensation decisions relating to all employees.

Heads of business units and control functions being monitored and / or controlled by Internal Audit, Compliance, Risk Management and Credit Risk will not have any input to compensation decisions of employees in the control functions. Compensation recommendations are determined based on a clear understanding of the intended total reward package and decisions are taken considering the balance between external competitiveness and affordability together with focusing attention on building motivational and performance related compensation arrangements.

25) BASIC AND DILUTED EARNINGS PER SHARE (EPS)

Basic and diluted earnings per share for the year 2017 and 2016 are calculated by dividing the net income for the year attributable to the equity shareholders by 1,143.07 million shares.

26) PROPOSED DIVIDENDS, ZAKAT AND INCOME TAX

The Board of Directors in its meeting held on December 25, 2017 has proposed a cash dividend of SAR 400.1 million (2016: Nil). After deducting Zakat, this dividend will result in a net payment of SAR 0.25 per share (2016: Nil) to Saudi shareholders. The income tax liability of the foreign shareholders will be deducted from their share of current and future dividend.

As explained in note 3, the Bank has changed its accounting policy for Zakat and income tax and accordingly Zakat and income tax for current and prior year has been charged to consolidated statement of changes in shareholders' equity. Zakat and income tax liabilities for the local and foreign shareholders' are as follow:

a) Saudi shareholders:

Zakat attributable to Saudi Shareholders for the year is estimated to be SAR 27 million (2016: SAR 25 million), which will be adjusted against their share of current and future dividends.

b) Non-Saudi shareholders:

Income tax payable on the current year's share of income of foreign shareholders is estimated to be SAR 102 million (2016: SAR 95 million), which will be adjusted against their share of current and future dividends.

The change in the accounting policy for Zakat and income tax, as explained above, has the following impacts on the line items of consolidated statements of financial position and changes in shareholders' equity:

	As reported January 1, 2016	Restatement	Amounts as restated January 1, 2016
Other assets	901,154	(80,446)	820,708
Other liabilities	1,542,348	159,341	1,701,689
Total retained earnings	255,528	(80,446)	175,082
Proposed dividends	297,199	(159,341)	137,858
Total shareholders' equity	12,027,194	(239,787)	11,787,407
	As reported December 31, 2016	Restatement	Amounts as restated December 31, 2016
Other assets	846,658	(80,446)	766,212
Other liabilities	1,320,488	119,623	1,440,111
Total retained earnings	1,054,072	(200,069)	854,003
Total shareholders' equity	12,862,794	(200,069)	12,662,725

The above change in accounting policy did not have any impact on consolidated income statement, statements of comprehensive income and cash flows for the year or year 2016.

c) Status of Zakat and Income Tax assessments

The Bank has filed its Zakat and income tax returns for the financial years up-to and including the year 2016 with the General Authority of Zakat and Tax ("GAZT"). The Bank has received Zakat and income tax assessments for the years 2005 to 2013 raising net additional demands aggregating to SAR 282.1 million. This additional exposure is mainly relates to Zakat arising on account of disallowances of certain long term investments and addition of long term financing to Zakat base by the GAZT. The basis for this additional liability is being contested by the Bank in conjunction with all the other banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from GAZT. Management expects a favourable outcome on the aforementioned appeals, however, the Bank has recorded appropriate provisions against the aforementioned exposure.

Assessments for the years 2014 to 2016 are yet to be raised. However, in line with the assessments raised by the GAZT for the years 2005 to 2013, if long-term investments are disallowed and long-term financing is added to the Zakat base, this would result in an additional Zakat exposure which remains an industry wide issue and disclosure of which might affect the Bank's position in this matter.

27) CASH AND CASH EQUIVALENTS

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

	2017	2016
Cash and balances with SAMA (note 4)	15,137,005	7,487,379
Statutory deposit	(4,106,211)	(4,427,484)
	11,030,794	3,059,895
Due from banks and other financial institutions maturing within three months or less from the acquisition date	1,975,271	879,369
TOTAL	13,006,065	3,939,264

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28) OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the senior management responsible for operational decision making in the Bank in order to allocate resources to the segments and to assess performance. Transactions between operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers. Special commission is charged to operating segments based on a pool rate, which approximates the marginal cost of funds. The revenue from external parties reported to the senior management, is measured in a manner consistent with that in the consolidated income statement. There have been no changes in the measurement basis for the segment profit or loss since December 31, 2016. Following are the reportable operating segments of the Group:

Corporate banking

The corporate banking segment offers a range of products and services to corporate and institutional customers. It accepts customer deposits and provides financing, including term loans, overdrafts, syndicated loans and trade finance services. Services provided to customers include internet banking, global transaction services and a centralised service that manages all customer transfers, electronic or otherwise.

Personal banking

The personal banking group operates through a national network of branches and ATMs supported by a 24-hour phone banking centre. This segment accepts customers' deposits in various savings and deposit accounts and provides retail banking products and services, including consumer loans, overdrafts and credit cards to individuals and small-to-medium-sized enterprises.

Investment banking and investment services

The investment banking and investment services segment offers security dealing, managing, arranging, advising and maintaining custody services in relation to securities.

Central treasury and ALCO

Treasury transacts mainly in money market, foreign exchange, special commission rate and other derivatives for corporate and institutional customers as well as for the Group's own benefit. It is also responsible for managing the Group's funding and centralized risk management and investment portfolio. ALCO include the group-wide assets and liabilities other than the business and treasury's core activities maintaining Group-wide liquidity and managing its consolidated financial position. It also includes the net interdepartmental revenues / charges on Funds Transfer Pricing as approved by ALCO and unallocated income and expenses relating to Head Office and other departments.

a) The following is an analysis of the Group's assets, revenues and results by operating segments for the years ended December 31:

2017	CORPORATE BANKING	PERSONAL BANKING	INVESTMENTS BANKING AND INVESTMENTS SERVICES	CENTRAL TREASURY & ALCO	TOTAL
External revenue / (expense):					
Net special commission income	2,057,304	1,058,531	2,090	(352,163)	2,765,762
Fee and commission income, net	502,539	180,460	31,426	(24,626)	689,799
Trading income, net	51,988	2,349	1,552	40,027	95,916
Other revenue	78,631	51,254	-	30,260	160,145
Inter-segment (expense) / revenue	(1,004,776)	235,483	9,254	760,039	-
Total segment revenue	1,685,686	1,528,077	44,322	453,537	3,711,622
Operating expenses	393,895	767,510	37,570	66,640	1,265,615
Other material non-cash items Impairment charge for credit losses, net	940,300	179,999	-	-	1,120,299
Non-operating income	-	-	-	(9,810)	(9,810)
Segment profit	351,491	580,568	6,752	396,707	1,335,518
Segment assets	43,661,906	19,977,577	748,030	35,482,317	99,869,830
Segment liabilities	22,392,629	27,180,681	208,884	36,487,940	86,270,134

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2016	CORPORATE BANKING	PERSONAL BANKING	INVESTMENTS BANKING AND INVESTMENTS SERVICES	CENTRAL TREASURY & ALCO	TOTAL
External revenue / (expense):					
Net special commission income	2,111,913	1,027,942	-	(632,538)	2,507,317
Fee and commission income, net	597,207	183,579	47,172	(43,217)	784,741
Trading income, net	105,073	12,552	1,386	10,776	129,787
Other revenue	113,579	47,270	-	102,103	262,952
Inter-segment (expense) / revenue	(912,290)	188,761	11,063	712,466	-
Total segment revenue	2,015,482	1,460,104	59,621	149,590	3,684,797
Operating expenses	429,192	751,940	43,896	110,538	1,335,566
Other material non-cash items: Impairment charge for credit losses, net	853,355	314,034	-	-	1,167,389
Other material non-cash items: impairment charge for AFS investments	-	-	-	120,246	120,246
Non-operating income	-	-	-	(3,130)	(3,130)
Segment profit / (losses)	732,935	394,130	15,725	(78,064)	1,064,726
Segment assets	51,273,700	21,469,397	554,329	31,692,628	104,990,054
Segment liabilities	26,267,101	27,681,449	16,269	38,362,510	92,327,329

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

2017	CORPORATE BANKING	PERSONAL BANKING	CENTRAL TREASURY & ALCO	TOTAL
Non derivative financial assets	43,661,906	19,977,577	19,330,931	82,970,414
Commitments and contingencies stated at credit equivalents	12,693,340	-	-	12,693,340
Derivatives stated at credit equivalents	438,691	-	462,360	901,051

2016	CORPORATE BANKING	PERSONAL BANKING	CENTRAL TREASURY & ALCO	TOTAL
Non derivative financial assets	51,273,700	21,469,397	22,755,442	95,498,539
Commitments and contingencies stated at credit equivalents	12,531,882	-	-	12,531,882
Derivatives stated at credit equivalents	822,104	-	805,370	1,627,474

Credit exposure comprises the carrying value of non derivative financial assets, excluding cash and balances with SAMA, investments in equities, associate, mutual funds and property and equipment. The credit equivalent value of commitments and contingencies and derivatives are also included in credit exposure.

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29) CREDIT RISK

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also a credit risk on credit related commitments, contingencies and derivatives. The Group controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases management may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk on derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation. To control the level of credit risk taken, management assesses counterparties using the same techniques as for its lending activities. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

Management seeks to manage concentration of credit risk within Board approved Risk Appetite and in line with SAMA guidelines, through a system of limits and strategies designed to ensure appropriate diversification of lending activities and to prevent undue concentration of risks with individuals or groups of customers in specific locations or businesses. The Group also takes security when appropriate. Management monitors on a regular basis the market value of collateral and requests additional collateral in accordance with the underlying agreement, if required. In addition it also specifically monitors the market value of collateral during its review of the adequacy of the allowances for impairment losses. Management regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by class of issuer is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments and commitments and contingencies are provided in notes 11 and 19, respectively. Information on the Group's maximum credit exposure by operating segment is provided in note 28.

The Group's maximum exposure to credit risk computed as per SAMA guidelines as at December 31, 2017 and 2016, without taking into account any collateral held or credit enhancements attached is reflected below:

	2017	2016 (Restated)
Due from banks and other financial institutions	2,115,271	1,024,369
Investments, net	16,531,070	20,964,861
Loans and advances, net	63,639,483	72,743,097
Other assets, net	684,590	766,212
Derivatives	901,051	1,627,474
Credit related commitments and contingencies	12,693,340	12,531,882
TOTAL	96,564,805	109,657,895

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. In addition to the three categories mentioned in note 7, management maintains further classification grades that differentiates between performing and impaired portfolios and allocates portfolio and specific allowances respectively. Management determines each individual borrower's grade based on specific financial ratios and other quantitative indicators and criteria such as activity, cash flows, capital structure, security, quality of management and borrower's character. A further quality classification is performed over existing borrowers and the results of this exercise are validated by the independent risk management unit.

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30) GEOGRAPHICAL CONCENTRATION

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

2017	SAUDI ARABIA	GCC & MIDDLE EAST	EUROPE	AMERICAS	SOUTH EAST ASIA	OTHER COUNTRIES	TOTAL
ASSETS							
Cash and balances with SAMA	15,137,005	-	-	-	-	-	15,137,005
Due from banks and other financial institutions	572,792	653,680	770,483	102,999	330	14,987	2,115,271
Positive fair value derivatives	107,535	45,526	59,157	-	-	-	212,218
Investments, net	16,025,085	98,374	188,281	377,007	-	-	16,688,747
Loans and advances, net	63,639,483	-	-	-	-	-	63,639,483
Investment in an associate	45,507	-	-	-	-	-	45,507
Property and equipment, net	1,347,009	-	-	-	-	-	1,347,009
Other assets, net	312,516	298,525	45,487	28,062	-	-	684,590
TOTAL	97,186,932	1,096,105	1,063,408	508,068	330	14,987	99,869,830
LIABILITIES							
Due to banks and other financial institutions	3,011,961	255,638	44,367	11,278	386	21,041	3,344,671
Negative fair value derivatives	59,463	7,189	23,653	1,374	-	-	91,679
Customers' deposits	78,274,963	-	-	-	-	-	78,274,963
Subordinated debt	2,505,026	-	-	-	-	-	2,505,026
Other liabilities	1,987,050	21,712	42,898	2,135	-	-	2,053,795
TOTAL	85,838,463	284,539	110,918	14,787	386	21,041	86,270,134
COMMITMENTS AND CONTINGENCIES	22,522,530	573,609	1,075,683	363,892	-	1,629,242	26,164,956
MAXIMUM CREDIT EXPOSURE (STATED AT CREDIT EQUIVALENT AMOUNTS)							
Commitments and contingencies	11,324,416	290,596	485,532	174,116	-	418,680	12,693,340
Derivatives	461,616	190,555	248,405	475	-	-	901,051

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2016	SAUDI ARABIA	GCC & MIDDLE EAST	EUROPE	AMERICAS	SOUTH EAST ASIA	OTHER COUNTRIES	TOTAL
ASSETS							
Cash and balances with SAMA	7,487,379	-	-	-	-	-	7,487,379
Due from banks and other financial institutions	497,576	34,632	290,913	182,616	177	18,455	1,024,369
Positive fair value derivatives	283,446	28,759	81,574	-	-	-	393,779
Investments, net	20,412,335	281,034	187,593	377,536	-	-	21,258,498
Loans and advances, net	72,395,210	-	-	347,887	-	-	72,743,097
Investment in an associate	35,697	-	-	-	-	-	35,697
Property and equipment, net	1,281,023	-	-	-	-	-	1,281,023
Other assets, net	365,633	309,654	74,650	16,229	2	44	766,212
TOTAL	102,758,299	654,079	634,730	924,268	179	18,499	104,990,054
LIABILITIES							
Due to banks and other financial institutions	335,441	307,432	310,689	17,539	371	376,260	1,347,732
Negative fair value derivatives	101,331	92,566	72,602	4,294	-	-	270,793
Customers' deposits	83,367,656	1,991,133	-	-	-	-	85,358,789
Subordinated debt	3,909,905	-	-	-	-	-	3,909,905
Other liabilities	1,388,138	12,499	37,171	2,303	-	-	1,440,111
TOTAL	89,102,471	2,403,630	420,462	24,136	371	376,260	92,327,330
COMMITMENTS AND CONTINGENCIES	25,011,402	1,509,198	1,218,389	607,401	11,005	544,261	28,901,656
MAXIMUM CREDIT EXPOSURE (STATED AT CREDIT EQUIVALENT AMOUNTS)							
Commitments and contingencies	10,856,813	736,409	474,020	226,318	5,502	232,820	12,531,882
Derivatives	963,606	256,368	407,031	469	-	-	1,627,474

Credit equivalent amounts reflect the amounts that result from translating the Group's contingent liabilities and commitments and derivatives into the risk equivalents using credit conversion factors prescribed by SAMA. The credit conversion factor is meant to capture the potential credit risk related to the exercise of that commitment. Impaired loans and advances and allowances for credit losses are all within the Kingdom of Saudi Arabia.

31) MARKET RISK

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, and equity prices. Management classifies exposures to market risk into either trading book, or non-trading book (also referred to as banking book).

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a) MARKET RISK - TRADING BOOK

The Board of Directors has set limits for the acceptable level of risk in managing the trading book. In order to manage market risk in the trading book, Management applies a VaR methodology daily to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses simulation 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 of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

VaR that management uses 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 figure should occur, on average, not more than once every hundred days. The VaR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, management maintains a framework of non-modelled limits that show potential loss for a given change in a market factor and makes no assumption about the behaviour of market factors. Furthermore, management employs stop loss limits on market risk positions and carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Asset and Liability Committee (ALCO) for review.

The Group's VaR related information for the year ended December 31, 2017 and 2016 is as provided below

2017	FOREIGN EXCHANGE RATE RISK	SPECIAL COMMISSION RATE RISK	FOREIGN EXCHANGE FORWARDS	OVERALL RISK
(VaR)				
As at December 31	38	67	5	110
Average for the year	140	262	72	474

2016	FOREIGN EXCHANGE RATE RISK	SPECIAL COMMISSION RATE RISK	FOREIGN EXCHANGE FORWARDS	OVERALL RISK
(VaR)				
As at December 31	53	132	51	236
Average for the year	387	512	80	979

b) MARKET RISK - NON-TRADING OR BANKING BOOK

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

i) SPECIAL COMMISSION RATE RISK

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

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Group's consolidated income statement or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held at year end including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges at year end for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap.

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Banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed below:

2017							
CURRENCY	INCREASE/ (DECREASE) IN BASIS POINTS	SENSITIVITY OF NET SPECIAL COMMISSION INCOME	SENSITIVITY OF EQUITY				
			6 MONTHS OR LESS	6 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
USD	25	-	-	-	-	-	-
	(25)	-	-	-	-	-	-
SAR	25	35	(104)	(3)	-	-	(107)
	(25)	(35)	104	3	-	-	107
Others	25	-	-	-	-	-	-
	(25)	-	-	-	-	-	-

2016							
CURRENCY	INCREASE/ (DECREASE) IN BASIS POINTS	SENSITIVITY OF NET SPECIAL COMMISSION INCOME	SENSITIVITY OF EQUITY				
			6 MONTHS OR LESS	6 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
USD	25	4	-	-	-	-	-
	(25)	(4)	-	-	-	-	-
SAR	25	27	(105)	(3)	(12)	-	(120)
	(25)	(27)	105	3	12	-	120
Others	25	-	-	-	-	-	-
	(25)	-	-	-	-	-	-

The exposure to the effect of various risks associated with fluctuations in the prevailing levels of market special commission rates on the Group's financial position and cash flows is managed. The Board of Directors sets limits on the level of special commission rate risk to which the Group may be exposed. These limits are monitored by the Group's Asset and Liability Committee, Risk Management and Treasury departments. The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and other financial instruments that mature or re-price in a given period. This risk is managed by matching the re-pricing of financial assets and liabilities through risk management strategies. The table below summarises the Group's exposure to special commission rate risks. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of the contractual re-pricing or the maturity dates.

2017	WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NON COMMISSION BEARING	TOTAL
ASSETS						
Cash and balances with SAMA	10,009,000	-	-	-	5,128,005	15,137,005
Due from banks and other financial institutions	1,124,804	75,568	-	-	914,899	2,115,271
Positive fair value derivatives	25,047	57,040	99,631	30,500	-	212,218
Investments, net	7,680,122	864,529	7,802,446	183,973	157,677	16,688,747
Loans and advances, net	35,267,827	13,740,016	6,742,284	7,889,356	-	63,639,483
Investments in an associate	-	-	-	-	45,507	45,507
Other assets, net	336,275	22,580	-	-	325,735	684,590
TOTAL	54,443,075	14,759,733	14,644,361	8,103,829	6,571,823	98,522,821

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2017	WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NON COMMISSION BEARING	TOTAL
LIABILITIES						
Due to banks and other financial institutions	2,901,400	13,329	7,104	-	422,838	3,344,671
Negative fair value derivatives	12,721	20,553	32,481	25,924	-	91,679
Customers' deposits	37,840,687	10,155,394	124,127	-	30,154,755	78,274,963
Subordinated debt	-	2,505,026	-	-	-	2,505,026
Other liabilities	44,916	24,438	-	-	1,984,441	2,053,795
Shareholders' equity	-	-	-	-	13,599,696	13,599,696
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	40,799,724	12,718,740	163,712	25,924	46,161,730	99,869,830
Special commission rate sensitivity - financial position gap	13,643,351	2,040,993	14,480,649	8,077,905		
Special commission rate sensitivity on derivative financial instruments	608,807	(32,565)	(585,617)	9,375		
TOTAL SPECIAL COMMISSION RATE SENSITIVITY GAP	14,252,158	2,008,428	13,895,032	8,087,280		
CUMULATIVE SPECIAL COMMISSION RATE SENSITIVITY GAP	14,252,158	16,260,586	30,155,618	38,242,898		
2016	WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NON COMMISSION BEARING	TOTAL
ASSETS						
Cash and balances with SAMA	2,169,000	-	-	-	5,318,379	7,487,379
Due from banks and other financial institutions	450,263	145,213	-	-	428,893	1,024,369
Positive fair value derivatives	85,782	254,732	53,265	-	-	393,779
Investments, net	12,757,008	1,628,376	4,676,217	1,903,260	293,637	21,258,498
Loans and advances, net	38,939,978	16,535,735	8,658,697	8,608,687	-	72,743,097
Investments in an associate	-	-	-	-	35,697	35,697
Other assets, net	344,759	29,161	-	-	392,292	766,212
TOTAL	54,746,790	18,593,217	13,388,179	10,511,947	6,468,898	103,709,031
LIABILITIES						
Due to banks and other financial institutions	549,508	147,159	12,729	-	638,336	1,347,732
Negative fair value derivatives	45,991	196,290	26,062	2,450	-	270,793
Customers' deposits	39,337,817	13,533,729	171,106	-	32,316,136	85,358,788
Subordinated debt	-	3,909,905	-	-	-	3,909,905
Other liabilities	58,292	31,945	-	-	1,349,874	1,440,111
Shareholders' equity	-	-	-	-	12,662,725	12,662,725
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	39,991,608	17,819,028	209,897	2,450	46,967,071	104,990,054
Special commission rate sensitivity - financial position gap	14,755,182	774,189	13,178,282	10,509,497		
Special commission rate sensitivity on derivative financial instruments	690,434	90,850	(671,514)	(109,770)		
TOTAL SPECIAL COMMISSION RATE SENSITIVITY GAP	15,445,616	865,039	12,506,768	10,399,727		
CUMULATIVE SPECIAL COMMISSION RATE SENSITIVITY GAP	15,445,616	16,310,655	28,817,423	39,217,150		

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Special commission rate sensitivity on derivative financial instruments represents the net notional amounts that are used to manage special commission rate risk. The effective yield of a monetary financial instrument is the yield that the Group earns from its clients taking into consideration the contractual special commission rate.

ii) CURRENCY RISK

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board of Directors have set risk appetite for market risks including currency risk and the Group's Asset and Liability Committee have set a framework of limits on positions by currency and in aggregate, which are monitored daily. Hedging strategies are also used to ensure that positions are maintained within these limits. The table below shows the currencies to which the Group has a significant exposure as at year end on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect on the consolidated income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) of a potential movement in the foreign currency against SAR, with all other variables held constant. A positive effect shows a potential increase in consolidated income statement or equity, whereas a negative effect shows a potential net reduction in consolidated income statement or equity.

2017		
CURRENCY EXPOSURE	CHANGE IN CURRENCY RATE (%)	EFFECT ON NET INCOME
USD	5	3.734
	(5)	(3.734)
AED	5	(30)
	(5)	30
CHF	5	(10)
	(5)	10
EUR	5	(68)
	(5)	68
GBP	5	(32)
	(5)	32
JPY	5	28
	(5)	(28)
Others	5	132
	(5)	(132)

2016		
CURRENCY EXPOSURE	CHANGE IN CURRENCY RATE (%)	EFFECT ON NET INCOME
USD	5	2.265
	(5)	(2.265)
AED	5	64
	(5)	(64)
CHF	5	5
	(5)	(5)
EUR	5	6
	(5)	(6)
GBP	5	26
	(5)	(26)
JPY	5	69
	(5)	(69)
Others	5	137
	(5)	(137)

Currency position: At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	LONG / (SHORT) SAR ' 000	
	2017	2016
US Dollar	74,689	45,297
UAE Dirham	(608)	1,270
Swiss Franc	(203)	99
Euro	(1,367)	113
Pound Sterling	(640)	525
Japanese Yen	558	1,382
Others	2,642	2,740

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iii) EQUITY PRICE RISK

Equity price risk refers to the risk of a decrease in the fair values of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks. The effect on the Group's equity investments held as available for sale due to reasonable possible change in equity indices, with all other variables held constant is as follows:

	2017		2016	
MARKET INDICIES - TADAWUL	CHANGE IN EQUITY PRICES %	EFFECT IN SAR '000	CHANGE IN EQUITY PRICES %	EFFECT IN SAR '000
	+ 5	-	+ 5	6.949
	- 5	-	- 5	(6.949)
	+ 10	-	+ 10	13.897
	- 10	-	- 10	(13.897)

32) LIQUIDITY RISK

Liquidity risk is the risk that the Group may encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up at short notice. To mitigate this risk, management has diversified funding sources and assets are managed considering liquidity positions to maintain a healthy balance of cash and cash equivalents and readily marketable securities

i) Maturity profile of assets and liabilities

The tables below summarise the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period to contractual maturity date as at year end and do not take into account the effective maturities as indicated by the Group's deposit retention history. 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 both the Bank and other operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO and the Board and its Committees also receive regular reporting on key liquidity risk indicators.

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 savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposits liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days or the Bank may raise additional funds through repo facilities available with SAMA against securities issued by the Saudi Government up to 75% of the nominal value of bonds held.

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ii) The maturity profile of assets and liabilities at year end is as follows:

2017	NO FIXED MATURITY	WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
ASSETS						
Cash and balances with SAMA	4,106,211	11,030,794	-	-	-	15,137,005
Due from banks and other financial institutions	914,899	1,124,804	75,568	-	-	2,115,271
Positive fair value derivatives	-	25,047	57,040	99,631	30,500	212,218
Investments, net	157,677	63,382	239,372	9,335,992	6,892,324	16,688,747
Loans and advances, net	1,154,544	23,205,228	12,114,187	15,629,529	11,535,995	63,639,483
Investments in an associate	45,507	-	-	-	-	45,507
Property and equipment, net	1,347,009	-	-	-	-	1,347,009
Other assets, net	612,976	49,034	22,580	-	-	684,590
TOTAL	8,338,823	35,498,289	12,508,747	25,065,152	18,458,819	99,869,830
LIABILITIES AND SHAREHOLDERS' EQUITY						
Due to banks and other financial institutions	422,838	2,901,400	13,329	7,104	-	3,344,671
Negative fair value derivatives	-	12,721	20,553	32,481	25,924	91,679
Customers' deposits	30,154,755	37,840,687	10,155,394	124,127	-	78,274,963
Subordinated debt	-	-	5,026	-	2,500,000	2,505,026
Other liabilities	1,984,441	44,916	24,438	-	-	2,053,795
Shareholders' equity	13,599,696	-	-	-	-	13,599,696
TOTAL	46,161,730	40,799,724	10,218,740	163,712	2,525,924	99,869,830
2016	NO FIXED MATURITY	WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
ASSETS						
Cash and balances with SAMA	4,427,484	3,059,895	-	-	-	7,487,379
Due from banks and other financial institutions	428,893	450,263	145,213	-	-	1,024,369
Positive fair value derivatives	-	85,782	254,732	53,265	-	393,779
Investments, net	293,637	5,701,730	1,210,973	6,316,745	7,735,413	21,258,498
Loans and advances, net	1,839,403	24,249,640	15,929,651	18,295,353	12,429,050	72,743,097
Investments in an associate	35,697	-	-	-	-	35,697
Property and equipment, net	1,281,023	-	-	-	-	1,281,023
Other assets, net	679,533	57,518	29,161	-	-	766,212
TOTAL	8,985,670	33,604,828	17,569,730	24,665,363	20,164,463	104,990,054
LIABILITIES AND SHAREHOLDERS' EQUITY						
Due to banks and other financial institutions	638,336	549,508	147,159	12,729	-	1,347,732
Negative fair value derivatives	-	45,991	196,290	26,062	2,450	270,793
Customers' deposits	35,199,661	36,454,291	12,560,763	1,144,073	-	85,358,788
Subordinated debt	-	-	9,905	1,400,000	2,500,000	3,909,905
Other liabilities	1,349,874	58,292	31,945	-	-	1,440,111
Shareholders' equity	12,662,725	-	-	-	-	12,662,725
TOTAL	49,850,596	37,108,082	12,946,062	2,582,864	2,502,450	104,990,054

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The cumulative maturity of commitments and contingencies and derivatives are given in note 19 (c) and note 11 of the consolidated financial statements respectively.

iii) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at year end based on contractual undiscounted repayment obligations. As special commission payments upto 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 year end 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 therefore the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

2017	NO FIXED MATURITY	WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	422,838	2,902,089	13,590	7,529	-	3,346,046
Customers' deposits	30,154,755	38,065,115	10,315,886	131,720	-	78,667,476
Subordinated debt	-	-	107,090	657,347	2,500,000	3,264,437
DERIVATIVES						
Contractual amounts payable	-	(4,706,639)	(2,774,667)	(829,319)	-	(8,310,625)
Contractual amounts receivable	-	4,730,577	2,822,553	865,801	-	8,418,931
TOTAL UNDISCOUNTED FINANCIAL LIABILITIES	30,577,593	40,991,142	10,484,452	833,078	2,500,000	85,386,265
2016	NO FIXED MATURITY	WITHIN 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	638,336	549,566	149,929	13,348	-	1,351,179
Customers' deposits	35,199,661	36,765,499	12,803,729	1,153,850	-	85,922,739
Subordinated debt	-	-	158,421	2,246,171	2,661,843	5,066,435
DERIVATIVES						
Contractual amounts payable	-	(117,369)	(332,165)	(871,853)	(112,322)	(1,433,709)
Contractual amounts receivable	-	123,910	354,898	905,860	112,959	1,497,627
TOTAL UNDISCOUNTED FINANCIAL LIABILITIES	35,837,997	37,321,606	13,134,812	3,447,376	2,662,480	92,404,271

33) FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair value and the fair value hierarchy

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

Level 1: Quoted (unadjusted) market prices in active primary markets

Level 2: Adjusted market prices in active markets for identical assets or liabilities using valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

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

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		FAIR VALUE			
2017	CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets measured at fair value:					
Derivative financial instruments	212,218	-	212,218	-	212,218
Financial investments available for sale	327,472	153,347	169,795	4,330	327,472
Total financial assets measured at fair value:	539,690	153,347	382,013	4,330	539,690
Financial assets not measured at fair value:					
Due from banks and other financial institutions	2,115,271	-	2,115,271	-	2,115,271
Held to maturity investments	60,151	-	60,052	-	60,052
Other investments at amortised cost	16,301,124	-	16,224,881	-	16,224,881
Loans and advances	63,639,483	-	-	63,388,863	63,388,863
Total financial assets not measured at fair value:	82,116,029	-	18,400,204	63,388,863	81,789,067
Financial liabilities measured at fair value:					
Derivative financial instruments	91,679	-	91,679	-	91,679
Financial liabilities not measured at fair value:					
Due to banks and other financial institutions	3,344,671	-	3,344,671	-	3,344,671
Customers' deposits	78,274,963	-	78,274,963	-	78,274,963
Subordinated debt	2,505,026	-	2,505,026	-	2,505,026
Total financial liabilities not measured at fair value:	84,124,660	-	84,124,660	-	84,124,660
2016	CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets measured at fair value:					
Derivative financial instruments	393,779	-	393,779	-	393,779
Financial investments available for sale	462,989	290,199	169,352	3,438	462,989
Total financial assets measured at fair value:	856,768	290,199	563,131	3,438	856,768
Financial assets not measured at fair value:					
Due from banks and other financial institutions	1,024,369	-	1,024,369	-	1,024,369
Held to maturity investments	61,791	-	60,073	-	60,073
Other investments at amortised cost	20,733,718	-	20,698,630	-	20,698,630
Loans and advances	72,743,097	-	-	72,614,833	72,614,833
Total financial assets not measured at fair value:	94,562,975	-	21,783,072	72,614,833	94,397,905
Financial liabilities measured at fair value:					
Derivative financial instruments	270,793	-	270,793	-	270,793
Financial liabilities not measured at fair value:					
Due to banks and other financial institutions	1,347,732	-	1,347,732	-	1,347,732
Customers' deposits	85,358,788	-	85,358,788	-	85,358,788
Subordinated debt	3,909,905	-	3,909,905	-	3,909,905
Total financial liabilities not measured at fair value:	90,616,425	-	90,616,425	-	90,616,425

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The fair values of financial instruments included in the consolidated statement of financial position, except for those held to maturity, other investments held at amortised cost and loans and advances that are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The estimated fair values of other investments held at amortised cost and held-to-maturity investments are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair value of special commission-bearing customers' deposits are not significantly different from their book values since the current market special commission rates for similar financial liabilities are not significantly different from the contracted rates.

The fair values of cash and balances with SAMA, due from banks and other financial institutions and due to banks and other financial institutions, other assets and other liabilities are not significantly different from the carrying values since the underlying amounts for these categories are for shorter durations which indicates that their booking rates are not significantly different from the current market rates. The fair value of subordinated debt approximates carrying value since this is a floating rate liability with special commission rates re-priced every six months.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Group uses widely recognized valuation models for determining the fair value of common and simpler financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The following table shows the valuation techniques used in measuring fair values at December 31, as well as the significant unobservable inputs used.

TYPE	VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	INTER- RELATIONSHIP BETWEEN SIGNIFICANT UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
Available for sale investments	Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.	None	Not applicable
Other investments held at amortised cost	Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.	None	Not applicable
Loans and advances	Fair valued using discounted cash flow techniques that use observable market data inputs for yield curves and credit spread	Credit spreads	The wider the movement in credit spread, the higher the difference between the carrying values and fair values

34) RELATED PARTY TRANSACTIONS

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

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The balances at reporting date, unless reported elsewhere in the financial statements, resulting from such transactions are as follows:

ABN AMRO BANK N.V	2017	2016
Due from banks and other financial institutions	189,337	243,509
Due to banks and other financial institutions	1,990	3,129
Derivatives at fair value, net	239	(1,710)
Commitments and contingencies	45,769	81,256
ASSOCIATES & OTHER MAJOR SHAREHOLDERS AND THEIR AFFILIATE ENTITIES WITH SIGNIFICANT INFLUENCE:		
Loans and advances	576,689	749,019
Derivatives at fair value, net	9,366	9,972
Investments	-	40,028
Customers' deposits	4,656,774	9,644,108
Subordinated debt	424,533	698,696
Commitments and contingencies	289,146	15,447
MUTUAL FUNDS MANAGED BY THE GROUP:		
Investments	153,347	151,227
Subordinated debt	15,271	15,028
Customers' deposits	167,453	259,574
Derivatives at fair value, net	311	3,210

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital. Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	2017	2016
Special commission income	12,880	14,262
Special commission expense	190,336	196,769
Fees from banking services, net	944	1,218
Fees from management services	17,732	14,898
General and administrative expenses	41,320	25,769
Directors' remuneration and other related expenses	4,763	4,792
Compensation paid to key management personnel	34,381	48,641
End of service benefits paid to key management personnel	691	3,949

Key management personnel are those persons having responsibility and authority for formulating strategies and directing and controlling the activities of the Group.

35) CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA and to safeguard the Group's ability to continue as a going concern by maintaining a strong capital base.

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Capital adequacy and the use of regulatory capital are monitored daily by management. SAMA requires holding the minimum level of regulatory capital and maintaining a ratio of total regulatory capital to the Risk-Weighted Assets (RWA) at or above the agreed minimum of 8%.

Management monitors the adequacy of its capital using ratios established by SAMA. These ratios expressed as a percentage, measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at amounts weighted to reflect their relative risk. During the year, the Group has fully complied with regulatory capital requirement.

The components of RWA, capital and ratios are as follows:

	2017	2016 (Restated)
Credit Risk RWA	77,414,670	90,133,950
Operational Risk RWA	6,262,700	5,498,588
Market Risk RWA	223,114	210,754
TOTAL PILLAR-I RWA	83,900,484	95,843,292
Tier I Capital	13,599,696	12,662,725
Tier II Capital	3,467,683	4,220,937
TOTAL TIER I & II CAPITAL	17,067,379	16,883,662
Capital Adequacy Ratio %		
Tier I	16.21	13.21
Tier I + Tier II	20.34	17.62

36) INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Group offers investment management services to its customers that include the management of investment funds and discretionary portfolios with total assets of SAR 2.85 billion (2016: SAR 3.29 billion), in consultation with professional investment advisors. This includes funds managed under Shariah approved portfolios amounting to SAR 1.56 billion (2016: SAR 1.55 billion). The financial statements of these funds are not consolidated with the consolidated financial statements of the Group. The Group's investment in these funds is included in available for sale investments. Fees earned from management services are disclosed under "related party transactions". Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, therefore, are not included in these consolidated financial statements.

37) SHARE BASED PLAN RESERVE

In January 2008, the Group launched an equity settled share-based payment plan (the "Plan") for executives and senior employees ("Eligible Employees"). The initial Plan was approved by the Board of Directors in their meeting held on 10 Dhu-al-Qa'dah 1428H (corresponding to November 20, 2007) and SAMA in their letter dated 26 Safar 1429H (corresponding March 4, 2008). The vesting conditions were amended in 2009 as approved by the Board of Directors in their meeting held on 5 Shabaan 1430H (corresponding July 27, 2009) and SAMA in their letter dated 20 Dhulqada 1430H (corresponding November 9, 2009). According to the amendment made in the Plan during 2017, Eligible Employees will receive shares in the Bank if the following terms and conditions are met:

- Eligible employees are required to continue their employment with the Group for a period of one year from the grant date to have 1/3rd of shares vest, two years from the grant to have another 13/rd of shares vest and three years from the grant to have remaining 1/3rd of shares to vest; and
- The Group achieves specific growth thresholds as approved by the Board of Directors where each threshold will accrue a certain value of shares to the Eligible Employees.

The amendments made in the Plan during 2017, with respect to vesting period of the grant is applicable to 2017 grant only and the vesting period of the prior grants will be subject to the policy applicable before the aforementioned amendment. Before the amendments, Eligible employees were required to continue their employment with the Group for a period of 2 years from the grant date to have half of their shares vest and another year for the remainder to vest.

Under the provisions of the Plan, the Group at no point becomes the legal owner of the underlying shares. Until such time as these shares vest they will not carry voting rights. As per the plan, Alawwal Invest manages the Staff Share Plan Fund (the Fund) which will operate in accordance with the terms and conditions as approved by the Board of Directors in their above referred meeting and by SAMA in their above referred letter. Any further modifications in the terms and conditions of the Plan require prior approval of SAMA.

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Amounts in SAR'000

During 2008, the Fund purchased 2.15 million Bank's shares for a total consideration of SR 114 million which are held by it in fiduciary capacity until the shares vest to the eligible employees. The Fund purchased one million shares in 2012 and 999,063 shares in 2016 worth of SAR 27 million and 25 million, respectively. At the vesting date the ownership of these shares will pass to the employees. The number of shares granted is calculated in accordance with the performance based formula approved by the Board of Directors and is subject to approval of the Nomination and Remuneration Committee.

In accordance with the terms of the Plan, shares will be granted to eligible employees annually and will vest as described above. The first tranche was granted in 2008 and was vested in year 2011. The second tranche was granted in March 2011 and vested in January 2013 and 2014. The Group granted further six tranches of the Plan in March 2012, 2013, 2014, 2015, 2016 and 2017, respectively. The Plans from 2015 to 2017 are currently under their vesting periods. The Plan details are as follows

	GRANT IN 2017	GRANT IN 2016	GRANT IN 2015
Plan Commencement date	March 2017	March 2016	March 2015
Value of shares granted on the grant date (SAR)	11,855,820	26,301,969	28,538,602
Fair value per share at grant date (SAR)	12	27	45.56
Number of shares granted	987,985	974,147	626,396
Vesting period	March 2018 - 2020	March 2018 - 2019	March 2017 - 2018
Method of settlement	Bank's shares	Bank's shares	Bank's shares

The following is the movement in number of shares in grant at December 31, 2017 and 2016

	NUMBER OF SHARES	
	2017	2016
Beginning of the year	3,417,001	1,863,294
Grant / additions during the year	987,985	3,065,214
Vested during the year	(1,116,845)	(759,038)
Forfeited during the year	(309,505)	(752,469)
	2,978,636	3,417,001

During the year Share Based Plan related charge to consolidated income statement amounted to SAR 13.69 million (2016: SAR 10.81 million).

38) PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Group has chosen not to early adopt the following new standards and amendments which have been issued but not yet effective for the current accounting year. Following is a brief on the new IFRSs and amendments to IFRSs and the related impact assessment, effective for annual periods beginning on or after January 01, 2018:

- IFRS 9 FINANCIAL INSTRUMENTS:

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.

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The Bank has treated this as a significant project and set up a multidisciplinary implementation team to achieve a successful and robust implementation. The project is overseen by a steering committee jointly chaired by the Chief Financial Officer and the Chief Risk Officer.

Classification and measurement:

The classification and measurement of financial assets (except equity instruments) will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through income statement ('FVIS').

For equity instruments that are not held for trading, the Bank may irrevocably elect to designate them as FVOCI, with no subsequent reclassification of gains or losses to the consolidated income statement. This election is made on an investment-by-investment basis. The Bank's debt instrument 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.

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. Other instruments that are classified as AFS under IAS 39 may, under IFRS 9, be measured at FVOCI or FVIS, depending on particular circumstances. Under IFRS 9, the accounting for financial liabilities will largely remain similar to IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVIS.

The de-recognition rules have 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 recognize impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured as FVIS. This mainly includes financing and investments that are measured at amortised cost or at FVOCI (other than equity investments), due from banks and financial institutions, 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 derived from statistical models, historical data and expert judgement and are adjusted where appropriate to take account of forward looking information. The Bank will categorize its financial assets into following three stages in accordance with IFRS 9 methodology:

Stage 1:

Performing financial assets that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.

Stage 2:

Performing financial assets that have experienced one or more indicator of a significant increase in credit risk. The Bank considers a range of indicators to assess whether there has been a significant increase in credit risk. These include both quantitative and qualitative measures including increased PD indicated through a credit rating downgrade, past due amounts and other factors. The impairment allowance will be recorded based on lifetime ECL.

Stage 3:

Impaired assets: For Financial assets that are impaired, the Bank will recognise the impairment allowance based on lifetime ECL.

The Bank will consider forward looking information in its calculation of ECLs. The forward looking information to be used will include elements such as macroeconomic factors (e.g., oil price, 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 IFRS 9 requirements. The Bank is now in the final phase of implementation; whereby a parallel run exercise is underway together with various validations of approaches and methods.

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 hedging 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 January 1, 2018:

According to transitional provisions for initial application of IFRS 9, the Bank is allowed to recognize any difference between previous

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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 consolidated statement of changes in shareholders' equity. Accordingly, the overall impact on equity and total assets is estimated to be in the range of 0.47% to 1.12% and 0.06% to 0.15%, respectively on the date of initial application mainly arising due to application of ECL model as against incurred loss model.

The estimated decrease in shareholders' equity and total assets includes the impact of both balance sheet classification and measurement changes and the increase to credit impairment provisions compared to those applied at December 31, 2017 under IAS 39. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Bank could vary significantly from this estimate. The Bank continues to refine models, methodologies and controls, and monitors developments in regulatory rule-making in advance of IFRS 9 adoption on January 1, 2018.

Based on the balances as at 31 December 2017, the day 1 impact of IFRS 9 (applicable from 1 January 2018), applying the amortization permitted, would be an estimated reduction of approximately 0.2% in the Total Capital Adequacy Ratio.

The following further aspects of the IFRS 9 implementation are highlighted:

Investment, amounting to SR 188 million, that do not meet the criteria to be classified either as at FVOCI or at amortized cost will have to be reclassified to financial assets at FVIS. Related fair value loss of SAR 18 million will be recorded in the consolidated statement of changes in shareholders' equity on January 1, 2018.

Gains or losses realized on the sale of equity instruments classified as FVOCI will no longer be transferred to consolidated income statement. The value of investments considered for such classification is not significant.

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 Bank has developed a governance framework for IFRS 9 processes. This includes policies requiring Board-level approval as well as more detailed policies and procedures.

- IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS:

IFRS 15 -- "Revenue from contracts with customers", applicable for the annual periods beginning on or after 1 January 2018. The new standard presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard may have an impact on how and when the revenue is recognised, with new estimates and judgments, and the possibility of revenue recognition being accelerated or deferred.

- AMENDMENTS TO IFRS 2:

Amendments to IFRS 2 -- "Share-based Payment", applicable for the period beginning on or after 1 January 2018. The amendments cover classification and measurement of three accounting areas, first, measurement of cash-settled share-based payments, second, classification of share-based payments settled net of tax withholdings, and third, accounting for a modification of a share-based payment from cash-settled to equity-settled.

- IFRS 16 LEASES:

IFRS 16 - "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.

39) COMPARATIVE FIGURES

In addition to the restatement set out in note 26, certain other prior period figures have been reclassified to conform to the current period's presentation.

40) BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorised for issue by the Board of Directors on 29 Jumada I, 1439H (corresponding to February 15, 2018).





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