Arab National Bank
Annual Report 2017

العربي
anb

EY
Building a better working world

KPMG Al Fozan & Partners
Certified Public Accountants

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

EY
Building a better working world

KPMG
KPMG Al Fozan & Partners
Certified Public Accountants

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

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances At December 31, 2017, the gross loans and advances were Saudi Riyals 116,796 million against which impairment provision of Saudi Riyals 2,253 million was maintained. This includes impairment against specific loans and collective impairment maintained on a portfolio basis. We considered this as a key audit matter as the Group makes complex and subjective judgements and makes assumptions to determine the impairment and the timing of recognition of such impairment. In particular the determination of impairment against loans and advances includes: • The identification of impairment events and judgments used to estimate the impairment against specific corporate loans and advances; and • The use of assumptions underlying the calculation of collective impairment for portfolios of loans and advances, and the use of the models to make those calculations; and • An assessment of the Group's exposure to certain economic sectors affected by current economic conditions. *Refer to the significant accounting policies note 3(l) to the consolidated financial statements, note 2(d) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment against loans and advances, note 7 which contains the disclosure of impairment against loans and advances and note 33 which explains the impairment assessment methodology used by the Group.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. This included testing of: • Controls over the modelling process including model review, and monitoring and approval of assumptions by senior management; • Controls over identification of impaired loans and advances, model output to the general ledger, and the calculation of the impairment allowance. For specific impairment, we performed the following procedures • We tested a sample of loans and advances (including loans those were not identified by management as potentially impaired) to form our own assessment as to whether impairment events have occurred and to assess whether impairment was identified and recorded in a timely manner. • We considered the assumptions underlying the impairment calculation including forecasted future cash flows, discount rates and estimated recovery from any underlying collateral etc. • We also selected a sample of loans for economic sectors adversely affected by the current economic conditions to evaluate management's assessment for impairment of such loans. For collective impairment, we tested: • the completeness of underlying loans and advances information used in the impairment models and checked the accuracy, on a sample basis; • the key assumptions used by management in the models; • the calculations within the models, on a sample basis.

KPMG Al Fozan & Partners
Certified Public Accountants

Building a better working world

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

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

Key Audit Matters (continued)

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

EY Building a better working world

KPMG Al Fozan & Partners
Certified Public Accountants

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

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

Key Audit Matters (continued)

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

EY Building a better working world

KPMG Al Fozan & Partners
Certified Public Accountants

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

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

Key Audit Matters (continued)

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

EY
Building a better working world

KPMG
KPMG Al Fozan & Partners
Certified Public Accountants

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

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

Key Audit Matters (continued)

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

KPMG Al Fozan & Partners
Certified Public Accountants

Building a better working world

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

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

Other Information included in the Bank's 2017 Annual Report

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

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

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

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

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

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

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

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

KPMG Al Fozan & Partners
Certified Public Accountants

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

KPMG Al Fozan & Partners
Certified Public Accountants

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

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

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

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

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

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

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

EY
Building a better working world

KPMG
KPMG Al Fozan & Partners
Certified Public Accountants

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

Report on Other Legal and Regulatory Requirements

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

Ernst & Young

P O Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Rashid S. AlRashoud
Certified Public Accountant
License No. 366

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

Abdullah Hamad Al Fozan
Certified Public Accountant
License No. 348

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

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

كي بي ام جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Consolidated Statement of Financial Position

As at December 31, 2017 and 2016

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

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

Consolidated Statement of Income

For the years ended December 31, 2017 and 2016

	Notes	2017 SAR '000	2016 SAR '000
Special commission income	20	6,035,194	5,738,172
Special commission expense	20	1,370,441	1,592,687
Net special commission income		4,664,753	4,145,485
Fees and commission income, net	21	840,398	935,011
Exchange income, net		415,112	475,145
Unrealized gain/(loss) on investments held as FVIS, net		31	(5,943)
Trading income, net	22	22,832	9,197
Dividend income	23	53,203	48,900
Gains on non-trading investments, net	24	177,177	45,484
Other operating income, net	25	204,437	200,858
Total operating income		6,377,943	5,854,137
Salaries and employee related expenses	30	1,247,129	1,284,243
Rent and premises related expenses		173,535	171,625
Depreciation and amortization	10	221,379	233,378
Other general and administrative expenses		577,741	571,511
Impairment charges for credit losses and other provisions, net	26	1,148,790	726,136
Impairment charges for investments, net	6	5,970	37,645
Total operating expenses		3,374,544	3,024,538
Net operating income		3,003,399	2,829,599
Share in earnings of associates, net	8	30,659	32,278
Net income for the year		3,034,058	2,861,877
Attributable to:			
Equity holders of the Bank		3,026,972	2,853,901
Non-controlling interest		7,086	7,976
Net income for the year		3,034,058	2,861,877
Basic and diluted earnings (in SAR per share)	27	3.03	2.86

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

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2017 and 2016

	2017 SAR '000	2016 SAR '000
Net income for the year	**3,034,058**	2,861,877
Other comprehensive income:		
Items that cannot be reclassified back to consolidated statement of income in subsequent periods		
- Actuarial losses on defined benefit pension plans	**(59,817)**	-
Items that are or may be reclassified to the consolidated statement of income in subsequent periods		
Available for sale financial assets:		
- Net changes in fair value	**(11,493)**	72,302
- Net amounts transferred to consolidated statement of income	**(171,011)**	(7,839)
Impairment of investments	***5,970***	*37,645*
Gains on sale of investments	***(176,981)***	*(45,484)*
Total other comprehensive (loss) income	**(242,321)**	64,463
Total comprehensive income for the year	**2,791,737**	2,926,340
Attributable to:		
Equity holders of the Bank	**2,784,651**	2,918,364
Non-controlling interest	**7,086**	7,976
Total comprehensive income for the year	**2,791,737**	2,926,340

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

Consolidated Statement of Changes in Equity

For the years ended December 31, 2017 and 2016

Attributable to equity holders of the Bank

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

Attributable to equity holders of the Bank

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

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

Consolidated Statement of Cash Flow

For the years ended December 31, 2017 and 2016

	Notes	2017 SAR '000	2016 SAR '000
Operating Activities			
Net income for the year		**3,034,058**	2,861,877
Adjustments to reconcile net income for the year to net cash fromoperating activities:			
Amortization of premium / (Accretion of discounts) of non-trading investments, net		**2,668**	(8,997)
Special commission expense on sukuk	20	**71,460**	64,498
Gains on non-trading investments, net	24	**(177,177)**	(45,484)
Unrealized (gains)/losses on revaluation of FVIS investments, net		**(31)**	5,943
Dividend income	23	**(53,203)**	(48,900)
Depreciation of investment property	9	**24,800**	24,793
Depreciation and amortization of property and equipment	10	**221,379**	233,378
Losses on disposal of property and equipment, net	25	**4,669**	160
Share in earnings of associates, net	8	**(30,659)**	(32,278)
Impairment charges for investments, net	6	**5,970**	37,645
Impairment charges for credit losses and other provisions, net	26	**1,148,790**	726,136
Net (increase)/decrease in operating assets:		**4,252,724**	3,818,771
Statutory deposit with SAMA	4	**(1,219)**	135,372
Investments held at FVIS (including trading investments)	6	**757**	1,313,888
Positive fair value derivatives		**(483,990)**	(169,612)
Loans and advances		**(257,478)**	(613,996)
Other assets		**(43,303)**	154,209
Other real estate		**-**	23,259
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**(1,167,322)**	(1,814,242)
Negative fair value derivatives		**416,113**	100,840
Customers' deposits		**140,632**	146,263
Other liabilities		**808,731**	(435,865)
Net cash from operating activities		**3,665,645**	2,658,887
Investing Activities			
Proceeds from sale of and matured non-trading investments		**4,612,991**	21,162,037
Purchase of non-trading investments		**(11,477,010)**	(14,669,137)
Investment in associate	8	**-**	(52,500)
Purchase of investment property	9	**-**	(290)
Purchase of property and equipment / intangibles	10	**(84,905)**	(134,454)
Proceeds from sale of property and equipment / intangibles		**3,488**	7,114
Dividend received		**53,203**	48,900
Net cash (used in)/from investing activities		**(6,892,233)**	6,361,670
Financing Activities		**(73,376)**	(57,578)
Special commission paid on sukuk		**(994,072)**	(991,946)
Dividends paid		**(280,504)**	(247,588)
Zakat and tax paid		**-**	(56,640)
Non-controlling interest from distributions from a subsidiary			
Net cash used in financing activities		**(1,347,952)**	(1,353,752)
(Decrease)/increase in cash and cash equivalents		**(4,574,540)**	7,666,805
Cash and cash equivalents at the beginning of the year	29	**16,347,323**	**8,680,518**
Cash and cash equivalents at the end of the year		**11,772,783**	16,347,323
Special commission received during the year		**5,977,154**	5,531,184
Special commission paid during the year		**(1,401,009)**	(1,432,076)
Supplemental non-cash information			
Net changes in fair value of available for sale financial assets		**(11,493)**	72,302

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

1. General

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

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

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

The consolidated financial statements comprise the financial statements of the Bank and the following subsidiaries (collectively referred to as "the Group"):

Arab National Investment Company (ANB Invest)

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

Arabian Heavy Equipment Leasing Company (AHEL)

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

ANB Insurance Agency

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

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

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

ANBI Business Gate Fund (the Fund)

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

ANB Global Markets Limited

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

2. Basis of preparation

a) Statement of compliance / Basis of preparation

The consolidated financial statements of the Group have been prepared;

i) In accordance with 'International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders' equity under retained earnings.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

2. Basis of preparation (continued)

(ii) in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Article of Association of the Bank.

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

Refer to note 3(w) for the accounting policy of zakat and income tax.

b) Basis of measurement and presentation

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

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

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

(i) Impairment for credit losses on loans and advances

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

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

The collective impairment allowance is determined after taking into account:

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

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

(ii) Fair value Measurement

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

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

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

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

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

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

(v) Determination of control over investees

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

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

(vi) Going concern

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

(vii) Provisions for liabilities and charges

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

(viii) Defined benefit plans

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

3. Summary of significant accounting policies

a) Changes in accounting policies

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

i. Zakat and income tax

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

ii. Amendments to existing standards

Amendments to IAS7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after 1 January 2017.

These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

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

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

b) Basis of consolidation

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

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

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights granted by equity instruments such as shares.

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

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

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

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

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

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

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

c) Investments in associates

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

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

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

d) Settlement date accounting

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

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

e) Derivative financial instruments and hedge accounting

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

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

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

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

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

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

f) Foreign currencies

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

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

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

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

g) Offsetting financial instruments

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

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

h) Revenue and expenses recognition

Special commission income and expenses

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

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

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

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

Exchange income / (loss)

Exchange income/loss is recognized when earned/incurred.

Fee and commission income

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

Dividend income

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

Net trading income / (loss)

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

Rental income

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

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized on the consolidated statement of financial position and are measured in accordance with relevant accounting policies for trading securities, investments held as FVIS, available for sale, held to maturity and other investments held at amortized cost. The counterparty liability for amounts received under these agreements is included in Due to banks and other financial institutions or Customers' deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

j) Investments

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

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

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

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

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

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

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

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

(ii) Available for sale (AFS)

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

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

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

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

(iii) Held to maturity (HTM)

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

k) Loans and advances

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

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

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

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

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

l) Impairment of financial assets

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

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

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

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

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

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

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

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

(i) Impairment of financial assets held at amortized cost

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

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

(ii) Impairment of available for sale financial assets

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

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

m) Other real estate

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

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

n) Property and equipment

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

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

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

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

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

o) Investment property

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

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

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

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

p) Financial liabilities

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

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

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

q) Provisions

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

r) Accounting for leases

i) Where the Bank is a lessee

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

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

ii) Where the Bank is a lessor

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

3. Summary of significant accounting policies (continued)

s) Cash and cash equivalents

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

t) Financial guarantees

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

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

u) End-of-service benefits

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

v) Derecognition of financial instruments

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

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

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

w) Zakat and income tax

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

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

x) Shari'ah compliant banking products

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

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

y) Investment management services

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

Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

4. Cash and balances with SAMA

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

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and is therefore not part of cash and cash equivalents (note 29). The Bank holds balances with SAMA which has investment grade credit rating.

5. Due from banks and other financial institutions

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

6. Investments, net

a) Investments are classified as follows:

i) Designated as fair value through income statement	Domestic		International		Total	
	2017	2016	**2017**	2016	**2017**	2016
Mutual funds and others	**-**	-	**-**	726	**-**	726

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

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

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

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

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

e) Movement in the allowance for impairment of investments

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

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

Notes to the Consolidated Financial Statements (continued)
For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

7. Loans and advances, net
a) Loans and advances (held at amortized cost) comprise the following:

2017	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Performing loans and advances, gross	3,734,884	500,540	24,469,442	86,691,122	115,395,988
Non-performing loans and advances, net	7,487	14,482	103,286	1,275,228	1,400,483
Total loans and advances	**3,742,371**	**515,022**	**24,572,728**	**87,966,350**	**116,796,471**
Impairment allowances for credit losses, net	(6,839)	(9,350)	(64,921)	(2,172,432)	(2,253,542)
Loans and advances, net	**3,735,532**	**505,672**	**24,507,807**	**85,793,918**	**114,542,929**

2016	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Performing loans and advances, gross	4,338,115	504,504	25,410,888	86,969,119	117,222,626
Non-performing loans and advances, net	39,246	11,765	114,731	840,944	1,006,686
Total loans and advances	4,377,361	516,269	25,525,619	87,810,063	118,229,312
Impairment allowances for credit losses, net	(30,397)	(5,737)	(89,636)	(2,592,021)	(2,717,791)
Loans and advances, net	4,346,964	510,532	25,435,983	85,218,042	115,511,521

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

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

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

2017	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Balance at the beginning of the year	30,397	5,737	89,636	2,592,021	2,717,791
Provided during the year	–	35,557	263,635	346,890	646,082
Bad debts written off	(23,558)	(31,944)	(288,350)	(766,479)	(1,110,331)
Balance at the end of the year	**6,839**	**9,350**	**64,921**	**2,172,432**	**2,253,542**

2016	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Balance at the beginning of the year	-	2,222	89,904	2,670,048	2,762,174
Provided during the year	30,397	21,570	361,790	340,849	754,606
Bad debits written off	-	(18,055)	(362,058)	(418,876)	(798,989)
Balance at the end of the year	30,397	5,737	89,636	2,592,021	2,717,791

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

c) Collateral:

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

8. Investments in associates

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

Saudi Home Loans Company

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

Metlife – AIG – ANB Cooperative Insurance Company

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

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

The Bank's share of associates' financial statements:

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

(*) Based on latest available financial information.

9. Investment Property, net

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

Cost	Land	Commercial Building	Hotel (*)	Total 2017	Total 2016
Balance at beginning of the year	550,000	744,133	406,830	1,700,963	1,700,673
Additions	-	-	-	-	290
Transfers	-	(133)	133	-	-
As at December 31, 2017	550,000	744,000	406,963	1,700,963	1,700,963

Accumulated depreciation	Land	Commercial Building	Hotel (*)	Total 2017	Total 2016
Balance at beginning of the year	-	49,600	-	49,600	24,807
Charge for the year	-	24,800	-	24,800	24,793
As at December 31 , 2017	-	74,400	-	74,400	49,600

Net book value	Land	Commercial Building	Hotel (*)	Total 2017	Total 2016
As at December 31, 2017	550,000	669,600	406,963	1,626,563	
As at December 31, 2016	550,000	694,533	406,830		1,651,363

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

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

10. Property and equipment, net

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

11. Other assets

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

12. Derivative financial instruments

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

a) Swaps

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

b) Forwards and futures

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

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

c) Forward rate agreements

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

d) Options

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

Held for trading purposes

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

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

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

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

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

				Notional amounts by term to maturity				
2017 **Held for trading:**	**Positive fair value**	**Negative fair value**	**Notional amount total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Commission rate and cross currency swap	**443,057**	**417,595**	**16,869,829**	**2,699,911**	**3,433,375**	**5,904,500**	**4,832,043**	**16,475,443**
Commission rate futures and options	**367,552**	**364,373**	**11,951,618**	**18,749**	**1,724,931**	**1,000,000**	**9,207,938**	**11,068,652**
Forward foreign exchange and commodity contracts	**50,545**	**18,959**	**3,330,684**	**2,545,951**	**737,097**	**47,636**	**-**	**6,151,495**
Currency and commodity options	**8,869**	**9,043**	**1,502,128**	**1,061,870**	**440,258**	**-**	**-**	**4,213,306**
Held as fair value hedges:								
Commission rate swaps	**73,737**	**45,932**	**16,081,637**	**46,605**	**3,100,605**	**4,711,002**	**8,223,425**	**11,219,452**
Total	**943,760**	**855,902**	**49,735,896**	**6,373,086**	**9,436,266**	**11,663,138**	**22,263,406**	**49,128,348**

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

12. Derivative financial instruments (continued)

Held for hedging purposes (continued)

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

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

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

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

Cash flow hedges

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

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

13. Due to banks and other financial institutions

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

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

14. Customers' deposits

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

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

The above include foreign currency deposits as follows:

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

15. Other liabilities

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

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

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

16. Sukuk

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

17. Share capital

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

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

18. Statutory reserve

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

19. Commitments and contingencies

a) Legal proceedings

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

b) Capital commitments

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

c) Credit related commitments and contingencies

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

19. Commitments and contingencies (continued)

c) Credit related commitments and contingencies (continued)

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

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

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

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

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

d) Assets pledged

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

e) Operating lease commitments

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

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

20. Net special commission income

Special commission income Investments:	2017	2016
Available for sale	**110,438**	112,352
Other investments held at amortized cost	**372,082**	309,547
	482,520	421,899
Due from banks and other financial institutions	**145,920**	64,440
Loans and advances	**5,406,754**	5,251,833
Total	**6,035,194**	5,738,172

Special commission expense	2017	2016
Due to banks and other financial institutions	**40,241**	76,861
Customers' deposits	**1,258,740**	1,451,328
Sukuk	**71,460**	64,498
Total	**1,370,441**	1,592,687
Net special commission income	**4,664,753**	4,145,485

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

21. Fees and commission income, net

Fee and commission income	2017	2016
Share trading and fund management	**63,022**	75,450
Trade finance	**261,307**	276,420
Credit cards	**212,541**	208,618
Credit facilities	**762,335**	862,305
Other banking services	**261,570**	259,725
Total	**1,560,775**	1,682,518

Fee and commission expense	2017	2016
Credit cards	**157,310**	134,958
Custody and brokerage fees	**1,237**	572
Credit facilities	**393,169**	455,162
Other banking services	**168,661**	156,815
Total	**720,377**	747,507
Fees and commission income, net	**840,398**	935,011

22. Trading income, net

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

23. Dividend income

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

24. Gains from non-trading investments, net

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

25. Other operating income, net

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

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

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

27. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2017 and 2016 are calculated by dividing the net income for the year attributable to equity holders of the Bank by 1,000 million shares. The diluted earnings per share are the same as the basic earnings per share.

28. Dividends, Zakat and Income Tax

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

28. Dividends, Zakat and Income Tax (continued)

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

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

(c) Zakat and Others

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

Zakat

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

Income Tax

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

Status of Zakat and Income Tax Assessments

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

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

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

29. Cash and cash equivalents

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

30. Compensation practices

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

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

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

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

2017

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

30. Compensation practices (continued)

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

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

31. Employee benefit obligation

a) General description

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

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

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

c) Charge for the year

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

d) Re-measurement recognised in other comprehensive income

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

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

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

f) Sensitivity of actuarial assumptions

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

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

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

g) Expected maturity

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

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

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

Notes to the Consolidated Financial Statements (continued)
For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

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

Retail banking
Deposit, credit and investment products for individuals.

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

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

2017	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Consolidated statement of financial position assets	**32,777,098**	**82,287,544**	**48,648,994**	**41,202**	**647,638**	**164,402,476**
Commitment and contingencies	**2,326,627**	**12,785,097**	**-**	**47,482**	**81,419**	**15,240,625**
Derivatives	**-**	**3,492**	**1,437,498**	**-**	**-**	**1,440,990**

2016	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Consolidated statement of financial position assets	35,004,491	81,504,301	45,309,172	35,601	520,658	162,374,223
Commitment and contingencies	2,622,891	13,686,159	-	50,863	168,115	16,528,028
Derivatives	-	399	873,751	-	-	874,150

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

33. Credit risk

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

33. Credit risk (continued)

c) Credit quality of loans and advances

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

e) Loans and advances past due but not impaired

2017	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Past due up to 30 days	–	17,533	715,784	302,234	1,035,551
Past due (31-60) days	–	–	–	64,573	64,573
Past due (61-90) days	–	–	–	198,871	198,871
Past due (91-180) days	9,190	–	–	288,630	297,820
Total	9,190	17,533	715,784	854,308	1,596,815

2016	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Past due up to 30 days	–	33,147	1,092,106	350,141	1,475,394
Past due (31-60) days	–	–	–	169,122	169,122
Past due (61-90) days	–	–	–	337,885	337,885
Past due (91-180) days	–	–	–	707,888	707,888
Total	–	33,147	1,092,106	1,565,036	2,690,289

f) Impaired loans and advances

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

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

Impaired loans and advances are categorized as follows:

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

33. Credit risk (continued)

g) Credit risk exposure of investments

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

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

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

h) Collateral

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

a) Geographical concentration

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

2017 Assets	Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Cash and balances with SAMA								
Cash in hand	2,057,792	-	2,201	-	-	-	-	2,059,993
Balances with SAMA	15,191,386	-	-	-	-	-	-	15,191,386
Due from banks and other financial institutions								
Current accounts	77,937	119,544	271,817	149,501	-	81,068	143	700,010
Money market placements	1,010,113	-	-	-	-	-	-	1,010,113
Investments, net								
Held as FVIS	-	-	-	-	-	-	-	-
Available for sale	2,747,763	748,878	25,082	6,932,451	-	-	-	10,454,174
Other investments held at amortised cost	21,620,688	245,954	-	-	-	-	-	21,866,642
Positive fair value of derivatives								
Held for trading	81,782	5,022	783,207	-	-	-	12	870,023
Held as fair value hedges	572	760	72,405	-	-	-	-	73,737
Loans and advances, net								
Overdraft	3,660,766	277	73,876	-	-	-	613	3,735,532
Credit cards	505,672	-	-	-	-	-	-	505,672
Consumer loans	24,507,672	-	135	-	-	-	-	24,507,807
Commercial loans and others	83,580,119	627,793	1,332,763	-	-	-	253,243	85,793,918
Other assets	549,661	-	1,292	-	-	-	-	550,953
Total	155,591,923	1,748,228	2,562,778	7,081,952	-	81,068	254,011	167,319,960
Liabilities								
Due to banks and other financial institutions								
Current accounts	1,178	122,266	1,197	22,430	-	14,970	389	162,430
Money market deposit	1,358,787	468,731	343,229	141,329	-	217,043	-	2,529,119
Customers' deposits								
Demand	70,842,309	72,305	43,528	-	-	552	44,596	71,003,290
Saving	93,944	-	-	-	-	-	-	93,944
Time	58,063,408	225	51,896	481	-	-	88,396	58,204,406
Other	6,746,449	-	-	-	-	-	-	6,746,449
Negative fair value of derivatives								
Held for trading	33,817	982	775,159	-	-	-	12	809,970
Held as fair value hedges	1,643	8,387	35,902	-	-	-	-	45,932
Other liabilities								
Accrued expenses and account payable	3,940,992	517	4,686	-	-	46	44	3,946,285
Sukuk	2,016,274	-	-	-	-	-	-	2,016,274
Total	143,098,801	673,413	1,255,597	164,240	-	232,611	133,437	145,558,099

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

a) Geographical concentration (continued)

2017 Commitments and contingencies	Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Letters of credit	1,794,284	721,009	863,193	64,776	32,839	987,839	38,511	4,502,451
Letters of guarantee	17,732,165	1,120,696	2,364,957	373,532	7,084	1,299,900	16,752	22,915,086
Acceptances	388,090	126,569	320,607	18,401	517	451,161	-	1,305,345
Irrevocable commitments to extended credit	3,059,532	-	-	-	-	-	-	3,059,532
Others	94,965	-	-	-	-	-	-	94,965

2017 Maximum credit exposure (stated at credit equivalent amounts)	Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Derivatives								
Held for trading	409,307	23,173	288,568	57,639	-	-	511	779,198
Held as fair value hedges	-	-	193,981	467,811	-	-	-	661,792
Commitments and contingencies								
Letters of credit	358,857	144,202	172,639	12,955	6,568	197,568	7,702	900,491
Letters of guarantee	8,866,080	560,348	1,182,479	186,766	3,542	649,950	8,376	11,457,541
Acceptances	388,090	126,569	320,607	18,401	517	451,161	-	1,305,345
Irrevocable commitments to extended credit	1,529,766	-	-	-	-	-	-	1,529,766
Others	47,482	-	-	-	-	-	-	47,482

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

2016 Assets	Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Cash and balances with SAMA								
Cash in hand	2,834,972	-	1,941	-	-	-	-	2,836,913
Balances with SAMA	16,667,060	-	-	-	-	-	-	16,667,060
Due from banks and other financial institutions								
Current accounts	21,414	192,421	190,180	470,438	-	134,250	25,965	1,034,668
Money market placements	2,336,000	507,400	152,782	-	-	-	-	2,996,182
Investments, net								
Held as FVIS	-	-	726	-	-	-	-	726
Available for sale	2,895,436	1,026,915	113,596	5,421,097	-	-	-	9,457,044
Other investments held at amortised cost	15,771,936	318,693	-	-	-	-	-	16,090,629
Positive fair value of derivatives								
Held for trading	105,890	17,512	310,090	-	-	-	-	433,492
Held as fair value hedges	729	-	25,549	-	-	-	-	26,278
Loans and advances, net								
Overdraft	4,279,836	-	66,702	-	-	-	426	4,346,964
Credit cards	510,532	-	-	-	-	-	-	510,532
Consumer loans	25,435,843	-	140	-	-	-	-	25,435,983
Commercial loans and others	82,837,741	627,303	1,619,310	-	-	-	133,688	85,218,042
Other assets	535,276	-	-	-	-	-	-	535,276
Total	154,232,665	2,690,244	2,481,016	5,891,535	-	134,250	160,079	165,589,789
Liabilities								
Due to banks and other financial institutions								
Current accounts	4,988	287,296	4,129	493	-	323	20	297,249
Money market deposit	2,627,067	846,589	87,966	-	-	-	-	3,561,622
Customers' deposits								
Demand	64,962,241	64,209	25,705	-	-	186	40,399	65,092,740
Saving	93,124	-	-	-	-	-	-	93,124
Time	64,821,584	8,579	95,043	453	-	-	78,176	65,003,835
Other	5,717,758	-	-	-	-	-	-	5,717,758
Negative fair value of derivatives								
Held for trading	113,518	12,791	259,403	-	-	-	-	385,712
Held as fair value hedges	2,013	25,433	26,631	-	-	-	-	54,077
Other liabilities								
Accrued expenses and account payable	3,430,226	14	3,472	2,774	-	-	164	3,436,650
Sukuk	2,018,190	-	-	-	-	-	-	2,018,190
Total	143,790,709	1,244,911	502,349	3,720	-	509	118,759	145,660,957

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

a) Geographical concentration (continued)

2016 Commitments and contingencies	Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Letters of credit	1,679,866	458,108	986,373	146,125	3,199	703,225	-	3,976,896
Letters of guarantee	19,674,201	1,071,897	2,262,174	204,691	-	1,894,599	6,836	25,114,398
Acceptances	243,449	115,680	365,816	131,272	1,605	760,678	1,002	1,619,502
Irrevocable commitments to extended credit	3,010,172	-	-	-	-	-	-	3,010,172
Others	101,726	-	-	-	-	-	-	101,726

2016 Maximum credit exposure (stated at credit equivalent amounts)	Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Derivatives								
Held for trading	427,452	44,817	287,049	43,994	-	-	574	803,886
Held as fair value hedges	-	-	20,647	49,617	-	-	-	70,264
Commitments and contingencies								
Letters of credit	335,973	91,622	197,275	29,225	640	140,645	-	795,380
Letters of guarantee	9,837,100	535,949	1,131,087	102,346	-	947,300	3,418	12,557,200
Acceptances	243,448	115,680	365,816	131,272	1,605	760,678	1,002	1,619,501
Irrevocable commitments to extended credit	1,505,085	-	-	-	-	-	-	1,505,085
Others	50,862	-	-	-	-	-	-	50,862

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

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

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

35. Market risk

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

a) Market risk – Trading book

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

35. Market risk (continued)

a) Market risk - Trading book (continued)

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

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

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

b) Market risk: non-trading or banking book

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

i) Commission rate risk

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

The following table shows the sensitivity of the Group's consolidated income statement and equity to a reasonable possible change in commission rates, with other variables held constant. Income sensitivity arises from the impact of assumed changes in commission rates on special commission income for one year, based on floating rate non-trading financial assets and liabilities held as at December 31, 2017, after taking into account the effect of hedging. Equity sensitivity is calculated by revaluing fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2017 and 2016, for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. Banking book exposures are monitored and analyzed in their respective currencies and relevant sensitivities are disclosed in SAR million.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

2017

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity 6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	+10	45.40	-	-	(0.10)	(0.21)	(0.31)
USD	+10	6.41	(2.24)	(0.09)	(0.70)	0.25	(2.78)
Others	+10	0.01	-	-	(0.02)	-	(0.02)

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity 6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	- 10	(45.40)	-	-	0.10	0.21	0.31
USD	- 10	(6.41)	2.24	0.09	0.70	(0.25)	2.78
Others	- 10	(0.01)	-	-	0.02	-	0.02

2016

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

35. Market risk (continued)

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

i) Commission rate risk (continued)

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

2017 Assets	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Cash and balances with SAMA	8,002,667	-	-	-	9,248,712	17,251,379
Due from banks and other financial institutions	1,010,113	-	-	-	700,010	1,710,123
Positive fair value derivatives	943,760	-	-	-	-	943,760
Investments, net						
Held as FVIS	-	-	-	-	-	-
Available for sale	2,635,709	5,280,079	819,840	881,994	836,552	10,454,174
Other investments held at amortised cost	12,358,717	645,311	3,245,257	5,550,008	67,349	21,866,642
Loans and advances, net						
Overdrafts	3,735,532	-	-	-	-	3,735,532
Credit cards	505,672	-	-	-	-	505,672
Consumer loans	2,097,694	4,857,191	15,984,767	1,568,155	-	24,507,807
Commercial loans	52,267,447	26,711,472	5,942,326	872,673	-	85,793,918
Other assets	-	-	-	-	550,953	550,953
Total assets	83,557,311	37,494,053	25,992,190	8,872,830	11,403,576	167,319,960
Liabilities						
Due to banks and other financial institutions	2,529,120	-	-	-	162,429	2,691,549
Negative fair value derivatives	855,902	-	-	-	-	855,902
Customers' deposits	39,939,760	22,075,623	323,899	-	73,708,807	136,048,089
Other liabilities	-	-	-	-	3,946,285	3,946,285
Debt securities and sukuk	-	2,016,274	-	-	-	2,016,274
Total liabilities	43,324,782	24,091,897	323,899	-	77,817,521	145,558,099

Commission rate sensitivity on consolidated statement of financial position gap	40,232,529	13,402,156	25,668,291	8,872,830	(66,413,945)	21,761,861
Commission rate sensitivity off consolidated statement of financial position gap	7,454,436	4,470,949	(4,883,141)	(7,042,244)	-	-
Total commission rate sensitivity gap	47,686,965	17,873,105	20,785,150	1,830,586	(66,413,945)	21,761,861
Cumulative commission rate sensitivity gap	47,686,965	65,560,070	86,345,220	88,175,806	21,761,861	-

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

2016 Assets	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Cash and balances with SAMA	9,468,408	-	-	-	10,035,565	19,503,973
Due from banks and other financial institutions	2,996,182	-	-	-	1,034,668	4,030,850
Positive fair value derivatives	459,770	-	-	-	-	459,770
Investments, net						
Held as FVIS	-	-	-	-	726	726
Available for sale	870,777	1,610,560	5,517,034	17,910	1,440,763	9,457,044
Other investments held at amortised cost	12,359,356	699,025	1,085,985	1,933,094	13,169	16,090,629
Loans and advances, net						
Overdrafts	4,346,964	-	-	-	-	4,346,964
Credit cards	510,532	-	-	-	-	510,532
Consumer loans	1,892,820	5,145,850	17,148,343	1,248,970	-	25,435,983
Commercial loans	51,741,222	26,929,039	6,090,114	457,667	-	85,218,042
Other assets	-	-	-	-	535,276	535,276
Total assets	84,646,031	34,384,474	29,841,476	3,657,641	13,060,167	165,589,789
Liabilities						
Due to banks and other financial institutions	3,336,278	225,344	-	-	297,249	3,858,871
Negative fair value derivatives	439,789	-	-	-	-	439,789
Customers' deposits	51,733,319	16,315,764	163,499	-	67,694,875	135,907,457
Other liabilities	-	-	-	-	3,436,650	3,436,650
Sukuk	-	2,018,190	-	-	-	2,018,190
Total liabilities	55,509,386	18,559,298	163,499	-	71,428,774	145,660,957

Commission rate sensitivity on consolidated statement of financial position gap	29,136,645	15,825,176	29,677,977	3,657,641	(58,368,607)	19,928,832
Commission rate sensitivity off consolidated statement of financial position gap	3,930,669	3,038,622	(6,091,068)	(878,223)	-	-
Total commission rate sensitivity gap	33,067,314	18,863,798	23,586,909	2,779,418	(58,368,607)	19,928,832
Cumulative commission rate sensitivity gap	33,067,314	51,931,112	75,518,021	78,297,439	19,928,832	-

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

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

35. Market risk (continued)

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

ii) Currency risk

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

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

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

iii) Currency position

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

iv) Equity price risk

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

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

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

36. Liquidity risk

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

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2016: 7%) of total demand deposits and 4% (2016: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets that can be converted into cash within 30 days.

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

i) Analysis of undiscounted financial liabilities by remaining contractual maturities

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

2017 Financial liabilities	Within 3 months	3-12 months	1-5 years	Above 5 years	No fixed maturity	Total
Due to banks and other financial institutions	2,530,974	–	–	–	162,430	2,693,404
Customers' deposits	39,864,910	22,420,577	335,334	–	73,708,807	136,329,628
Derivative financial instruments						
Contractual amounts payable	110,426	645,231	1,561,756	1,157,211	–	3,474,624
Contractual amounts receivable	(90,287)	(589,059)	(1,578,846)	(1,258,698)	–	(3,516,890)
Sukuk	16,465	54,451	350,499	2,315,810	–	2,737,225
Total financial liabilities	42,432,488	22,531,200	668,743	2,214,323	73,871,237	141,717,991

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

36. Liquidity risk (continued)

i) Analysis of undiscounted liabilities by remaining contractual maturities (continued)

2016 Financial liabilities	Within 3 months	3-12 months	1-5 years	Above 5 years	No fixed maturity	Total
Due to banks and other financial institutions	3,314,738	252,965	-	-	297,249	3,864,952
Customers' deposits	47,286,692	21,668,726	167,273	-	67,694,875	136,817,566
Derivative financial instruments						
Contractual amounts payable	40,235	262,050	860,541	125,088	-	1,287,914
Contractual amounts receivable	(30,288)	(232,065)	(860,234)	(136,867)	-	(1,259,454)
Sukuk	11,270	64,164	345,743	2,428,193	-	2,849,370
Total financial liabilities	50,622,647	22,015,840	513,323	2,416,414	67,992,124	143,560,348

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

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

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

2017 Assets	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Cash and balances with SAMA	8,002,000	-	-	-	9,249,379	17,251,379
Due from banks and other financial institutions	1,010,113	-	-	-	700,010	1,710,123
Positive fair value derivatives	27,852	34,548	63,048	818,312	-	943,760
Investments, net						
Held as FVIS	-	-	-	-	-	-
Available for sale	2,430,149	4,621,650	1,129,044	1,436,779	836,552	10,454,174
Other investments held at amortised cost	60,467	6,172	5,142,508	16,590,147	67,348	21,866,642
Loans and advances, net						
Overdrafts	3,735,532	-	-	-	-	3,735,532
Credit cards	505,672	-	-	-	-	505,672
Consumer loans	2,097,694	4,857,191	15,984,767	1,568,155	-	24,507,807
Commercial loans and others	36,749,474	22,696,390	18,422,936	7,925,118	-	85,793,918
Other assets	-	-	-	-	550,953	550,953
Total assets	54,618,953	32,215,951	40,742,303	28,338,511	11,404,242	167,319,960

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

2017

Liabilities	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Due to banks and other financial institutions	2,529,120	–	–	–	162,429	2,691,549
Negative fair value derivatives	16,705	21,493	50,926	766,778	–	855,902
Customers' deposits	39,939,760	22,075,623	323,899	–	73,708,807	136,048,089
Other liabilities	–	–	–	–	3,946,285	3,946,285
Sukuk	–	16,274	–	2,000,000	–	2,016,274
Total liabilities	42,485,585	22,113,390	374,825	2,766,778	77,817,521	145,558,099

2016

Assets	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Cash and balances with SAMA	9,468,408	-	-	-	10,035,565	19,503,973
Due from banks and other financial institutions	2,996,182	-	-	-	1,034,668	4,030,850
Positive fair value derivatives	71,952	69,572	78,081	240,165	-	459,770
Investments, net						
Held as FVIS	-	-	-	-	726	726
Available for sale	667,601	1,065,532	5,822,760	460,388	1,440,763	9,457,044
Other investments held at amortised cost	35,673	1,225,972	1,817,953	12,997,862	13,169	16,090,629
Loans and advances, net						
Overdrafts	4,346,964	-	-	-	-	4,346,964
Credit cards	510,532	-	-	-	-	510,532
Consumer loans	1,892,820	5,145,850	17,148,343	1,248,970	-	25,435,983
Commercial loans and others	39,927,506	18,897,080	18,521,556	7,871,900	-	85,218,042
Other assets	-	-	-	-	535,276	535,276
Total assets	59,917,638	26,404,006	43,388,693	22,819,285	13,060,167	165,589,789

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

36. Liquidity risk (continued)

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

2016 Liabilities	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Due to banks and other financial institutions	3,336,278	225,344	-	-	297,249	3,858,871
Negative fair value derivatives	62,249	53,866	83,353	240,321	-	439,789
Customers' deposits	51,733,319	16,315,764	163,499	-	67,694,875	135,907,457
Other liabilities	-	-	-	-	3,436,650	3,436,650
Sukuk	-	18,190	-	2,000,000	-	2,018,190
Total liabilities	55,131,846	16,613,164	246,852	2,240,321	71,428,774	145,660,957

37. Fair values of financial assets and liabilities

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

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

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

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:
Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking);
Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
Level 3: valuation techniques for which any significant input is not based on observable market data.

a. Carrying amounts and fair value

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

Financial assets

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

Financial Liabilities

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

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

a. Measurement of fair values

i. Valuation technique and significant unobservable inputs

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

b. Measurement of fair values

ii. Transfer between levels of the fair value hierarchy

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

iii. Level 3 fair values

Reconciliation of Level 3 fair values
Financial investments designated as available for sale:

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

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

38. Related party transactions

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

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

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

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

Notes to the Consolidated Financial Statements (continued)
For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

38. Related party transactions (continued)
b) Income and expense transactions with related parties included in the consolidated financial statements are as follows:

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

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

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

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

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

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

Notes to the Consolidated Financial Statements
For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

42. Prospective changes in the International Financial Reporting Framework

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

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

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

– Implementation and impact analysis of IFRS 9

Implementation strategy

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

Classification and measurement

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

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

The majority of financial assets that are classified as loans and receivables and are measured at amortised cost under IAS 39 are expected to be measured at amortised cost under IFRS 9 as well. Debt securities classified as held to maturity (HTM) are expected to continue to be measured at amortised cost. Debt instruments that are classified as AFS under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on particular circumstances.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

Impairment

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

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

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

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

- **Stage 2:** Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL.

- **Stage 3:** Impaired assets: For Financial asset(s) that are impaired, the Bank will recognise the impairment allowance based on lifetime ECL.

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

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

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

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

Hedge accounting

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

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

Overall expected impact

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

- According to transitional provisions for initial application of IFRS 9, the Bank is allowed to recognise any difference between previous carrying amount under IAS 39 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings. Accordingly, the overall impact on equity is estimated to be 2.05% to 2.26% and the impact on the aggregated carrying value of relevant financial assets is estimated to be in the range of 0.24% to 0.28% on the date of initial application arising due to application of expected credit loss model as against Incurred loss model.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2017 and 2016 (Saudi Riyals in Thousands)

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

– Implementation and impact analysis of IFRS 9 (continued)

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

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

- Certain investments, amounting to SAR 8,823 thousands, that do not meet the criteria to be classified either as at FVOCI or at amortized cost will have to be reclassified to financial assets at FVTPL. Related fair value gains of SAR 1,505 thousands will have to be transferred from available for sale (AFS) financial assets reserve to retained earnings on 1 January 2018.

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

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

Governance and controls

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

Caveat:

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

43. Comparative figures

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

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

December 31, 2016
Consolidated income statement

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

44. Board of directors' approval

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

Basel III Pillar 3 Qualitative and Quantitative Disclosures

December 31, 2017

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

Under the directives of Saudi Arabian Monetary Agency (SAMA), banks operating in the Kingdom of Saudi Arabia, implementated Basel Capital Adequacy framework. In this regard, SAMA's aim is to encourage market discipline through disclosures, which will provide the reader more valuable information about the banks' risks and exposures. In this context, below are the necessary disclosures required under the revised Pillar-III disclosure framework implemented with effect from 1st January 2017.

These disclosures are available on the Bank's website www.anb.com.sa . Please note that these disclosures are not subject to audit by the external auditors of the Bank.

B.1 – Table OVA: Bank Risk Management Approach

Business model determination and risk profile

ANB's (The Bank's) Risk Management strategy is intrinsically interlinked with the Bank's business strategy, i.e. Bank's risk appetite and its business strategy co-exist to achieve and enhance shareholder/stakeholder value.

The Bank has a conservative approach towards conducting business and assuming risks, with significant importance attached to its brand and reputation. The Bank's philosophy is to proactively manage risks to ensure that risk-taking activities are commensurate with its size and complexity of operations. The Bank's approach towards risk management is governed by the following guidelines:

- Risks are identified, measured, monitored, controlled and managed within a robust risk management framework.
- Risks are managed proactively, based on collective oversight, experience and conservative judgment, well-supported by systems, controls and processes.

The Bank's Board (The Board) determines the business strategy, which primarily revolves around the following broad categories of business segments:

Corporate Banking manages the Loans, deposits and other credit products for large corporate and institutional customers as well as small to medium sized businesses.

Treasury Banking manages the Bank's trading and investment portfolio and its funding, liquidity, currency and commission rate risks with focus on filling the business gaps within the Bank to enhance Corporate/Consumer cross-sell opportunities, and managing Bank's liquidity requirements through prudent policies.

Retail Banking focuses on deposit, credit and investment products for individuals.

Investment and brokerage services focuses on Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by CMA.

The formulation of Bank's strategy is a thorough process, developed on the basis of inputs provided by each business unit, which are consolidated to provide a macro-level picture of the whole Bank. The results are then further reviewed, in light of the projected macro-economic environment in general and banking prospects, in particular. The impact of strategy on the Bank's capital adequacy is considered and adjustments are made to ensure that Bank's strategy is in line with the projected risk appetite and capital adequacy. The iterative process continues till business strategy is aligned with the risk strategy.

The Board is responsible for creating environment and organizational structure to ensure effective implementation of the strategy within the risk management framework. The Board or relevant Board Committee reviews and approves risk management policies to manage all material risks faced by the Bank. Risk Management Group (RMG) is mandated with the task to communicate approved policies relating to risk identification, measurement, monitoring and control to all functional/business units in the Bank to ensure that risks undertaken are consistent with stakeholder expectations, Bank's strategic plan and regulatory requirements.

Based on the current business model, major risks faced by the Bank are Credit, Market & Liquidity and Operational, all of which have well-defined limits, controls and reporting mechanism in place.

Risk Governance Structure

The Bank's approach to risk management is based on well-established governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting, thus ensuring the achievement of strategic objectives with prudence and foresight. Risk management activities occur simultaneously at the following levels.

Strategic level involves risk management functions performed by the Board & its committees and senior management. It includes provision of all resources, i.e. human resources, systems, and support required for effective risk management on bank-wide basis.

Macro Level involves risk management within a business area or across business lines. Generally the risk management activities performed by middle management or units devoted to risk management fall into this category.

Micro Level involves real-time management where risks are actually created. These are the risk management activities performed by individuals who take risk on behalf of the Bank such as front office and loan origination functions.

The Bank's risk governance is built upon the premise that each business line is responsible for monitoring the risks inherent in its business activities, which is augmented by the oversight provided by the Board and its relevant committees.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

A summary of roles and responsibilities of Board/its committees and other entities within the Bank is as follows:

Board is responsible for providing oversight on the effective management of the Bank's overall risk. While recognizing the risks to which the Bank is exposed, they provide the required human resources, environment, practices and systems to address such risks.

Risk Committee (RiskCom) is responsible to assist the Board in overseeing the risk management processes and ensuring that there are adequate internal control systems inplace. RiskCom is also responsible for developing a risk strategy for the Bank to spell out the overall risk appetite, providing guidance/clarifications to RMG and senior management from time to time, and discharging other related responsibilities as may be assigned to it by the Board.

Executive Committee (ExCom) has been vested by the Board with powers to manage the Bank efficiently, and mainly responsible for implementing the Bank's strategy successfully. Excom approves risk management policies ensuring that they are communicated down the line by senior management.

It also ensures implementation of risk management framework and maintaining adequate infrastructure to support the framework. Excom is also responsible for managing risks within the risk appetite set by the Board and ensuring the effectiveness of internal controls.

Risk Management Group (RMG) is responsible for effective implementation of the risk management framework across the Bank, including the following main activities:

- Formulation of individual risk policies in line with Risk Management Policy, risk appetite and regulatory guidelines;
- Review of Credit, Market, Liquidity, Operational and other risks (Business Continuity, Fraud, E-Banking etc.) across the Bank and implementation of Basel/SAMA requirements for capital adequacy;
- Risk strategy review and recommendation.

RMG plays a pivotal role in monitoring the risks associated with all major activities of the Bank. Its role, as a risk manager, is to set parameters for risk activities and, as a strategic partner, to advise Business and Support units, on the best ways to identify risks.

Business/Support Units are accountable for managing risks associated with their respective activities within established tolerances. The purpose of this is to ensure that those who make business decisions understand the risks they are taking and incorporate this understanding in decision-making process in order to achieve acceptable risk-adjusted returns.

Compliance with the help of Business and Support functions, ensures Bank's compliance with the rules and regulations that govern banking business and implement Bank's Code of Ethical Behavior. Compliance is also responsible for implementing Anti-Money Laundering (AML) and Combat Terrorism Financing (CTF) rules.

The Compliance function assists in identifying, assessing, monitoring and reporting on compliance risk in Bank's operations and personnel conduct.

The function contributes, in an independent manner, to the overall risk management of the Bank by protecting the integrity and reputation of the Bank and the staff, and in strengthening the accountability and transparency.

Internal Audit (IA) independently monitors the effectiveness of risk management policies, procedures and internal controls through periodic testing of the design and operation of the processes related to the identification, measurement, management, monitoring and reporting of risks. The findings of audit reviews are reported to the respective Business/Support Heads, relevant Committees and/or Audit Committee.

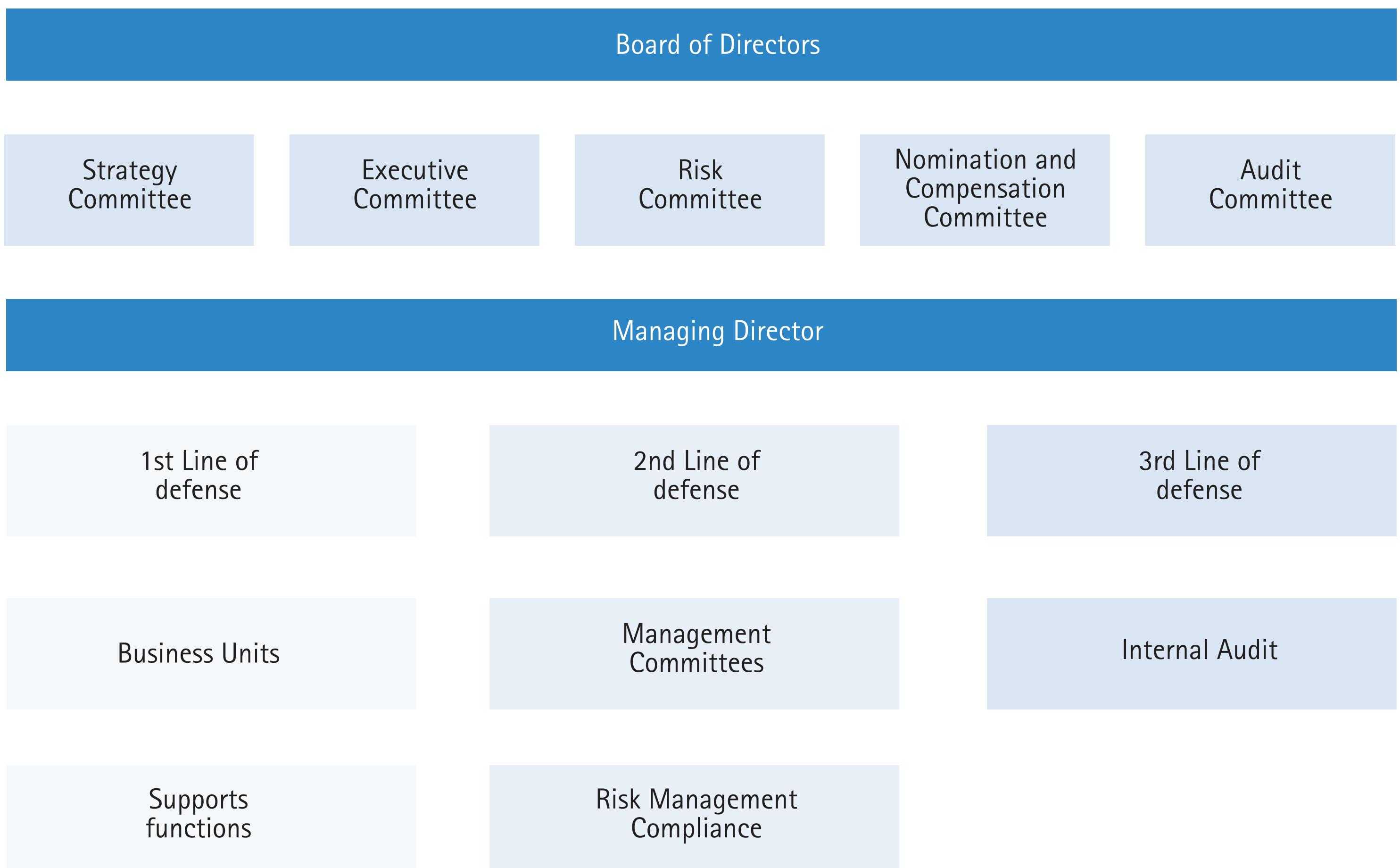
The purpose of independent review is to ensure that those who take or accept risk on behalf of the Bank are not the only ones who measure, monitor and evaluate the risks. IA covers all perceived risks in the Bank including Contingency, Fraud, E-Banking, Information Security risks, etc.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

The Bank's Risk Governance structure follows 3 lines of defense model as shown below:

RISK GOVERNANCE STRUCTURE



Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

Channels to communicate and enforce the risk culture

The Bank's risk appetite and tolerance limits and policies relating to risk identification, measurement, monitoring and control are clearly communicated to all functional/business groups in the Bank to ensure that risks undertaken are consistent with shareholder's expectations, Bank's strategic plan and regulatory requirements. The purpose of effective communication is to ensure that the risk culture is understood throughout the Bank as intended.

RMG is responsible for inculcating risk culture and communication across the organization. The approach, inter-alia, include development and dissemination of information through various documents/channels:

Policies define the Bank's overall risk appetite and are developed based on best practices, requirements of regulatory authorities and inputs from business, senior management as well as ExCom/RiskCom/Board. Policies also provide guidance to businesses and risk management units by setting the boundaries on the types of risks the Bank is prepared and willing to take.

Guidelines are the directives provided to implement policies. Generally, they describe the risk exposures and conditions under which the Bank is prepared to do business. The guidelines may change from time to time, due to market or other circumstances. Risk taking outside of these guidelines requires exceptional approval by appropriate authorities.

Processes and Standards are the activities associated with identifying, evaluating, documenting, reporting and controlling risk. Standards define the breadth and quality of information required to make a decision, and the expectations in terms of quality of analysis and presentation.

Various Reporting tools are used to aggregate measures of risk across products and businesses for the purposes of ensuring compliance with policies, guidelines and standards, thus providing a mechanism for communicating the quantum and sensitivities of the various risks in the portfolio. This information is used by the senior management as well as ExCom/RiskCom/Board to understand the Bank's risk profile and performance of the portfolio against pre-defined goals.

The Bank ensures through its annual training and communication plans that risk management processes are understood and effectively practiced across the Bank. In addition to scheduled trainings, special training sessions, as per Business unit and Support functions' requests, are also conducted. Furthermore, interactive eLearning module which has been rolled-out across the Bankis also used for communicating risk-related issues.

Scope and main features of risk measurement systems

The Bank has developed various methodologies to measure and monitor major risks inherent in its operations.Risks are evaluated both quantitatively and qualitatively, as appropriate, on a recurring basis. The implications, advantages and shortcomings of any particular measurement approach are properly documented. Appropriate additional analysis is done to address potential shortcomings. Since all risks might not be readily quantifiable, where quantification is not an effective option, qualitative measures are developed. This enables understanding the nature and quantum of risk exposures and to make prudent decisions on the basis of such information.

Credit Risk tracks trends and identifies weaknesses in the quality of corporate, commercial, retail and private banking portfolio by employing Obligor & Facility risk rating system to assess the quality of obligor and riskiness of facilities. Rating system is established with the objective to place the responsibility on business units to regularly evaluate credit risk on exposures and identify problems within their portfolios as well as establishing early warning signals for detecting deterioration in credit quality

The Bank classifies its exposures into 13 risk categories, of which 10 are for performing obligors and 3 are for nonperforming obligors. Rating is assigned to a borrower through a system-based methodology, which takes into account financial and non-financial information, translating into a grade and Probability of Default (PD) for the relationship. Facility Risk Rating (FRR), which assesses the riskiness of facilities, is used for deriving the Loss Given Default (LGD) for a relationship, thus assigning separate rating for obligor and facility characteristics.

Market Risk identifies the risk through series of market factors in foreign exchange, interest rates, commodity prices, equity prices and their volatilities. To measure the market risk, Bank uses fully integrated system to capture all live contracts. The system identifies all market factors from the traded contracts. Market Risk Department (MRD) is responsible for the design and implementation of the Bank's market risk measurement system, which produces daily risk management reports that are closely evaluated based on the relationship between risk exposure and trading limits.

The Bank has established Risk & Control Self-Assessment (RCSA) framework to identify operational risks arising from products, procedures andactivities and evaluate the effectiveness of controls over those risks. These risks & controls are self-assessed and monitored by the business/support units on a regular basis. The consolidated assessment results are benchmarked againstpre-defined risk appetite/acceptable levels and appropriate actions initiated to strengthen the control environment. An independent review and challenge process is in place, which assists in ensuring completeness, accuracy and consistency across the Bank.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

The Bank's Loss Data Management process allows collection and analysis of loss events (actual, potential and near-miss) and identifies new risks or control weaknesses that caused the operational loss, escalating these to appropriate levels of management for strengthening the operational risk framework. The mechanism aims at minimizing any financial consequences of the events and addressing the root causes for refining the control mechanism to reduce recurrence of similar losses in future.

Process of risk information reporting provided to the Board and Senior Management

Management reports are generated for monitoring and control purposes on periodical basis - monthly, quarterly, semi-annually and annually, as appropriate.

A summary off the Bank's credit portfolio and key risks inherent is these portfolios is provided to Bank's Risk Committee and Audit Committee for their overview.

Daily reports on Trading and Liquidity risks, showing exposures versus limits are provided to the senior management including CRO, CFO and Group Treasurer. Any breach of internal limits need ratification from the approving authority, and implementation of the remedial actions is monitored by MRD. ALCO/MRPC is responsible for deciding the form and content of the reports required to carry out its functions.

Detailed market risk reviews are submitted to the Board and Excom, Risk Committee and Audit Committee, on a quarterly or semi-annual basis, as appropriate. The reviews highlight major changes in the Bank's market and liquidity risk profiles as well as compositions of the investments portfolio.

Periodic Operational risk updates on the overall operational risk environment of the Bank and key operational loss eventsare provided to Operational Risk Committee (ORC). Risk review reports submitted to Board/Audit Committee on a quarterly basis and Risk synopsis to Risk Committee on a half-yearly basis, summarizes operational loss events and progress on key operational risk initiatives.

Qualitative information on stress testing

A stress-testing framework that is commensurate with the Bank's size, location and nature of activities is in place. Sensitivity and Scenario-based approaches to stress testing are used to assess Bank's vulnerability and possible impact of negative economic events on its capital. The stress-testing framework is forward-looking and subject to change based on experience and evolving techniques. At least three stress-testing scenarios are applied to arrive at the stressed capital ratios, with a view to ensure that the Bank remains adequately capitalized under stressed conditions during economic down-turns. Adequate stress-testing procedures are in place for Credit, Market (trading book), Interest Rate (Banking book), Liquidity and Operational Risks. All the other risks covered under Internal Capital Adequacy Assessment Plan (ICAAP) have built-in mechanism to account for the forward-looking stressed conditions. Stress testing is carried out on semi-annual basis. However, in the event of imminent adverse changes in the overall economy, stress testing may be conducted more frequently.

Strategies and processes to manage, hedge and mitigate risks

The Bank's Credit Policy provides detailed guidelines to manage credit risk effectively; it is reviewed and updated from time to time based on experience, emerging issues, best market practices anddirectives from regulatory authorities. The Credit Policy is designed to provide objectives and credit risk management strategies, with a view to strengthen and enhance Bank's ability to measure and mitigate credit risks on pre-emptive basis to minimize credit losses.

The Bank believes that collateral security is an effective means of mitigating risk and improving credit quality. Although generally desirable to enhance credit quality, Bank does not entirely rely on collateral to make lending decisions since collateral is only considered as a secondary source of repayment. Accordingly, wherever possible, tangible security is obtained based on the Bank's risk assessment.

The Bank has implemented an interest rate hedging policy in compliance with the International Accounting Standards. Interest rate derivatives, mainly interest rate swaps and futures are used to hedge specific exposures with an aim to keep the interest rate risks within limits. The Bank also uses currency swaps to hedge specific positions in foreign currencies, when necessary. Effectiveness of all hedges is regularly monitored throughout their term.

The existing control environment is the foundation on which the Bank functions; it provides discipline and structure that influences the quality of internal control. New/updated products, policies, procedures and systems are periodically reviewed to control and/or mitigate material operational risks, risk limits and control strategies to adjust the operational risk profile in accordance with the overall risk appetite and profile of the Bank. As a risk transfer mechanism, the Bank has also taken necessary insurance covers.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.2 - OV1: Overview of RWA - December 2017

(Figures in SAR '000)

		a	b	c
		RWA		Minimum capital requirements
		31-Dec-17	30-Sep-17	31-Dec-17
1	**Credit risk (excluding counterparty credit risk) (CCR)**	133,784,079	139,934,261	10,702,726
2	Of which standardised approach (SA)	133,784,079	139,934,261	10,702,726
3	Of which internal rating-based (IRB) approach			-
4	**Counterparty credit risk**	3,876,393	2,672,460	310,111
5	Of which standardised approach for counterparty credit risk (SA-CCR)	3,876,393	2,672,460	310,111
6	Of which internal model method (IMM)			-
7	Equity positions in banking book under market-based approach	-		-
8	Equity investments in funds – look-through approach	807,695	843,626	64,616
9	Equity investments in funds – mandate-based approach			-
10	Equity investments in funds – fall-back approach	7,101	36,738	568
11	Settlement risk			-
12	Securitisation exposures in banking book		-	-
13	Of which IRB ratings-based approach (RBA)	-		-
14	Of which IRB Supervisory Formula Approach (SFA)			-
15	Of which SA/simplified supervisory formula approach (SSFA)		-	-
16	**Market risk**	608,966	1,703,666	47,717
17	Of which standardised approach (SA)	608,966	1,703,666	47,717
18	Of which internal model approaches (IMM)	-	-	-
19	**Operational risk**	13,253,250	13,269,300	1,060,260
20	Of which Basic Indicator Approach			
21	Of which Alternate Standardised Approach	13,253,250	13,269,300	1,060,260
22	Of which Advanced Measurement Approach			-
23	Amounts below the thresholds for deduction (subject to %250 risk weight)			-
24	Floor adjustment			-
25	**Total (1+4+7+8+9+10+11+12+16+19+23+24)**	**152,337,484**	**158,460,096**	**12,186,999**

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.3 – LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories – December 2017

(Figures in SAR '000)

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items: Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the securitisation framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with SAMA	17,251,379	17,251,379	17,251,379				
Due from banks and other financial institutions	1,710,123	1,710,123	1,710,123				
Positive fair value derivatives	943,760	943,760		943,760			
Investments, net	32,320,816	32,320,816	32,320,816				
Loans and advances, net	114,542,929	114,542,929	117,116,451				
Investments in associates	637,222	637,222	637,222				
Other real estate	220,697	220,697	220,697				
Investment property, net	1,626,563	1,626,563	1,626,563				
Property and equipment, net	1,694,591	1,694,591	1,694,591				
Other assets	753,619	753,619	753,619				
Total assets	**171,701,699**	**171,701,699**	**173,331,461**	**943,760**	**–**	**–**	**–**
Liabilities							
Due to banks and other financial institutions	2,691,549						2,691,549
Negative fair value derivatives	855,902						855,902
Customers' deposits	136,048,089						136,048,089
Other liabilities	5,023,920						5,023,920
Debt securities and sukuk	2,016,274						2,016,274
Total liabilities	**146,635,734**	**–**	**–**	**–**	**–**	**–**	**146,635,734**

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.4 – LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements – December 2017

(Figures in SAR '000)

		a	b	c	d	e
			Items subject to:			
		Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	171,701,699	173,331,461	-	943,760	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	171,701,699	173,331,461	-	943,760	-
4	Off-balance sheet amounts	46,766,054	19,544,430			
5	Differences in valuations					
6	Differences due to different netting rules, other than those already included in row 2					
7	Differences due to consideration of provisions					
8	Differences due to prudential filters					
9	Derivatives	49,735,896			1,440,990	33,654,259
10	**Exposure amounts considered for regulatory purposes**	**268,203,649**	**192,875,891**	**-**	**2,384,750**	**33,654,259**

LR1: Summary comparison of accounting assets vs leverage ratio exposure measure – December 2017

(Figures in SAR '000)

		a
1	**Total consolidated assets as per published financial statments**	**171,701,699**
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustment for derivative financial instruments	**1,440,990**
5	adjustment for securities financing transactions (ie repos and similar secured lending)	**-**
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent anounts of off-balance sheet exposures)	**21,033,374**
7	Other adjustments	**-**
8	Leverage ratlo exposure measure	**194,176,063**

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

LR2: Leverage ratio common disclosure - December 2017

(Figures in SAR '000)

		a	b
		31-Dec-17	30-Sep-17
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	166,272,456	164,281,126
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)**	**166,272,456**	**164,281,126**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	265,398	235,389
5	Add-on amounts for PFE associated with all derivatives transactions	763,880	633,919
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**Total derivative exposures (sum of rows 4 to 10) ***	**1,440,990**	**1,217,031**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	8,002,000	2,620,000
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	**8,002,000**	**2,620,000**
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	46,766,054	45,108,410
18	(Adjustments for conversion to credit equivalent amounts)	-25,732,680	-24,665,691
19	**Off-balance sheet items (sum of rows 17 and 18)**	**21,033,374**	**20,442,719**
	Capital and total exposures		
20	Tier 1 Capital	23,719,687	24,042,881
21	**Total exposures (sum of lines 3,11,16 and 19**	**196,748,820**	**188,560,876**
	Leverage ratio		
22	Basel III leverage ratio	12.06%	12.75%

*As per SA-CCR Exposure at Default is 1.4 * (Replacement Cost + PFE)

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

LIQA – Liquidity Risk Managemet

ANB's liquidity risk management philosophy is predicated upon a conservative business model. The primary objective of the Bank's Liquidity Risk management framework is to ensure that it has sufficient liquidity to meet its obligations in both normal and stressed conditions. The Bank should be able to satisfy its funding needs through normal sources without having to make unplanned sales of assets or borrow expensive funds under emergency conditions.

The Board of Directors (the Board) defines the Bank's liquidity risk strategy, and in particular its appetite for liquidity risk, based on recommendations made by the Asset and Liability Committee (ALCO). The Board reviews and approves the liquidity management policies and ensures that senior management manages liquidity risk effectively in the context of the Bank's business plan and long term funding strategy, as well as the prevailing economic and financial conditions. The Bank uses liquidity ratios and stressed liquidity gaps as key metrics to establish its liquidity risk tolerance levels. These metrics measures the Bank's ability to fulfill all its payment obligations stemming from ongoing business operations under various stress scenarios. The tolerance levels are defined either in the form of limits or management action triggers (MAT) and are part of the Bank's overall liquidity management framework which is approved and reviewed by the Board on an annual basis.

At least once a year the Board reviews and approves the limits that are applied to measure and control liquidity risk on a bank-wide basis. ALCO/ Market Risk Policy Committee (MRPC) sets the direction for the Bank's liquidity management subject to the liquidity risk limits and tolerance levels established by the Board. The Board delegates these limits to the Treasury Group through ALCO.

Treasury Group is responsible for managing day-to-day funding activities within the established liquidity risk management policies and limits. It is responsible for establishing appropriate procedures and effective communication channels with operational and business areas to alert the funding desks of imminent funding requirements including loan drawdowns, deposit withdrawals and off-balance sheet commitments. It monitors market developments, understands their implications for the Bank's liquidity risk exposure and recommends appropriate risk management measures to ALCO.

Market Risk Department (MRD), part of the independent Risk Management Group (RMG), periodically reviews liquidity risk policies and procedures, the adequacy of the risk measurement system, including key assumptions and scenarios used and reports their findings and recommendations to ALCO. It is also responsible for monitoring adherence to the various liquidity ratios and limits, both internal and regulatory.

Funding strategy

The Bank's funding strategy is to develop a diversified funding base, while providing protection against unexpected fluctuations. It aims to align sources of funding with their use. As such, earning assets (Loans and Investments) are largely funded with customer deposits. The funding gap for these assets is met using secured funding and long term debt issuance.

The Bank maintains access to a variety of sources of wholesale funds in multiple currencies across a variety of distribution channels and geographies, including those available from money markets, repo markets and term depositors. It is an active participant in the money market and has direct access to local and international liquidity providers. As a result, wholesale funding is well diversified by product, investor, maturity, and currency.

Liquidity risk mitigation techniques

The Bank maintains excess liquidity in the form of cash and high-quality liquid unencumbered securities that together serve as the Bank's primary means of liquidity risk mitigation. It further limits the composition of high-quality, liquid, unencumbered securities to high quality sovereign bonds.

Diversification of funding is another important area to mitigate liquidity risk. The Bank remains focused on diversifying funding sources. Its most stable funding source is retail clients. Other customer deposits and borrowing from wholesale clients are additional sources of funding.

The Bank is an active participant in money markets and has direct access to local and international liquidity providers. It maintains strong relationships with a number of local and international banks through extensive trading and funding transactions over a number of years. Accesses to both local and international money markets allow the Bank to maintain liquidity in both local and foreign currencies.

Stress Testing

The Bank uses stress testing and scenario analysis to evaluate the impact of sudden and severe stress events on its liquidity position. It uses multiple scenario types to cover the Bank specific and market related events. The purpose of liquidity stress testing is to ascertain the incremental funding that may be required under the defined scenarios and whether the Bank will be able to withstand the stress.

Stress testing is fully integrated in the Bank's liquidity risk management framework. It assesses the Bank's ability to generate sufficient liquidity under extreme conditions and is a key input when defining its target liquidity risk position.

Contingency Funding Plan

The Bank's contingency funding plan sets out the action the Bank will take to fund business activity in crisis situations and periods of market stress. It outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of a liquidity crisis and/or market dislocation. It also describes in detail the Bank's potential responses if the assessments indicate it has entered a liquidity crisis, which include funding its potential cash and collateral needs as well as utilizing secondary sources of liquidity. Mitigants and action items to address specific risks are also described and assigned to individuals responsible for execution.

The contingency funding plan identifies key groups of individuals to ensure effective coordination, control and distribution of information that are critical in the management of a crisis or period of funding stress. It also details the responsibilities of these groups and/or individuals, which include making and disseminating key decisions, coordinating all contingency activities throughout the duration of the crisis or period of market stress, implementing liquidity maintenance activities and managing internal and external communication.

Other Qualitative Information

The Liquidity Coverage Ratio (LCR) is a Basel III metric that measures the sufficiency of High Quality Liquid Assets (HQLA) available to meet net short-term financial obligations over a thirty day period in an acute stress scenario. The SAMA regulatory minimum coverage level for LCR is currently 80%, increasing each year to 100% by January 2019.

In August 2014, SAMA released the final guideline on "Liquidity Coverage Ratio Disclosure Standards", requiring Saudi banks to disclose LCR beginning Q1 2015. LCR is disclosed using the standard Basel disclosure template and is calculated using the average of daily observations during the quarter.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

LIQ1 - Liquidity Coverage Ratio - December 2017

(Figures in SR 000's)

		TOTAL UNWEIGHTED VALUE (average)	TOTAL WEIGHTEDb VALUE (average)
	High Quality Liquid Assets		
1	Total high-quality liquid assets (HQLA)		33,927,292
	CASH OUTFLOWS		
2	Retail deposits and deposits from small business customers, of which:		
3	Stable deposits		
4	Less stable deposits	46,697,989	4,669,799
5	Unsecured wholesale funding, of which:		
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	48,685,129	23,634,974
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which:		
11	Outflows related to derivative exposures and other collateral requirements	50,766	50,766
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	2,422,843	242,284
14	Other contractual funding obligations		
15	Other contingent funding obligations	40,833,732	956,483
16	**TOTAL CASH OUTFLOWS**		**29,554,306**
	CASH INFLOWS		
17	Secured lending (eg. reverse repos)		
18	Inflows from fully performing exposures	22,008,866	13,371,235
19	Other cash inflows	119,297	119,297
20	**TOTAL CASH INFLOWS**	**20,404,901**	**13,490,532**
			TOTAL ADJUSTED[c] VALUE
21	TOTAL HQLA		33,927,292
22	TOTAL NET CASH OUTFLOWS		16,063,774
23	**LIQUIDITY COVERAGE RATIO (%) Tier 1 Capital**		**215%**

a. Unweighted values must be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

b. Weighted values must be calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).

c. Adjusted values must be calculated after the application of both
(i) haircuts and inflow and outflow rates
(ii) any applicable caps (ie cap on Level 2B and Level 2 assets for HQLA and cap on inflows).

Data presented in the disclosure is based on simple average of daily obervation over the previous quarter.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.6 – Table CRA: General qualitative information about credit risk

Business model translation into the components of the Bank's credit risk profile

The Bank's credit risk exposures mainly arises from lending activities like loans & advances as well as exposures arising from off-balance sheet instruments like commitments, guarantees, letters of credit etc. Moreover, investments in the banking book also exposes the Bank to credit risk. The Bank's credit risk mainly arises from the following lending activities, being the major components of Bank's overall strategy :-

Corporate Market serviced by the Corporate Banking Group with focus on corporations in KSA, Project Finance & Syndication deals.

Commercial/SME Market serviced by Commercial Banking Department with focus on small to medium merchants and businesses engaged in commerce, manufacturing, services & construction projects.

Consumer Market serviced by Retail Banking Group provide personal loans, auto-lease and credit card facilities to employees of government entities and eligible corporations, whereas high Net-Worth individuals serviced by Private banking and Treasury Group, provide conventional facilities as well as margin trading and FX-trading facilities.

Criteria and approach used for defining credit risk management policy and setting credit risk limits

Credit Risk policies and procedures are established to provide control on credit risk portfolios through periodic assessment of the credit worthiness of obligors, quantifying maximum permissible exposure to specific obligor and continuous monitoring of individual exposures and portfolios. The Credit Risk policy of the Bank is designed to provide objectives and credit risk management strategies, which include:

- Strengthening and enhancing Bank's ability to measure and mitigate credit risks on pre-emptive basis to minimize credit losses.
- Strengthening and enhancing Bank's systems and procedures for early problem recognition.
- Strengthening and enhancing credit portfolio management process.
- Compliance with local regulatory requirement and industry's best practices for credit risk management.

The Bank's Credit Risk policy addresses all functions and activities related to the credit lending process, ranging from defining the minimum required information for assessing obligor credit worthiness to developing the clear risk-based approval authority mechanism.

The limits/benchmarks for credit risk are spread across various dimensions which include Industry Exposure Limits, Country Risk Exposure Limits and Counterparty Exposure Limits. Quantitative limits are set at different levels ranging from obligor to portfolio.

Structure and organization of the credit risk management and control function

The Credit Risk Department, part of Risk Management Group, is responsible for Policy formulation and Portfolio management for all type of credit risks undertaken by the Bank.

The Bank has adopted centralized credit approval process and follows the philosophy of joint approval authority, which is directly linked to the borrower's Probability of Default (PD) and its facility characteristics measured by Loss Given Default (LGD) estimates. Based on afore-mentioned factors, there are three main layers of approval authorities. The highest credit authority is vested in the Executive committee, a Board level committee. The second level of credit approval authority is vested in the Senior Credit Committee and third layer consists of four levels of approval authorities, which draws its members from the business units and the Credit Review Department.

Credit Review Department and Credit Administration & Control (CAC) are part of the credit management process; Credit Review Department is engaged in the day-to-day activities of the approval process, whereas CAC is part of the administrative, activation, control, monitoring, documentation and follow-up process.

Relationships between the credit risk management, risk control, compliance and internal audit

The Bank follows the philosophy of 3 lines of defense, wherein functional units are responsible for risks arising from their activities and act as first line of defense. The second line of defense comprises of relevant Management Committees, RMG and Compliance Functions. Credit Risk being part of RMG responsible for monitoring and controlling the credit risk inherent in all the activities undertaken across the Bank.

The Compliance function assists in identifying, assessing, monitoring and reporting on compliance risk in matters relating to credit risks faced by the Bank. The function contributes, in an independent manner, to credit risk management pertaining to regulatory compliance.

Internal Audit (IA) being the third line of defense, independently monitors the effectiveness of credit risk management policies, procedures and internal controls through periodic testing of the design and operation of the processes.

Scope of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors

Management reports are generated for monitoring and control purposes on periodical basis - monthly, quarterly, semi-annually and annually, as appropriate. These reports are comprehensive, have wide scope and address several issues including:

- Portfolio quality, Industry concentration and large exposures;
- Product concentration, credit monitoring and concentration of shares held by the Bank as collateral;
- Past due follow-up, customer-provisioning details and provision movement report.

Credit Risk Department also submits for review, periodic reports to Board, Risk Committee and Audit Committee, covering its observation on key credit risks faced by the Bank.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.7 – CR1: Credit quality of assets – December 2017

(Figures in SR 000's)

		a	b	c	d
		Gross carrying values of			
		Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net values (a+b-c)
1	Loans	1,589,121	115,527,330	1,226,818	115,889,633
2	Debt Securities		31,504,675		31,504,675
3	Off-balance sheet exposures	612,808	31,168,843	586,285	31,195,366
4	Total	2,201,929	178,200,848	1,813,103	178,589,674

The following criteria are used to determine obligor default. The obligor:

- Has an obligation which is 90 (or more) days past due.
- Has an obligation for which the bank has stopped accruing interest.
- Has an obligation that is classified as non-performing by the bank.

B.8 – CR2: Changes in stock of defaulted loans and debt securities – December 2017

(Figures in SR 000's)

		a
1	**Defaulted loans and debt securities at end of the previous reporting period**	**1,490,836**
2	Loans and debt securities that have defaulted since the last reporting period	916,290
3	Returned to non-defaulted status	-
4	Amounts written off	(899,473)
5	Other changes	81,468
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**1,589,121**

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.9 – Table CRB: Additional disclosure related to the credit quality of assets

Scope and definitions of "past due" and "impaired" exposures

Definition of Past Due

Exposures that are not settled on their due date are classified as "Past Due" and reflected as such on the Bank's books the following day. The appearance of a loan as past due, does not imply that there is a problematic credit, as the business units often successfully prompt the customers to settle such amounts within a few days.

Definition of Impaired Assets

In determining whether an individually assessed exposure has become impaired, Bank makes judgments as to whether there is any observable data indicating decrease in the estimated future cash flows. This evidence may include an indication that there has been an adverse change in the payment status of borrowers. Management uses estimates based on historical loss experience for loans with similar credit risk characteristics, when estimating the cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Extent of past-due exposures (more than 90 days) that are not considered to be impaired

Generally, individually assessed customers with 90+ DPDs are considered impaired. The only exception is, when relevant credit authorities approve certain selected customers to continue as performing despite the 90+ DPDs – such approvals are invariably supported by adequate justification provided by the concerned business units, which may include possibility of collection from receivable and/or availability of high quality collateral, good past-track, etc.

Description of methods used for determining impairments

The Bank reviews its portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, management applies judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures that, although not specifically identified as requiring a specific allowance, have relatively greater risk of default than when originally granted. The collective impairment allowance is determined after taking into account:

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

The period between a loss occurring and its identification is estimated by management for each identified portfolio based on economic and market conditions, customer behavior, portfolio management information, credit management techniques and collection and recovery experience in the market.

Bank's definition of a restructured exposure

The Bank treats those exposures as restructured where any principal/interest (including penalty) is written-off prior to creation of a new loan, or any loan is granted at pricing lower than the cost (SIBOR/LIBOR) or problem customers (with Risk Rating 10 or worse) whose exposures are restructured and agreement signed. The revised amount of debt agreed with the customer is classified as a 'Restructured Loan' which the borrower agrees to settle through phased repayment over a period of time.

Quantitative Disclosures

The Quantitative Disclosures are provided separately in the following sections

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.9 – CRB: Breakdown of exposures by Geographical Areas – December 2017

(Figures in SR 000's)

Asset classes/ Geographical Area	Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	34,431,006	45,699		6,919,957			41,396,662
Non-central government public sector entities (PSEs)							-
Multilateral development banks (MDBs)							-
Banks	1,970,028	2,414,500	419,854	157,247	96,419	60,417	5,118,465
Securities firms		354,742					354,742
Corporates	105,776,474	386,889	640,269	658	231,260	277,020	107,312,570
Regulatory retail portfolios	22,684,471						22,684,471
Secured by residential property	2,105,946						2,105,946
Secured by commercial real estate							-
Equity	807,318			8,421			815,739
Past-due loans	441,699						441,699
Higher-risk categories	900,893	33,466	568		30,330		965,257
Other assets	6,207,932						6,207,932
Total	**175,325,767**	**3,235,296**	**1,060,691**	**7,086,283**	**358,009**	**337,437**	**187,403,483**

B.9 – CRB: Breakdown of exposures by Industry – December 2017

(Figures in SAR '000)

Asset classes/ Industry Sector	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	41,396,662												41,396,662
Non-central government public sector entities (PSEs)													-
Multilateral development banks (MDBs)													-
Banks		5,118,465											5,118,465
Securities firms		354,742											354,742
Corporates		9,878,828	1,831,792	14,907,167	296,846	9,145,834	15,525,884	15,124,176	6,264,581	3,815,000		30,522,462	107,312,570
Regulatory retail portfolios											22,684,471		22,684,471
Secured by residential property												2,105,946	2,105,946
Secured by commercial real estate													-
Equity		147,201		156,958		181,753			94,382	191,868		43,577	815,739
Past-due loans				350,571			809	40,678	1,060	1,989	46,307	285	441,699
Higher-risk categories		701,585		2,193		535	74,898	109,118	335	1,149		75,444	965,257
Other assets												6,207,932	6,207,932
Total	**41,396,662**	**16,200,821**	**1,831,792**	**15,416,889**	**296,846**	**9,328,122**	**15,601,591**	**15,273,972**	**6,360,358**	**4,010,006**	**22,730,778**	**38,955,646**	**187,403,483**

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.9 – CRB: Breakdown of exposures by Residual Maturity – December 2017

(Figures in SR 000's)

Asset classes/ Residual Maturity	Less than 8 days	8-30 days	30-90 days	90-180 days	180-360 days	1-3 years	3-5 years	Over 5 years	No Fixed Maturity	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	8,002,000		2,434,380	4,493,580	2,420	604,024	2,438,916	16,231,956	7,189,386	41,396,662
Non-central government public sector entities (PSEs)										-
Multilateral development banks (MDBs)										-
Banks	311,046		821,556	387,887	351,681	747,209	335,487	652,350	1,511,249	5,118,465
Securities firms			37,493			243,804	73,445			354,742
Corporates	752,202	6,996,001	16,208,927	21,297,347	19,198,111	16,118,753	13,355,050	10,270,496	3,115,683	107,312,570
Regulatory retail portfolios	2,925	2,335	26,669	161,112	383,226	5,863,887	15,310,309	934,008		22,684,471
Secured by residential property	14	34	228	791	1,135	50,425	124,686	1,928,633		2,105,946
Secured by commercial real estate										-
Equity									815,739	815,739
Past-due loans									441,699	441,699
Higher-risk categories					225	147,801			817,231	965,257
Other assets	24	19	196	839	2,462	45,167	473,110	7,581	5,678,534	6,207,932
Total	**9,068,211**	**6,998,389**	**19,529,449**	**26,341,556**	**19,939,260**	**23,821,070**	**32,111,003**	**30,025,024**	**19,569,521**	**187,403,483**

Industry sector	Impaired loans *	Defaulted **	Aging of Past Due Loans (days)				Specific allowances			General allowances
			Less than 90	90-180 days	180-360 days	Over 360	Charges during the Year To Date	Charge-offs during the Year To Date	Balance at the end of the Year To Date	
Government and quasi government	0	0	0	0	0	0	0	0	0	0
Banks and Other Financial Institutions	0	0	113	0	0	0	0	0	0	0
Agriculture and fishing	0	0	0	0	0	0	0	0	0	0
Manufacturing	896,524	794,897	36,855	790,503	1,485	2,908	189,293	23,795	504,499	0
Mining and quarrying	6,864	0	11,966	0	0	0	0	0	1,400	0
Electricity, water, gas and health services	502	502	324	0	502	0	48	0	48	0
Building and construction	382,062	333,409	78,773	130,092	180,255	23,062	18,780-	81,310	359,712	0
Commerce	97,566	92,938	131,265	55,484	15,907	21,547	63,459-	511,934	94,123	0
Transportation and communication	30,229	30,546	5,294	318	0	30,229	6,435	50,798	37,708	0
Services	17,805	16,999	18,788	6,612	4,031	6,355	53,988	122,179	16,618	0
Consumer loans and credit cards	384,808	117,768	1,011,358	117,214	555	0	328,852	320,294	74,271	0
Others	356,285	13,424	314,697	8,941	1,672	2,811	4,433	22	138,439	0
Total	**2,172,645**	**1,400,483**	**1,609,433**	**1,109,164**	**204,407**	**86,912**	**500,810**	**1,110,332**	**1,226,818**	**1,026,724**

* Impaired loans defined as any loan with specific provision
** Defaulted loans defined as non-performing loans

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.9 – CRB : Impaired Loans, Past Due Loans And Allowances – December 2017

(Figures in SR 000's)

Geographic area	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-180 days	180-360 days	Over 360		
Saudi Arabia	1,840,802	1,609,433	1,109,164	204,407	86,912	1,106,818	0
Other GCC and Middle East	331,843	0	0	0	0	120,000	0
Europe	0	0	0	0	0	0	0
North America	0	0	0	0	0	0	0
South East Asia	0	0	0	0	0	0	0
Others countries	0	0	0	0	0	0	0
Total	**2,172,645**	**1,609,433**	**1,109,164**	**204,407**	**86,912**	**1,226,818**	**1,026,724**

* Impaired loans defined as any loan with specific provision

B.9 – CRB : Reconciliation Of Changes In The Allowances For Loan Impairment – December 2017

(Figures in SR 000's)

Particulars	Specific allowances	General allowances
Balance, beginning of the year	1,836,340	881,451
Charge-offs taken against the allowances during the period	500,810	145,273
Amounts set aside (or reversed) during the period	(1,110,332)	-
Other adjustments:		
- exchange rate differences		
- business combinations		
- acquisitions and disposals of subsidiaries		
- etc.		
Transfers between allowances	-	-
Balance, end of the year	**1,226,818**	**1,026,724**

*Charge-offs and recoveries that have been recorded directly to the income statement are SAR 67,635 and SAR 151,212 respectively.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.10 – Table CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

Features of policies and processes for, and an indication of the Extent to which the Bank makes use of, on- and off-balance sheet netting.

The Bank reduces its exposures for capital adequacy calculations only, in cases where deposits/cash is in the form of collateral with a specific charge or lien in favor of the Bank.

Core features of policies and processes for collateral evaluation and management

The Bank believes that collateral security is an effective means of reducing risk and improving credit quality. Although collateral is generally desirable to enhance credit quality, Bank does not entirely rely on collateral to make lending decisions since collateral is only considered as a secondary source of repayment. The Bank's policy is to consider a credit exposure secured, if it is fully supported by tangible collateral/ security and in accordance with minimum requirement in terms of coverage ratios.

Information about market or credit risk concentrations under the credit risk mitigation instruments

For capital adequacy purposes, Bank only uses cash and bank guarantees as credit risk mitigants, thus presenting minimal market or concentration risk for mitigants used. As part of its regular monitoring, Bank also review it's holding vis-à-vis total market capitalization of the companies, whose shares are held as collateral.

B.11 – CR3: Credit risk mitigation techniques – Overview – December 2017

(Figures in SAR 000's)

		(a) Exposures unsecured: carrying amount	(b) Exposures secured by collateral	(c) Exposures secured by collateral, of which: secured amount	(d) Exposures secured by financial guarantees	(e) Exposures secured by financial guarantees, of which: secured amount	(f) Exposures secured by credit derivatives	(g) Exposures secured by credit derivatives, of which: secured amount
1	Loans	98,573,536	17,316,097	4,036,786	62,123	57,805		
2	Debt securities	31,504,675						
3	**Total**	**130,078,211**	**17,316,097**	**4,036,786**	**62,123**	**57,805**	**-**	**-**
4	Of which defaulted	1,589,121	37,383	210				

B.12 – Table CRD: Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

Names of the external credit assessment institutions (ECAIs) used by the Bank

As per the guidelines provided by SAMA, Bank is using i) Moody's, ii) Standard & Poor's, and iii) Fitch for assigning Risk Weight and calculating Risk Weighted Assets (RWAs) under the Standardized Approach. Obligors, which are not rated by any of these three ECAIs are considered as "un-rated". Only the solicited ratings from the eligible ECAIs are being used for capital adequacy calculations.

Asset classes for which ECAIs are used

External Credit ratings of ECAIs are used for the asset classes comprising of Sovereign, Banks & Securities Firms, Corporate, and Off-Balance items, wherever applicable.

Description of the process used to transfer the issuer to issue credit ratings

Under Standardized approach for Credit Risk, Bank uses issue-specific rating if such a rating is available for the issue in which the bank has invested. In circumstances where only issuer assessment is available, Bank consider high quality issuer assessment only for the senior claims on that issuer; other unassessed claims of the highly assessed issuer are treated as unrated. Applicable Basel guidelines for Issuer versus Issues assessment are complied with at all times.

Alignment of the alphanumerical scale of each agency used with risk buckets

For determining risk weighted exposure under Standardized approach, alignment of ECAIs scales to risk buckets is applied as per mapping guidelines provided by SAMA.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.13 – CR4: Standardised approach – Credit risk exposure and Credit Risk Mitigation (CRM) effects - December 2017

(Figures in SAR 000's)

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	41,396,662		41,396,662		-	0.00%
2	Non-central government public sector entities						
3	Multilateral development banks						
4	Banks	3,235,132	3,483,232	3,235,132	1,883,333	2,924,662	57.14%
5	Securities firms	354,742		354,742		177,371	
6	Corporates	95,127,193	42,435,301	91,090,618	16,221,952	106,290,437	99.05%
7	Regulatory retail portfolios	22,684,471		22,684,471		17,013,353	75.00%
8	Secured by residential property	2,105,946		2,105,946		1,053,702	50.03%
9	Secured by commercial real estate						
10	Equity	815,739		815,739		807,695	99.01%
11	Past-due loans	441,898		441,699		441,699	100.00%
12	Higher-risk categories	891,475	103,930	891,464	73,793	2,091,357	216.66%
13	Other assets	5,858,593	743,591	5,858,592	349,340	3,798,599	61.19%
14	**Total**	**172,911,851**	**46,766,054**	**168,875,065**	**18,528,418**	**134,598,875**	**71.82%**

B.14 – CR5: Standardised approach – Exposures by asset classes and risk weights - December 2017

(Figures in SAR 000's)

Asset classes/ Risk weight	a 0%	b 10%	c 20%	d 35%	e 50%	f 75%	g 100%	h 150%	i Others	j Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	41,396,662									41,396,662
Non-central government public sector entities (PSEs)										-
Multilateral development banks (MDBs)										-
Banks			1,293,766		2,317,581		1,507,118			5,118,465
Securities firms					354,742					354,742
Corporates					2,044,264		105,268,306			107,312,570
Regulatory retail portfolios						22,684,471				22,684,471
Secured by residential property					2,105,946					2,105,946
Secured by commercial real estate										-
Equity					16,088		799,651			815,739
Past-due loans							441,699			441,699
Higher-risk categories								327,467	637,790	965,257
Other assets	2,409,333						3,798,599			6,207,932
Total	**43,805,995**	**-**	**1,293,766**	**-**	**6,838,621**	**22,684,471**	**111,815,373**	**327,467**	**637,790**	**187,403,483**

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.21 - Table CCRA: Qualitative disclosure related to counterparty credit risk

Risk management objectives and policies related to counterparty credit risk

The primary objective of counterparty credit risk management function is to effectively identify, measure and manage all derivatives related counterparty exposures through regular review of counterparty limits and daily monitoring of exposures vis-a-vis limits.

Method used to assign the operating limits defined in terms of internal capital

Credit Risk Limits are established on a Credit Equivalent basis; taking into consideration the product type, tenor and notional amounts. The Bank has limited exposure towards the central counterparties as it emanates only from its trade in interest rate futures, options and derivative trade through clearing brokers. All other derivative exposures are bilateral in nature.

Policies relating to guarantees and other risk mitigants and assessments

The Bank has signed Credit Support Annexure with all the major derivative financial counterparties to mitigate counterparty credit risk.

Policies with respect to wrong-way risk exposures

Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. The Bank considers its exposure to such risk limited, which is mitigated through common collateral management practice.

Impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade

The Bank is only providing variation margin in bilateral trades with financial counterparties. The impact of any increase in variation margin due to potential credit rating downgrade at present is considered minimal.

B.22 - CCR1: Analysis of counterparty credit risk (CCR)[1] exposure by approach - December 2017

(Figures in SAR 000's)

		a	b	c	d	e	f
		Replacment cost	Potential future Exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (For derivatives)	265,397	760,555		1.4	1,436,333	877,968
2	Internal Model method (for derivatives and SFTs)						
3	Simple Approach for credit Risk mitigation (for SFTs)						
4	Comprehensive Approach for credit Risk mitigation (for SFTs)						
5	VaR for SFTs						
	Total						**877,968**

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.23 - CCR2: Credit valuation adjustment (CVA) capital charge - December 2017

(Figures in SAR 000's)

		a EAD post-CRM	b RWA
	Total portfolios subject to the Advanced CVA capital charge		
1	(i) VaR component (including the 3xmultiplier)		
2	(ii) Stressed VaR component (including the 3xmultiplier)		
3	All portfolios subject to the Standardised CVA capital charge	1,436,333	2,998,332
4	**Total subject to the CVA capital charge**	**1,436,333**	**2,998,332**

B.24 - CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk weights - December 2017

(Figures in SAR 000's)

Regulatory portfolio / Risk weight	a 0%	b 10%	c 20%	d 50%	e 75%	f 100%	g 150%	h Other	i Total credit exposures
Sovereigns and their central banks									-
Non- central government public sector entities (PSEs)									-
Multilateral development banks (MDBs)									-
Banks			29,944	1,063,248		37			1,093,229
Securities firms									-
Corporates				5,571		337,533			343,104
Regulatory retail portfolios									-
Other Assets									-
Total	**-**	**-**	**29,944**	**1,068,819**	**-**	**337,570**	**-**	**-**	**1,436,333**

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.26 – Template CCR5: Composition of collateral for CCR exposure – December 2017

(Figures in SAR 000's)

		a	b	c	d	e	f
		Collateral used in derivative transactions				RWA and RWA density	
		Fair value of collateral received		Fair value of posted collateral			
	Asset classes	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
1	Cash – domestic currency	0	0	1,000	-	-	-
2	Cash – other currencies	4,537		44,953			
3	Domestic sovereign debt						
4	Other sovereign debt						
5	Government agency debt						
6	Corporate bonds						
7	Equity securities						
8	Other collateral						
9	Total	4,537	-	45,953	-	-	-

B.29 – CCR8: Exposures to central counterparties – December 2017

(Figures in SR 000's)

		a EAD (post-CRM)	b RWA
1	**Exposures to QCCPs (total)**	**4,658**	**93**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	4,658	93
3	(i) OTC derivatives		
4	(ii) Exchange-traded derivatives	4,658	93
5	(iii) Securities financing transactions		
6	(iv) Netting sets where cross-product netting has been approved		
7	Segregated initial margin		
8	Non-segregated initial margin		
9	Pre-funded default fund contributions		
10	Unfunded default fund contributions		
11	**Exposures to non-QCCPs (total)**	-	-
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
13	(i) OTC derivatives		
14	(ii) Exchange-traded derivatives		
15	(iii) Securities financing transactions		
16	(iv) Netting sets where cross-product netting has been approved		
17	Segregated initial margin		
18	Non-segregated initial margin		
19	Pre-funded default fund contributions		
20	Unfunded default fund contributions		

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.35 – Table MRA: Qualitative disclosure requirements related to market risk

Risk management objectives and policies for market risk

The primary objective of Bank's market risk management function is to provide a coherent policy and operating framework for a strong Bank-wide management of market risk and liquidity risk.

Bank's Strategies and processes

The Board approves market risk appetite, in terms of limits, for all types of market risks including foreign currency risk, interest rate risk and equity risk. These limits are based on notional amount, sensitivity, stop-loss and/or VaR (Value at Risk). The Board has also approved Market Risk Policy that provides guidance to identify, measure and monitor the Bank's exposure to market risk.

The Bank's Trading portfolio mainly consists of FX, interest rate trading positions and fixed income securities. The Bank maintains a prudent risk profile in derivatives trading which mainly consists of plain vanilla contracts with limited open positions across all market risk factors. The Bank's trading book has typically remained small with only a limited exposure in the proprietary trading positions. Trading deals are predominantly performed to off-set the risks arising as a result of deals done with corporate customers. The Board approves the trading limits keeping in view the overall business strategy of the Treasury Group. All traded products are covered by individual product programs, which lay down product description, business strategy, target customers, risk management, back office and accounting processes.

Liquidity management policy and limits ensure that liquidity is maintained at sufficient levels to support operations and meet payment demands even under stressed conditions that might arise with a sudden change in the market environment. The Bank recognizes the importance of managing liquidity under stress condition and has adopted a comprehensive stress testing framework and liquidity contingency funding plan.

The Bank considers Stress testing and contingency funding plan as important techniques in developing a complete picture of the Bank's liquidity risk profile. Stress testing uses quantitative methods, but is also subjected to qualitative inputs. The purpose of stress testing is to ascertain incremental funding that may be required under the defined scenarios and whether the bank will be able to withstand the stress. The liquidity stress testing methodology and scenarios are developed in line with the regulatory guidelines incorporating conservative liquidity assumptions. Liquidity Stress Testing is carried out under multiple scenarios encompassing bank specific and systemic shocks, which are considered relevant to the business environment and balance sheet structure. In order to withstand the stress, Bank has a comprehensive Contingency Funding Plan (CFP), which addresses vulnerabilities identified in stress tests. CFP establishes lines of responsibility, including invocation and escalation procedures. CFP details the pre-emptive measures to deal with stress scenarios and identifies funding sources depending on severity of stress.

The Bank at all times maintains a sizable inventory of High Quality Liquid Assets (HQLA) that may be used during stress conditions. The Bank maintains segregation of HQLAs based on geographical location in order to comply with regulatory requirements on the transfer of liquid assets.

The Bank has implemented a interest rate hedging policy in compliance with the International Accounting Standards. Interest rate derivatives, mainly interest rate swaps and futures are used to hedge specific exposures with the aim to keep the interest rate risks within limits. The Bank also uses currency swap to hedge specific positions in foreign currencies, when necessary. Effectiveness of all hedges is regularly monitored throughout their term.

Structure and organisation of the market risk management function

Market risk and Liquidity risk are overseen by two management committees – Asset Liability Committee (ALCO) and Market Risk Policy Committee (MRPC). ALCO deals with Bank-wide market risk issues while MRPC deals with Treasury specific issues. ALCO meets on a regular basis to discuss the risk exposures vis-à-vis the prevailing market conditions and sets guidelines to manage these risks within the risk appetite set by the Board. MRPC acts as a sub-committee of ALCO with authority to monitor and control Treasury-related activities. MRPC has the authority to restrict utilization of the ALCO-approved limits. Market Risk Department, which is independent of the business function, monitors all limits and provides periodic market risk reports to ALCO and MRPC members.

Treasury Middle Office is an independent unit reporting to MRD and is responsible for ensuring that all Treasury related internal controls are functioning effectively and all non-adherences are brought to management's attention on a timely basis.

Scope and nature of risk reporting and/or measurement systems.

Daily Report is provided to Senior Management that covers the trading activity and liquidity ratios. Stress testing for interest rate risk, foreign exchange risk and liquidity risk is conducted on a regular basis and results are presented to ALCO for review. Market Risk Department submits the following reports to ALCO, MRPC and Board on regular basis

- VaR analysis
- Interest rate gap Analysis
- Liquidity Risk Ratios
- Interest rate stress testing

Detailed market risk reviews are submitted to the Board, Excom, Risk Committee and Audit Committee, on a quarterly or semi-annual basis, as appropriate. The reviews highlight major changes in the Bank's market and liquidity risk profiles as well as compositions of the investments portfolio.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.37 – MR1: Market risk under standardised approach – December 2017

(Figures in SR 000's)

		a RWA
	Outright products	**604,991**
1	Interest rate risk (general and specific)	336,192
2	Equity risk (general and specific)	
3	Foreign exchange risk	258,853
4	Commodity risk	9,946
5	Options	3,975
6	Simplified approach	3,975
7	Delta-plus method	
8	Scenario approach	
9	Securitisation	
	Total	**608,966**

B.41 – Operational risk

Qualitative disclosure for Bank's operational risk capital approach

The Bank calculates Operational Risk capital charge under Alternative Standardized Approach (ASA), which uses Gross Income and Loans/Advances as proxy indicator for estimating capital charge (i.e. loans/advances are used for Basel business lines 'Retail Banking' and 'Commercial Banking' whereas gross income is used for remaining Basel business lines).

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

B.42 – Interest rate risk in the banking book (IRRBB)

Qualitative disclosure requirement on IRRBB

Interest Rate Risk in Banking Book refers to the current or prospective risk to earnings and capital arising from adverse movements in interest rates affecting the Banking book assets, liabilities and off-balance-sheet positions. IRRBB arises principally from mismatches between the assets and their funding liabilities in terms of the future interest rates, maturities or cash flow profiles in the context of interest rates changes. IRRBB represents the most significant market risk exposure in the Bank's banking book balance sheet.

Interest rate risk in the Banking Book forms part of the Bank's overall risk management framework, which is driven from the Board down to each management levels. The Board defines the Bank's IRRBB risk appetite and ensures that the Bank has in place an adequate framework, policies/procedures and processes to manage IRRBB effectively. At operational level, IRRBB is overseen by two management committees, Asset Liability Committee (ALCO) and Market Risk Policy Committee (MRPC) under the delegated authority by the Board.

IRRBB is assessed and monitored at both macro level through gap analysis, EaR and EVE measurement, as well as micro level by analyzing the interest rate risk in light of the rate outlook and funding options. The assessment results may lead to Interest Rate Risk (IRR) hedging decision either by each individual transaction or by portfolio of homogenous IRR exposures. In both cases, the Bank designs the IRR hedge in such a way that the IFRS / IAS hedge accounting is always applied to minimize potential volatility in accounting profits and losses (P&L). All the IRRBB measures are monitored against approve limits and/or management action triggers (MAT).

The outcome of the monitoring and control tools are benchmarked against approved limit and MAT thresholds on monthly basis, and reported to the relevant stakeholders subsequently.

EVE and EaR measures are quantified under various rate shock scenarios, which include six prescribed regulatory interest rate shock scenarios to capture parallel and non-parallel gap risks for EVE and two prescribed regulatory interest rate shock scenarios for EaR. In addition, the Bank has eight internal rate shock scenarios being applied to both EaR and EVE which are used for internal reporting purpose. These stress scenarios are defined and reviewed by Risk Management Group. All significant changes are reviewed and approved by the ALCO on an annual basis to reflect current market conditions.

Bank use standard set of assumptions for both internal assessment and disclosure in Table B.

The assessment of IRRBB measures may lead to IRR hedging decision either by each individual transaction or by portfolio of homogenous IRR exposures. In both cases, the Bank designs the IRR hedge in such a way that the IFRS / IAS hedge accounting is always applied to minimize potential volatility in accounting profits and losses (P&L).

For individual hedges, the time and amounts are generally determined when the transactions are initiated. The objective is normally to off-set the re-pricing mismatches and to the extent possible so that the Bank is only left with fixed interest rate spread income or expense. For portfolio hedges, the time and amounts are generally determined by: either (1) assessment results of the interest rate gaps as well as EaR and EVE risk exposures; or (2) a pre-defined hedging parameter for certain products such as fixed rate Loans.

Economic Value of Equity (EVE): Measurement of IRRBB under the EVE approach is to quantify the change in the net market value of the whole banking book under various interest rate shock scenarios, given the spot balance sheet positions as at certain point in time and using a run-off balance sheet assumption. Broadly, the EVE measurement include three components: (1) to construct re-pricing gap profiles in each significant currencies (e.g. USD and SAR) whereas insignificant currencies are aggregated under the other currency (OTH); (2) to establish interest rate shock scenarios; (3) to apply each of the scenarios to the gap profile and come up with net change in the equity due to the rate shocks.

Earnings at Risk (EaR): EaR is an earnings-based measure to analyze impact of changes in interest rates on the future accrued or reported net interest income (NII) on a 12-month rolling forward basis. It is intended to assess the Bank's ability to generate stable earnings on a sustained basis, which will allow it to provide its shareholders with stable dividend payments as well as to reduce the beta on its share price and therefore reduce its cost of capital.

Following are the key assumptions while calculating EVE and EaR.

- Average repricing maturity of non-maturity deposits (NMD)

Average repricing tenor and maturity of NMDs are derived using a combination of statistical tools, i.e. regression analysis and volatility measures using KSA banking sector and Bank's NMD historical data. The Bank's NMD deposit data is regressed against the key macro-economic variables using historical monthly data points.

- Prepayment rates of customer loans

Prepayment assumptions are based on prepayment behavior of loan book. The Bank uses historical data to analyze the prepayment behavior of loans.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) – December 2017

(Figures in SR 000's)

	EVE		NII	
Period	**31-Dec-17**	**T – 1 ***	**31-Dec-17**	**T – 1 ***
Parallel up	-94,735	n.a.	326,030	n.a.
Parallel down	84,962	n.a.	(260,220)	n.a.
Steepener	41,170	n.a.		
Flattener	-74,477	n.a.		
Short rate up	-107,472	n.a.		
Short rate down	63,366	n.a.		
Maximum	-107,472	n.a.	(260,220)	n.a.
Period	**31-Dec-17**		**T-1**	
Tier 1 capital	23,719,687			n.a.

* First Submission

REMA : Remuneration Policy

Governance Framework of Remuneration System

The Board has appointed a Nomination and Compensation Committee and approved its Terms of Reference. The Board is ultimately responsible for promoting effective governance and sound compensation practices. Compensation Policy is given adequate consideration at the highest level with respect to the Bank's risk appetite and the need for stability of capital and liquidity. The governance process ensures that the Compensation Policy is consistently applied within the Bank and operates as intended. The governance process has established an oversight mechanism to regularly evaluate the important design characteristics of compensation practices and their implementation.

Scope of the Bank's Remuneration Policy

Bank's remuneration policy is applicable to all full-time and part-time employees of ANB Group, including its branch in London, subject to any variations required by UK legislation, and its majority-owned subsidiaries operating in the financial sector. Contract and outsourced staff is compensated through an agreed package. The Compensation Policy is reviewed every two years or earlier if advised by the Board.

Design and Structure of Remuneration Processes

Compensation Policy is part of a broader corporate governance framework drawing on local and international best practice as well as regulatory guidance. Through application of the Compensation Policy, ANB aims at the dual objective of attracting and retaining quality staff whilst at the same time ensuring that its compensation practices are in compliance with the Rules set out by the Saudi Arabian Monetary Agency (SAMA) and are consistent with the Principles and Standards of the Financial Stability Board (FSB).

The rules of the Compensation Policy are aimed at dealing with the risks posed by the compensation practices and not at determining the absolute amount of compensation. The focus of the Policy is on promoting effective risk management and achieving financial soundness and stability of the Bank. It is the Bank's policy to link compensation with performance, both financial and nonfinancial. The broad structure of compensation aligns compensation with risk, taking into account the likelihood and timeliness of earnings.

Compensation and bonus allocation for employees in Internal Control units are not determined by persons working in or associated with any business or support unit being monitored by them.

Overview of the key risks taken into account for Remuneration Process

The Bank's net income is adjusted for all types of material risks, prior to allocating bonus to each individual, depending on the nature and complexity of the products involved. The Risk Adjusted Return on Capital (RAROC) has been adopted as the overarching technique to adjust the risk for all types of businesses. However, depending on the type and nature of the risk, the application of RAROC may vary as detailed below:

Credit Risk: The Bank's income exposed to the credit risk is adjusted by way of Expected Loss (EL), estimated thru risk parameters, like Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The adjustment is at the product level, like in the case of Retail, where PD, LGD and EAD are estimated for the total portfolio of Consumer Loans, Credit Card, Auto Lease, etc. For the Corporate book in contrast, these risk parameters are estimated at the borrower/facility level and accordingly, income is adjusted for the each individual borrower.

Market Risk: The market risk, primarily inherent in the Trading Book, is adjusted for risk by way of Value at Risk (VaR) estimates.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

Overview of the key risks taken into account for Remuneration Process

Operational Risk: The operational risk is allocated to all the units of the Bank, and not just the profit centers. The adjustment is made by way of projecting the severity and likelihood of operational losses, which is derived from actual operational losses incurred during the previous three years.

Other Material Risks : All other material risks are assessed as part of the Pillar-II risk under Basel-II reporting. The major risks included under this category are Concentration, Liquidity, Reputational and Interest Rate Risk in the Banking Book (IRRBB). These risks are allocated to various units of the Bank, depending on their involvement/responsibility in managing the relevant risk. The cost associated with liquidity and IRRBB risks, for instance, are used to adjust income of Treasury only. Similarly, the major part of reputational risk costs is allocated to front-end staff (mainly in Retail), who are in direct contact with external customers.

Linkage of performance measurement with levels of remuneration

Compensation criteria are based on a mix of quantitative as well as qualitative factors. The quantitative criteria pertain to financial performance, and is adjusted for risk. The mix of qualitative and quantitative criteria may vary across business lines and functions but ensures that the Bank retains its competitive edge in attracting and retaining quality resources.

Financial Performance is one out of many criteria that determine compensation. In some business units - such as support and internal control functions – financial contribution is largely irrelevant. In profit centres, in contrast, financial performance is an important consideration, but by no means the sole factor determining compensation, especially the variable part of it.

ANB's Compensation Policy takes full account of key qualitative factors in the fulfilment of job duties. These apply to all functions, whether profit or non-profit centres. The qualitative factors include, inter-alia, the following: significance of the function, complexity of the job, skill set requirements, scarcity factor, market conditions, competitive pressures, quality of business transacted, customer satisfaction, impact on Bank reputation, achievement of non-financial targets, compliance with rules and regulations etc.

Bonus allocation is based on compensation matrix, resting on three sets of criteria: quantitative factors, qualitative factors and managerial judgment. The weight allocated to each of these varies across the businesses/individual functions. Quantitative performance factors can be financial (eg:- earnings or net income) or non-financial nature (eg:- volume/sales targets). The financial indicators are adjusted for risk, and risk-adjustment is applied at all levels of the hierarchy (group /division /department /unit /individual) and no variable compensation is awarded for income, outcome of which is still uncertain.

For senior executives and executives involved in risk-taking activities, measurement of the financial performance is based on longer term performance of the Bank and therefore the performance based component of their compensation is not based solely on the current year's performance.

The non-financial factors - both qualitative and quantitative - are captured through a number of appraisal tools appropriate to the various lines of business or levels of seniority, e.g. Executive Performance Appraisal Program (EPAP) for senior staff. This captures a wide range of targets such as key performance indicators, sales/revenue, deposit-mobilisation, new relationships, new products, quality of assets, compliance, audit ratings, operational losses, cost management, system availability, internal controls, team building etc.

Wherever relevant, appraisal assessments are complemented with additional managerial judgment and qualitative assessment based on such factors as quality of business transacted, customer satisfaction, impact on Bank reputation, loyalty, dedication, team spirit, leadership and other personal attributes.

Adjustment of remuneration to take account of longer-term performance

The performance measurement of employees, especially at senior level, takes into account, longer term performance of the Bank and is not solely based on the current year's performance. Risk-adjustment provides an insight into potential future risks affecting current income, whereas the historical performance of the Bank provides a good gauge as to the consistency of its earnings and its long-term performance.

In certain circumstances, the Bank may nominate certain employees for deferred bonus, in recognition that their retention is important in achieving the Bank's long term objectives and/or in acknowledgment of the fact that they represent a priority target for competing institutions. The scheme is principally predicated on retention considerations rather than financial performance.

ANB's current compensation practices does not include share or stock option payments.

Determination of the mix of compensation, fixed and variable, takes into account the role, responsibility and function of the employee, the business area to which they belong, the complexity of the tasks performed, the skills sets needed, industry practices, market conditions etc.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

REM1: Remuneration awarded during the financial year – December 2017

(Figures in SR 000's)

management			a Senior management	b Other material risk-takers
Fixed renumeration	1	Number of employees (Actual)	**19**	**176**
	2	Total fixed remuneration (7+ 5 + 3)	39,540	85,994
	3	Of which: cash-based	38,490	85,994
	4	Of which: deferred		
	5	Of which: shares or other share-linked instruments		
	6	Of which: deferred		
	7	Of which: other forms	1,050	
	8	Of which: deferred		
Variable remuneration	9	Number of employees (Actual)	**19**	**176**
	10	Total variable remuneration (15 + 13 + 11)	31,305	31,751
	11	Of which: cash-based	31,305	31,751
	12	Of which: deferred	5,840	7,355
	13	Of which: shares or other share-linked instruments		
	14	Of which: deferred		
	15	Of which: other forms		
	16	Of which: deferred		
Total remuneration (2 + 10)	**17**		**70,845**	**117,745**

REM2: Remuneration awarded during the financial year – December 2017

(Figures in SR 000's)

Special payments	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of Employees	Total amount	Number of Employees	Total amount	Number of Employees	Total amount
Senior management		Nil		Nil		Nil
Other material risk-takers		Nil		Nil		Nil

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

REM3: Remuneration awarded during the financial year - December 2017

(Figures in SR 000's)

Deferred and retained remuneration	a	b	c	d	e
	Total amount of outstanding deferred remuneration	Of which: total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment durign the year due to ex post explicit adjustment	Total amount of amendment durign the year due to ex post implicit * adjustment	Total amount of deferred remuneration paid out in the financial year
Senior management					
Cash	11,775	11,775		500	5,840
Shares					
Cash-linked instruments					
Others					
Other material risk-takers					
Cash	15,080	15,080		100	7,355
Shares					
Cash-linked instruments					
Others					
Total	**26,855**	**26,855**		**600**	**13,195**

*Outstanding exposed to ex post implicit adjustment represents the amount pertaining to employees, who have resigned from the services of the Bank, at the time of retention reward

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

TABLE 2: CAPITAL STRUCTURE – DECEMBER 2017

Balance sheet – Step 1 (Table 2(b))

All figures are in SAR'000

Assets	Balance sheet in Published financial statements (C)	Adjustment of banking associates / other entities (*) (D)	Under regulatory scope of consolidation (E)
Cash and balances at central banks	17,251,379		17,251,379
Due from banks and other financial institutions	1,710,123		1,710,123
Investments, net	32,320,816		32,320,816
Loans and advances, net	114,542,929		114,542,929
Debt securities	0		0
Trading assets	0		0
Investment in associates	637,222		637,222
Derivatives	943,760		943,760
Investment property	1,626,563		1,626,563
Other real estate	220,697		220,697
Property and equipment, net	1,694,591		1,694,591
Other assets	753,619		753,619
Total assets	**171,701,699**	**0**	**171,701,699**
Liabilities			
Due to Banks and other financial institutions	2,691,549		2,691,549
Items in the course of collection due to other banks	0		0
Customer deposits	136,048,089		136,048,089
Trading liabilities	0		0
Local sukuk issued	2,016,274		2,016,274
Derivatives	855,902		855,902
Retirement benefit liabilities	0		0
Taxation liabilities	0		0
Accruals and deferred income	0		0
Other liabilities	5,023,920		5,023,920
Subtotal	**146,635,734**	**0**	**146,635,734**
Paid up share capital	10,000,000		10,000,000
Statutory reserves	10,000,000		10,000,000
Other reserves	(75,807)		(75,807)
Retained earnings	3,795,494		3,795,494
Minority Interest	696,278		696,278
Proposed dividends	650,000		650,000
Total liabilities and equity	**171,701,699**	**0**	**171,701,699**

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

TABLE 2: CAPITAL STRUCTURE – DECEMBER 2017

Balance sheet – Step 2 (Table 2(c))

All figures are in SAR'000

Assets	Balance sheet in Published financial statements (c)	Adjustment of banking associates / other entities (d)	Under regulatory scope of consolidation (e)	Reference
Cash and balances at central banks	17,251,379		17,251,379	
Due from banks and other financial institutions	1,710,123		1,710,123	
Investments, net	32,320,816		32,320,816	
Loans and advances, net	114,542,929		114,542,929	
of which Collective provisions	1,026,724		1,026,724	A
Debt securities	0		0	
Equity shares	0		0	
Investment in associates	637,222		637,222	
Derivatives	943,760		943,760	
Investment property	1,626,563		1,626,563	
Other real estate	220,697		220,697	
Property and equipment, net	1,694,591		1,694,591	
Other assets	753,619		753,619	
Total assets	171,701,699	0	171,701,699	

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

TABLE 2: CAPITAL STRUCTURE – DECEMBER 2017

Balance sheet – Step 2 (Table 2(c))

All figures are in SAR'000

Liabilities	Balance sheet in Published financial statements (c)	Adjustment of banking associates / other entities (d)	Under regulatory scope of consolidation (e)	Reference
Due to Banks and other financial institutions	2,691,549		2,691,549	
Items in the course of collection due to other banks	0		0	
Customers' deposits	136,048,089		136,048,089	
Trading liabilities	0		0	
Local sukuk issued	2,016,274		2,016,274	
of which Tier 2 capital instruments	2,000,000		2,000,000	B
Derivatives	855,902		855,902	
Retirement benefit liabilities	0		0	
Taxation liabilities	0		0	
Accruals and deferred income	0		0	
Borrowings	0		0	
Other liabilities	5,023,920		5,023,920	
Total assets	**146,635,734**	**0**	**146,635,734**	

Paid up share capital	10,000,000		10,000,000	
of which amount eligible for CET1	10,000,000		10,000,000	H
of which amount eligible for AT1	0		0	
Statutory reserves	10,000,000		10,000,000	G
Other reserves	(75,807)		(75,807)	C
Retained earnings	3,795,494		3,795,494	J
SAMA supervisory provision adjustment	0		0	
Minority Interest	696,278		696,278	
Proposed dividends	650,000		650,000	
Total liabilities and equity	**171,701,699**	**0**	**171,701,699**	

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

TABLE 2: CAPITAL STRUCTURE - DECEMBER 2017

Common template (transition) - Step 3 (Table 2(d)) i
(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment
All figures are in SAR '000

		Components1 of regulatory capital reported by the bank	Amounts1 subject to Pre - Basel III treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	Common Equity Tier 1 capital: Instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	10,000,000		H
2	Retained earnings	13,795,494		G+J
3	Accumulated other comprehensive income (and other reserves)	(75,807)		C
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)			
5	Common share capital isued by subsidiaries and held by third parties (amount allowed in group CET1)			
6	Common Equity Tier 1 capital before regulatory adjustments			
	Common Equity Tier 1 capital: Regulatory adjustments	23,719,687		
7	Prudential valuation adjustments			
8	Goodwill (net of related tax liability)			
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)			
11	Cash-flow hedge reserve			
12	Shortfall of provisions to expected losses			
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)			
14	Gains and losses due to changes in own credit risk on fair valued liabilities			
15	Defined-benefit pension fund net assets			
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)			
17	Reciprocal cross-holdings in common equity			
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than %10 of the issued share capital (amount above %10 threshold)			
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above %10 threshold)			
20	Mortgage servicing rights (amount above %10 threshold)			
21	Deferred tax assets arising from temporary differences (amount above %10 threshold, net of related tax liability)			
22	Amount exceeding the %15 threshold			
23	of which: significant investments in the common stock of financials			
24	of which: mortgage servicing rights			
25	of which: deferred tax assets arising from temporary differences			
26	National specific regulatory adjustments			
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III OF TREATMENT			
	OF WHICH: [INSERT NAME OF ADJUSTMENT]			
	OF WHICH:...			

Basel III Pillar 3 Qualitative Disclosures
December 31, 2017

		Components1 of regulatory capital reported by the bank	Amounts1 subject to Pre – Basel III treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	Common Equity Tier 1 capital: Instruments and reserves (continued)			
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions			
28	**Total regulatory adjustments to Common equity Tier 1**			
29	**Common Equity Tier 1 capital (CET1)**	**23,719,687**		
	Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus			
31	of which: classified as equity under applicable accounting standards			
32	of which: classified as liabilities under applicable accounting standards			
33	Directly issued capital instruments subject to phase out from Additional Tier 1			
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)			
35	of which: instruments issued by subsidiaries subject to phase out			
36	**Additional Tier 1 capital before regulatory adjustments**			
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments			
38	Reciprocal cross-holdings in Additional Tier 1 instruments			
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than %10 of the issued common share capital of the entity (amount above %10 threshold)			
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)			
41	National specific regulatory adjustments			
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT			
	OF WHICH: [INSERT NAME OF ADJUSTMENT]			
	OF WHICH: ...			
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions			
43	Total regulatory adjustments to Additional Tier 1 capital			
44	Additional Tier 1 capital (AT1)			
45	Tier 1 capital (T1 = CET1 + AT1)	**23,719,687**		

Note: Items which are not applicable are to be left blank.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

TABLE 2: CAPITAL STRUCTURE - DECEMBER 2017

Common template (transition) - Step 3 (Table 2(d)) ii
(From January 2013 to 2018 identical to post 2018) With amount subject to Pre- Basel III Treatment
All figures are in SAR'000

		Components1 of regulatory capital reported by the bank	Amounts1 subject to Pre - Basel III treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	2,000,000		B
47	Directly issued capital instruments subject to phase out from Tier 2			
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)			
49	of which: instruments issued by subsidiaries subject to phase out			
50	Provisions	1,026,724		A
51	**Tier 2 capital before regulatory adjustments**	3,026,724		
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments			
53	Reciprocal cross-holdings in Tier 2 instruments			
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than %10 of the issued common share capital of the entity (amount above the %10 threshold)			
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0		
56	National specific regulatory adjustments			
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT			
	OF WHICH: [INSERT NAME OF ADJUSTMENT]			
	OF WHICH: ...			
57	Total regulatory adjustments to Tier 2 capital			
58	Tier 2 capital (T2)	3,026,724		
59	Total capital (TC = T1 + T2)	26,746,411		
	RISK WEIGHTED ASSETS IN REPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT			
	OF WHICH: [INSERT NAME OF ADJUSTMENT]			
	OF WHICH: ...			
60	Total risk weighted assets	152,337,484		
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	15.57%		
62	Tier 1 (as a percentage of risk weighted assets)	15.57%		
63	Total capital (as a percentage of risk weighted assets)	17.56%		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	5.750%		

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

		Components1 of regulatory capital reported by the bank	Amounts1 subject to Pre - Basel III treatment	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2
	Tier 2 capital: instruments and provisions (continued)			
65	of which: capital conservation buffer requirement	1.250%		
66	of which: bank specific countercyclical buffer requirement			
67	of which: G-SIB buffer requirement			
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	9.82%		
	National minima (if different from Basel 3)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)			
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)			
71	National total capital minimum ratio (if different from Basel 3 minimum)			
	Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials			
73	Significant investments in the common stock of financials			
74	Mortgage servicing rights (net of related tax liability)			
75	Deferred tax assets arising from temporary differences (net of related tax liability)			
	Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1,026,724		
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1,730,941		
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)			
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach			
	Capital instruments subject to phase-out arrangements (only applicable between Jan 1, 2018 and Jan 1, 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements			
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)			
82	Current cap on AT1 instruments subject to phase out arrangements			
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)			
84	Current cap on T2 instruments subject to phase out arrangements			
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)			

Note: Items which are not applicable are to be left blank.

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

TABLE 2: CAPITAL STRUCTURE – DECEMBER 2017

Main features template of regulatory capital instruments – (Table 2(e))

1	issuer	Arab National Bank
2	Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement)	SA13TFK0GSJ4
3	Governing law(s) of the instrument	Law of Kingdom of Saudi Arabia
	Regulatory treatment	
4	Transitional Basel III rules	NA
5	Post-transitional Basel III rules	Tier 2
6	Eligible at solo/Mgroup/group and solo	Solo and Group
7	Instrument type	Unsecured Subordinated Sukuk
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	SAR 2 billion
9	Par value of instrument	SAR 2 billion
10	Accounting classification	Liability- Held at Amortised Cost
11	Ongina date of issuance	7-Oct-15
12	Perpetual or dated	Dated
13	Orignal maturity date	7-Oct-25
14	Issuer call subject to prior supervisoy approval	Yes
15	Option call date, contingent call dates and redemption amount	First Call date 7 oct 2020, and callable on each subsequent periodic distribution date at PAR in whole (but in part), with a notice period not less than 15 days nor more than 30 days
16	Subsequent call dates if applicable	Semi-annually
	Coupons / dividends	
17	Fixed or Floating dividend/coupon	Floating
18	Coupon rate and any related index	6m SIBOR 140bps
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Non cumulative or cumulative	Non-cumulative

Basel III Pillar 3 Qualitative Disclosures

December 31, 2017

TABLE 2: CAPITAL STRUCTURE - DECEMBER 2017

Main features template of regulatory capital instruments - (Table 2(e))

23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, s instrument type convertible into	N/A
29	If convertible, s issuer of instrument it converts into	N/A
30	Write-down feature	At the point of Non-viability
31	If write-down, write-down trigger (s)	Determined by the Banking Regulator
32	If write-down, full or partial	Determined by the Banking Regulator
33	If write-down, permanent or temporary	Determined by the Banking Regulator
34	If temporary writedown , description of the write-up mechanism	Determined by the Banking Regulator
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated in right and priority of payment, to the prior payment in full of all deposit liabilities and all other unsubordinated liabilities of the Issuer except all other present and future unsecured and subordinated obligations of the Issuer which by their terms rank equally in right and priority of payment with the Instrument
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Branches

Central Region Branches:

Branch Name	City	Phone No.	FAX No.
Sitteen	Riyadh	011 2279036	011 2396079
• Dhabab	Riyadh	011 4040365	011 4043959
Olaya	Riyadh	011 4659331	011 4659440
• Industrial Area	Riyadh	011 4465708	011 4460781
• Haeer Road	Riyadh	011 2137742	011 2134370
• Rawdah	Riyadh	011 2086024	011 2089562
• Shemeisi	Riyadh	011 4354074	011 4353946
• Al-Kharj	Al-Kharj	011 5478500	011 5478535
• Hawtat Bani Tamim	Hawtat Bani Tamim	011 5550780	011 5550784
• Al-Majma'a	Al-Majma'a	016 4323584	016 4323848
Akariah	Riyadh	011 4191000	011 4191803
• Rabwa	Riyadh	011 4910546	011 4910573
• Shaqra	Shaqra	011 6220909	011 6221758
• Pensions Fund Authority	Riyadh	011 4025100	011 4124559
• Shifa	Riyadh	011 4226900	011 4237631
• Swaidi	Riyadh	011 4258766	011 4259417
• Al-Malaz	Riyadh	011 4765400	011 4769294
• Dahrat Al-Badia	Riyadh	011 2678676	011 2675860
Second Industrial City	Riyadh	011 2652088	011 2652023
Khashm Al-A'an	Riyadh	011 2521102	011 2521106
• Raed Quarter	Riyadh	011 4880587	011 4880901
• Naseem	Riyadh	011 2328230	011 2330291
• Quwaiyayah	Quwaiyayah	011 6521206	011 6521164
• Mursalat	Riyadh	011 4555455	011 4569177
• Takhassusi	Riyadh	011 4820489	011 4822090
• Land Forces	Riyadh	011 4787154	011 4787154
• Eshpielya	Riyadh	011 2534298	011 2534283
• King Faisal Quarter	Riyadh	011 2387118	011 2387185
• Hafr Al-Batin	Hafr Al-Batin	013 7230566	013 7230765
• Rayan Quarter	Riyadh	011 4929371	011 4928409
• Ta'awon	Riyadh	011 4547783	011 4508959
• Ghornatah	Riyadh	011 2490036	011 2493514
• Aloraija'a	Riyadh	011 2478758	011 2478791
• Hay AlNafel, Riyadh	Riyadh	011 2756168	011 2108499
• Hay AlFalah, Riyadh	Riyadh	011 2109495	011 2109331
• Alnadwah	Riyadh	011 4536040	011 2291489
• Business Gate	Riyadh	011 4009621	011 4443145
King Khaled Military City	Hafr Al Batin	013 7311715	013 7311715

• Islamic Branches

Branches

North Region Branches:

Branch Name	City	Phone No.	FAX No.
• Buraida	Buraida	016 3834059	016 3834029
• Unaiza	Unaiza	016 3264129	016 3265612
• Al-Zelfi	Al-Zelfi	016 4222244	016 4222240
• Dawadm	Dawadmi	011 6430641	011 6430142
• Al-Rass	Al-Rass	016 3513445	016 3381693
• Hail	Hail	016 5435446	016 5315684
• Ar'ar	Ar'ar	014 6640412	014 6627004
• Al-Jouf	Al-Jouf	014 6268507	014 6268454
• Qurayat	Qurayat	014 6419471	014 6416473
• Afif	Afif	011 7223013	011 7223021
• Shraf	Hail	016 5333748	016 5351785
• Tabuk	Tabuk	014 4221218	014 4234643
• Tayma	Tayma	014 4630632	014 4630080
• King Khaled	Buraida	016 3693696	016 3693661
• King Saud Road	Tabuk	014 4219331	014 4236298
• Rafha	Rafha	014 6769164	014 6769166
• Al Mithnab	Buraida	016 3432277	016 3431825

Western Region Branches:

Branch Name	City	Phone No.	FAX No.
• Al Shawqiah	Makkah	012 5655330	012 5650476
• King Abdul Aziz Medical City	Jeddah	012 6240000	012 6247377
Sari	Jeddah	012 6912376	012 6916587
• Alrehab	Jeddah	012 6753693	012 6756951
Makkah Road	Jeddah	012 6873509	012 6886966
• Al Madinah Al Munawarah	Al Madinah Al Munawarah	014 8237144	014 8281653
• Yanbu	Yanbu	014 3226190	014 3225940
• Taif	Taif	012 7384122	012 7381690
• Wajh	Wajh	014 4424648	014 4424638
• Aziziyah	Makkah	012 5570838	012 5570821
• Rabigh	Rabigh	012 4220196	012 4220816
• Al-Ula	Al-Ula	014 8841265	014 8842357
• Hay Al-Salamah	Jeddah	012 2751515	012 6399743
• Prince Majid Street	Jeddah	012 6170473	012 6744533
• Makaronah	Jeddah	012 6700600	012 6724183
• Ma'abdah	Makkah	012 5735623	012 5704466
• Mahjar	Jeddah	012 6373776	012 6373783
• Misyal	Makkah	012 5413936	012 5381161
• Alandalus	Jeddah	012 6033939	012 2637040
• Shohada	Makkah	012 5450594	012 5442008
• Qurban	Al Madinah Al Munawarah	014 8279900	014 8288899
• Shohada	Taif	012 7429386	012 7431397
• Al-Safa	Jeddah	012 6798171	012 6781237
• Alrawdah	Jeddah	012 2619233	012 2619240
• Tahliyah Street	Jeddah	012 6644551	012 6631628
• Alrabea	Jeddah	012 6775956	012 2717735
• Diyafah	Makkah	012 5605712	012 5605721

• Islamic Branches

Branches

Western Region Branches (continued):

Branch Name	City	Phone No.	FAX No.
• Albawadi	Jeddah	012 6823010	012 6827514
• King Road	Jeddah	012 6912095	012 6910527
• Alanpariah	Al Madinah Al Munawarah	014 8266557	014 8212881
• Hay Albsateen	Jeddah	012 6993477	012 6994309
• Shehar	Taif	012 7405905	012 7450992
• Yanbu Industrial City	Al Madinah Al Munawarah	014 3935169	014 3933679
• Sharaya	Makkah	012 5612248	012 5614163
• Rusaifa	Makkah	012 5971154	012 5971154

Eastern Region Branches:

King Abdulaziz Hospital	Ehsa'a	013 5362669	013 5325334
• Dammam	Dammam	013 8333577	013 8347309
• Khobar	Khobar	013 8948660	013 8942752
• Qatif	Qatif	013 8548464	013 8547462
• Hofuf	Hofuf	013 5882445	013 5881667
• Jubail	Jubail	013 3628622	013 3628633
• Khazzan Street	Dammam	013 8275281	013 8272911
• Mubarraz	Mubarraz	013 5313334	013 5313016
• Ibqaiq	Ibqaiq	013 5662612	013 5663856
• Al-Omran	Ehsa'a	013 5963632	013 5960144
• Ras Tannourah	Ras Tannourah	013 6680472	013 6682843
• Thuqbah	Thuqbah	013 8952304	013 8982980
Sanayah	Jubail	013 3475933	013 3475932
• Khafji	Khafji	013 7667446	013 7667559
King Abdul Aziz Street	Khobar	013 8396000	013 8396062
• Saihat	Saihat	013 8506046	013 8503121
• First Street	Dammam	013 8309666	013 8098739
• 42 Street	Dammam	013 8487700	013 8487711
• Mazroueya	Hofuf	013 5825980	013 5823583
• Rawda	Hofuf	013 5806263	013 5803046
Second Industrial City	Dammam	013 8122225	013 8121277
• Mukhattat 71	Dammam	013 8222799	013 8186116
• Al-Rashid Centre	Khobar	013 8986015	013 8652304
• Al-Najah Street	Ehsa'a	013 5873177	013 5876317
• AL-Raka	Khobar	013 8598786	013 8591295
• AL-Muraikbat	Dammam	013 8412505	013 8420238
• Altaraf	Ehsa'a	013 5370955	013 5370956
• Mohammadiyah	Dammam	013 8178100	013 8178090
• Safwa	Safwa	013 6644773	013 6646909
• Nahria	Nahria	013 3732543	013 3730917
• Al Hazm	Khobar	013 8412084	013 8418270

• Islamic Branches

Branches

Southern Region Branches:

Branch Name	City	Phone No.	FAX No.
• Aldarb	Jizan	017 3466766	017 3465659
• Wadi Al-Dawaser	Wadi Al-Dawaser	017 7840312	017 7840430
• Abha	Abha	017 2317930	017 2318074
• Najran	Najran	017 5222880	017 5220868
• Khamis Mushait	Khamis Mushait	017 2214342	017 2214167
• Al-Baha	Al-Baha	017 7253938	017 7254147
• Baljurashi	Baljurashi	017 7223656	017 7230018
• Jizan	Jizan	017 3220520	017 3223751
• Bisha	Bisha	017 6221222	017 6222373
• Dhahran Al-Janoob	Dhahran Al-Janoob	017 2550320	017 2550516
• Sabya	Sabya	017 3265817	017 3262942
• Al-Qunfudah	Al-Qunfudah	017 7321045	017 7320932
• Al-Namas	Al-Namas	017 2821029	017 2810327
• Mahayl Aseer	Mahayl Aseer	017 2852036	017 2851493
• Commercial Market	Khamis Mushait	017 2231514	017 2208784
• Samtah	Samtah	017 3321666	017 3323909
• Al Arisa	Najran	017 5292112	017 5442588
• Military City	Khamis Mushait	017 2503834	017 2500592
• Almansak	Abha	017 2313088	017 2312971
• Mekhwaa	Al Baha	017 7283972	017 7283978
• Abu Arish	Jizan	017 3241403	017 3242804
• Shrurah	Najran	017 5322800	017 5320373

Ladies Branches/Sections:

Central Region Branches:

Branch Name	City	Phone No.	FAX No.
Ladies, Akariah	Riyadh	011 4600065	011 4600213
• Ladies, Albadiah	Riyadh	011 2679548	011 2679560
• Ladies, Mursalat	Riyadh	011 4555455	011 4555455
• Ladies, Rabwah	Riyadh	011 2832329	011 2087285
• Ladies, Takhassusi	Riyadh	011 4830248	011 4831654
• Ladies, Raed Quarter	Riyadh	011 4880587	011 4810314
• Ladies, Ryan	Riyadh	011 4929371	011 4928513
• Ladies, Rawdah	Riyadh	011 2086024	011 4921389
• Ladies, Ta'awon	Riyadh	011 4547783	011 4539038
• Ladies, Ishbiliah	Riyadh	011 2534298	011 2537603
• Ladies, Alshaifa	Riyadh	011 4238120	011 2840657
• Ladies, Al Kharj	Al Kharj	011 5478500	011 5478578
• Ladies, Al Nafal	Riyadh	011 4709785	011 4940067

North Region Branches:

• Ladies, Buraidah	Buraidah	016 3834035	016 3834059
• Ladies, Hail	Hail	016 5351894	016 5351894
• Ladies, Unaiza	Unaiza	016 3266293	016 3261637
• Ladies, Tabuk	Tabuk	014 4221218	014 4230681
• Ladies, Al Jouf	Al Jouf	014 6260674	014 6260674/137

• Islamic Branches

Branches

Ladies Branches/Sections (continued):

Western Region Branches:

Branch Name	City	Phone No.	FAX No.
• Ladies, Sari,	Jeddah	012 6912376	012 6916043
• Ladies, Hay Al-Salamah	Jeddah	012 2751515	012 6399618
• Ladies, Al Andalus	Jeddah	012 6034046	012 6034050
• Ladies, Al Madinah Al Munawarah	Al Madinah Al Munawarah	014 8222761	014 8271629
• Ladies, AL Shawqiah	Makkah Al Mukaramah	012 5655330	012 5650481
• Ladies, Alanbariah	Al Madinah Al Munawarah	014 8266557	014 8663071
• Ladies, King Road	Jeddah	012 6912095	012 2575376
• Ladies, Shehar	Taif	012 7405905	012 7422592
• Ladies, Prince Sultan	Jeddah	012 6990433	012 2155890
• Ladies, Tahliya	Jeddah	012 6604236	012 6604236
• Ladies, Alrusaifah Quarter , Makkah	Makkah Al Mukaramah	012 5307050	012 5307346
• Ladies, Alrehab Quarter	Jeddah	012 6753693	012 2875005
• Ladies, Aziziyah	Makkah Al Mukaramah	012 5576292	012 5576286
• Ladies, Sharaya	Makkah Al Mukaramah	012 5612248	012 5663047

Eastern Region Branches:

• Ladies, Mazroueya	Hofuf	013 5823198	013 5823641
• Ladies, Korneesh	AlDammam	013 8309666	013 8094718
• Ladies, Shara-42	Dammam	013 8416390	013 8416390
• Ladies, Qatif	Qatif	013 8547198	013 8546074
• Ladies, Mubarraz	Mubarraz	013 5313334	013 5311570
• Ladies, King Abdulaziz Street	AlKhobar	013 8396082	013 8396108
• Ladies, Hofuf	Hofuf	013 5833782	013 5833782
• Mokhtat 71	Dammam	013 8226570	013 8226798
• Ladies, Al-Muraikbat	Dammam	013 8413438	013 8420238
• Ladies, Safwa	Safwa	013 6646448	013 6646507
• Ladies, Saihat	Saihat	013 8506046	013 8506203
• Ladies, Al omran	Al-Omran	013 5952780	013 5952779
• Ladies, Al Huzam	Al Khobar	013 8412084	013 8354138
• Ladies, Jubail	Jubail	013 3628617	013 3628617

Southern Region Branches:

• Ladies, Baha	Baha	017 7241919	017 7241721
• Ladies, Abha	Abha	017 2311585	017 2311969
• Ladies, Jizan	Jizan	017 3405278	013 3222808

Overseas Branches:

35 Curzon Street, London	London	+44 0 20 72974600	+44 0 20 72974900

• Islamic Branches

Arab National Bank
P.O. Box 56921
Riyadh 11564
Kingdom of Saudi Arabia
Telephone: (+966) 11 402 9000
Facsimile: (+966) 11 402 7747
anb.com.sa