BANK ALJAZIRA

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017 AND AUDITORS' REPORT

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

Opinion
We have audited the consolidated financial statements of Bank Al Jazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 43.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as modified by 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 ("ISAs") that are 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 professional code of conduct and ethics, that are 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, our description of how our audit addressed the matter is set out below provided in that context:

Title of risk	Key audit matter	How our audit addressed the key audit matter
Loan impairment	At 31 December 2017, the gross financing balance was SR 40.49 billion against which an aggregate impairment allowance of SR 704.73 million was maintained. This includes both impairment against specific corporate financing and collective impairment recorded on a portfolio basis calculated	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. To form our own assessment as to whether impairment events had occurred and to assess

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

Title of risk	Key audit matter	How our audit addressed the key audit matter
	using models based on historical defaults patterns and SAMA guidelines. We considered this as a key audit matter as the Group makes complex and subjective judgements and uses assumptions to determine the impairment and the timing of recognition of such impairment. In particular the determination of impairment against financing includes: o the identification of impairment events and methods and judgments used to calculate the impairment against specific corporate financing; the use of assumptions underlying the calculation of collective impairment for financing portfolios, and the use of the models, as mentioned above to make those calculations; and o an assessment of the Group's exposure to certain industries affected by economic conditions. *Refer to the significant accounting policies note 2(m) to the financial statements, note 2(d)(ii) which contains the disclosure of significant accounting estimates relating to impairment against loans and advances, note 6 which contains the disclosure of impairment against loans and advances and note 2(d)(iii) which explains the impairment assessment methodology used by the Group.*	whether impairment had been identified and recorded in a timely manner, we performed detailed credit assessments on a sample of loans and advances (including loans that had not been identified by management as potentially impaired) Our procedures included assessing and testing the key controls and management procedures relating to: • The credit grading process, to assess if the risk grades allocated to individual exposures were appropriate. • Identification of impairment events. • Controls over valuation of collaterals held. The timely recognition of impaired loans and advances through automated and manual controls. Where impairment was individually assessed, we obtained an understanding of the latest developments with respect to the borrowers and the basis of measuring the impairment allowances and considered whether key judgments were appropriate given the borrowers' circumstances on sample basis . We also tested on a sample basis the impairment calculation performed by the management. In addition, we tested key inputs to the impairment calculation including the expected future cash flows, discount rates and valuation of collateral held, and challenged the management to consider that

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To the Shareholders of Bank Al Jazira (A Saudi Joint Stock Company)
Report on the Audit of the Consolidated Financial Statements (continued)

Title of risk	Key audit matter	How our audit addressed the key audit matter
		the valuations were up to date and consistent with the strategy being followed in respect of the particular borrower. For individually assessed loans, we also selected a sample of loans for industries adversely affected by the current economic conditions and compared them with our own understanding of the relevant industries and business environments to evaluate management's impairment assessment for such loans. For the collective impairment models used by the Group, we: • tested the completeness and accuracy of the underlying loans and advances information used in the impairment models by agreeing the details to the Group's source general ledger system • tested the historical data used in the models from underlying systems and records on sample basis; • evaluated the assumptions used by management including those used in validation of probability of default, loss given default and delinquency days analysis etc. used in the models; and • Checked the arithmetical accuracy and formulae used within the model.
Fee from banking operations	*The Group's accounting policy related to revenue measurement and recording were described in note 2(i) to the consolidated financial statements*	We performed following audit procedures in response to this risk: • We assessed the design and implementation and tested the operating effectiveness of the key controls over the

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Title of risk	Key audit matter	How our audit addressed the key audit matter
	The Group charges loan processing fee and certain other amounts upfront to the customers on corporate and retail financing and recognizes the same within fee and commission income. Such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, should be recognized as an adjustment to effective yield within special commission income. However, due to large volume of transactions with mostly insignificant fee amounts, adjustments to effective yield is made by the management based on certain thresholds and assumptions. We considered this as a key audit matter since the use of inappropriate thresholds and assumptions could result in material over / under statement of fee and commission income and special commission income.	consistent application of the assumptions and thresholds for making the adjustments to the effective yield of financing for which the commission has been received. • We assessed the reasonableness of assumptions used and thresholds established by the Group to record the fee and commission income on financing. • We obtained the management's assessment of the impact of the use of thresholds and assumptions on fees and commission income and: o traced the historical and current year data used by the management to the source documents; o assessed the management's estimation of the impact of the use of thresholds and assumptions on the recognition of fee and commission income and special commission income.
Zakat and income tax	*The Group's accounting policy related to zakat and income tax is described in note 2 (w) and the Group's zakat and tax status is disclosed in note 26 to the consolidated financial statements* As explained in note 26 to the consolidated financial statements, the Group received claims from the General Authority of Zakat and Tax (GAZT) for the years up to 2011 raising additional demands aggregating to Saudi Riyals 462.2 million. The additional demand arose, as GAZT considered certain earning assets including investments as non-deductible for the purpose of computation of Zakat base which	In our audit, we addressed the appropriateness and timely recognition of costs and provisions in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. • We reviewed the correspondences between the Group and the GAZT and the Group's Zakat and tax advisors. • We examined the matters in dispute, used our knowledge of Zakat regulations and involved our Zakat specialists to assess available evidence, adequacy of the net exposure disclosed, in light of the fact and circumstances of the Group.

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

Title of risk	Key audit matter	How our audit addressed the key audit matter
	consequently increased the Zakat liability. The interpretation by the GAZT is being challenged by the Group individually and collectively with other banks in the Kingdom of Saudi Arabia as the treatment is considered inequitable with other sectors. The matter has been escalated to the higher authorities and ultimate outcome of the matter cannot be determined at this stage. The treatment of certain items in the Zakat calculation (resulting in additional demands) is uncertain until resolved with the GAZT. Consequently, the management makes judgments about the incidence and quantum of zakat liabilities which are subject to the future outcome of assessments by the GAZT. The Group recognizes provisions when a reliable estimate can be made for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation. The Group currently considers that the outflow of resources is remote and has accordingly not provided for the additional liability and have disclosed the related contingency in note 26 to the consolidated financial statements. We considered this as a key audit matter as this matter is subjective and the amounts claimed are material.	• We held meetings with those charged with governance and executive management of the Group to obtain update on the Zakat matter and the results of their interactions with the relevant authorities and SAMA. • We also assessed the appropriateness of the disclosures, in light of the facts and circumstances of the Group.

Independent Auditors' Report
To the Shareholders of Bank Al Jazira (A Saudi Joint Stock Company)
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Title of risk	Key audit matter	How our audit addressed the key audit matter
Hedge accounting	*The Group's accounting policy related to hedge accounting described in note 2 (f), the carrying amount of derivative designated for hedge accounting in note 10 and movement in hedging reserves in note 17 to the consolidated financial statements* The Group's hedge its exposure to cash flow risk arising from variability of profit rates associated with the forecast payment of profit on Bank's funding activities. The hedging is achieved by entering into derivative (special commission rate swaps) contracts with independent third parties. Under IFRSs in order to qualify for hedge accounting, among other criteria, the hedging transactions should be expected to be highly effective, i.e. the changes in cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. Hedge effectiveness test was significant to the audit because of strict IFRSs requirement to qualify for the hedge accounting and volume and amounts of hedged items and instruments. In addition, management's assessment process is complex and highly judgmental and is based on assumptions, specifically, maturity of the hedged item and instrument estimated future profit rates and fair valuation of the derivatives, which are affected by expected future market or	Our audit procedures in response to the risk associated with the application of hedge accounting included a detailed analysis of the Group's framework for financial risk management and hedge accounting. We assessed and tested management's controls over the establishment of hedging relationships, related documentation and monitoring, including performance of prospective and retrospective effectiveness testing. Moreover, for a selected sample of hedges, we also have performed the following: • Assessing the appropriateness of the assumptions used by the management when performing hedge effectiveness test; • While considering retrospective and prospective testing, checked the historic results with regard to existing hedging relationships, and evaluated forecasted analysis based on management's best estimates keeping in view future plans and budget to date. • Assessing the appropriateness of the fair values assigned by referring to third-party data as applicable. • Assessed how effectively the changes in cash flows of the hedging instrument offsets corresponding changes in the hedged item and whether the hedge remains effective in line with the requirements of the relvant accounting standards. • Involved our hedge accounting specialists to independently reperform the hedge effectiveness test.

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<table>
<tr><th>Title of risk</th><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td></td><td>economic conditions globally and in the Kingdom of Saudi Arabia.</td><td>Further, we assessed whether the financial statement disclosures appropriately reflect the Group's hedge accounting policy, as well as, it's on and off balance sheet exposures to derivatives designated under hedging relationships.</td></tr>
<tr><td>Valuation of derivatives financial instruments carried at fair value</td><td>Refer to the significant accounting policies note 2 to the Group's consolidated financial statements, note 2(f) which explains the derivative positions and note 2d (iv) which explains the valuation methodology used by the Group.

As disclosed in note 10, the Group has entered into special commission rate swaps, cross currency commission rate swaps, structure deposits, foreign exchange options (Wa'ad Fx), and Shariah compliant derivatives. Majority of these derivative contracts are over the counter (OTC) derivatives and hence, the valuation of these contracts is subjective as the valuation are ascertained through use of various techniques, which are inherently complex and often entail the exercise of significant judgment along with the use of sensitive assumptions. This in turn gives rise to an estimation uncertainty which is particularly high for those derivatives where related valuation techniques incorporate significant unobservable inputs.

We considered this as a key audit matter as there is complexity and subjectivity involved in determining the valuation in general and structured derivatives in</td><td>We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuation of derivatives including the testing of relevant automated controls covering the fair valuation framework; including:

• Obtaining an understanding of the management processes for identification, and mitigation of valuation risk,
• Conducting an evaluation of applied judgments and significant inputs used in the valuation,
• testing internal controls around reliability of the source and appropriateness of key assumptions, and
• testing the controls over approval of new models or changes to existing valuation models.

We carried out an independent valuation assessment for a sample of derivatives, and in respect of valuation adjustments relating to credit and funding; we assessed the valuation assumptions used, including consideration of alternative valuation methodologies used by other market participants.</td></tr>
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Title of risk	Key audit matter	How our audit addressed the key audit matter
	particular, where complex modelling techniques are being used and the valuation inputs in certain cases are not market observable. Also, the impact of credit and debit value adjustments could be material to the consolidated financial statements.	

Other Information included in the Group's 2017 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Group'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 Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as modified by SAMA for the accounting of zakat and income tax, the 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 management 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, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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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 ISAs that are 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 ISAs that are 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 management.

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

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

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

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Independent Auditors' Report
To the Shareholders of Bank Al Jazira (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)
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements
Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Bank is not in compliance with the 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.

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February 07, 2018
21 Jumada I 1439H

Bank AlJazira
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	Notes	2017 SR'000	2016 SR'000
ASSETS			
Cash and balances with SAMA	3	**5,975,067**	5,196,815
Due from banks and other financial institutions	4	**369,249**	1,337,778
Investments	5	**20,360,547**	16,292,744
Positive fair value of derivatives	10	**104,021**	128,718
Loans and advances, net	6	**39,789,846**	42,098,695
Investment in an associate	7	**134,071**	129,977
Other real estate	6(e)	**445,046**	62,012
Property and equipment, net	8	**784,526**	701,659
Other assets	9	**325,082**	370,970
Total assets		**68,287,455**	66,319,368
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	**6,172,545**	3,545,112
Customers' deposits	12	**50,278,366**	51,602,354
Negative fair value of derivatives	10	**220,987**	333,718
Subordinated Sukuk	13	**2,006,382**	2,006,471
Other liabilities	14	**780,336**	728,187
Total liabilities		**59,458,616**	58,215,842
SHAREHOLDERS' EQUITY			
Share capital	15	**5,200,000**	4,000,000
Statutory reserve	16	**2,159,483**	1,945,105
General reserve	16	**68,000**	68,000
Other reserves	17	**(125,185)**	(211,790)
Retained earnings		**1,526,541**	2,302,211
Total shareholders' equity		**8,828,839**	8,103,526
Total liabilities and shareholders' equity		**68,287,455**	66,319,368

Tarek Al-Kasabi	Nabil Al-Hoshan	Shahid Amin
Chairman	CEO and Managing Director	Chief Financial Officer

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

	Notes	2017 SR'000	2016 SR'000
Special commission income	19	**2,756,927**	2,655,823
Special commission expense	19	**(939,314)**	(1,089,341)
Net special commission income		**1,817,613**	1,566,482
Fees and commission income, net	20	**600,889**	586,359
Exchange income, net		**149,781**	103,157
Trading income, net	21	**8,353**	4,832
Dividend income	22	**190**	32
Gain on sale of other real estate	23	**630**	210,518
Other operating income, net	24	**2,282**	1,135
Total operating income		**2,579,738**	2,472,515
Salaries and employee-related expenses	36	**856,884**	894,313
Rent and premises-related expenses		**140,013**	136,670
Depreciation and amortisation	8	**86,526**	81,108
Other general and administrative expenses		**380,411**	370,508
Impairment charge for credit losses, net	6(c)	**267,149**	125,214
Other operating expenses, net		**1,922**	1,044
Total operating expenses		**1,732,905**	1,608,857
Operating income		**846,833**	863,658
Share in net income of an associate	7	**10,681**	8,284
Net income for the year		**857,514**	871,942
Basic and diluted earnings per share (expressed in SR per share)	25	**1.65**	1.68

Tarek Al-Kasabi	Nabil Al-Hoshan	Shahid Amin
Chairman	CEO and Managing Director	Chief Financial Officer

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Bank AlJazira
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

	Notes	2017 SR'000	2016 SR'000
Net income for the year		857,514	871,942
Other comprehensive income:			
Items to be reclassified to consolidated statement of income in subsequent periods:			
Cash flow hedges:			
Fair value gains / (losses) on cash flow hedges	17	87,609	(36,217)
Net amount transferred to consolidated statement of income	17	185	627
Items not to be reclassified to consolidated statement of income in subsequent periods:			
Net changes in fair value of investments classified as at fair value through other comprehensive income (FVTOCI)	17	3,771	104
Actuarial losses on defined benefit obligation	17	(1,931)	-
Total other comprehensive income / (loss) for the year		89,634	(35,486)
Total comprehensive income for the year		947,148	836,456

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

2017	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Total SR'000
Balance at January 1, 2017		4,000,000	1,945,105	68,000	(211,790)	2,302,211	8,103,526
Net income for the year		-	-	-	-	857,514	857,514
Other comprehensive income for the year		-	-	-	89,634	-	89,634
Total comprehensive income for the year		-	-	-	89,634	857,514	947,148
Zakat and income tax	26	-	-	-	-	(27,117)	(27,117)
Share in Zakat of an associate	7	-	-	-	-	(462)	(462)
Issue of bonus shares	15	1,200,000	-	-	-	(1,200,000)	-
Dividend paid	26	-	-	-	-	(191,227)	(191,227)
Transfer to statutory reserve	16	-	214,378	-	-	(214,378)	-
Other	17	-	-	-	(3,029)	-	(3,029)
Balance at December 31, 2017		5,200,000	2,159,483	68,000	(125,185)	1,526,541	8,828,839

2016	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Total SR'000
Balance at January 1, 2016		4,000,000	1,727,119	68,000	(172,656)	1,791,006	7,413,469
Net income for the year		-	-	-	-	871,942	871,942
Other comprehensive loss for the year		-	-	-	(35,486)	-	(35,486)
Total comprehensive (loss) / income for the year		-	-	-	(35,486)	871,942	836,456
Zakat and income tax	26	-	-	-	-	(142,235)	(142,235)
Share in Zakat of an associate	7	-	-	-	-	(516)	(516)
Transfer to statutory reserve	16	-	217,986	-	-	(217,986)	-
Other	17	-	-	-	(3,648)	-	(3,648)
Balance at December 31, 2016		4,000,000	1,945,105	68,000	(211,790)	2,302,211	8,103,526

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

Bank AlJazira
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Notes	2017 SR'000	2016 SR'000
OPERATING ACTIVITIES			
Net income for the year		857,514	871,942
Adjustments to reconcile net income to net cash from operating activities:			
Trading income, net	21	(8,353)	(4,832)
Depreciation and amortisation	8	86,526	81,108
Dividend income	22	(190)	(32)
Loss on sale / write off of property and equipment		81	1,424
Impairment charge for credit losses, net	6 (c)	267,149	125,214
Share in net income of an associate	7	(10,681)	(8,284)
		1,192,046	1,066,540
Net decrease / (increase) in operating assets:			
Statutory deposit with SAMA		39,329	12,161
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(167,049)	768,750
Investments held at Fair Value Through Income Statement		39,494	273,332
Positive fair value of derivatives		24,697	68,793
Loans and advances		2,041,700	(50,062)
Other real estate, net		(383,034)	(17,886)
Other assets		45,888	(117,610)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		2,627,433	(512,199)
Customers' deposits		(1,323,988)	1,837,161
Negative fair value of derivatives		(112,731)	(38,235)
Other liabilities		138,221	30,727
Net cash from operating activities		4,162,006	3,321,472
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		740,075	8,109
Acquisition of non-trading investments		(4,839,019)	(5,296,752)
Dividend received from an associate	7	6,125	6,125
Acquisition of property and equipment	8	(169,674)	(105,203)
Proceeds from sale of property and equipment		200	101
Dividends received	22	190	32
Net cash used in investing activities		(4,262,103)	(5,387,588)
FINANCING ACTIVITIES			
Proceeds from issuance of Subordinated Sukuk		-	2,006,471
Payment of Subordinated Sukuk and Special commission expense		(89)	(1,006,936)
Dividends paid	26	(190,034)	(25)
Zakat and tax paid		(27,777)	(50,403)
Net cash (used in) / from financing activities		(217,900)	949,107
Net decrease in cash and cash equivalents		(317,997)	(1,117,009)
Cash and cash equivalents at the beginning of the year		3,796,821	4,913,830
Cash and cash equivalents at the end of the year	27	3,478,824	3,796,821
Special commission income received during the year		2,497,366	2,574,031
Special commission expense paid during the year		679,560	1,227,513
Supplemental non-cash information			
Net changes in fair value and transfers to the consolidated statement of income		87,794	(35,590)

Tarek Al-Kasabi Chairman	Nabil Al-Hoshan CEO and Managing Director	Shahid Amin Chief Financial Officer

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

1. GENERAL

These financial statements comprise the financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The Bank operates through its 79 branches (2016: 80 branches) and 50 Fawri Remittance Centres (2016: 41 Fawri Remittance Centres) in the Kingdom of Saudi Arabia and employed 2,256 staff as of 31 December 2017 (2016: 2,219 staff). The Bank's Head Office is located at the following address:

Bank AlJazira
Nahda District, Malik Road, P.O. Box 6277
Jeddah 21442
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of Shari'ah compliant (non-interest based) banking products and services comprising of Murabaha, Istisna'a, Ijarah, Tawaraq, Musharaka, Wa'ad Fx and Sukuk which are approved and supervised by an independent Shari'ah Board established by the Bank. The Bank's shares are listed on Tadawul in the Kingdom of Saudi Arabia.

The details of the Bank's subsidiaries and associate are as follows:

	Country of incorporation	Nature of business	**Ownership (direct and indirect) 31 December 2017**	Ownership (direct and indirect) 31 December 2016
Subsidiaries				
AlJazira Capital Company	Kingdom of Saudi Arabia	Brokerage, margin financing and asset management	**100%**	100%
Aman Development and Real Estate Investment Company	Kingdom of Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	**100%**	100%
Aman Insurance Agency Company	Kingdom of Saudi Arabia	Acting as an agent for bancassurance activities on behalf of the Bank. The company has not yet commenced commercial operations	**100%**	-
Al Jazira Securities Limited	Cayman Islands	Carry out Shari'ah compliant derivative and capital market transactions	**100%**	-
Associate				
AlJazira Takaful Ta'awuni Company	Kingdom of Saudi Arabia	Fully Shari'ah compliant protection and saving products	**35%**	35%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

i. Statement of compliance

The consolidated financial statements have been prepared;

- in accordance with 'International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and 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.

- 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.

This change in framework did not have any material impact on the consolidated financial statements of the Group as of December 31 and for the year then ended.

Refer note 2w for the accounting policy of zakat and income tax and note 2c(i) for the impact of change in the accounting policy resulting from the SAMA Circular.

ii. Basis of measurement and presentation

The consolidated financial statements are prepared on the historical cost convention except for the measurement at fair value of derivatives, financial instruments held as Fair Value through Statement of Income (FVTIS) and Fair Value through Other Comprehensive Income (FVTOCI). In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged.

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

iii. Functional and presentation of currency

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

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. The functional currency of all the subsidiaries of the Bank is the Saudi Arabian Riyal (SR) except for Al Jazira Securities Limited whose functional currency is US Dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

i. Subsidiaries

Subsidiaries are entities which are controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. To meet the definition of control, all the following three criteria must be met:

i. the Group has power over an entity;
ii. the Group has exposure, or rights, to variable returns from its involvement with the entity; and
iii. the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

The Group re-assesses whether or not it controls an investee in case facts and circumstances indicate that there are changes to one or more of the criteria of control.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

ii. Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the Bank’s equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Changes in the Bank’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation (continued)

iv. Investment in an associate

Associates are entities over which the Group exercises significant influence. Investments in associates are initially recognized 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 value or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains/ (losses) based on the latest available financial information) less impairment, if any.

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

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of the investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before allowance for impairment) or the recoverable amount.

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

c) 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 policies as mentioned below and amendments to existing standards which has had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods:

i. Zakat and income tax

As stated in note 2(a)(i), the Group has amended its accounting policy relating to Zakat and income tax and has started to accrue Zakat and income tax on a quarterly basis and charging it 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. If no dividend is distributed, the amount was charged to retained earnings as an appropriation of net income and corresponding liability is accounted for as payable to the General Authority for Zakat and Tax (GAZT).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Changes in accounting policies (Continued)

i. Zakat and income tax (Continued)

The change in the accounting policy has been applied retrospectively in accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). However, for the purpose of the annual consolidated financial statements, the adoption of SAMA's new guidance has not resulted in any changes of accounting treatment or amounts reported in the annual consolidated financial statements for the current or prior years.

ii. Trade date accounting

The Group has changed its accounting policy relating to initial recognition and derecognition of all regular-way purchases and sales of financial assets and has started to recognise and derecognise these on trade date. Previously, all regular way purchases and sales of financial assets were recognised and derecognised on the settlement date, i.e. the date on which the asset is delivered to the counterparty. Changes in fair value between the trade date and the settlement date were accounted for in the same way as acquired assets.

The change in the accounting policy has been applied retrospectively in accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). The change in the accounting policy did not have any impact on annual consolidated financial statements as no transaction was outstanding at the end and start of the comparative period with different trade and settlement dates.

iii. Amendments to existing standards

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

These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The adoption of these standards have no material impact on the consolidated financial statements.

The Group has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance by the banks for the accounting years beginning on or after January 1, 2018 (please refer note 41).

d) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS and the SAMA guidance on accounting for zakat and tax 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 judgment in the process of applying the Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and only future periods affected. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

i. Business model for managing financial assets (note 2(d)(i))
ii. Contractual cashflows of financial assets (note 2(d)(ii))
iii. Impairment of financial assets (note 2(d)(iii))
iv. Fair value measurement (note 2(d)(iv))
v. Impairment of non-financial assets (note 2(d)(v))
vi. Classification of investments (note 2(l))
vii. Determination of control over investment funds (note 2(d)(vi))
viii. Depreciation and amortisation (note 2(q))
ix. Provisions for liabilities and charges (note 2(d)(vii))
x. Going concern (note 2(d)(viii))
xi. Employee benefit obligation (note 2(d)(ix))

i. Business model for managing financial assets

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities, such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way the business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual special commission income;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

ii. Contractual cash flows of financial assets

The Group exercises judgement in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and commission income on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Group considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iii. Impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

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

The Group considers evidence of impairment for loans and advances and investment securities measured at amortised cost at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective yield rate. Impairment losses are recognised in the consolidated statement of income and reflected in impairment for credit losses. Commission on impaired assets continues to be recognised until its maturity for all consumer loans.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cashflows. The methodology and assumptions used for estimating both the amount and timing of future cashflows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated statement of income.

Loans and advances are written off when they are determined to be uncollectible. This determination is reached after considering information such as the number of days for which the financing has been past due, significant changes in the borrower financial position such that the borrower can no longer settle its obligations, or to the extent that proceeds from collateral held are insufficient to cover the obligations.

The carrying amount of the asset is adjusted through the use of an allowance for impairment account and the amount of the adjustment is included in the consolidated statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iii. Impairment of financial assets (continued)

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

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

iv. Fair value of financial instruments

The Group measures the financial instruments, such as derivatives, financial instruments held at fair value through statement of income (FVTIS) and fair value through other comprehensive income (FVTOCI), at their fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 5 (d) and note 34 (b).

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 to by the Group.

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

iv. Fair value of financial instruments (continued)

Financial instruments for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy (refer note 34).

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

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

v. Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

vi. Determination of control over investment funds

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

vii. Provisions for liabilities and charges

The Group receives legal claims in the ordinary course of business. Management makes judgments in assigning the risk that might exists in such claims. It also sets appropriate provisions against probable losses. The claims are recorded or disclosed, as appropriate, in the consolidated financial statements based on the best estimate of the amount required to settle the claim.

viii. Going concern

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

ix. Employee Benefit Obligation

The Group operates an end of service benefit plan (the plan) for its employees based on the prevailing Saudi Labour laws. The liability for the plan is estimated in accordance with International Accounting Standard 19 – Employee Benefits, by a qualified actuary based on various assumptions. The key assumptions used to estimate the plan liability at the year end, are disclosed in note 28.

e) Trade date accounting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting

Derivative financial instruments including forward rate agreements, special commission rate swaps and commission rate options (both written and purchased) are initially measured at their fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position. The transaction costs associated with these agreements are recognised in the consolidated statement of income.

All derivatives are carried at their fair value as assets, where the fair value is positive, and as liabilities, where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

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

i. Derivatives held for trading

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

ii. Embedded derivative

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at fair value;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

iii. Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rates and foreign currencies. In order to manage risks, the Group applies hedge accounting for transactions that meet specific criteria.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

iii. Hedge accounting (continued)

For the purpose of hedge accounting, hedges are classified into following two categories:

(a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

(b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At 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 on-going basis.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the consolidated statement of income, changes in fair value of the derivative are recognised immediately in the consolidated statement of income together with change in the fair value of the hedged item attributable to the hedged risk under non-trading gains / losses in the consolidated statement of income.

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

Cash flow hedges

For designated and qualifying cash flow hedging, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly as “other reserve” in consolidated statement of comprehensive income and the ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged item affects the consolidated statement of income. However, if the Group expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassify into the statement of income as a reclassification adjustment the amount that is not to be recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Derivative financial instruments and hedge accounting (continued)

iii. Hedge accounting (continued)

Cash flow hedges (continued)

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

In accordance with risk management policies, the Group manages its cash flow profit rate risk on an entity-wide basis as well as variability of special commission rate on Wakala floating rates notes. The Group designate profit rate swaps as hedging instrument against the cash flow risk resulting from a change in profit rates that occurs up to the repricing of the swap.

The Group first assesses forecasting of the “net cash flow” exposures from existing yield bearing assets and liabilities, including the rollover of short-term assets and short-term liabilities. This is mainly achieved through yield sensitivity gap. During forecasting of the net cash flows, the Group take into account historic information and market trends for withdrawal of deposits, yield rates and refinancing’s and repricing’s. The net cash flows are then compared with existing hedging positions to provide a basis for considering whether adjustment of the hedging relationship should be made.

The notional amounts of the profit rate swaps that are outstanding at the analysis date are included in each of the periods in which the profit rate swaps are outstanding to assess the impact of the outstanding profit rate swaps on the identified cash flow exposures. While a portion of the forecast transaction is no longer being hedged, the profit rate swap is not de-designated, and it continues to be a hedging instrument for the remaining transactions in the series that have not occurred. However, if the next forecast transaction does not occur until specified period, the remaining after the repricing of the profit rate swap, is not hedged.

The Group designates the hedging relationship in a manner that also consider the extent to which ineffectiveness is expected to be recognised for accounting purposes. The hedged exposure percentage is computed as the ratio of the notional amount of the receive-fixed, pay-variable swaps that are outstanding divided by the gross exposure. The effective portion of the gain or loss on the hedging instrument is initially recognized directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in “trading income, net”. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedge transactions affect the consolidated statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Foreign currencies

Transactions denominated in foreign currencies are translated into Saudi Arabian Riyals (SR) at exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year end, denominated in foreign currencies, are translated into SR at the spot exchange rates prevailing at the reporting date.

Foreign exchange gains or losses from settlement of transactions and translation of year end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in other comprehensive income depending on the underlying financial asset.

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

h) Offsetting financial instruments

Financial assets and financial liabilities are offset and reported net in the consolidated statement of financial position when there is a legally currently enforceable right to set off the recognised 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 set off in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

i) Revenue /expense recognition

Special commission income and expenses

Special commission income and expenses arising on financial assets and financial liabilities, except for those classified as FVTIS and FVTOCI, including the fees which are considered an integral part of the effective yield of a financial instrument, are recognised in the consolidated statement of income using the effective yield basis and include premiums amortised and discounts accreted during the year.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Revenue /expense recognition (continued)

Special commission income and expenses (continued)

Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, commission income continues to be recognised on the effective yield basis, on the asset's carrying value net of impairment allowances. The calculation of the effective yield rate takes into account all contractual terms of the financial instrument and includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective yield rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap to the extent the hedge is considered to be effective.

Exchange income / (loss)

Exchange income / (loss) is recognised when earned / incurred. Refer note 2(g).

Fees and commissions

Fees and commissions are recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred and, together with the related direct cost, are recognised if material, as an adjustment to the effective yield rate on the loan. Portfolio and other management advisory and service fees, including fees for managing investment funds, are recognised based on the applicable service contracts, usually on a time-proportionate basis i.e. as and when the services are rendered. Performance linked fees or fee components are recognised when the performance criteria are fulfilled. Fees from Fawri operations are mainly remittance fees, which recognised at the time which transaction is executed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Dividend income

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

j) Trading income / (loss), net

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risk and rewards of the ownership and are measured in accordance with related accounting policies for investments designated as FVTIS, FVTOCI and amortised cost, whichever is applicable. The transactions are treated as collateralised borrowings and counterparty liabilities and amounts received under these agreements are included in "SAMA cash borrowing" under "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 is accrued over the life of the repo agreement using the effective yield rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA", "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 is accrued over the life of the reverse repo agreement using the effective yield rate.

l) Investments

A financial asset is measured initially at fair value plus, for an item not through statement of income, transaction costs that are directly attributable to acquisition or issue. IFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. At inception, the financial asset is classified at amortized cost or fair value.

i. Investments in debt instruments classified as amortised cost:

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and commission on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this reflects best the way the business is managed and information is provided to management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments (continued)

i. Investments in debt instruments classified as amortised cost (continued)

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether the management's strategy focuses on earning contractual special commission income;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

Income is recognised on an effective yield basis for debt instruments measured subsequently at amortised cost. Commission income is recognised in the consolidated statement of income.

Debt instruments that are measured at amortised cost are subject to impairment.

ii. Financial assets classified as Fair Value Through Income Statement (FVTIS)

Investments in equity instruments are classified as FVTIS, unless the Group designates an investment that is not held for trading as fair value through other comprehensive income (FVTOCI) on initial recognition.

A financial asset or financial liability is held for trading if:

(a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Debt instruments that do not meet the amortised cost criteria are measured as FVTIS. In addition, debt instruments that meet the amortised cost criteria but are designated as FVTIS are measured at fair value through income statement.

A debt instrument may be designated as FVTIS upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTIS when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as FVTIS on initial recognition is irrevocable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments (continued)

ii. Financial assets classified as Fair Value Through Income Statement (FVTIS) (continued)

Financial assets at FVTIS are measured at fair value at the end of each reporting period, with any gains or losses arising on measurement recognised in the consolidated statement of income.

Special commission income on debt instruments as FVTIS is included in the consolidated statement of income.

Dividend income on investments in equity instruments as FVTIS is recognised in the consolidated statement of income when the Group's right to receive the dividend is established and is included in the consolidated statement of income.

iii. Investment in equity instruments designated as Fair Value Through Other Comprehensive Income (FVTOCI)

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI. Designation as FVTOCI is not permitted if the equity investment is held for trading.

Investments in equity instruments as FVTOCI are initially measured at fair value plus transaction costs.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves. Gains and losses on such equity instruments are never reclassified to the consolidated statement of income and no impairment is recognised in the consolidated statement of income. Investments in unquoted equity instruments are measured at fair value. The cumulative gains or losses will not be reclassified to the consolidated statement of income on disposal of the investments.

On initial recognition the Group designates all investments in equity instruments that are not FVTIS as FVTOCI.

Dividends on these investments in equity instruments are recognised in the consolidated statement of income when the Group's right to receive the dividend is established, unless the dividend clearly represent a recovery of part of the cost of the investment.

Fair value reserve includes the cumulative net change in fair value of equity investment measured at FVTOCI. When such equity instruments are derecognised, the related cumulative amount in the fair value reserve is transferred to retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and advances are recognised when cash is advanced to borrowers. They are derecognized when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. Loans and advances are initially measured at fair value of the consideration given.

Following initial recognition, loans and advances for which fair value has not been hedged are stated at cost less any amount written off and specific and collective allowances for impairment.

All loans and advances are carried at amortised cost calculated using the effective yield rate.

For presentation purposes, impairment allowance for credit losses is deducted from loans and advances.

n) Due from banks and other financial institutions

Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, due from banks and other financial institutions are stated at cost less any amounts written-off and specific allowance for impairment, if any, and a collective allowance for counterparty risk.

o) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to the cash flows from the financial asset expires.

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

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

On derecognition of a financial asset, measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in consolidated statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Derecognition of financial instruments (continued)

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in other comprehensive income is not reclassified to consolidated statement of income, but is transferred to retained earnings.

p) Other real estate and repossessed assets

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

Subsequent to the initial recognition, such real estate is revalued on a periodic basis. Any unrealised losses on revaluation, realized losses or gains on disposal and rental income are recognised in the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the consolidated statement of income. Gains or losses on disposal are recognised in the consolidated statement of income.

q) Property and equipment

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

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	4 to10 years
Computer softwares and automation projects	4 to 10 years

The assets’ residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in consolidated statement of income.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Financial liabilities

All money market deposits, customers' deposits and debt securities issued are initially recognized at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

s) Financial guarantees and loan commitments

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees net of any cash margin.

Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in impairment charge for credit losses. The premium received is recognised in the consolidated statement of income on a straight line basis over the life of the guarantee.

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

The specific and collective allowance for letters of credit, guarantees and acceptances are included and presented in other liabilities.

t) Provisions

Provisions (other than provisions for credit losses and investments) are recognised when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

u) Accounting for leases

i. Where the Group is the lessee

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

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognised as an expense in the period in which the termination takes place.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Accounting for leases (continued)

ii. Where the Group is the lessor

When assets are transferred under a finance lease, including assets under Islamic lease arrangement (Ijarah) the present value of the lease payments is recognised as a receivable and disclosed under "loans and advances, net". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets subject to operating leases are included in the consolidated financial statements as property and equipment. Income from operating lease is recognised on a straight-line (or appropriate) basis over the period of the lease.

v) Cash and cash equivalents

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

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 tax is computed on the foreign shareholder's 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. If no dividend is distributed, the amount was charged to retained earnings as an appropriation of net income and corresponding liability is accounted for as payable to the General Authority for Zakat and Tax (GAZT).

x) Fiduciary assets

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.

The financial statements of investment management mutual funds are not included in these consolidated financial statements of the Group. Transactions with the Funds' are disclosed under related party transactions. The Group's share of these Funds', if any, are included in FVTIS investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Employees' benefits

Defined unfunded benefit plan

End-of-service benefits as required by Saudi Arabia Labour Law, are required to be provided based on the employees' length of service.

The Group's net obligations in respect of defined unfunded benefit plan ("the obligations") is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs. The discount rate used is the market yield on government bonds at the reporting date that have maturity dates approximating the terms of the Group's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Group's present value of the obligation.

The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognized and any unrecognized actuarial gains/losses. The liability is included in 'other liabilities' in the consolidated statement of financial position.

Short term benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

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

z) Shari'ah compliant (non-interest based) banking products

The Bank offers its customers Shari'ah compliant (non-interest based) banking products, which are approved by its Shari'ah Board, as follows:

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

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

Musharaka is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property resulting in the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

z) Shari'ah compliant (non-interest based) banking products (continued)

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

Wa'ad Fx is an agreement whereby a client in consideration for the payment of a fee agrees to enter into one or series of trades. One party (promisor) gives a commitment as unilateral undertaking to a second party (promisee).

Istisna'a is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

Sukuk are Islamic instruments which represents an individual proportionate ownership interest in an asset and corresponding right to the income streams generated by the asset.

All Shari'ah compliant (non-interest based) products are accounted for using International Financial Reporting Standards and in conformity with the accounting policies described in these financial statements.

3. CASH AND BALANCES WITH SAMA

	2017 **SR'000**	2016 SR'000
Cash in hand	**1,183,711**	927,043
Cash with SAMA	**2,092,913**	1,532,000
Cash and cash equivalents (note 27)	**3,276,624**	2,459,043
Statutory deposit with SAMA	**2,698,443**	2,737,772
Total	**5,975,067**	5,196,815

In accordance with article 7 of the Banking Control Law and regulations issued by the Saudi Arabian Monetary Agency (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, time and other deposits, calculated at the end of each Gregorian month (see note 33). The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents.

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017 SR'000	2016 SR'000
Current accounts	**202,200**	224,748
Money market placements	**167,049**	1,113,030
Total	**369,249**	1,337,778

The money market placements represent funds placed on Shari'ah compliant (non-interest based) murabaha basis.

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 SR'000	2016 SR'000
Investment grade	**334,486**	1,319,695
Non-investment grade	**8,012**	5,499
Unrated	**26,751**	12,584
Total	**369,249**	1,337,778

5. INVESTMENTS

a) As of December 31, 2017 investments are classified as follows:

	2017 SR'000		
	Domestic	**International**	**Total**
i) Designated as FVTIS			
Mutual funds	**28,623**	**32,247**	**60,870**
Equities	**545**	**-**	**545**
	29,168	**32,247**	**61,415**
ii) FVTOCI			
Equities	**4,143**	**12,245**	**16,388**

5. INVESTMENTS (continued)

iii) Amortised cost

	2017 SR'000		
	Domestic	**International**	**Total**
Sukuk investments	**15,374,113**	**-**	**15,374,113**
Wakala floating rate notes	**4,908,631**	**-**	**4,908,631**
	20,282,744	**-**	**20,282,744**
Total	**20,316,055**	**44,492**	**20,360,547**

b) As of December 31, 2016 investments were classified as follows:

i) Designated as FVTIS

	2016 SR'000		
	Domestic	International	Total
Mutual funds	61,881	30,052	91,933
Equities	623	-	623
	62,504	30,052	92,556
ii) FVTOCI			
Equities	3,250	8,474	11,724
iii) Amortised cost			
Sukuk investments	11,277,741	-	11,277,741
Wakala floating rate notes	4,910,723	-	4,910,723
	16,188,464	-	16,188,464
Total	16,254,218	38,526	16,292,744

5. INVESTMENTS (continued)

c) The composition of investments as quoted and unquoted is as follows:

	2017			2016		
	Quoted SR'000	**Unquoted SR'000**	**Total SR'000**	Quoted SR'000	Unquoted SR'000	Total SR'000
Sukuk investments	**2,935,255**	**12,438,858**	**15,374,113**	3,251,297	8,026,444	11,277,741
Wakala floating rate notes	**-**	**4,908,631**	**4,908,631**	-	4,910,723	4,910,723
Equities	**12,602**	**4,331**	**16,933**	8,909	3,438	12,347
Mutual funds	**60,870**	**-**	**60,870**	91,933	-	91,933
Total investments	**3,008,727**	**17,351,820**	**20,360,547**	3,352,139	12,940,605	16,292,744

d) The analysis of unrealized gains and losses and the fair values of investments carried at amortised cost are as follows:

	2017				2016			
	Carrying value SR'000	**Gross unrealized gains SR'000**	**Gross unrealized losses SR'000**	**Fair value SR'000**	Carrying value SR'000	Gross unrealized gains SR'000	Gross unrealized losses SR'000	Fair value SR'000
Sukuk investments	**15,374,113**	**23,642**	**(9,559)**	**15,388,196**	11,277,741	30,096	(11,481)	11,296,356
Wakala Floating rate notes	**4,908,631**	**-**	**-**	**4,908,631**	4,910,723	-	-	4,910,723
Total	**20,282,744**	**23,642**	**(9,559)**	**20,296,827**	16,188,464	30,096	(11,481)	16,207,079

e) The analysis of the Group's investments by nature of counterparty is as follows:

	2017 SR'000	2016 SR'000
Government and quasi Government	**17,849,936**	13,126,017
Corporate	**745,448**	926,249
Banks and other financial institutions	**1,765,163**	2,240,478
Total	**20,360,547**	16,292,744

The fair values of investments carried at amortised cost are not significantly different from their carrying values. The certain of the Sukuk investments (disclosed in note 5d) are quoted in different markets but not actively traded.

Equities reported under FVTOCI includes unquoted shares of SR 4.33 million (2016: SR 3.44 million) that are carried at cost, as their fair value cannot be reliably measured.

Mutual funds domiciled in the Kingdom of Saudi Arabia (disclosed in note 5a) with underlying investments outside the Kingdom of Saudi Arabia are classified under the "International" category.

6. LOANS AND ADVANCES, NET

Consumer includes loans and advances related to individuals for personal needs and credit card balances.

Commercial include loans and advances to corporate, medium and small sized business and institutional customers.

Others include loans and advances to staff.

a) Loans and advances, net comprised the following:

	SR'000			
2017	**Consumer**	**Commercial**	**Others**	**Total**
Performing loans and advances	**18,016,579**	**21,550,527**	**423,106**	**39,990,212**
Non-performing loans and advances	**75,721**	**428,642**	**-**	**504,363**
Total loans and advances	**18,092,300**	**21,979,169**	**423,106**	**40,494,575**
Impairment allowance for credit losses:				
Specific allowance	**(33,093)**	**(261,250)**	**-**	**(294,343)**
Collective allowance	**(193,361)**	**(217,025)**	**-**	**(410,386)**
Total impairment allowance for credit losses	**(226,454)**	**(478,275)**	**-**	**(704,729)**
Loans and advances, net	**17,865,846**	**21,500,894**	**423,106**	**39,789,846**

	SR'000			
2016	Consumer	Commercial	Others	Total
Performing loans and advances	17,650,960	24,329,749	390,555	42,371,264
Non-performing loans and advances	61,021	422,978	-	483,999
Total loans and advances	17,711,981	24,752,727	390,555	42,855,263
Impairment allowance for credit losses:				
Specific allowance	(23,987)	(262,282)	-	(286,269)
Collective allowance	(236,769)	(233,530)	-	(470,299)
Total impairment allowance for credit losses	(260,756)	(495,812)	-	(756,568)
Loans and advances, net	17,451,225	24,256,915	390,555	42,098,695

Loans and advances, net represents Shari'ah compliant products in respect of Murabaha agreements, Ijarah, Istisna'a, Musharaka and Tawaraq.

Loans and advances include net receivables from Ijarah finance amounting to SR 7.50 billion (2016: SR 7.48 billion).

6. LOANS AND ADVANCES, NET (continued)

b) Movements in impairment allowance for credit losses are as follows:

	SR'000		
2017	**Consumer**	**Commercial**	**Total**
Balance at the beginning of the year	**260,756**	**495,812**	**756,568**
Impairment charge for the year	**77,630**	**254,209**	**331,839**
Bad debts written off during the year	**(97,522)**	**(270,893)**	**(368,415)**
Recoveries / reversals of amounts previously provided	**(14,410)**	**(853)**	**(15,263)**
Balance at the end of the year	**226,454**	**478,275**	**704,729**

	SR'000		
2016	Consumer	Commercial	Total
Balance at the beginning of the year	307,329	307,275	614,604
Impairment charge for the year	70,610	153,416	224,026
Bad debts written off during the year	(89,071)	(39,811)	(128,882)
Recoveries / reversals of amounts previously provided	(28,112)	(1,424)	(29,536)
Allowance written back upon restructuring of loan	-	76,356	76,356
Balance at the end of the year	260,756	495,812	756,568

i) The bad debts written off during the year included receivables against credit cards amounting to SR 26.40 million (2016: SR 28.66 million).

c) Net impairment charge for credit losses for the year in the consolidated statement of income is as follows:

	2017	2016
	SR'000	SR'000
Impairment charge for credit losses for the year	**331,839**	224,026
Recoveries / reversal of amounts previously provided	**(15,263)**	(29,536)
Recoveries from debts previously written off	**(49,427)**	(69,276)
Impairment charge for credit losses, net	**267,149**	125,214

6. LOANS AND ADVANCES, NET (continued)

d) Economic sector risk concentrations for the loans and advances and impairment allowance for credit losses are as follows:

2017	**Performing SR'000**	**Non performing SR'000**	**Specific allowance for impairment of credit losses SR'000**	**Loans and advances, net SR'000**
Government and quasi Government	**1,042,133**	-	-	**1,042,133**
Banks and other financial institutions	**687,813**	-	-	**687,813**
Agriculture and fishing	**7,417**	**-**	**-**	**7,417**
Manufacturing	**4,599,130**	**104,677**	**(101,408)**	**4,602,399**
Building and construction	**766,447**	**59,298**	**(45,535)**	**780,210**
Commerce	**8,591,559**	**177,237**	**(98,734)**	**8,670,062**
Transportation and communication	**76,361**	-	-	**76,361**
Services	**885,105**	**77,324**	**(10,319)**	**952,110**
Consumer loans	**18,016,579**	**75,721**	**(33,093)**	**18,059,207**
Share trading	**1,294,176**	**1,596**	-	**1,295,772**
Others	**4,023,492**	**8,510**	**(5,254)**	**4,026,748**
	39,990,212	**504,363**	**(294,343)**	**40,200,232**
Collective allowance	-	-	**(410,386)**	**(410,386)**
Total	**39,990,212**	**504,363**	**(704,729)**	**39,789,846**

2016	Performing SR'000	Non performing SR'000	Specific allowance for impairment of credit losses SR'000	Loans and advances, net SR'000
Government and quasi Government	1,065,248	-	-	1,065,248
Banks and other financial institutions	897,188	-	-	897,188
Agriculture and fishing	25,000	-	-	25,000
Manufacturing	5,334,211	89,010	(76,357)	5,346,864
Building and construction	1,546,976	58,578	(26,879)	1,578,675
Commerce	9,791,162	162,223	(105,704)	9,847,681
Transportation and communication	171,221	4,590	(4,590)	171,221
Services	1,070,159	67,210	(8,900)	1,128,469
Consumer loans	17,650,960	61,021	(23,987)	17,687,994
Share trading	1,217,291	1,596	-	1,218,887
Others	3,601,848	39,771	(39,852)	3,601,767
	42,371,264	483,999	(286,269)	42,568,994
Collective allowance	-	-	(470,299)	(470,299)
Total	42,371,264	483,999	(756,568)	42,098,695

6. LOANS AND ADVANCES, NET (continued)

The Group, in the ordinary course of its lending activities, holds collaterals as security to mitigate credit risk in the loans and advances portfolio. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other long term assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values.

Fair value of collateral held by the Group against loans and advances by each category are as follows:

	2017 **SR'000**	2016 SR'000
Collateral against performing loans	**16,577,571**	17,523,750
Collaterals against non-performing loans	**161,070**	187,339
Total	**16,738,641**	17,711,089

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Group with an intent to dispose of, after legal recourse, in case of default by the customer.

e) Other real estate, net

	Note	**2017** **SR'000**	2016 SR'000
Balance at the beginning of the year		**62,012**	44,126
Additions during the year		**383,137**	27,686
Disposals during the year	23	**(103)**	(9,800)
Balance at the end of the year		**445,046**	62,012

7. INVESTMENT IN AN ASSOCIATE

The Group holds 35% shareholding in AlJazira Takaful Ta'awuni Company ("ATT"). The details related to ATT are explained in note 29 and note 40 to these consolidated financial statements. The market value of investment in ATT as of December 31, 2017 is SR 335.65 million (2016: SR 368.11 million).

The following table summarises the latest available financial information of ATT as of December 31 and for the year then ended:

	2017 **SR'000**	2016 SR'000
Total shareholders assets	**386,531**	373,685
Total shareholders liabilities	**(3,470)**	(2,321)
Total shareholders equity	**383,061**	371,364
Proportion of the Group's ownership	**35%**	35%
Carrying amount of the investment	**134,071**	129,977

	2017 **SR'000**	2016 SR'000
Total profit for the year before Zakat	**30,517**	23,670
The Group's share of profit for the year	**10,681**	8,284

The following table summarises the movement of the investment in associate during the year:

	2017 **SR'000**	2016 SR'000
Balance at the beginning of the year	**129,977**	128,334
Share in profit for the year before zakat	**10,681**	8,284
Share of Zakat	**(462)**	(516)
Dividend received	**(6,125)**	(6,125)
Balance at the end of the year	**134,071**	129,977

8. PROPERTY AND EQUIPMENT, NET

	Land and buildings SR'000	Leasehold improvements SR'000	Furniture, equipment and vehicles SR'000	Computer Softwares SR'000	Capital work in progress SR'000	Total 2017 SR'000	Total 2016 SR'000
Cost							
Balance at the beginning of the year	**157,569**	**494,128**	**619,581**	**43,270**	**183,574**	**1,498,122**	1,405,146
Additions during the year	**83,557**	**1,752**	**14,375**	**328**	**69,662**	**169,674**	105,203
Transfers during the year	**-**	**38,754**	**52,184**	**53,909**	**(144,847)**	**-**	-
Reclassification during the year	**-**	**-**	**(105,888)**	**105,888**	**-**	**-**	-
Disposals during the year	**-**	**(73)**	**(6,237)**	**-**	**-**	**(6,310)**	(12,227)
Balance at the end of the year	**241,126**	**534,561**	**574,015**	**203,395**	**108,389**	**1,661,486**	1,498,122
Accumulated depreciation / amortisation							
Balance at the beginning of the year	**5,040**	**266,922**	**501,531**	**22,970**	**-**	**796,463**	726,058
Charge for the year	**-**	**25,612**	**41,362**	**19,552**	**-**	**86,526**	81,108
Reclassification during the year	**-**	**-**	**(92,312)**	**92,312**	**-**	**-**	-
Disposals	**-**	**(10)**	**(6,019)**	**-**	**-**	**(6,029)**	(10,703)
Balance at the end of the year	**5,040**	**292,524**	**444,562**	**134,834**	**-**	**876,960**	796,463
Net book value							
At December 31, 2017	**236,086**	**242,037**	**129,453**	**68,561**	**108,389**	**784,526**	
At December 31, 2016	152,529	227,206	118,050	20,300	183,574		701,659

9. OTHER ASSETS

	2017 SR'000	2016 SR'000
Advances, prepayments and other receivables	**146,253**	148,010
Margin deposits against derivatives	**152,081**	158,906
Others	**26,748**	64,054
Total	**325,082**	370,970

10. DERIVATIVES

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

a) Swaps

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

b) Options (Wa'ad Fx)

Foreign exchange options are transactions, whereby a client, in consideration for the payment of a fee agrees to enter into one or a series of trades in which one party (promisor) gives a commitment as a unilateral undertaking, to a second party (promisee).

An option can be a unilateral promise or combination of promises. The Group enters into the option depending on the client's risk profile, whereby the client may promise to buy, sell or buy and sell a currency with or without conditions for hedging its exposure.

10.1 Held for trading purposes

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

10.2 Held for hedging purposes

The Group uses Shari'ah compliant derivatives for hedging purposes in order to reduce its exposure to commission rate risk and foreign exchange risk.

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

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risk. This is generally achieved by hedging specific transactions.

10. DERIVATIVES (continued)

10.2 Held for hedging purposes (continued)

Cash flow hedges

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate risk. The Group uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks. Below is the schedule indicating as at December 31, the periods when the hedged cash flows are expected to occur and when they are expected to affect the consolidated statement of income:

2017 **SR'000**	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Cash inflows (assets)	**41,999**	**90,265**	**90,196**	**132,569**
Cash out flows (liabilities)	**(164,921)**	**(367,310)**	**(341,106)**	**(2,346,634)**
Net cash outflow	**(122,922)**	**(277,045)**	**(250,910)**	**(2,214,065)**

2016 SR'000	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	78,684	149,704	123,154	189,442
Cash out flows (liabilities)	(218,989)	(468,526)	(481,343)	(2,912,221)
Net cash outflow	(140,305)	(318,822)	(358,189)	(2,722,779)

The gains / (losses) on cash flow hedges reclassified to the consolidated statement of income during the year is as follows:

	2017 **SR'000**	2016 SR'000
Special commission income	**1,981**	704
Special commission expense	**(2,166)**	(1,331)
Net losses on cash flow hedges reclassified to the consolidated statement of income	**(185)**	(627)

10. DERIVATIVES (continued)

	2017 SR'000	2016 SR'000
Balance at the beginning of the year	**(200,828)**	(165,238)
Gains /(losses) from change in fair value recognised directly in equity, net (effective portion)	**87,609**	(36,217)
Losses removed from equity and transferred to consolidated statement of income	**185**	627
Balance at the end of the year	**(113,034)**	(200,828)

Fair value gain on cash flow hedges amounting to SR 87.6 million (2016: loss of 36.2 million) included in the consolidated statement of comprehensive income comprised of net unrealized gain of SR 81.6 million (2016: unrealized loss of SR 36.2 million) and realized gain of SR 6 million (2016: SR nil).

During the year, the Bank sold certain of its special commission rate swaps used for cash flows hedge. However, the gain would continue to be classified in consolidated other comprehensive income as the related hedge items are still outstanding. In accordance with the IFRS requirements, the gain will be reclassified to consolidated statement of income in the period when the cash flows pertaining to hedged items will affect the consolidated statement of income.

The table below sets out the positive and negative fair values of the Group's derivative financial instruments, together with their notional amounts. The notional amounts, which provide an indication of the volume of transactions outstanding at the year end, do not necessarily reflect the amount of future cash flows involved. The notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

2017
SR'000

				Notional amounts by term to maturity				
	Positive fair value	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Options	**1,794**	**1,794**	**459,895**	**269,097**	**190,798**	**-**	**-**	**1,098,712**
Currency swaps	**1,242**	**-**	**188,750**	**188,750**	**-**	**-**	**-**	**252,474**
Currency Forwards	**1**	**-**	**224**	**224**	**-**	**-**	**-**	**224**
Special commission rate swaps	**54,059**	**54,059**	**5,652,788**	**1,889,539**	**63,850**	**3,621,388**	**78,011**	**5,839,711**
Structured deposits	**20,558**	**20,558**	**2,450,000**	**-**	**-**	**2,450,000**	**-**	**1,916,667**
Held as cash flow hedges:								
Special commission rate swaps	**-**	**112,649**	**3,250,625**	**-**		**828,750**	**2,421,875**	**4,038,229**
Accrued special commission	**26,367**	**31,927**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**104,021**	**220,987**	**12,002,282**	**2,347,610**	**254,648**	**6,900,138**	**2,499,886**	**13,146,017**

10. DERIVATIVES (continued)

	2016 SR'000							
				Notional amounts by term to maturity				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Options	24,464	24,464	2,178,472	645,376	1,077,190	455,906	-	3,567,388
Currency swaps	-	1,392	187,500	187,500	-	-	-	577,061
Special commission rate swaps	66,788	66,788	5,942,128	100,000	-	5,318,795	523,333	5,977,338
Structured deposits	4,168	4,168	1,650,000	-	-	1,650,000	-	1,650,000
Held as cash flow hedges:								
Special commission rate swaps	-	194,261	5,624,063	-	304,688	1,350,000	3,969,375	4,967,891
Accrued special commission	33,298	42,645	-	-	-	-	-	-
Total	128,718	333,718	15,582,163	932,876	1,381,878	8,774,701	4,492,708	16,739,678

During the years ended on December 31, 2017 and December 31, 2016, there was no ineffectiveness in the cash flow hedges.

Pursuant to changes in certain international laws, the Bank has established a Special Purpose Vehicle (SPV) namely Al Jazira Securities Limited and intends to transfer all of its Profit Rate Swaps (PRS) derivatives, hedged or traded, to this SPV. In this connection, initially, a novation agreement has been signed between the Bank, the SPV and one of the counter parties and all the derivatives positions with this counterparty have been transferred to SPV. Going forward, the SPV will execute all the derivatives with counterparties with a back to back transaction with the Bank. As the change was necessitated by laws, management believes that existing hedging relationships continue to remain effective.

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017 SR'000	2016 SR'000
Current accounts	**181,638**	98,267
Money market deposits from banks and other financial institutions	**5,990,907**	3,446,845
Total	**6,172,545**	3,545,112

12. CUSTOMERS' DEPOSITS

	2017 SR'000	2016 SR'000
Demand	**24,990,180**	25,522,256
Time	**24,172,493**	25,167,027
Other	**1,115,693**	913,071
Total	**50,278,366**	51,602,354

Time deposits comprise deposits received on Shari'ah Compliant Murabaha.

12. CUSTOMERS' DEPOSITS (continued)

Other customers' deposits include SR 736.50 million (2016: SR 730.31million) of margins held for irrevocable contingencies and commitments.

The above includes foreign currency deposits as follows:

	2017 SR'000	2016 SR'000
Demand	**1,195,328**	1,585,806
Time	**917,268**	1,539,802
Other	**11,103**	21,089
Total	**2,123,699**	3,146,697

The foreign currency deposits are mainly in US dollars to which the SR is pegged. Accordingly, the sensitivity with respect to foreign currency risk is not material.

13. SUBORDINATED SUKUK

On 2 June 2016, the Bank issued 2,000 Subordinated Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 month Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 190 basis point per annum and payable semi-annually in arrears on 2 June and 2 December each year until June 2, 2026, on which date the Sukuk will expire. The Bank has a call option which can be exercised on or after June 2, 2021 on meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. These Sukuk are registered with Saudi Stock Exchange (Tadawul).

14. OTHER LIABILITIES

	2017 SR'000	2016 SR'000
Accounts payable	**257,809**	264,937
Employee benefit obligation (refer note 28)	**244,024**	217,763
AlJazira Philanthropic Program (note below)	**39,581**	34,314
Dividend payable	**28,223**	27,030
Other	**210,699**	184,143
Total	**780,336**	728,187

During 2006, the Board of Directors approved the contribution to a philanthropic program to carry out the Group's social responsibilities towards the Saudi society, through the charitable contributions to various benevolent efforts that promote the general welfare of the society.

For this purpose, the Group contributed SR 100 million to this program during 2006.

14. OTHER LIABILITIES (continued)

A Social Committee has been established to coordinate this program, consisting of three Board members, and it is the intention of the Board of Directors to seek assistance of other independent members from the business community and the Shari'ah Board of the Group to overview and provide guidance for the activities of the program.

15. SHARE CAPITAL

The shareholders of the Bank in their Extra Ordinary General Assembly Meeting held on 10 April 2017 approved to increase the Bank's share capital from SR 4 billion to SR 5.2 billion through the issuance of bonus shares to shareholders of the Bank (three shares for every ten shares held). The legal formalities relating to the increase in share capital completed during second quarter of the current year. Accordingly, the authorized, issued and fully paid share capital of the Bank consists of 520 million shares of SR 10 each (31 December 2016: 400 million shares of SR 10 each).

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

	2017	2016
Saudi shareholders	**91.38%**	92.00%
Non Saudi shareholder - National Bank of Pakistan Limited	**5.83%**	5.83%
Non Saudi shareholder - others	**2.79%**	2.17%

16. STATUTORY AND GENERAL RESERVES

Statutory reserve
In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SR 214.38 million has been transferred from net income (2016: SR 217.99 million). The statutory reserve is not available for distribution.

General reserve
In addition, when considered appropriate, the Bank set aside its profits to cater general banking risks.

17. OTHER RESERVES

2017	Cash flow hedges SR' 000	Fair value reserve SR' 000	Actuarial losses (note 28) SR' 000	Right issue costs (note 17 (a)) SR' 000	Total SR' 000
Balance at beginning of the year	**(200,828)**	**7,157**	**-**	**(18,119)**	**(211,790)**
Net change in fair value	**87,609**	**3,771**	-	-	**91,380**
Transfer to consolidated statement of income	**185**	-	-	-	**185**
Actuarial losses on defined benefit obligation	-	-	**(1,931)**	-	**(1,931)**
Other	**-**	-	-	**(3,029)**	**(3,029)**
Net movement during the year	**87,794**	**3,771**	**(1,931)**	**(3,029)**	**86,605**
Balance at end of the year	**(113,034)**	**10,928**	**(1,931)**	**(21,148)**	**(125,185)**

17. OTHER RESERVES (continued)

2016	Cash flow hedges SR' 000	Fair value reserve SR' 000	Actuarial losses SR' 000	Right issue costs (note 17 (a)) SR' 000	Total SR' 000
Balance at beginning of the year	(165,238)	7,053	-	(14,471)	(172,656)
Net change in fair value	(36,217)	104	-	-	(36,113)
Transfer to consolidated statement of income	627	-	-	-	627
Other	-	-	-	(3,648)	(3,648)
Net movement during the year	(35,590)	104	-	(3,648)	(39,134)
Balance at end of the year	(200,828)	7,157	-	(18,119)	(211,790)

a) With an aim to strengthen the capital base of the Bank, the Board of Directors has recommended to increase share capital by raising SR 3 billion through a right issue. The increase is conditional on taking the necessary approvals from the relevant authorities and the General Assembly in the extraordinary meeting and determine the offering price and numbers of shares. Included in the "other reserves" are total expenses of SR 21.15 million (31 December 2016: SR 18.12 million) incurred in respect of the legal and professional matters for right issue. The Bank has resubmitted the registration and listing file of its right issue to the Capital Market Authority (CMA).

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2017, there were legal proceedings of routine nature outstanding against the Group. No significant provision has been made as related professional legal advice indicated that it is unlikely that any significant loss will eventually arise.

b) Capital commitments

As at December 31, 2017, the Group had capital commitments of SR 103.36 million (2016: SR 86.35 million) in respect of the construction of branches and IT related projects.

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

18. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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

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

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

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

			(SR'000)		
2017	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**616,482**	**391,337**	**7,500**	**-**	**1,015,319**
Letters of guarantee	**1,040,955**	**2,587,366**	**519,011**	**23,513**	**4,170,845**
Acceptances	**405,001**	**-**	**-**	**-**	**405,001**
Irrevocable commitments to extend credit	**-**	**-**	**150,000**	**-**	**150,000**
Total	**2,062,438**	**2,978,703**	**676,511**	**23,513**	**5,741,165**

			(SR'000)		
2016	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	545,647	424,845	2,500	-	972,992
Letters of guarantee	671,477	2,616,230	806,930	49,637	4,144,274
Acceptances	611,960	-	-	-	611,960
Irrevocable commitments to extend credit	-	-	150,000	-	150,000
Total	1,829,084	3,041,075	959,430	49,637	5,879,226

The outstanding unused portion of commitments as at December 31, 2017, which can be revoked unilaterally at any time by the Group, amounts to SR 4.64 billion (2016: SR 5.17 billion).

18. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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

	2017 SR'000	2016 SR'000
Corporate	**5,680,130**	5,828,126
Banks and other financial institutions	**61,035**	51,100
Total	**5,741,165**	5,879,226

d) Operating lease commitments

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

	2017 SR'000	2016 SR'000
Less than 1 year	**9,643**	11,411
1 to 5 years	**28,014**	25,603
Over 5 years	**3,400**	7,155
Total	**41,057**	44,169

19. NET SPECIAL COMMISSION INCOME

	2017 SR'000	2016 SR'000
Special commission income		
Investments held at amortised cost	**506,525**	419,594
Due from banks and other financial institutions	**27,073**	22,231
Derivatives	**262,477**	264,029
Loans and advances	**1,960,852**	1,949,969
Total	**2,756,927**	2,655,823
Special commission expense		
Customers' deposits	**496,163**	643,096
Derivatives	**265,485**	290,913
Due to banks and other financial institutions	**94,376**	97,656
Subordinated Sukuk	**82,752**	56,161
Others	**538**	1,515
Total	**939,314**	1,089,341
Net special commission income	**1,817,613**	1,566,482

20. FEES AND COMMISSION INCOME, NET

	2017 SR'000	2016 SR'000
Fees and commission income		
Loan commitment and management fees	**193,031**	184,228
Local share trading	**177,727**	204,728
Fees from remittance business	**96,886**	65,311
Fees from ATM transactions	**91,840**	88,433
Trade finance	**52,237**	53,696
Mutual funds fees	**46,775**	31,502
Takaful Ta'awuni (insurance) Wakala fees	**19,138**	19,794
International share trading	**2,959**	3,856
Others	**85,845**	79,962
Total fees and commission income	**766,438**	731,510
Fees and commission expense		
Brokerage fees	**(106,154)**	(99,024)
Cards related expenses	**(59,391)**	(46,122)
Takaful Ta'awuni – sales commission	**(4)**	(5)
Total	**600,889**	586,359

21. TRADING INCOME, NET

	2017 SR'000	2016 SR'000
Equities	**(77)**	(2,013)
Mutual funds	**8,430**	6,282
Derivatives	**-**	563
Total	**8,353**	4,832

Trading income includes unrealized gain of SR 6.3 million (2016: Unrealised loss of SR 3.2 million).

22. DIVIDEND INCOME

	2017 SR'000	2016 SR'000
Dividend income on FVTPL investments	**190**	32

23. GAIN ON SALE OF OTHER REAL ESTATE

During current year, the Group sold a land with a carrying value of SR 0.1 million (2016: SR 9.8 million) previously included under "other real estate, net". The sale proceed of land amounting to SR 0.73 million (2016: SR 220.32 million) resulted in a gain of SR 0.63 million (2016: SR 210.52 million).

24. OTHER OPERATING INCOME, NET

	2017 SR'000	2016 SR'000
Rental income	**90**	90
Gain / (loss) on sale of property and equipment	**42**	(217)
Other	**2,150**	1,262
Total	**2,282**	1,135

25. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2017 and December 31, 2016 is calculated by dividing the net income for the year attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding, as follows. The weighted average number of shares have been retrospectively adjusted for prior period to reflect the effect of the changes in number of shares due to issue of bonus shares during the year (refer note 15).

	2017	2016
	SR'000	SR'000
		(Restated)
Profit attributable to ordinary share holders		
For basic and diluted earnings per share	**857,514**	871,942
	Shares	Shares
		(Restated)
Weighted-average number of ordinary shares		
For basic and diluted earnings per share	**520,000,000**	520,000,000
Basic and diluted earnings per share (in SR)	**1.65**	1.68

The calculations of basic and diluted earnings per share are same for the Bank.

26. DIVIDEND, ZAKAT AND INCOME TAX

The estimated Zakat and Tax for the year ended 2017 amounted to SR 20.68 million (2016: SR 19.87 million) and SR 10.25 million (2016: SR 12.93 million) respectively.

Status of assessments:

The Bank 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 and including 2011 in which GAZT raised additional demands aggregating to SAR 462.2 million for the years 2006 to 2011. These additional demands include SR 392.9 million on account of disallowance of long-term investments and the addition of long term financing to the Zakat base by GAZT. The basis for the additional Zakat demand is being contested by the Bank before the Higher Appeal Committee. Management is confident of a favourable outcome on the aforementioned appeals and has therefore not made any provisions in respect of the above.

The assessments for the years 2012 to 2016 are yet to be raised by the GAZT. However, if long-term investments are disallowed and long-term financing is added to the Zakat base, in line with the assessments finalized by GAZT for the years referred above, it would result in a significant additional Zakat exposure to the Bank which remains an industry wide issue and disclosure of the amount might affect the Bank's position in this matter.

Dividend

During the year, the Bank paid final cash dividend of SR 200 million equal to SR 0.5 per share, net of Zakat after approval of the shareholders' in their Extra Ordinary General Assembly meeting held on April 10, 2017.

27. CASH AND CASH EQUIVALENTS

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

	2017 SR'000	2016 SR'000
Cash and balances with SAMA, excluding statutory deposit (note 3)	**3,276,624**	2,459,043
Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition	**202,200**	1,337,778
Total	**3,478,824**	3,796,821

28. EMPLOYEE BENEFIT OBLIGATION

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

	2017 SR'000	2016 SR'000
Defined benefit obligation at the beginning of the year	**217,763**	197,959
Charge for the year	**37,961**	33,857
Benefits paid	**(13,631)**	(14,053)
Unrecognized actuarial loss	**1,931**	-
Defined benefit obligation at the end of the year	**244,024**	217,763

b) Charge for the year

	2017 SR'000	2016 SR'000
Current service cost	**29,523**	27,365
Special commission cost	**8,438**	6,492
	37,961	33,857

28. EMPLOYEE BENEFIT OBLIGATION (continued)

c) Past service cost directly charged to consolidated statement of comprehensive income due to changes in actuarial assumptions:

	2017 SR'000	2016 SR'000
Changes in experience assumptions	437	-
Changes in financial assumptions	1,494	-
	1,931	-

d) Principal actuarial assumptions used in estimating the defined benefit obligation included:

	2017	2016
Discount rate	3.85% p.a	4% p.a
Expected rate of salary increase	2.85% p.a	3.5% p.a
Withdrawal rate	10% p.a	12% p.a
Average duration	6.97 years	5.22years
Normal retirement age	60 years	60 years

e) The table below illustrates the sensitivity of the defined benefit obligation due to changes in the key assumptions and holding all other variables constant:

		2017 SR'000	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(16,021)	18,272
Expected rate of salary increase	1%	19,504	(17,385)
Withdrawal rate	10%	(432)	416

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

	SR'000				
	Less than a year	1-2 years	2-5 years	Over 5 years	Total
December 31, 2017	33,860	21,387	65,985	210,066	331,298
December 31, 2016	59,214	23,308	55,569	141,076	279,167

29. OPERATING SEGMENTS

The operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess their performance.

All of the Group's operations are based in the Kingdom of Saudi Arabia.

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities.

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

Personal banking
Deposit, credit and investment products for individuals.

Corporate banking
Loans, deposits and other credit products for corporate, small to medium sized business and institutional customers.

Treasury
Treasury includes money market, foreign exchange, trading and treasury services.

Brokerage and asset management
Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company).

Takaful Ta'awuni
Provides protection and saving products services. As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity named AlJazira Takaful Ta'awuni Company (ATT) formed under the new Insurance Law of Saudi Arabia. Current segment represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.

Others
Others include investment in associate, inter segment income and expense eliminations and gain on sale of other real estate.

29. OPERATING SEGMENTS (continued)

The Group's total assets and liabilities and its income from operations and net income for the year by operating segment are as follows:

	(SR'000)						
2017	**Personal banking**	**Corporate banking**	**Treasury**	**Brokerage and asset management**	**Takaful Ta'awuni**	**Others**	**Total**
Total assets	19,810,852	19,820,983	26,938,427	1,510,873	72,249	134,071	68,287,455
Total liabilities	35,539,607	14,563,514	8,532,527	750,719	72,249	-	59,458,616
Inter - segment operating (loss) / income	(11,591)	(97,494)	120,236	(11,151)	-	-	-
Total operating income	1,082,223	538,186	950,310	176,946	19,749	(187,676)	2,579,738
Net special commission income	631,409	356,161	786,169	45,471	614	(2,211)	1,817,613
Fee and commission income, net	310,072	164,698	9,710	121,291	19,134	(24,016)	600,889
Trading income, net	-	-	-	8,353	-	-	8,353
Share in profit of an associate	-	-	-	1,526	-	9,155	10,681
Impairment charge for credit losses, net	(15,118)	(252,031)	-	-	-	-	(267,149)
Depreciation and amortisation	(48,087)	(10,655)	(18,865)	(8,111)	(808)	-	(86,526)
Total operating expenses	(818,600)	(473,848)	(277,014)	(145,241)	(22,190)	3,988	(1,732,905)
Net income / (loss)	263,623	64,338	673,296	33,231	(2,441)	(174,533)	857,514

29. OPERATING SEGMENTS (continued)

(SR'000)

2016	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	20,166,780	22,681,991	22,435,005	814,899	90,716	129,977	66,319,368
Total liabilities	28,108,647	19,347,976	10,569,772	98,731	90,716	-	58,215,842
Inter - segment operating income/ (loss)	4,188	(99,328)	89,531	5,609	-	-	-
Total operating income	919,286	484,208	763,934	193,482	20,211	91,394	2,472,515
Net special commission income	590,888	322,436	646,117	9,299	588	(2,846)	1,566,482
Fee and commission income, net	234,621	147,022	8,169	178,033	19,789	(1,275)	586,359
Trading income / (loss), net	(406)	150	366	5,285	-	(563)	4,832
Share in profit of an associate	-	-	-	-	-	8,284	8,284
Impairment charge for credit losses, net	(2,211)	(123,003)	-	-	-	-	(125,214)
Depreciation and amortisation	(42,614)	(12,815)	(17,698)	(7,076)	(905)	-	(81,108)
Total operating expenses	(777,126)	(395,506)	(265,298)	(149,557)	(25,404)	4,034	(1,608,857)
Net income / (loss)	142,159	88,702	498,636	43,925	(5,193)	103,713	871,942

29. OPERATING SEGMENTS (continued)

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

	(SR'000)						
2017	**Personal banking**	**Corporate banking**	**Brokerage and asset management**	**Treasury**	**Takaful Ta'awuni**	**Others**	**Total**
Assets	**19,110,372**	**19,219,978**	**1,325,681**	**20,785,808**	**-**	**-**	**60,441,839**
Commitments and contingencies	**-**	**3,453,240**	**-**	**-**	**-**	**-**	**3,453,240**
Derivatives	**-**	**-**	**-**	**120,024**	**-**	**-**	**120,024**

	(SR'000)						
2016	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Takaful Ta'awuni	Others	Total
Assets	19,357,562	22,748,241	-	17,519,134	-	-	59,624,937
Commitments and contingencies	-	3,501,109	-	-	-	-	3,501,109
Derivatives	-	-	-	155,821	-	-	155,821

Credit exposure comprises the carrying value of the consolidated assets excluding cash, property and equipment, other real estate, investment in equities and mutual funds and certain other assets. Additionally the credit equivalent values of commitments, contingencies and derivatives are also included in the credit exposure.

30. CREDIT RISK

Credit risk, which is the result of a delay or failure by counterparty to meet its financial and/or contractual obligations to the Group, is managed in accordance with the Group's comprehensive risk management control framework. Three credit committees are responsible for the oversight of credit risk, The Board Risk Committee, the Executive Committee and the Management Credit Committee. These committees have clearly defined mandates and delegated authorities, which are reviewed regularly.

The Group assesses the probability of default of counterparties using either internal rating models or external ratings as assessed by major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

The Group's credit policy aims at maintaining the high quality of the loan portfolio and ensuring proper risk diversification. The credit policy sets the basic criteria for acceptable risks and identifies risk areas that require special attention.

The Group manages the credit exposures relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure.

30. CREDIT RISK (continued)

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The Group seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business.

Majority of the debt securities included in the investment portfolio represents sovereign risk. Analysis of the Group's investments by nature of counter-party is provided in note 5(e). For details of the composition of loans and advances, refer to note 6. Information on credit risk relating to commitments and contingencies is provided in note 18. Information on the Group's maximum credit exposure by operating segment is given in note 29.

The Group in the ordinary course of its lending activities will often seek to take collateral to provide an alternative source of repayment in the event that customers or counterparties are unable to meet their obligations. Assets taken as collateral include promissory note, time and other cash deposits, financial guarantees, local and international equities subject to an appropriate margin to reflect price volatility, real estate and other physical assets. The Group holds real estate collateral against the transfer of title deed. Collateral generally is not held over due from banks and other financial institutions, except when securities are held as part of reverse repurchase. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2017 and December 31, 2016. Customer agreements often include requirements for provision of additional collateral should valuations decline or credit exposure increase.

The Group uses an internal credit classification and review system to manage the credit risk within its wholesale loans portfolio. The classification system includes ten grades, of which seven grades relate to the performing portfolio as follows:

- Standard-low risk: represents risk ratings 1 to 3;
- Standard-medium risk: represents risk ratings 4 to 6; and
- Special mention: represents risk rating 7
- Start-up category that represents loans to newly formed businesses/ projects.

Three grades relate to the non-performing portfolio (substandard, doubtful and loss; risk ratings 8 to 10). Loans and advances under the standard category are performing, have sound fundamental characteristics and include those that exhibit neither actual nor potential weaknesses. Specific allowances for impairment are maintained in respect of the non performing portfolio based on each borrower's grade, which is determined by the Group's Credit Control Division using specific criteria such as activities, cash flows, capital structure, securities and delinquency. Collective allowances are created for losses, where there is objective evidence that unidentified losses are present at the reporting date. These are estimated based upon credit grading allocated to the borrower or group of borrowers as well as the current economic climate in which the borrowers operate together with the experience and the historical default patterns that are embedded in the components of the credit portfolio. The Group's Internal Audit Division independently reviews the overall system on a regular basis.

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

30. CREDIT RISK (continued)

a) Credit quality of financial assets

The table below shows the credit quality by class of asset.

	SR'000					
	Loans and advances				Due from banks and other financial institutions	
2017	Consumer	Commercial	Others	Subtotal		Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	2,940,428	-	2,940,428	369,249	3,309,677
Standard – medium risk	-	10,293,035	-	10,293,035	-	10,293,035
Standard – unclassified	16,559,099	3,286,012	423,106	20,268,217	-	20,268,217
Sub total - standard	16,559,099	16,519,475	423,106	33,501,680	369,249	33,870,929
Special mention	-	3,309,729	-	3,309,729	-	3,309,729
Sub total	16,559,099	19,829,204	423,106	36,811,409	369,249	37,180,658
Past due but not impaired						
Less than 30 days	919,065	1,110,847	-	2,029,912	-	2,029,912
30-60 days	227,469	96,182	-	323,651	-	323,651
60-90 days	108,392	12,026	-	120,418	-	120,418
Over 90 days	202,554	502,268	-	704,822	-	704,822
Total performing	18,016,579	21,550,527	423,106	39,990,212	369,249	40,359,461
Less: collective allowance	(193,361)	(217,025)	-	(410,386)	-	(410,386)
Net performing	17,823,218	21,333,502	423,106	39,579,826	369,249	39,949,075
Non-performing						
Total non-performing	75,721	428,642	-	504,363	-	504,363
Less: specific allowance	(33,093)	(261,250)	-	(294,343)	-	(294,343)
Net-non performing	42,628	167,392	-	210,020	-	210,020

30. CREDIT RISK (continued)

a) Credit quality of financial assets (continued)

SR'000

2016	Loans and advances: Consumer	Loans and advances: Commercial	Loans and advances: Others	Loans and advances: Subtotal	Due from banks and other financial institutions	Total
Performing						
Neither past due nor impaired (performing)						
Standard – low risk	-	5,222,724	-	5,222,724	1,337,778	6,560,502
Standard – medium risk	-	10,248,268	-	10,248,268	-	10,248,268
Standard – unclassified	16,460,498	3,753,874	390,555	20,604,927	-	20,604,927
Sub total - standard	16,460,498	19,224,866	390,555	36,075,919	1,337,778	37,413,697
Special mention	-	3,647,560	-	3,647,560	-	3,647,560
Sub total	16,460,498	22,872,426	390,555	39,723,479	1,337,778	41,061,257
Past due but not impaired						
Less than 30 days	791,922	1,249,891	-	2,041,813	-	2,041,813
30-60 days	138,454	196,340	-	334,794	-	334,794
60-90 days	104,121	170	-	104,291	-	104,291
Over 90 days	155,965	10,922	-	166,887	-	166,887
Total performing	17,650,960	24,329,749	390,555	42,371,264	1,337,778	43,709,042
Less: collective allowance	(236,769)	(233,530)	-	(470,299)	-	(470,299)
Net performing	17,414,191	24,096,219	390,555	41,900,965	1,337,778	43,238,743
Non-performing						
Total non-performing	61,021	422,978	-	483,999	-	483,999
Less: Specific allowance	(23,987)	(262,282)	-	(286,269)	-	(286,269)
Net-non performing	37,034	160,696	-	197,730	-	197,730

Consumer loans are unrated and are disclosed as standard-unclassified. These consumer loans mainly comprise of loans given to individuals through Shari'ah compliant products.

Others mainly comprise employee loans.

30. CREDIT RISK (continued)

a) Credit quality of financial assets (continued)

Performing loans as at December 31, 2017 include renegotiated loans restructured due to deterioration in the borrower's financial position of SR 4.13 billion (2016: SR 3.26 billion).

The special mention / watch list category includes loans and advances that are performing, current and up to date in terms of principal and special commission payments. However, they require close management attention as they may have potential weaknesses that might, at some future date, result in the deterioration of the repayment prospects of either the principal or the special commission payments. The special mention / watch list loans and advances do not expose the Group to sufficient risk to warrant a lower classification.

b) Credit quality of investments

The credit quality of investments comprising solely of debt instruments held as amortised cost (all debt instruments are under amortised cost category) is primarily managed with reference to the independent credit ratings of the counterparties. The rating issuers' of the debt instruments been considered as rating of the debt instrument.

Unrated investments are debt instruments which have not been rated by any external credit rating agency.

The table below shows the credit quality by class of asset.

Performing	**2017 SR'000**	2016 SR'000
High grade (AAA – BBB)	**19,482,479**	15,229,219
Unrated	**800,265**	959,245
Total performing and overall investments	**20,282,744**	16,188,464

As at December 31, 2017 and December 31, 2016, no impairment was required against investments held as amortised cost.

30. CREDIT RISK (continued)

c) An economic sector analysis of the Bank's loans and advances

The tables below show an economic sector analysis of the Bank's loans and advances, net of specific and collective allowances for impairment; after taking into account total collateral held for both performing and non-performing loans and advances. Collateral includes time and cash deposits, local and international equities, real estate, counter guarantees and assignment of receivables.

	Maximum exposure		
2017	**Loans and advances, net of allowances for impairment SR'000**	**Credit related commitments and contingencies, net of allowances for impairment SR'000**	**Total SR'000**
Government and quasi government	**1,031,918**	**2,209**	**1,034,127**
Banks and other financial institutions	**681,071**	**1,387,023**	**2,068,094**
Agriculture and fishing	**7,344**	**123,452**	**130,796**
Manufacturing	**4,557,286**	**230,302**	**4,787,588**
Mining and quarrying	**-**	**150,000**	**150,000**
Electricity, water, gas and health services	**-**	**8,670**	**8,670**
Building and construction	**772,562**	**1,950,614**	**2,723,176**
Commerce	**8,585,079**	**751,736**	**9,336,815**
Transportation and communication	**75,613**	**48,542**	**124,155**
Services	**942,778**	**216,437**	**1,159,215**
Consumer loans and credit cards	**17,865,846**	**-**	**17,865,846**
Share trading	**1,283,071**	**-**	**1,283,071**
Other	**3,987,278**	**872,180**	**4,859,458**
Maximum exposure	**39,789,846**	**5,741,165**	**45,531,011**
Less: collateral for performing and non-performing	**(16,738,641)**	**(2,388,806)**	**(19,127,447)**
Net maximum exposure	**23,051,205**	**3,352,359**	**26,403,564**

30. CREDIT RISK (continued)

c) An economic sector analysis of the Bank's loans and advances (continued)

2016	Maximum exposure Loans and advances, net of allowances for impairment SR'000	Credit related commitments and contingencies, net of allowances for impairment SR'000	Total SR'000
Government and quasi government	1,055,250	-	1,055,250
Banks and other financial institutions	888,767	1,169,309	2,058,076
Agriculture and fishing	24,765	126,105	150,870
Manufacturing	5,296,680	289,842	5,586,522
Mining and quarrying	-	150,000	150,000
Electricity, water, gas and health services	-	3,570	3,570
Building and construction	1,563,858	2,170,711	3,734,569
Commerce	9,755,252	964,251	10,719,503
Transportation and communication	169,614	48,795	218,409
Services	1,117,877	223,201	1,341,078
Consumer loans and credit cards	17,451,224	-	17,451,224
Share trading	1,207,447	-	1,207,447
Other	3,567,961	733,442	4,301,403
Maximum exposure	42,098,695	5,879,226	47,977,921
Less: collateral for performing and non-performing	(17,711,089)	(2,447,251)	(20,158,340)
Net maximum exposure	24,387,606	3,431,975	27,819,581

d) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2017 **SR'000**	2016 SR'000
Assets		
Due from banks and other financial institutions (note 4)	**369,249**	1,337,778
Investments at amortised cost (note 5)	**20,282,744**	16,188,464
Loans and advances, net (note 6)	**39,789,846**	42,098,695
Other assets - margin deposits against derivatives (note 9)	**152,081**	158,906
Total assets	**60,593,920**	59,783,843
Contingencies and commitments, net (note 18 & 30(c))	**3,352,359**	3,431,975
Derivatives - positive fair value, net (note 10)	**104,021**	128,718
Total maximum exposure	**64,050,300**	63,344,536

31. GEOGRAPHICAL CONCENTRATION

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

	(SR'000)						
2017	**Kingdom of Saudi Arabia**	**GCC and Middle East**	**Europe**	**North America**	**South East Asia**	**Other countries**	**Total**
Financial Assets							
Cash and balances with SAMA							
Cash in hand	1,183,711	-	-	-	-	-	1,183,711
Balances with SAMA	4,791,356	-	-	-	-	-	4,791,356
Due from Banks and other financial institutions							
Current accounts	20,580	42,929	91,944	29,657	3,635	13,455	202,200
Money market placements	71,200	95,849	-	-	-	-	167,049
Investments							
Held as FVTIS	61,415	-	-	-	-	-	61,415
Held as FVTOCI	4,143	188	-	12,057	-	-	16,388
Held at amortised cost	20,282,744	-	-	-	-	-	20,282,744
Positive fair value of derivatives							
Held for trading	92,735	-	-	-	-	-	92,735
Held as cash flow hedges	11,286	-	-	-	-	-	11,286
Loans and advances, net							
Credit Cards	472,466	-	-	-	-	-	472,466
Consumer Loans	17,393,263	117	-	-	-	-	17,393,380
Commercial Loans	21,500,894	-	-	-	-	-	21,500,894
Others	423,106						423,106
Investment in an Associate	134,071	-	-	-	-	-	134,071
Other assets	325,082	-	-	-	-	-	325,082
Total	66,768,052	139,083	91,944	41,714	3,635	13,455	67,057,883

31. GEOGRAPHICAL CONCENTRATION (continued)

(SR'000)

2017	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Liabilities							
Due to banks and other financial institutions							
Current accounts	24,867	76,387	14,334	55,629	-	10,421	181,638
Money market deposits	5,632,612	-	-	-	358,295	-	5,990,907
Customer deposits							
Demand	24,986,120	3,710	257	6	2	85	24,990,180
Time	24,172,493	-	-	-	-	-	24,172,493
Other	1,108,868	-	-	-	-	6,825	1,115,693
Negative fair value of derivatives							
Held for trading	91,492	-	-	-	-	-	91,492
Held as cash flow hedges	129,495	-	-	-	-	-	129,495
Subordinated Sukuk	2,006,382	-	-	-	-	-	2,006,382
Other liabilities	780,336	-	-	-	-	-	780,336
Total	58,932,665	80,097	14,591	55,635	358,297	17,331	59,458,616
Commitments and Contingencies							
Letters of credit	1,012,158	2,476	-	-	-	685	1,015,319
Letters of guarantee	3,904,859	159,125	77,773	5,487	2,001	21,600	4,170,845
Acceptances	398,698	4,599	1,491	-	-	213	405,001
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
	5,465,715	166,200	79,264	5,487	2,001	22,498	5,741,165
Credit exposure (credit equivalent)							
Commitments and contingencies							
Letters of credit	1,012,158	2,476	-	-	-	685	1,015,319
Letters of guarantee	1,952,429	79,563	38,886	2,744	1,000	10,800	2,085,422
Acceptances	199,349	2,299	745	-	-	106	202,499
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
Derivatives							
Held for trading	47,387	4,582	35,548	-	-	-	87,517
Held for hedging	7,000	4,538	20,969	-	-	-	32,507
	3,368,323	93,458	96,148	2,744	1,000	11,591	3,573,264

31. GEOGRAPHICAL CONCENTRATION (continued)

2016	Kingdom of Saudi Arabia (SR'000)	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Assets							
Cash and balances with SAMA							
Cash in hand	927,043	-	-	-	-	-	927,043
Balances with SAMA	4,269,772	-	-	-	-	-	4,269,772
Due from Banks and other financial institutions							
Current accounts	9,584	51,910	131,581	26,284	725	4,664	224,748
Money market placements	719,662	393,368	-	-	-	-	1,113,030
Investments							
Held as FVTIS	92,556	-	-	-	-	-	92,556
Held as FVTOCI	3,250	188	-	8,286	-	-	11,724
Held at amortised cost	16,188,464	-	-	-	-	-	16,188,464
Positive fair value of derivatives							
Held for trading	110,733	-	-	-	-	-	110,733
Held as cash flow hedges	17,985	-	-	-	-	-	17,985
Loans and advances, net							
Credit cards	426,108	-	-	-	-	-	426,108
Consumer loans	17,024,741	376	-	-	-	-	17,025,117
Commercial loans	24,256,915	-	-	-	-	-	24,256,915
Others	390,555	-	-	-	-	-	390,555
Investment in an associate	129,977	-	-	-	-	-	129,977
Other assets	370,970	-	-	-	-	-	370,970
Total	64,938,315	445,842	131,581	34,570	725	4,664	65,555,697

31. GEOGRAPHICAL CONCENTRATION (continued)

2016	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
	(SR'000)						
Financial Liabilities							
Due to banks and other financial institutions							
Current accounts	30,412	20,301	9,775	30,641	1,169	5,969	98,267
Money market deposits	2,626,836	471,240	-	-	348,769	-	3,446,845
Customer deposits							
Demand	25,517,733	4,217	239	2	3	62	25,522,256
Time	25,167,027	-	-	-	-	-	25,167,027
Other	905,620	1	-	-	-	7,450	913,071
Negative fair value of derivatives							
Held for trading	112,125	-	-	-	-	-	112,125
Held as cash flow hedges	221,593	-	-	-	-	-	221,593
Subordinated Sukuk	2,006,471	-	-	-	-	-	2,006,471
Other liabilities	728,187	-	-	-	-	-	728,187
Total	57,316,004	495,759	10,014	30,643	349,941	13,481	58,215,842
Commitments and Contingencies							
Letters of credit	963,446	-	551	-	-	8,995	972,992
Letters of guarantee	3,907,238	139,791	70,842	5,000	2,203	19,200	4,144,274
Acceptances	605,090	1,300	-	-	-	5,570	611,960
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
	5,625,774	141,091	71,393	5,000	2,203	33,765	5,879,226
Credit exposure (credit equivalent)							
Commitments and contingencies							
Letters of credit	963,446	-	551	-	-	8,995	972,992
Letters of guarantee	1,953,619	69,895	35,421	2,500	1,102	9,600	2,072,137
Acceptances	302,545	650	-	-	-	2,785	305,980
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
Derivatives							
Held for Trading	65,479	452	33,649	-	-	-	99,580
Held for Hedging	23,000	12,272	20,969	-	-	-	56,241
	3,458,089	83,269	90,590	2,500	1,102	21,380	3,656,930

31. GEOGRAPHICAL CONCENTRATION (continued)

Certain international mutual funds domicile in the Kingdom of Saudi Arabia that have been classified under international category in note 5(a) to these financial statements have been classified in the Kingdom of Saudi Arabia region for the purpose of this note.

Credit equivalent of commitments and contingencies is calculated according to SAMA's prescribed methodology.

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

	Non-performing loans, net		**Impairment allowance for credit losses**	
	2017	2016	**2017**	2016
	SR' 000	SR' 000	**SR' 000**	SR' 000
Kingdom of Saudi Arabia				
Credit cards	**25,838**	28,968	**16,750**	6,008
Consumer loans	**49,883**	32,053	**209,704**	254,748
Commercial loans	**428,642**	422,978	**478,275**	495,812
Total	**504,363**	483,999	**704,729**	756,568

32. MARKET RISK

Market risk is the risk that the Group's earnings or capital, or its ability to meet business targets, will be adversely affected by changes in the level or volatility in market prices, such as special commission rates, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include equity investments and mutual funds that are managed on a fair value basis.

The Board approves market risk appetite for trading and non-trading activities. The Market Risk Policy Committee is responsible for the Market Risk Framework and under the delegated authority of the Board sets a limits framework within the approved market risk appetite. A daily market risk report details the Group's market risk exposures against agreed limits. This daily report is reviewed by the Treasurer and Chief Risk Officer. The market risk for the trading book and non-trading book is managed and monitored using sensitivity analysis.

32. MARKET RISK (continued)

a) MARKET RISK - TRADING BOOK

Market risk on trading mainly arises from the foreign currency exposures and changes in equity prices and the net asset values of mutual funds.

i) FOREIGN EXCHANGE RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored daily to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant exposure in its trading book, denominated in foreign currencies as at December 31:

	2017 SR'000	2016 SR'000
US Dollar	**7,300**	5,551
Euro	**-**	355
Hong Kong Dollar	**9,432**	5,472
Taiwan Dollar	**5,579**	3,696

The table below indicates the extent to which the Group was exposed to currency risk at December 31, on its foreign currency positions. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2017**		2016	
	Increase/ decrease in currency rate in %	**Effect on net income SR'000**	Increase/ decrease in currency rate in %	Effect on net income SR'000
US Dollar	**± 0.08**	**± 6**	± 0.37	± 21
Euro	**± 7.36**	**± -**	± 8.28	± 29
Hong Kong Dollar	**± 0.53**	**± 50**	± 0.72	± 39
Taiwan Dollar	**± 4.88**	**± 272**	± 6.23	± 230

32. MARKET RISK (continued)

a) MARKET RISK - TRADING BOOK (continued)

ii) EQUITY PRICE RISK

Equity price risk is the risk that the fair values of mutual funds decrease as a result of changes in the levels of equity index and the value of individual stocks deriving the net asset value of the funds.

The financial instruments included in the FVTIS portfolio are equity securities held by mutual funds owned by the Group. The Group manages the risk relating to the mutual funds by monitoring changes in net asset value of the mutual funds. The investments in equity securities and mutual funds held by the Group are managed by the Group in conjunction with professional investment advisors, and the equity price risk is monitored by the Group on a portfolio basis for each mutual fund. The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held for trading at December 31 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

	2017		2016	
Portfolio	**Increase / decrease in equity price %**	**Effect on consolidated statement of income SR'000**	Increase / decrease in equity price %	Effect on consolidated statement of income SR'000
Global Emerging Markets	**± 15.84%**	± 5,108	± 9.01%	± 2,708
Others	**± 0.22%**	± 63	± 4.70%	± 2,908

The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held at FVTIS at December 31, 2017 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

	2017		2016	
Market index	**Increase / decrease in index %**	**Effect on consolidated statement of income SR'000**	Increase / decrease in index %	Effect on consolidated statement of income SR'000
Tadawul	**± 0.22%**	± 1	± 4.70%	± 29

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK

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

i) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Market Risk Policy Committee (MRPC) has established limits on the special commission rate gap. Positions are monitored on a daily basis and reported regularly to senior management and MRPC to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be reported to MRPC more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at December 31, 2017 including the effect of hedging instruments. All the non-trading book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2017**		2016	
	Increase / decrease in basis points	**Sensitivity of special commission income SR'000**	Increase / decrease in basis points	Sensitivity of special commission income SR'000
SR	**± 25**	**± 17,802**	± 25	± 13,173
USD	**± 25**	**± 3,085**	± 25	± 1,930
AED	**± 25**	**± 18**	± 25	± 2

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

Commission rate sensitivity of assets, liabilities and off-balance sheet items

The Group 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 risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

	(SR'000)						
2017	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	1,183,711	1,183,711	-
Balances with SAMA	2,092,913	-	-	-	2,698,443	4,791,356	1.50%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	202,200	202,200	-
Money market placements	163,750	-	-	-	3,299	167,049	2.18%
Investments							
Held as FVTIS	-	-	-	-	61,415	61,415	-
Held as FVTOCI	-	-	-	-	16,388	16,388	-
Held at amortised cost	8,485,654	530,252	3,872,500	7,254,937	139,401	20,282,744	2.80%
Positive fair value of derivatives							
Held for trading	-	-	-	-	92,735	92,735	-
Held as cash flow hedges	-	-	-	-	11,286	11,286	-
Loans and advances, net							
Credit cards	472,466	-	-	-	-	472,466	24.81%
Consumer loans	1,684,673	4,926,225	10,621,646	49,374	111,462	17,393,380	4.74%
Commercial loans	10,071,716	11,219,098	-	-	210,080	21,500,894	5.05%
Others	-	-	-	-	423,106	423,106	-
Investment in an associate	-	-	-	-	134,071	134,071	-
Other real estate, net	-	-	-	-	445,046	445,046	-
Property and equipment, net	-	-	-	-	784,526	784,526	-
Other assets	-	-	-	-	325,082	325,082	-
Total assets	22,971,172	16,675,575	14,494,146	7,304,311	6,842,251	68,287,455	

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

	(SR'000)						
2017	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	181,638	181,638	-
Money market deposits	5,311,250	646,250	-	-	33,407	5,990,907	1.85%
Customer deposits							
Demand	-	-	-	-	24,990,180	24,990,180	-
Time	15,269,223	7,040,291	1,728,780	-	134,199	24,172,493	2.11%
Other	-	-	-	-	1,115,693	1,115,693	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	91,492	91,492	-
Held as cash flow hedges	-	-	-	-	129,495	129,495	-
Subordinated Sukuk	-	2,000,000	-	-	6,382	2,006,382	3.96%
Other liabilities	-	-	-	-	780,336	780,336	-
Equity	-	-	-	-	8,828,839	8,828,839	-
Total liabilities and Equity	20,580,473	9,686,541	1,728,780	-	36,291,661	68,287,455	
On-balance sheet Gap	2,390,699	6,989,034	12,765,366	7,304,311	(29,449,410)	-	
Commission rate sensitivity – off balance sheet	450,625	-	(828,750)	378,125	-	-	
Total commission rate sensitivity gap	2,841,324	6,989,034	11,936,616	7,682,436	(29,449,410)	-	
Cumulative commission rate sensitivity gap	2,841,324	9,830,358	21,766,974	29,449,410	-	-	

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

	(SR'000)						
2016	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	927,043	927,043	-
Balances with SAMA	1,531,904	-	-	-	2,737,868	4,269,772	0.75%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	224,748	224,748	-
Money market placements	1,112,000	-	-	-	1,030	1,113,030	1.13%
Investments							
Held as FVTIS	-	-	-	-	92,556	92,556	-
Held as FVTOCI	-	-	-	-	11,724	11,724	-
Held at amortised cost	8,745,106	785,517	375,000	6,190,273	92,568	16,188,464	2.89%
Positive fair value of derivatives							
Held for trading	-	-	-	-	110,733	110,733	-
Held as cash flow hedges	-	-	-	-	17,985	17,985	-
Loans and advances, net							
Credit cards	426,108	-	-	-	-	426,108	24.82%
Consumer loans	1,646,835	4,330,956	10,917,959	45,498	83,869	17,025,117	4.52%
Commercial loans	11,440,974	11,474,786	1,038,972	16,414	285,769	24,256,915	5.09%
Others	-	-	-	-	390,555	390,555	-
Investment in an associate	-	-	-	-	129,977	129,977	-
Other real estate, net	-	-	-	-	62,012	62,012	
Property and equipment, net	-	-	-	-	701,659	701,659	
Other assets	-	-	-	-	370,970	370,970	-
Total assets	24,902,927	16,591,259	12,331,931	6,252,185	6,241,066	66,319,368	

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

	(SR'000)						
2016	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	98,267	98,267	-
Money market deposits	2,796,000	648,000	-	-	2,845	3,446,845	1.41%
Customer deposits							
Demand	-	-	-	-	25,522,256	25,522,256	-
Time	17,573,782	6,449,026	984,534	-	159,685	25,167,027	2.95%
Other	-	-	-	-	913,071	913,071	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	112,125	112,125	-
Held as cash flow hedges	-	-	-	-	221,593	221,593	-
Subordinated Sukuk	-	2,000,000	-	-	6,471	2,006,471	4.23%
Other liabilities	-	-	-	-	728,187	728,187	-
Equity	-	-	-	-	8,103,526	8,103,526	-
Total liabilities and Equity	20,369,782	9,097,026	984,534	-	35,868,026	66,319,368	
On-balance sheet Gap	4,533,145	7,494,233	11,347,397	6,252,185	(29,626,960)	-	
Commission rate sensitivity – off balance sheet	2,062,500	(1,381,875)	(1,350,000)	669,375	-	-	
Total commission rate sensitivity gap	6,595,645	6,112,358	9,997,397	6,921,560	(29,626,960)	-	
Cumulative commission rate sensitivity gap	6,595,645	12,708,003	22,705,400	29,626,960	-	-	

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 amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

ii) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant net exposures denominated in foreign currencies as at December 31:

	2017 **SR' 000** **Long / (Short)**	2016 SR'000 Long /(Short)
USD	**986,974**	912,880
AED	**7,602**	9,807

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2017. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2017**		2016	
	Increase / decrease in currency rate in %	**Effect on net income SR'000**	Increase/ decrease in currency rate in %	Effect on net income SR'000
USD	**±0.05**	**±493**	±0.05	±456
AED	**±0.05**	**±4**	±0.05	±5

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

iii) EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on shareholders' equity (other reserves) as a result of a change in the fair value of equity instruments as FVTOCI at December 31, 2017 and December 31, 2016 due to reasonably possible changes in the following market indexes, with all other variables held constant, is as follows:

Market index	**2017**		2016	
	Increase / decrease in index %	**Effect on shareholders' equity (other reserve) SR'000**	Increase / decrease in index %	Effect on shareholders' equity (other reserve) SR'000
New York Stock Exchange	**± 15.84%**	**±1,910**	± 9.01%	±747

33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity gaps on a daily basis. The Group also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA at 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash or assets that can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA up to 82% of the value of debt securities issued by SAMA or guaranteed by government.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consist of cash, short term bank deposits, murabaha placements with SAMA and liquid debt securities available for immediate sale. Deposit liabilities include both customers and banks, excluding non-resident bank deposits in foreign currency. The Bank also monitors the loan to deposit ratio.

33. LIQUIDITY RISK (continued)

The liquidity ratio during the year was as follows:

	2017	2016
	%	%
As at December 31	**44**	29
Average during the year	**40**	25
Highest	**49**	31
Lowest	**32**	18

a) Analysis of financial liabilities by remaining undiscounted contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2017 and December 31, 2016 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities as shown in note (b) below (maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, 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 reflect the expected cash flows indicated by the Group's deposit retention history.

	(SR' 000)					
	with in 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Financial liabilities						
As at December 31, 2017						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	**181,638**	**181,638**
Money market deposits	**5,347,704**	**662,577**	-	-	-	**6,010,281**
Customers' deposits						
Demand	-	-	-	-	**24,990,180**	**24,990,180**
Time	**15,381,382**	**8,139,532**	**824,592**	**4,516**	-	**24,350,022**
Other	**1,115,693**	-	-	-	-	**1,115,693**
Negative fair value of derivatives						
Held for trading	**18,547**	**1,189**	**69,873**	**1,883**	-	**91,492**
Held as cash flow hedges	**16,847**	-	**11,845**	**100,803**	-	**129,495**
Subordinated Sukuk	**19,807**	**60,520**	**321,305**	**2,275,090**	-	**2,676,722**
Other liabilities	-	-	-	-	**780,336**	**780,336**
Total undiscounted financial liabilities	**21,899,980**	**8,863,818**	**1,227,615**	**2,382,292**	**25,952,154**	**60,325,859**
Derivatives	**1,279,363**	**198,482**	**4,199,923**	**2,928,347**	**-**	**8,606,115**

33. LIQUIDITY RISK (continued)

	(SR' 000)					
	with in 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
As at December 31, 2016						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	98,267	98,267
Money market deposits	2,799,830	655,345	-	-	-	3,455,175
Customers' deposits						
Demand	-	-	-	-	25,522,256	25,522,256
Time	18,062,435	8,628,925	60,760	-	-	26,752,120
Other	913,071	-	-	-	-	913,071
Negative fair value of derivatives						
Held for trading	18,194	8,529	75,384	10,018	-	112,125
Held as cash flow hedges	27,332	110	6,947	187,204	-	221,593
Subordinated Sukuk	20,800	63,556	337,422	2,373,244	-	2,795,022
Other liabilities	-	-	-	-	728,187	728,187
Total undiscounted financial liabilities	21,841,662	9,356,465	480,513	2,570,466	26,348,710	60,597,816
Derivatives	581,262	946,138	5,617,337	5,158,461	-	12,303,198

The contractual maturity structure of the Group's credit-related contingencies and commitments are shown under note 18.

33. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (a) above for the Group's contractual undiscounted financial liabilities. For presentation purposes demand deposits are included in "No fixed maturity" category.

(SR' 000)

2017	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	1,183,711	1,183,711
Balances with SAMA	-	-	-	-	-	-	4,791,356	4,791,356
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	202,200	202,200
Money market placements	-	167,049	167,049	-	-	-	-	167,049
Investments								
Held as FVTIS	-	-	-	-	-	-	61,415	61,415
Held as FVTOCI	-	-	-	-	-	-	16,388	16,388
Held at amortised cost	-	89,535	89,535	5,248,125	14,945,084	20,193,209	-	20,282,744
Positive fair value of derivatives								
Held for trading	19,789	1,189	20,978	69,874	1,883	71,757	-	92,735
Held as cash flow hedges	11,286	-	11,286	-	-	-	-	11,286
Loans and advances, net								
Credit cards	150,146	-	150,146	-	-	-	322,320	472,466
Consumer loans	123,684	169,837	293,521	8,744,923	8,354,936	17,099,859	-	17,393,380
Commercial loans	9,023,118	8,972,133	17,995,251	2,069,874	1,435,769	3,505,643	-	21,500,894
Others	-	422,805	422,805	301	-	301	-	423,106
Investment in an associate	-	-	-	-	-	-	134,071	134,071
Other real estate, net	-	-	-	-	-	-	445,046	445,046
Property and equipment, net	-	-	-	-	-	-	784,526	784,526
Other assets	56,459	101,693	158,152	-	-	-	166,930	325,082
Total assets	9,384,482	9,924,241	19,308,723	16,133,097	24,737,672	40,870,769	8,107,963	68,287,455

33. LIQUIDITY RISK (continued)

(SR' 000)

2017	Within 3 Months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	181,638	181,638
Money market deposits	-	5,342,233	5,342,233	648,674	-	648,674	-	5,990,907
Customer deposits								
Demand	-	-	-	-	-	-	24,990,180	24,990,180
Time	4,606,310	13,162,878	17,769,188	6,399,283	4,022	6,403,305	-	24,172,493
Other	-	-	-	-	-	-	1,115,693	1,115,693
Negative fair value of derivatives								
Held for trading	18,547	1,189	19,736	69,873	1,883	71,756	-	91,492
Held as cash flow hedges	16,847	-	16,847	11,845	100,803	112,648	-	129,495
Subordinated Sukuk	-	6,382	6,382	-	2,000,000	2,000,000	-	2,006,382
Other liabilities	-	-	-	-	-	-	780,336	780,336
Total liabilities	4,641,704	18,512,682	23,154,386	7,129,675	2,106,708	9,236,383	27,067,847	59,458,616

33. LIQUIDITY RISK (continued)

(SR' 000)

2016	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	927,043	927,043
Balances with SAMA	-	-	-	-	-	-	4,269,772	4,269,772
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	224,748	224,748
Money market placements	-	1,113,030	1,113,030	-	-	-	-	1,113,030
Investments								
Held as FVTIS	-	-	-	-	-	-	92,556	92,556
Held as FVTOCI	-	-	-	-	-	-	11,724	11,724
Held at amortised cost	-	147,074	147,074	2,978,812	13,062,578	16,041,390	-	16,188,464
Positive fair value of derivatives								
Held for trading	16,802	8,529	25,331	75,384	10,018	85,402	-	110,733
Held as cash flow hedges	17,985	-	17,985	-	-	-	-	17,985
Loans and advances, net								
Credit Cards	146,283	-	146,283	-	-	-	279,825	426,108
Consumer Loans	95,638	118,770	214,408	9,001,079	7,809,630	16,810,709	-	17,025,117
Commercial Loans	10,647,878	9,695,123	20,343,001	2,230,080	1,683,834	3,913,914	-	24,256,915
Others	-	389,896	389,896	659	-	659	-	390,555
Investment in an Associate	-	-	-	-	-	-	129,977	129,977
Other real estate, net	-	-	-	-	-	-	62,012	62,012
Property and equipment, net	-	-	-	-	-	-	701,659	701,659
Other assets	50,576	95,224	145,800	-	-	-	225,170	370,970
Total assets	10,975,162	11,567,646	22,542,808	14,286,014	22,566,060	36,852,074	6,924,486	66,319,368

33. LIQUIDITY RISK (continued)

(SR' 000)

2016	Within 3 Months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	98,267	98,267
Money market deposits	-	2,798,076	2,798,076	648,769	-	648,769	-	3,446,845
Customer deposits								
Demand	-	-	-	-	-	-	25,522,256	25,522,256
Time	5,303,285	14,613,295	19,916,580	5,250,447	-	5,250,447	-	25,167,027
Other	-	-	-	-	-	-	913,071	913,071
Negative fair value of derivatives								
Held for trading	18,194	8,529	26,723	75,384	10,018	85,402	-	112,125
Held as cash flow hedges	27,332	110	27,442	6,947	187,204	194,151	-	221,593
Subordinated Sukuk	-	6,471	6,471	-	2,000,000	2,000,000	-	2,006,471
Other liabilities	-	-	-	-	-	-	728,187	728,187
Total liabilities	5,348,811	17,426,481	22,775,292	5,981,547	2,197,222	8,178,769	27,261,781	58,215,842

34. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Determination of fair value and fair value hierarchy

The Group 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.

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

a) The following table presents the Group's financial assets and liabilities that are measured at fair values:

	2017 (SR'000)		
	Level 1	**Level 2**	**Total**
Financial assets			
FVTIS			
Mutual Funds	**60,870**	**-**	**60,870**
Equities	**545**		**545**
FVTOCI			
Equities	**12,057**	**-**	**12,057**
Derivatives	**-**	**104,021**	**104,021**
Total	**73,472**	**104,021**	**177,493**
Financial liabilities			
Derivatives	**-**	**220,987**	**220,987**
Total	**-**	**220,987**	**220,987**

34. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

a) The following table presents the Group's financial assets and liabilities that are measured at fair values: (continued)

	2016 (SR'000)		
	Level 1	Level 2	Total
Financial assets			
FVTIS			
Mutual Funds	91,933	-	91,933
Equities	623	-	623
FVTOCI			
Equities	8,286	-	8,286
Derivatives	-	128,718	128,718
Total	100,842	128,718	229,560
Financial liabilities			
Derivatives	-	333,718	333,718
Total	-	333,718	333,718

Fair value of quoted investments is based on price quoted on the reporting date. Level 2 trading and hedging derivatives comprise foreign exchange, options, interest rate swaps and structured deposits. These foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps, options and structured deposits are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

There were no changes in valuation techniques during the period.

There were no transfers between Levels 1 and 2 during the year. New investments acquired during the year are classified under the relevant levels. There were no financial assets or financial liabilities classified under level 3.

Investments amounting to SR 4.33 million (2016: SR 3.44 million) are carried at cost and, accordingly, are not fair valued.

34. FAIR VALUE MEASUREMENT (continued)

b) Following table represent fair values of financial assets and liabilities measured at amortised cost.

	31 December 2017 (SR'000)		31 December 2016 (SR'000)	
	Amortised cost	**Fair value**	Amortised cost	Fair value
Financial assets:				
Due from banks and other financial institutions	**369,249**	**369,196**	1,337,778	1,338,102
Investment held at amortised cost	**20,282,744**	**20,296,827**	16,188,464	16,207,079
Loans and advances, net	**39,789,846**	**41,260,628**	42,098,695	43,467,763
Total	**60,441,839**	**61,926,651**	59,624,937	61,012,944
Financial liabilities:				
Due to banks and other financial institutions	**6,172,545**	**6,174,470**	3,545,112	3,545,375
Customers' deposits	**50,278,366**	**50,288,545**	51,602,354	51,615,457
Total	**56,450,911**	**56,463,015**	55,147,466	55,160,832

The fair value of the cash and balances with SAMA, other assets and other liabilities and subordinated Sukuks approximate to their carrying amount.

35. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the management and the Board of Directors, the related party transactions are conducted on approved terms. The related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA.

The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

	2017 SR' 000	2016 SR' 000
National Bank of Pakistan (shareholder)		
Due from banks and other financial institutions	**71**	75
Due to banks and other financial institutions	**190**	198
Subsidiary companies		
Investments	**501,480**	500,980
Customer deposits	**20,407**	625,042
Due from banks and other financial institutions	**656,118**	-
Receivables	**184,984**	45,917
Payables	**16,365**	21,485
Commitments and contingencies	**630,247**	630,247
Notional values of outstanding derivative contracts	**4,369,369**	-
Associate and affiliate entities with significant influence		
Investments	**134,071**	129,977
Customer deposits	**401,763**	384,353
Accrued expenses payables	**2,211**	2,253

35. RELATED PARTY TRANSACTIONS (continued)

	2017 SR' 000	2016 SR' 000
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**120,473**	48,524
Customers' deposits	**85,055**	390,992
Contingencies and commitments	**6,447**	-

Other major shareholders represent shareholdings of more than 5% of the Bank's issued share capital.

	2017 SR' 000	2016 SR' 000
Mutual Funds under subsidiary's management		
Investments	**60,870**	91,429
Loans and advances, net	**356,334**	392,076
Customer deposits	**531**	2,989

Income, expenses and other transactions with related parties included in the consolidated financial statements are as follows:

	2017 SR' 000	2016 SR'000
Special commission income	**58,979**	20,161
Special commission expense	**57,990**	120,948
Fees and commission income	**132**	166
Advisory fee paid	**-**	1,600
Net share of expenses to associate	**15,850**	9,732
Insurance premium paid	**38,114**	35,462
Surplus distribution received from associate	**1,524**	-
Claims received	**12,977**	8,502
Directors' remuneration	**7,562**	7,409
Dividend received	**5,250**	5,250
Income under shared service agreements	**3,988**	3,988
Reimbursement of expense to a subsidiary	**47**	-
Expenses under revenue sharing agreement	**3,109**	31,837
Reimbursement of rent expense	**9,355**	9,355
Rent expense for branches	**2,345**	615

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

	2017 SR' 000	2016 SR'000
Short-term employee benefits	**89,652**	87,944
Termination benefits	**27,735**	22,869

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

36. SALARIES AND EMPLOYEE RELATED EXPENSES

	2017			
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis) SR' 000**	**Variable compensation (on cash basis) SR' 000**	**Total SR' 000**
Senior executives that require SAMA no Objection	**16**	**39,857**	**18,767**	**58,624**
Employees involved in control functions	**174**	**70,319**	**5,294**	**75,613**
Employees involved in risk taking activities	**208**	**74,805**	**13,355**	**88,160**
Other employees	**2,029**	**453,738**	**62,840**	**516,578**
Outsourced employees	**604**	**84,889**	**2,959**	**87,848**
Total	**3,031**	**723,608**	**103,215**	**826,823**
Variable compensation (accrual basis)		**96,456**		
Other employee related benefits		**36,820**		
Total salaries and employee-related expenses		**856,884**		

	2016			
Categories of employees	Number of employees	Fixed compensation (on accrual basis) SR' 000	Variable compensation (on cash basis) SR' 000	Total SR' 000
Senior executives that require SAMA no objection	16	37,758	21,248	59,006
Employees involved in control functions	175	69,317	5,397	74,714
Employees involved in risk taking activities	208	71,639	11,483	83,122
Other employees	2,038	462,976	46,573	509,549
Outsourced employees	609	96,084	2,957	99,041
Total	3,046	737,774	87,658	825,432
Variable compensation (accrual basis)		97,870		
Other employee related benefits		58,669		
Total salaries and employee-related expenses		894,313		

36. SALARIES ANA EMPLOYEE RELATED EXPENSES (continued)

The compensation and benefits program philosophy

Compensation and benefits levels and amounts are determined by conducting periodic salary benchmark surveys and through other means of market pay intelligence, in order to enable the Group to keep abreast of the local and regional market conditions relating to the Group's staff employed in the Kingdom of Saudi Arabia, which are contrasted to cyclical performance levels and mitigated for any associate risks.

The distribution of compensation is composed of a mix of fixed and variable pay, allowances, periodic meritorious reward schemes and non-cash benefits in line with the standards and norms for the financial services industry in the Kingdom of Saudi Arabia.

According to labour law of the Kingdom of Saudi Arabia and Group's internal policies, staff end of services benefits is due for payment at the end of an employee's period of services. The end of service benefit outstanding at end of December 2017 amounted to SR 244.02 million (2016: SR 217.76 million).

The compensation and benefits program is applicable to all regular (Headcount) Saudi national and expatriate employees of the Bank, and its subsidiaries within all applicable regulatory and corporate governance limitations.

- **Fixed compensation** includes salaries and wages, and job/position specific allowances and related benefits, which are fixed in employment contracts and are given irrespective of performance;

- **Variable compensation** includes performance bonuses, incentives and other variable performance related allowances which are not fixed by the employment contracts, and which vary from year to year, and have a direct correlation with individual, group and institutional performance success.

37. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored on a periodic basis by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum of 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank'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.

37. CAPITAL ADEQUACY (Continued)

The following table summarizes the Bank's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the Basel III Framework:

	2017		2016	
	Eligible capital SR '000	**Capital adequacy ratio %**	Eligible capital SR '000	Capital adequacy ratio %
Core capital (Tier 1)	**8,941,872**	**16.52%**	8,304,283	15.31%
Supplementary capital (Tier 2)	**2,396,689**	**-**	2,470,299	-
Core and supplementary capital (Tier 1 + Tier 2)	**11,338,561**	**20.94%**	10,774,582	19.86%

Common Equity Tier 1 capital of the Bank at the year-end comprises of share capital, statutory reserve, general reserves, other reserves, retained earnings and certain regulatory capital adjustments in accordance with the requirement of SAMA Basel III Framework. The other component of regulatory capital is Tier 2 capital, which comprises subordinated sukuk issued by the Group and eligible collective allowances.

For the purpose of calculating risk weighted assets, the Group uses the Standardized Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. The Group's Risk Management Division is responsible for ensuring that the Group's capital adequacy ratios meet the minimum requirement specified by SAMA. The Group is required to submit Capital Adequacy Prudential Returns on quarterly basis to SAMA showing the capital adequacy position.

	2017 SR '000	2016 SR '000
Credit risk	**48,032,983**	48,372,180
Operational risk	**4,975,084**	4,750,113
Market risk	**1,127,857**	1,129,288
Total pillar-1 – risk weighted assets	**54,135,924**	54,251,581

38. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank's subsidiary, AlJazira Capital Company (AJC) offers investment management and advisory services to its customers, compliant with the principles of Shari'ah (non-interest based). These services include portfolio management on a discretionary and non-discretionary basis and management of investment funds in conjunction with professional investment advisors. Thirteen such funds for which AJC acts as the manager are Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund, Al-Taiyebat Saudi Equities Fund, Al-Qawafel Commodities Fund, AlJazira Residential Projects Fund, AlJazira Residential Projects Fund 2, AlJazira GCC Income Fund, AlJazira Diversified Aggressive Fund, AlJazira Diversified Balanced Fund, AlJazira Diversified Conservative Fund, AlJazira Global Emerging market Fund and AlJazira Mawten REIT Fund. All of the above are open ended funds except for AlJazira Residential Projects Fund and AlJazira Residential Projects Fund 2 which are closed-ended funds and AlJazira Mawten REIT Fund which is a public traded fund on Tadawul. Al-Khair Global Equities Fund, Al-Thoraiya European Equities Fund, Al-Mashareq Japanese Equities Fund invests in foreign equities, while Al-Taiyebat Saudi Equities Fund invests in local equities. Al-Qawafel Commodities Fund trades in commodities through Murabaha.

38. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES (continued)

The objective of AlJazira Global Emerging Market Fund is to provide long term capital growth and provide income by investing in a diversified portfolio in emerging markets. The objective of AlJazira GCC Income Fund is to achieve long term capital growth and generate dividend income through investment in Shari'ah compliant GCC equities. The mandates of AlJazira Diversified Aggressive, Balanced and Conservative Funds are to invest mainly in AlJazira Capital mutual funds.

The Group also provides investment management and other services to the policy holders of its Takaful Ta'awuni program.

Total assets under administration held by the Group related to its brokerage services business amounted to SR 43.8 billion (2016: SR 34.7 billion).

Assets held in public funds in a fiduciary capacity by the Group related to its asset management services business amounted to SR 4.9 billion (2016: SR 3.7 billion).

39. UNCONSOLIDATED ENTITIES

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Group	Total assets SR '000
Investment in funds	Mutual Funds managed by Alazira Capital Company (Subsidiary of the Bank Al Jazira)	**% of holding**	
	AlJazira Global Emerging Markets Fund	48.32%	67,110
	AlJazira GCC Income Fund	9.69%	41,222
	AlJazira Residential Projects Fund	43.64%	30,347
	AlJazira Residential Projects Fund 2	13.05%	100,385

The table below sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

Investment in funds – Carrying Amount	SR '000
AlJazira Global Emerging Markets Fund	32,247
AlJazira GCC Income Fund	3,969
AlJazira Residential Projects Fund	12,983
AlJazira Residential Projects Fund 2	11,671

40. TAKAFUL TA'WUNI

Takaful Ta'awuni provides protection and saving products services that are fully Shari'ah compliant.

As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity formed under the new Insurance Law of Saudi Arabia.

AlJazira Takaful Ta'awuni Company (ATT) was formed and listed on the Saudi Stock Exchange (Tadawul). ATT also received its insurance license from SAMA in December 2013 and started writing business from January 2014. The Group collectively holds a 35% share in ATT as at December 31, 2017. The current division represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.

41. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS

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

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

- IFRS 15 - "Revenue from contracts with customers", applicable for the periods beginning on or after January 1, 2018. The new standard presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard will not have a significant impact on how and when you recognize revenue, with new estimates and judgments, and the possibility of revenue recognition being accelerated or deferred.

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

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

- IFRS 9 Financial Instruments will be effective from January 1, 2018 and will replace IAS 39 by building models using internal and external experts. The Group will recognize loss allowances based on Expected Credit Loss (ECL) considering forward-looking information. Setting framework with detailed policies and controls including roles and responsibilities will be implemented. The Group does not expect to restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7. Implementation strategy and impact analysis of IRFS 9 is detailed in note 41(a)

41. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS (continued)

a) Implementation and Impact Analysis of IFRS 9 – "Financial Instruments"

Implementation strategy

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that replaces IAS 39 Financial Instruments: Recognition and Measurement effective from January 1, 2018, with early adoption permitted. The version of IFRS 9 issued in 2014 supersedes all previous versions. 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

As the Group has already adopted the IFRS 9, issued in November 2009 and revised in October 2010 therefore no significant changes are expected with respect to classification and measurement of financial assets and liabilities. The significant changes in IFRS 9 with respect to classification and measurement compared to earlier version as adopted by the Group are mainly related to the following:

- Contractual cash flow characteristics assessment;
- Introduction of a FVOCI measurement category for debt instruments;
- Accounting for the reclassification of financial assets between measurement categories.

These changes are not expected to have any material effect on the consolidated financial statements of the Group.

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 categorise its financial assets into following three stages in accordance with IFRS 9 methodology:

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

41. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS (continued)

Impairment (continued)

- 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 recognize the impairment allowance based on life time ECL.

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

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

To evaluate a range of possible outcomes, the 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 in the final phase of implementation; whereby parallel run exercise is currently under process together with various level of validation before going live on 1 January 2018.

Hedge accounting

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

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

Overall expected impact

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

- According to transitional provisions for initial application of IFRS 9, the Group 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 effect is approximated to be SR 450 million on the date of initial application in opening retained earnings arising due to application of expected credit loss model as against Incurred loss model;

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

41. PROSPECTIVE CHANGES IN ACCOUNTING STANDARDS (continued)

Overall expected impact (continued)

Based on the balances as at December 31, 2017, the day 1 impact of IFRS 9 (applicable from January 1, 2018) would be an estimated reduction of approximately 0.84% which would be transitioned over five years in accordance with SAMA guidelines.

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

Governance and controls

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

The Bank has a centrally managed IFRS 9 programme which includes subject matter experts on methodology, data sourcing and modelling, IT processing and reporting. The Bank's work to date has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements of IFRS 9 and developing an impairment methodology to support the calculation of the Expected Credit Loss (ECL) allowance. Specifically, during 2017 the Group developed its approach for assessing significant increase in credit risk ("SICR"), incorporating forward looking information, including macro-economic factors and preparing the required IT systems and process architecture. The Group has performed a full end to end parallel run based on December 31, 2017 data to assess procedural readiness. Overall governance of the program's implementation is through the IFRS 9 Steering Committee and includes representation from Finance, Risk and IT. The Bank is in the process of enhancing its governance framework to implement appropriate validations and controls over new key processes and significant areas of judgment such as SICR determining and applying forward looking information in multiple economic scenarios and computation of ECL.

Caveat
The estimated decrease in shareholders' equity includes the impact of increase to credit impairment provisions compared to those applied at December 31, 2017 under IAS 39. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Bank could vary significantly from this estimate. The Bank continues to refine models, methodologies and controls, and monitor developments in regulatory rule-making in advance of IFRS 9 adoption on January 1, 2018. Although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended time. As a result, the Bank has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework. All estimates are based on the Bank's current interpretation of the requirements of IFRS 9, reflecting industry guidance and discussions to date.

42. COMPARATIVE FIGURES

During the current year, debit and credit cards related expenses (i.e. interchange expenses, loyalty expenses etc.) that are correlated with the fee income generated on cards transactions have been reclassified from Other general and administrative expenses to Fee and commission income, net for better presentation.

The impact of this reclassifications on the consolidated statement of income is disclosed below.

For the years ended 31 December 2016	**As originally reported**	**Reclassification**	**Amounts reported after reclassification**
Fee and commission income, net	632,481	(46,122)	**586,359**
Other general and administrative expenses	416,630	(46,122)	**370,508**

During the year, intangible assets included in the furniture, equipment and vehicles have been reclassified to Computer Softwares for better presentation.

The impact of this reclassification on the amount reported in note 8 as of 31 December 2016 is disclosed below. There was no impact on Consolidated Statement of Financial Position.

As at 31 December 2016	**As originally reported**	**Reclassification**	**Amounts reported after reclassification**
Cost			
Furniture equipment and vehicles	662,851	(43,270)	**619,581**
Computer Softwares	-	43,270	**43,270**
Accumulated depreciation / amortisation			
Furniture equipment and vehicles	524,501	(22,970)	**501,531**
Computer Softwares		22,970	**22,970**
Net Book Value			
Furniture equipment and vehicles	138,350	(20,300)	**118,050**
Computer Softwares		20,300	**20,300**

In addition, certain prior year amounts have been reclassified so as to align with the current year presentation.

43. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on 19 Jumada Al-Awwal 1439H (corresponding to 5 February 2018).