(Formerly known as Saudi Hollandi Bank)**

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended

December 31, 2016

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Alawwal Bank (A Saudi Joint Stock Company) (formerly known as Saudi Hollandi Bank)

Opinion

We have audited the consolidated financial statements of Alawwal Bank (formerly known as Saudi Hollandi Bank) (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, 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 40.

In our opinion, the accompanying consolidated financial statements taken as a whole:

- present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Accounting Standards for Commercial Banks issued by the Saudi Arabian Monetary Authority ("SAMA") and with International Financial Reporting Standards ("IFRS"); and

- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Bye-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

Basis for Opinion

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Saudi Arabia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Alawwal Bank (A Saudi Joint Stock Company) (formerly known as Saudi Hollandi Bank) (continued)

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 key audit matter, a description of how our audit addressed the matter is set out below:

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Impairment of loans and advances
At December 31, 2016, the gross loans and advances were Saudi Riyals 74,895 million against which an impairment provision of Saudi Riyals 2,152 million was maintained. This include impairment against specific loans and collective impairment recorded on a portfolio basis.

We considered this as a key audit matter as the Group makes complex and subjective judgements and makes assumptions to determine the amount of impairment and the timing of recognition of such impairment.

In particular the determination of impairment against loans and advances includes:
o The identification of impairment events and judgments used to calculate the impairment against specific corporate loans and advances;

o The use of assumptions underlying the calculation of collective impairment for portfolios of loans and advances, and the use of models to make those calculations;

o An assessment of the Group's exposure to certain industries affected by current economic conditions.

Refer to the significant accounting policies note 3(l)(i) to the consolidated financial statements for the significant accounting policy relating to impairment of loans and advances, note 2(d)(i) which contains the disclosure of significant accounting estimates relating to impairment against loans and advances and note 7(b) which contains the disclosure of impairment against loans and advances.</td><td>We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment.

We tested a sample of loans and advances to form our own assessment as to whether impairment events had occurred and to assess whether impairment had been identified and recorded in a timely manner.

Where impairment was individually calculated, we tested the assumptions underlying the calculation of impairment including forecasted future cash flows, discount rates and estimated recovery from any underlying collateral etc. For individually assessed loans, we also selected a sample of loans for industries adversely affected by the economic conditions to evaluate management's impairment assessment for such loans. For collective impairment model used by the Group among other procedures we tested:
• On a sample basis, the extracts of historical data to the underlying systems.
• The assumptions used by management including probability of default, loss given default and deliquency days analysis etc used in the models.
• On a sample basis, the calculations within the models.</td></tr>
</table>

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Alawwal Bank (A Saudi Joint Stock Company) (formerly known as Saudi Hollandi Bank) (continued)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Zakat
The Group files its zakat return with the General Authority of Zakat and Tax ("GAZT") on an annual basis. The GAZT has issued assessment orders for the years from 2005 up to 2013, which resulted in additional zakat exposure amounting to Saudi Riyals 281.6 million. The additional zakat exposure resulted mainly due to disallowance of certain long-term investments and the addition of long term financing to the zakat base by the GAZT. The interpretation of the GAZT is being challenged by the Group and the appeal proceedings are underway at various levels of available appellate forums.

Assessments for the years 2014 and 2015 are yet to be raised. However, in line with the assessments finalized by the GAZT for the years 2005 to 2013, if long-term investments are disallowed and long-term financing is added to the zakat base this would result in additional zakat exposure. The amount of the potential additional zakat exposure is not disclosed in the consolidated financial statements as management believes that this might affect the Bank's position in this matter.

Management makes judgments about the incidence and quantum of zakat liabilities (which are subject to the future outcome of assessments by the GAZT) and based on such judgments management is confident of a favourable outcome of the appeal process.

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

Refer to note 3(y) for the accounting policy relating to zakat and note 26 for the related disclosures for zakat.</td><td>In order to assess the status and likely outcome of the matter, we obtained correspondence between the Group, GAZT and the Group's zakat consultants to determine the amount of the additional demand made by the GAZT.
We held meetings with those charged with governance and senior management of the Group to obtain an update on the zakat matter and the results of their interactions with the relevant appellate forums.
We also used our internal specialist to assess the adequacy of the net exposure disclosed for the years assessed by the GAZT and the appropriateness of management's judgments relating to the zakat matter in light of the facts and circumstances of the Group.
We also assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group.</td></tr>
</table>

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Alawwal Bank (A Saudi Joint Stock Company) (formerly known as Saudi Hollandi Bank) (continued)

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
Fee from banking services The Group charges loan transaction and service fees upfront to customers on corporate and retail loan financing. Due to the large volume of transactions with mostly insignificant fee amounts, adjustments to the effective yield of loan financing is made by management based on certain thresholds and such adjustments are recognised within consolidated income statement. All such fees which are an integral part of generating an involvement with the resulting financial instrument should be recognized, regardless of the thresholds, as an adjustment to the effective yield of loan financing. We considered this as a key audit matter since the use of assumptions for setting these thresholds by management could result in a material over / under statement of the Group's profitability. *Refer to the significant accounting policies note 3g (iii) to the consolidated financial statements.*	We assessed the design and implementation and tested the operating effectiveness of the control over the consistent application of the thresholds by management. We considered the assumptions made and evaluated the thresholds established by the Group for making adjustments to the effective yield of loan financing and recording such adjustments within conoslidated income statement. We obtained management's assessment of the impact of the use of the aforementioned thresholds and: • On a test basis, traced the historical and current year data used by management to the underlying accounting records; and • Assessed the impact of the use of thresholds (alongwith the related assumptions used in this calculation) on the recognition of fee and commission income and special commission income.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Alawwal Bank (A Saudi Joint Stock Company) (formerly known as Saudi Hollandi Bank) (continued)

Key Audit Matters (continued)

Key Audit Matter	How the matter was addressed in our audit
Impairment of non-trading investments As at 31 December 2016, the Group had non-trading investments of Saudi Riyals 21,258 million. These non-trading investments include equities, corporate bonds and sukuk, which are subject to the risk of impairment due to either adverse market situation and / or liquidity constraints faced by the issuers. For assessing the impairment of equities, management monitors volatility of share prices and uses the criteria of significant or prolonged decline in their fair values below their costs as the basis for determining impairment. A significant or prolonged decline in fair value of an equity instrument below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the cost of the equity instrument. In assessing whether it is prolonged, the decline is evaluated against the time-period for which the fair value of the equity instrument has been below its cost. For debt instruments such as corporate bonds/sukuk, management considers them to be impaired when there is evidence of a deterioration in the financial condition of the issuer, industry or sector performance, changes in technology and operational and/or financing cash flows of the issuer. We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the consolidated financial statements. *Refer to note 3(l) of the consolidated financial statements for the accounting policy relating to the impairment of non-trading investments, note 2(d)(iii) for the critical accounting estimates and judgements, and notes 29 and 31 for the disclosures of credit and market risks respectively.*	We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for assessing impairment of non-trading investments including: • Management's identification of indicators of impairment such as significant or prolonged decline in the fair value of equities and/or any issuer defaults relating to corporate bonds/sukuk; • Management's review and approval of the impairment methodology and outcome. For equity investments, on a sample basis, we: • Assessed the appropriateness of management's criteria for determining the significant or prolonged decline in the fair value of investments; • Evaluated the basis for determining the cost and fair value of investments; • Traced the cost of investments to underlying accounting records and traced the valuation of investments to management's working of the fair valuation of investments (based on either mark to market or mark to model approach); and; • Considered the price fluctuation / movement during the holding period to determine if the significant or prolonged criteria is met. For corporate bonds/sukuk, on a sample basis, we assessed the creditworthiness of counterparties based on readily available market information and assessed cash flows from the instruments to consider whether there were any defaults based on the terms and conditions of the issuance of these corporate bonds/sukuk.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Alawwal Bank (A Saudi Joint Stock Company) (formerly known as Saudi Hollandi Bank) (continued)

Key Audit Matters (continued)

Key Audit Matter	How the matter was addressed in our audit
Other assets As at 31 December 2016, other assets of the Group included an amount of Saudi Riyals 437 million. This amount was originally disbursed to a third party who defaulted on payment and the management expects to recover this balance from a related party. The Group has reached a settlement agreement with the related party for recovery of this amount. The Group maintains an impairment allowance of Saudi Riyals 150 million as at 31 December 2016 against the outstanding balance due to uncertainty around the timing of recoverability of this balance. This is considered a key audit matter due to uncertainty around the timing of the recovery of this amount and conditions attached to the settlement agreement that may impact the recoverability of the balance. *Refer to note 10 to the consolidated financial statements for disclosure of the aforementioned receivable.*	We performed the following procedures • Read the settlement agreement, reached with the related party to assess the terms and conditions attached to the settlement agreement. • Held meetings with those charged with governance and senior management of the Group to obtain an update on this matter and the results of their interactions with the related party. • Held meetings with the representative of the related party to discuss the progress on the settlement. • Evaluated the basis used by management to assess the adequacy of the impairment allowance against the receivable. • Assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Alawwal Bank (A Saudi Joint Stock Company) (formerly known as Saudi Hollandi Bank) (continued)

Other Information included in the Bank's 2016 Annual Report

Management is responsible for the other information in its annual report. Other information consists of the information included in the Bank's 2016 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 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 Accounting Standards for Commercial Banks issued by SAMA, IFRSs, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Bye-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.

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 generally accepted auditing standards in the Kingdom of Saudi Arabia and ISAs 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.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Alawwal Bank (A Saudi Joint Stock Company) (formerly known as Saudi Hollandi Bank) (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)
As part of an audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and ISAs, 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.

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.

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KPMG Al Fozan & Partners
Certified Public Accountants

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Alawwal Bank (A Saudi Joint Stock Company) (formerly known as Saudi Hollandi Bank) (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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.

Ernst & Young

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7 Jumad Thani 1438 H
(6 March 2017)

البنك الأول
Alawwal bank

(Formerly known as Saudi Hollandi Bank)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31,
Amounts in SAR'000

	Notes	*2016*	*2015*
ASSETS			
Cash and balances with SAMA	4	**7,487,379**	7,637,869
Due from banks and other financial institutions	5	**1,024,369**	734,615
Positive fair value derivatives	11	**393,779**	307,597
Investments, net	6	**21,258,498**	21,263,296
Loans and advances, net	7	**72,743,097**	76,412,190
Investment in an associate	8	**35,697**	12,567
Property and equipment, net	9	**1,281,023**	801,046
Other assets, net	10	**846,658**	901,154
Total assets		**105,070,500**	108,070,334
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**1,347,732**	1,357,167
Negative fair value derivatives	11	**270,793**	148,476
Customers' deposits	13	**85,358,788**	89,088,174
Subordinated debt	14	**3,909,905**	3,906,975
Other liabilities	15	**1,320,488**	1,542,348
Total liabilities		**92,207,706**	96,043,140
Shareholders' equity			
Share capital	16	**11,430,720**	5,715,360
Statutory reserve	17	**266,183**	1
General reserve		**130,000**	130,000
Other reserves	18	**41,147**	(37,691)
Reserve for bonus shares	16	**-**	5,715,360
Retained earnings		**1,054,072**	255,528
Proposed dividends	26	**-**	297,199
Share based plan reserve	37	**(59,328)**	(48,563)
Total shareholders' equity		**12,862,794**	12,027,194
Total liabilities and shareholders' equity		**105,070,500**	108,070,334

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

Abdullah Aloraini
Chief Financial Officer

Maha Al-Sudairi
Board Secretary & Chief Governance Officer

Soren Nikolajsen
Managing Director

البنك الأول
Alawwal bank

(Formerly known as Saudi Hollandi Bank)

CONSOLIDATED INCOME STATEMENT

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

	Notes	*2016*	*2015*
Special commission income	20	4,082,624	2,890,931
Special commission expense	20	1,575,307	592,929
Net special commission income		2,507,317	2,298,002
Fee and commission income, net	21	784,741	886,826
Exchange income, net		160,848	178,948
Trading income, net	22	129,787	210,026
Gains on investment held as FVIS, net		-	5,802
Dividend income from available for sale investments		11,446	5,480
Gains on non-trading investments	23	90,658	15,050
Total operating income		3,684,797	3,600,134
Salaries and employee-related expenses	24	693,225	676,258
Rent and premises-related expenses		142,169	115,906
Depreciation and amortisation	9	122,039	117,487
General and administrative expenses		378,133	249,642
Impairment charge for available for sale investments		120,246	-
Impairment charges for credit and other losses, net	7b (ii)	1,167,389	418,188
Total operating expenses		2,623,201	1,577,481
Operating income		1,061,596	2,022,653
Share in earning / (loss) of an associate	8	3,130	(226)
Net income for the year		1,064,726	2,022,427
Basic and diluted earnings per share (Expressed in SAR per share)	25	0.93	1.77

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

Abdullah Aloraini
Chief Financial Officer

Maha Al-Sudairi
Board Secretary & Chief Governance Officer

Soren Nikolajsen
Managing Director

البنك الأول
Alawwal bank

(Formerly known as Saudi Hollandi Bank)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Notes	*2016*	*2015*
Net income for the year		**1,064,726**	2,022,427
Other comprehensive income:			
Other comprehensive income to be reclassified to consolidated income statement in subsequent periods			
Available for sale investments:			
- Net changes in fair values	18	**(4,457)**	(28,192)
- Net amounts transferred to consolidated income statement	18	**83,016**	(13,063)
		78,559	(41,255)
Cash flow hedge:			
- Net changes in fair values	18	**279**	-
Total other comprehensive income		**78,838**	**(41,255)**
Total comprehensive income for the year		**1,143,564**	1,981,172

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

Abdullah Aloraini
Chief Financial Officer

Maha Al-Sudairi
Board Secretary & Chief Governance Officer

Soren Nikolajsen
Managing Director

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(Formerly known as Saudi Hollandi Bank)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31,

Amounts in SAR'000

	Notes	Share capital	Statutory reserve	General reserve	Other reserves: Available for sale	Other reserves: Cash flow hedges	Reserve for bonus shares	Retained earnings	Proposed dividends	Share based plan reserve	Total shareholders' equity
2016											
Balance at beginning of the year		5,715,360	1	130,000	(37,691)	-	5,715,360	255,528	297,199	(48,563)	12,027,194
Net income for the year		-	-	-	-	-	-	1,064,726	-	-	1,064,726
Net changes in fair values	18	-	-	-	(4,457)	279	-	-	-	-	(4,178)
Net amounts transferred to the consolidated income statement	18	-	-	-	83,016	-	-	-	-	-	83,016
Total comprehensive income for the year		-	-	-	78,559	279	-	1,064,726	-	-	1,143,564
Transfer to statutory reserve	17	-	266,182	-	-	-	-	(266,182)	-	-	-
Bonus shares issued	16	5,715,360	-	-	-	-	(5,715,360)	-	-	-	-
Dividends paid	16	-	-	-	-	-	-	-	(297,199)	-	(297,199)
Share based plan transactions	37	-	-	-	-	-	-	-	-	(10,765)	(10,765)
Balance at the end of the year		11,430,720	266,183	130,000	40,868	279	-	1,054,072	-	(59,328)	12,862,794
2015											
Balance at beginning of the year		4,762,800	3,536,355	130,000	3,564	-	952,560	709,306	619,164	28,133	10,741,882
Net income for the year		-	-	-	-	-	-	2,022,427	-	-	2,022,427
Net changes in fair values	18	-	-	-	(28,192)	-	-	-	-	-	(28,192)
Net amounts transferred to the consolidated income statement	18	-	-	-	(13,063)	-	-	-	-	-	(13,063)
Total comprehensive income for the year		-	-	-	(41,255)	-	-	2,022,427			1,981,172
Transfer to statutory reserve	17	-	505,607	-	-	-	-	(505,607)	-	-	-
Proposed bonus shares	16	-	(4,041,961)	-	-	-	5,715,360	(1,673,399)	-	-	-
Bonus shares issued	16	952,560	-	-	-	-	(952,560)	-	-	-	-
Proposed dividends	26	-	-	-	-	-	-	(297,199)	297,199	-	-
Dividends paid	16	-	-	-	-	-	-	-	(619,164)	-	(619,164)
Bank's shares held by Alawwal staff share Plan fund	37	-	-	-	-	-	-	-	-	(86,477)	(86,477)
Share based plan transactions	37	-	-	-	-	-	-	-	-	9,781	9,781
Balance at the end of the year		5,715,360	1	130,000	(37,691)	-	5,715,360	255,528	297,199	(48,563)	12,027,194

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

Abdullah Aloraini
Chief Financial Officer

Maha Al-Sudairi
Board Secretary & Chief Governance Officer

Soren Nikolajsen
Managing Director

البنك الأول
Alawwal bank

(Formerly known as Saudi Hollandi Bank)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31,

Amounts in SAR'000

	Notes	2016	2015
OPERATING ACTIVITIES			
Net income for the year		1,064,726	2,022,427
Adjustments to reconcile net income to net cash from operating activities:			
(Accretion of discounts) and amortisation of premium on non-trading investments, net		(81,592)	(104,656)
Loss / (gain) on disposal of property and equipment		1,445	(100)
Gains on non-trading investments	23	(90,658)	(15,050)
Derivative fair value, net		36,135	36,135
Subordinated debt		2,930	946
Depreciation and amortisation	9	122,039	117,487
Impairment charge for available for sale investments		120,246	-
Impairment charges for credit and other losses, net	7b (ii)	1,167,389	418,188
Share in (earning) / loss of an associate	8	(3,130)	226
Share based plan transactions		10,805	16,182
		2,350,335	2,491,785
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		48,668	(724,148)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(145,000)	-
Loans and advances, net		2,501,704	(11,289,175)
Other assets		32,926	446,758
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(9,435)	(1,697,676)
Customers' deposits		(3,729,386)	12,061,542
Other liabilities		(221,860)	(321,325)
Net cash from operating activities		827,952	967,761
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		13,865,828	15,300,142
Purchase of non-trading investments		(13,730,188)	(17,670,610)
Investment in an associate	8	(20,000)	-
Purchase of property and equipment	9	(603,461)	(392,145)
Proceeds from sale of property and equipment		-	100
Net cash used in investing activities		(487,821)	(2,762,513)
FINANCING ACTIVITIES			
Dividends paid	16	(297,199)	(619,164)
Cash used in financing activities		(297,199)	(619,164)
Net increase / (decrease) in cash and cash equivalents		42,932	(2,413,916)
Cash and cash equivalents at beginning of the year		3,896,332	6,310,248
Cash and cash equivalents at end of the year	27	3,939,264	3,896,332
Special commission received during the year		3,846,068	2,652,680
Special commission paid during the year		1,436,244	558,410
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated income statement		78,838	(41,255)

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

Abdullah Aloraini
Chief Financial Officer

Maha Al-Sudairi
Board Secretary & Chief Governance Officer

Soren Nikolajsen
Managing Director

1 GENERAL

Alawwal bank (Formerly known as Saudi Hollandi Bank) (the "Bank"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and was formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 21, 1976). The Bank commenced business on 17 Shaaban 1397H (corresponding to August 2, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumada II 1407H (corresponding to February 5, 1987) through its 65 branches (2015: 60 branches) in the Kingdom of Saudi Arabia. The registered address of the Bank's head office is:

Alawwal bank (Formerly known as Saudi Hollandi Bank)
Head Office
Al-Dhabab Street
P O Box 1467
Riyadh 11431, Kingdom of Saudi Arabia.

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

With effect from 27 Safar 1438H (Corresponding to November 27, 2016), the name of the Bank was changed from Saudi Hollandi Bank to Alawwal bank.

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

Alawwal Invest (AI) (Formerly known As Saudi Hollandi Capital) (SHC)

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

Alawwal Real Estate Company (AREC) (Formerly Known As Saudi Hollandi Real Estate Company) (SHREC)

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

Alawwal Insurance Agency Company (AIAC) (Formerly Known As Saudi Hollandi Insurance Agency Company) (SHIAC)

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

2 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements are prepared in accordance with Accounting Standards for Commercial Banks promulgated by SAMA and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements are prepared to comply with the requirements of the Banking Control Law, the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's By-Laws.

b) Basis of measurement and presentation

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

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

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

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

(i) Impairment for losses on loans and advances

Management reviews its loan portfolio to assess specific and collective impairment on a monthly basis. In determining whether an impairment loss should be recorded, management applies judgement when assessing whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with similar credit risk characteristics where objective evidence of impairment exists. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience (See note 7).

(ii) Fair value measurement

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

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

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

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

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

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

For assets and liabilities that are recognised in the annual consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. External valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the valuation committee after discussion with and approval by the Bank's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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

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

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

In assessing objective evidence of impairment of available for sale debt investments at the reporting date, the Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

(iv) Classification of held-to-maturity investments

The Group follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, Management evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling close to maturity or an insignificant amount, it will be required to reclassify the entire class as available-for-sale investments.

(v) Determination of control over investees

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

Investment funds

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

e) Provisions for liabilities and charges

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

f) Going concern

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2015 except for the adoption of the following amendments to existing standards and a new interpretation mentioned below which has had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods:

A summary of the amendments is contained as under:

- Amendments to IFRS 10 – "Consolidated Financial Statements", IFRS 12 – "Disclosure of Interests in Other Entities" and IAS 28 – "Investments in Associates", applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

- Amendments to IAS 1 – "Presentation of Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to;

    - The materiality requirements in IAS 1
    - That specific line items in the statement(s) of profit or loss and other comprehensive income ("OCI") and the statement of financial position may be disaggregated
    - That entities have flexibility as to the order in which they present the notes to financial statements
    - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the income statement and statement of comprehensive income.

- Amendments to IAS 16 – "Property, Plant and Equipment" and IAS 38 – "Intangible Assets", applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

- Amendments to IAS 16 – "Property, Plant and Equipment" and IAS 41 – "Agriculture", applicable for the annual periods beginning on or after 1 January 2016, change the scope of IAS 16 to include biological assets that meet the definition of bearer plants. Agricultural produce growing on bearer plants will remain within the scope of IAS 41. In addition, government grants relating to bearer plants will be accounted for in accordance with IAS 20 – "Accounting for Government Grants and Disclosure of Government Assistance", instead of IAS 41.

- Amendments to IAS 27 – "Separate Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments is as follows:

- IFRS 5 – "Non-current Assets Held for Sale and Discontinued Operations", amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.

- IFRS 7 – "Financial Instruments: Disclosures" has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.

- IAS 19 – "Employee Benefits" – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

a) Basis of consolidation

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

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

The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the date of the acquisition or up to the date of disposal, as appropriate. The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

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

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

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

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

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

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

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

b) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting based on annual audited or latest available financial statements. An associate is an entity in which the Group has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. Investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets, less any impairment in the value of individual investments. The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in statement of comprehensive income is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. The consolidated income statement reflects the Group's share of the results of associate's operations. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses it in the consolidated statement of changes in shareholders' equity.

The Group's share of profit / loss of an associate is shown on the face of the consolidated income statement. This is the profit / loss attributable to equity holders of the associate and, therefore, is profit / loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of earning of an associate' in the consolidated income statement.

c) Trade date accounting

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

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

d) Derivative financial instruments and hedge accounting

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

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

i) Derivatives held for trading

Any changes in the fair value of derivatives held for trading are taken directly to the consolidated income statement and disclosed in net trading income. Derivatives held for trading include all those derivatives which do not qualify for hedge accounting including embedded derivatives.

ii) Embedded derivatives

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

iii) Hedge accounting

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

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

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

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

Fair Value Hedges

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

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

Cash Flow Hedges

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

Where the hedged forecasted transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability. When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to consolidated income statement when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the consolidated income statement, the net cumulative gain or loss recognised in “other comprehensive income” is transferred immediately to the consolidated income statement for the year.

e) Foreign currencies

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

Foreign exchange gains or losses from settlement of transactions and translation of period end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except for differences arising on the retranslation of available for sale equity instruments or when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment, unless the non-monetary items have an effective hedging strategy. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

f) Offsetting financial instruments

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

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

g) Revenue / expense recognition

i) Special commission income and expenses

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

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

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

ii) Exchange income / (loss)

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

iii) Fee and commission income

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

- Portfolio and other management advisory and service fees are recognised over the period of applicable service contracts usually on a time proportionate basis.
- Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the services are being provided.
- Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective special commission rate on the loan. When a loan commitment is expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.
- Other fee and commission expense relate mainly to transaction and service fees and are expensed as the services are received and are disclosed net of the related fee and commission income.

iv) Dividend income

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

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

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

vi) Trading income / (loss), net

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

h) Day one profit or loss

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

i) Sale and repurchase agreements

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

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

j) Investments

Initial recognition

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

Determination of fair value

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

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

Reclassification

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

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

- If the investments would not have met the definition of held at amortised cost, and then it is reclassified out of the trading category only in 'rare circumstances'.

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

Subsequent measurement

The investments under each class are accounted for and presented using the basis set out in the following paragraphs

i) Held as FVIS

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

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

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

ii) Available for sale

Available-for-sale investments (AFS) are those non-derivative equity and debt securities which are neither classified as held to maturity (HTM) investments, other investments held at amortized cost (OI) nor designated as FVIS, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as AFS are initially recognised at fair value plus direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured and are carried at cost. Unrealised gains or losses arising from a change in its fair value is recognised in consolidated other comprehensive income until the investment is de-recognised or impaired whereupon any cumulative gain or loss previously recognized in other comprehensive income is reclassified to consolidated income statement.

iii) Held to maturity

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

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

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

iv) Other investments held at amortised cost

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

k) Loans and advances

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

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

l) Impairment of financial assets

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

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

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

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

(i) Impairment of financial assets held at amortised cost

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

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

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

In addition to specific provision for credit losses, provision for collective impairment is made on a portfolio basis for credit losses where there is objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience that the Group has had in dealing with a borrower or group of borrowers and available historical default information.

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

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

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

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

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

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

m) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate assets are considered as assets held for sale and are initially stated at the lower of net realisable value of due loans and advances and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate assets. Rental income from other real estate is recognised in the consolidated income statement. Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement. Any subsequent revaluation gain in the fair value less costs to sell these assets to the extent this does not exceed the cumulative write down is recognised in the consolidated income statement. Gains or losses on disposal are recognised in the consolidated income statement.

n) Impairment of non–financial assets

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

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

o) Property and equipment

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

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

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

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

p) Financial Liabilities

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

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

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

q) Financial guarantees and loan commitments

In the ordinary course of business, the Group issues financial guarantees, letters of credit and acceptances. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt arrangement. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated income statement in "impairment charge for credit losses, net". The premium received is recognised in the consolidated income statement in "fees and commission income, net" on a straight line basis over the life of the guarantee.

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

r) Provisions

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

s) Accounting for leases

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

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

t) Cash and cash equivalents

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

u) Derecognition of financial instruments

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

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

v) Share based plan transactions

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

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

w) End of service benefits

The liability for employees' end of service benefits is determined based on an actuarial valuation conducted by an independent actuary. The actuarial valuation process takes into account the provisions of the Saudi Arabian Labour Law.

x) Short term employee benefits

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

y) Zakat and income tax

Under Saudi Arabian Zakat and Income tax laws, Zakat and income taxes are the liabilities of Saudi and foreign shareholders, respectively. Zakat is computed on the Saudi shareholders' share of Zakat base or adjusted net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders' share of adjusted net income for the year.

Zakat and income taxes are not charged to the Group's consolidated income statement and are deducted from current and future dividends payable to shareholders.

z) Investment management services

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

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

aa) Non-special commission based banking products

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

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

High level definitions of non-special commission based products:

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

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

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

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

Amounts in SAR'000

4 CASH AND BALANCES WITH SAMA

	2016	2015
Cash in hand	**767,363**	775,893
Current accounts	**123,532**	151,917
Balances with SAMA:		
- Statutory deposit	**4,427,484**	4,476,152
- Reverse repo with SAMA	**2,169,000**	2,233,907
Total	**7,487,379**	7,637,869

In accordance with the requirements of the Banking Control Law and Regulations issued by SAMA, the Group is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Group's day-to-day operations and therefore does not form part of cash and cash equivalents (note-27).

5 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016	2015
Current accounts	**428,893**	546,888
Money market placements	**595,476**	187,727
Total	**1,024,369**	734,615

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

	2016	2015
Investment grade (credit rating AAA to BBB-)	**1,015,728**	723,802
Unrated	**8,641**	10,813
Total	**1,024,369**	734,615

6 INVESTMENTS, NET

a) Investments are classified as follows:

	Domestic		International		Total	
	2016	2015	2016	2015	2016	2015
i) Available- for- sale, net						
Fixed rate securities	**-**	13,885	**-**	-	**-**	13,885
Floating rate securities	**169,352**	169,283	**-**	-	**169,352**	169,283
Equities	**142,410**	342,288	**-**	-	**142,410**	342,288
Mutual funds	**151,227**	147,566	**-**	-	**151,227**	147,566
Total available-for-sale, net	**462,989**	673,022	-	-	**462,989**	673,022

Equities reported under available for sale investments include unquoted shares of SAR 3.4 million (2015: SAR 3.4 million) that are carried at cost which approximates the fair value of these investments.

	Domestic		International		Total	
	2016	2015	2016	2015	2016	2015
ii) Other investments held at amortised cost						
Fixed rate securities	**12,936,357**	18,523,181	**342,751**	343,503	**13,279,108**	18,866,684
Floating rate securities	**7,011,349**	1,480,073	**443,261**	168,331	**7,454,610**	1,648,404
Total other investments held at amortised cost	**19,947,706**	20,003,254	**786,012**	511,834	**20,733,718**	20,515,088

Amounts in SAR'000

iii) Held to maturity	*Domestic* 2016	2015	*International* 2016	2015	*Total* 2016	2015
Fixed rate securities	**1,640**	15,015	**-**	-	**1,640**	15,015
Floating rate securities	**-**	-	**60,151**	60,171	**60,151**	60,171
Total held to maturity	**1,640**	15,015	**60,151**	60,171	**61,791**	75,186
Total investments, net	**20,412,335**	20,691,291	**846,163**	572,005	**21,258,498**	21,263,296

b) Investments reclassification

Management identified certain AFS investments, for which at July 1, 2008, it had a clear intention to hold the instruments for the foreseeable future rather than to exit or trade in the short term. As a result these instruments were reclassified at that date from AFS to other investments held at amortised cost at fair value. Had the reclassification not been made, other reserves would have included unrealised fair value income amounting to SAR 8.59 million (2015: SAR 8.66 million) and loss of SAR 1.15 Million (2015: SAR 1.99 Million) recognised in the statement of income relating to such reclassified investments.

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

	2016 **Carrying value**	**Fair value**	*2015* Carrying value	Fair value
Available for sale securities reclassified to other investments held at amortised cost	**65,725**	**64,860**	68,255	68,297

c) The composition of investments is as follows:

	2016 Quoted	Unquoted	Total	*2015* Quoted	Unquoted	Total
Fixed rate securities	**344,335**	**12,936,413**	**13,280,748**	326,508	18,569,076	18,895,584
Floating rate securities	**756,511**	**6,927,602**	**7,684,113**	840,433	1,037,425	1,877,858
Equities	**138,972**	**3,438**	**142,410**	338,850	3,438	342,288
Mutual funds	**151,227**	**-**	**151,227**	147,566	-	147,566
Total investments, net	**1,391,045**	**19,867,453**	**21,258,498**	1,653,357	19,609,939	21,263,296

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

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

	2016 Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value	*2015* Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value
i) Other investments held at amortised cost								
Fixed-rate securities	**13,279,108**	**14,302**	**(74,743)**	**13,218,667**	18,866,684	13,235	(53,156)	18,826,763
Floating rate securities	**7,454,610**	**26,219**	**(866)**	**7,479,963**	1,648,404	187	(24)	1,648,567
Total	**20,733,718**	**40,521**	**(75,609)**	**20,698,630**	20,515,088	13,422	(53,180)	20,475,330

	2016 Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value	*2015* Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value
ii) Held to maturity								
Fixed-rate securities	**1,640**	**12**	**-**	**1,652**	15,015	379	-	15,394
Floating rate securities	**60,151**	**-**	**(1,730)**	**58,421**	60,171	-	(1,770)	58,401
Total	**61,791**	**12**	**(1,730)**	**60,073**	75,186	379	(1,770)	73,795

Amounts in SAR'000

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

	2016	*2015*
Government and quasi-government	**18,108,293**	18,537,188
Corporates	**1,719,768**	1,374,964
Banks and other financial institutions	**1,275,772**	1,200,140
Others	**154,665**	151,004
Total investments, net	**21,258,498**	21,263,296

Other investments held at amortized cost amounting to SAR 638 million (2015: SAR 10 million) are pledged under repurchase agreements with customers. The market value of these investments is SAR 638 million (2015: SAR 10 million).

f) Credit risk exposures of investments

	2016				*2015*			
	Available for sale	***Held to maturity***	***Other investments held at amortized cost***	***Total***	*Available for sale*	*Held to maturity*	*Other investments held at amortized cost*	*Total*
Saudi Sovereign bonds	**-**	**1,640**	**16,464,695**	**16,466,335**	13,885	15,015	17,069,209	17,098,109
Investment grade securities	**-**	**60,151**	**3,109,220**	**3,169,371**	-	60,171	2,630,533	2,690,704
Unrated securities	**320,579**	**-**	**1,159,803**	**1,480,382**	316,849	-	815,346	1,132,195
Total credit risk exposure of investments	**320,579**	**61,791**	**20,733,718**	**21,116,088**	330,734	75,186	20,515,088	20,921,008
Equities	**142,410**	**-**	**-**	**142,410**	342,288	-	-	342,288
Total investments, net	**462,989**	**61,791**	**20,733,718**	**21,258,498**	673,022	75,186	20,515,088	21,263,296

Investment grade includes those investments having an external agency ratings of AAA to BBB-. Where specific bonds are not rated, but the issuer of the bond has been rated, issuer ratings have been used. Bonds falling in this category amounted to SAR 1,888 million (2015: SAR 1,891 million).

7 LOANS AND ADVANCES, NET

a) Loans and advances held at amortised cost

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

2015	Overdraft	Credit cards	Consumer loans	Commercial loans	Total
Performing loans and advances, gross	2,531,836	313,574	15,125,579	58,992,020	76,963,009
Non performing loans and advances, net	294,332	6,791	53,407	469,691	824,221
Total loans and advances	2,826,168	320,365	15,178,986	59,461,711	77,787,230
Allowances for impairment of credit losses	(332,538)	(7,889)	(178,627)	(855,986)	(1,375,040)
Total loans and advances, net	2,493,630	312,476	15,000,359	58,605,725	76,412,190

Amounts in SAR'000

b) Movements in allowances for impairment of credit losses:

2016	Notes	Overdraft	Credit cards	Consumer loans	Commercial loans	Total
Balance at beginning of the year		**332,538**	**7,889**	**178,627**	**855,986**	**1,375,040**
Provided during the year	7 b (i)	**110,137**	**31,500**	**294,206**	**833,293**	**1,269,136**
Recoveries of amounts previously provided	7 b (ii)	**(3,478)**	**-**	**-**	**(28,706)**	**(32,184)**
		106,659	**31,500**	**294,206**	**804,587**	**1,236,952**
Bad debts written off		**(64,906)**	**(17,619)**	**(146,528)**	**(162,819)**	**(391,872)**
Impairment allowances against indirect exposure transferred to other liabilities		**-**	**-**	**-**	**(67,880)**	**(67,880)**
Balance at the end of the year		**374,291**	**21,770**	**326,305**	**1,429,874**	**2,152,240**
2015						
Balance at beginning of the year		340,385	6,616	138,920	866,130	1,352,051
Provided during the year	7 b (i)	43,976	17,761	130,356	182,712	374,805
Recoveries of amounts previously provided	7 b (ii)	(32,013)	-	-	(22,292)	(54,305)
		11,963	17,761	130,356	160,420	320,500
Bad debts written-off		(19,810)	(16,488)	(90,649)	(170,564)	(297,511)
Balance at the end of the year		332,538	7,889	178,627	855,986	1,375,040

7 b (i) Impairment charge for the year includes charge for collective impairment amounting to SAR 302 million (2015: SAR 56 million) and impairment charge for indirect exposure amounting to SAR 48 million (December 31, 2015: SAR 2 million)

7 b (ii) Impairment charge for credit and other losses, net	***2016***	*2015*
Impairment charge for credit losses	**1,269,136**	374,805
Other provisions (note - 10)	**-**	149,908
	1,269,136	524,713
Less: Recoveries of amounts previously provided	**(32,184)**	(54,305)
Recoveries of amounts previously written-off	**(69,563)**	(52,220)
Total impairment charge for credit and other losses, net	**1,167,389**	418,188

c) Credit quality of loans and advances

i) Loans and advances neither past due nor impaired

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

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

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

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

Amounts in SAR'000

2016	Overdraft	Credit cards	Consumer loans	Commercial loans	Total
Strong	**69,141**	**-**	**-**	**7,842,235**	**7,911,376**
Satisfactory	**2,061,727**	**330,652**	**18,485,875**	**42,078,834**	**62,957,088**
Watch	**145,559**	**-**	**-**	**666,992**	**812,551**
Total	**2,276,427**	**330,652**	**18,485,875**	**50,588,061**	**71,681,015**
2015					
Strong	370,340	-	-	23,604,156	23,974,496
Satisfactory	2,074,648	278,460	14,584,855	35,252,657	52,190,620
Watch	71,022	-	-	73,731	144,753
Total	2,516,010	278,460	14,584,855	58,930,544	76,309,869

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

2016	Overdraft	Credit cards	Consumer loans	Commercial loans	Total
Up to 30 days	**29,187**	**26,411**	**615,314**	**265,941**	**936,853**
From 31 days to 90 days	**20,875**	**12,973**	**156,254**	**164,628**	**354,730**
From 91 days to 180 days	**12,828**	**-**	**-**	**254,375**	**267,203**
Total	**62,890**	**39,384**	**771,568**	**684,944**	**1,558,786**
2015					
Up to 30 days	15,652	25,416	460,644	40,351	542,063
From 31 days to 90 days	120	9,698	80,080	15,159	105,057
From 91 days to 180 days	54	-	-	5,966	6,020
Total	15,826	35,114	540,724	61,476	653,140

Past due but not impaired loans and advances provided above comprise of total loan values except for overdraft and commercial loans which comprise overdue installment amounts. Overdraft and commercial total loans and advances past due but not impaired at December 31, 2016 amounted to SAR 2,913.40 million (2015: SAR 595.95 million).

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

2016	Performing	Non performing	Allowances for impairment of credit losses	Loans and advances, net
Government and quasi-government	**1,149,699**	**-**	**-**	**1,149,699**
Banks and other financial institutions	**2,044,140**	**-**	**-**	**2,044,140**
Agriculture and fishing	**722,426**	**654**	**(654)**	**722,426**
Manufacturing	**12,282,007**	**285,590**	**(270,590)**	**12,297,007**
Mining and quarrying	**273,640**	**-**	**-**	**273,640**
Electricity, water, gas and health services	**1,973,663**	**92,957**	**(92,957)**	**1,973,663**
Building and construction	**9,724,878**	**709,891**	**(411,709)**	**10,023,060**
Commerce	**16,253,841**	**308,781**	**(308,781)**	**16,253,841**
Transportation and communication	**2,765,637**	**6,737**	**(6,737)**	**2,765,637**
Services	**3,610,316**	**69,552**	**(69,552)**	**3,610,316**
Consumer loans and credit cards	**19,627,479**	**181,374**	**(110,323)**	**19,698,530**
Others	**2,812,075**	**-**	**-**	**2,812,075**
	73,239,801	**1,655,536**	**(1,271,303)**	**73,624,034**
Portfolio impairment allowance	**-**	**-**	**(880,937)**	**(880,937)**
Total	**73,239,801**	**1,655,536**	**(2,152,240)**	**72,743,097**

Amounts in SAR'000

2015	Performing	Non performing	Allowances for impairment of credit losses	Loans and advances, net
Government and quasi-government	1,261,433	-	-	1,261,433
Banks and other financial institutions	2,463,655	-	-	2,463,655
Agriculture and fishing	966,646	331	(331)	966,646
Manufacturing	14,169,158	265,411	(265,411)	14,169,158
Mining and quarrying	442,823	-	-	442,823
Electricity, water, gas and health services	1,984,586	-	-	1,984,586
Building and construction	11,362,157	193,020	(193,020)	11,362,157
Commerce	18,358,108	285,437	(285,437)	18,358,108
Transportation and communication	3,238,320	6,907	(6,907)	3,238,320
Services	3,807,536	12,917	(12,917)	3,807,536
Consumer loans and credit cards	15,439,153	60,198	(32,243)	15,467,108
Others	3,469,434	-	-	3,469,434
	76,963,009	824,221	(796,266)	76,990,964
Portfolio impairment allowance	-	-	(578,774)	(578,774)
Total	76,963,009	824,221	(1,375,040)	76,412,190

Loans and advances, include Islamic products amounting to SAR 50 billion (2015: SAR 42 billion)

e) Collateral

The Group, in the ordinary course of its lending activities holds collaterals to mitigate the associated credit risk. These mostly consists of time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. Collaterals are mainly held against commercial and consumer loans and are managed against relevant exposures at their net realisable value. Total collateral fair value at December 31, 2016 amounted to SAR 30.68 billion (2015: SAR 30.36 billion).

8 INVESTMENT IN AN ASSOCIATE

	2016	2015
Balance at beginning of the year	**12,567**	12,793
Additional investment made during the year	**20,000**	-
Share in earning / (loss) of an associate	**3,130**	(226)
Balance at end of the year	**35,697**	12,567

Investment in an associate represents a 20% (2015: 20%) shareholding in Wataniya Insurance Company (WIC) formed in the Kingdom of Saudi Arabia, pursuant to Royal Decree No. M/53 dated Shawwal 21, 1430H (corresponding to October 10, 2009). During the year one-for-one right issue was made by WIC which was fully subscribed by the Bank and resulted in total cost of the investments to reach SAR 40 million.

Amounts in SAR'000

9 PROPERTY AND EQUIPMENT, NET

Property and equipment details are as follows:

2016	**Land and buildings**	**Leasehold improvements**	**Computer hardware / software**	**Furniture / fixtures**	**Motor vehicles**	**Capital work in progress (CWIP)**	**Total**
Cost:							
Balance at beginning of the year	**396,715**	**317,715**	**972,483**	**226,405**	**5,533**	**172,335**	**2,091,186**
Additions during the year	**387,110**	**-**	**-**	**-**	**-**	**216,351**	**603,461**
Disposal during the year	**-**	**-**	**(2,162)**	**(6)**	**(182)**	**-**	**(2,350)**
Transfers from CWIP during the year	**-**	**-**	**87,792**	**55,905**	**-**	**(143,697)**	**-**
Balance at end of the year	**783,825**	**317,715**	**1,058,113**	**282,304**	**5,351**	**244,989**	**2,692,297**
Accumulated depreciation / amortisation:							
Balance at beginning of the year	**57,185**	**279,587**	**769,373**	**180,009**	**3,986**	**-**	**1,290,140**
Charge for the year	**2,676**	**11,854**	**93,609**	**13,349**	**551**	**-**	**122,039**
Disposal during the year	**-**	**-**	**(722)**	**(1)**	**(182)**	**-**	**(905)**
Balance at end of the year	**59,861**	**291,441**	**862,260**	**193,357**	**4,355**	**-**	**1,411,274**
Net book value as at 31 December 2016	**723,964**	**26,274**	**195,853**	**88,947**	**996**	**244,989**	**1,281,023**

2015	Land and buildings	Leasehold improvements	Computer hardware / software	Furniture / fixtures	Motor vehicles	Capital work in progress (CWIP)	Total
Cost:							
Balance at beginning of the year	193,890	313,973	866,031	213,947	6,000	105,667	1,699,508
Additions during the year	202,825	-	-	-	-	189,320	392,145
Disposal during the year	-	-	-	-	(467)	-	(467)
Transfers from CWIP during the year	-	3,742	106,452	12,458	-	(122,652)	-
Balance at end of the year	396,715	317,715	972,483	226,405	5,533	172,335	2,091,186
Accumulated depreciation / amortisation:							
Balance at beginning of the year	52,915	264,336	678,717	173,242	3,910	-	1,173,120
Charge for the year	4,270	15,251	90,656	6,767	543	-	117,487
Disposal during the year	-	-	-	-	(467)	-	(467)
Balance at end of the year	57,185	279,587	769,373	180,009	3,986	-	1,290,140
Net book value as at 31 December 2015	339,530	38,128	203,110	46,396	1,547	172,335	801,046

10 OTHER ASSETS, NET

	2016	*2015*
Accounts receivables, net	**727,233**	833,842
Others	**119,425**	67,312
Total	**846,658**	901,154

As at 31 December 2016, other assets of the Group included an amount of SAR 437.15 million (2015: SAR 437.49 million). This amount was originally disbursed to a third party who defaulted on payment and the Management expects to recover this balance from a related party. The Group has reached a settlement agreement with the related party for recovery of this amount. The Group has maintained an impairment allowance of SAR 149.91 million as at December 31, 2016 (2015: SAR 149.91 million) against the outstanding balance due to uncertainty around the timing of recoverability of this balance.

11 DERIVATIVES

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

a) Swaps

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

b) Forwards and futures

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

c) Forward-rate agreements

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

d) Options

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

Derivatives held for trading purposes

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

Derivatives held for hedging purposes

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

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

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

Amounts in SAR'000

The tables below summarises the positive and negative fair values and notional amounts of derivative financial instruments, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of transactions outstanding at year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts are, therefore, not indicative of the Group's exposure to market risk and credit risk. The latter is generally limited to the positive fair value of derivatives.

				Notional amounts by maturity				
Derivative financial instruments 2016	***Positive fair value***	***Negative fair value***	***Notional amount total***	***Within three months***	***3-12 months***	***1-5 years***	***Over 5 years***	***Monthly average***
Held for trading:								
Special commission rate swaps	**116,100**	**50,653**	**25,076,726**	**410,841**	**2,802,459**	**19,319,854**	**2,543,572**	**28,269,978**
Foreign exchange and commodity forward contracts	**96,914**	**45,370**	**17,856,697**	**7,369,207**	**6,150,260**	**4,337,230**	**-**	**26,826,551**
Currency and commodity options	**175,345**	**167,044**	**24,792,586**	**6,034,674**	**13,414,469**	**5,343,443**	**-**	**36,104,810**
Special commission rate options	**5,420**	**3,638**	**1,021,720**	**-**	**-**	**-**	**1,021,720**	**898,710**
Held as fair value hedges:								
Special commission rate swaps	**-**	**928**	**37,519**	**-**	**-**	**37,519**	**-**	**37,510**
Held as cash flow hedges:								
Special commission rate swaps	**-**	**3,160**	**5,103,617**	**5,103,617**	**-**	**-**	**-**	**2,870,892**
Total	**393,779**	**270,793**	**73,888,865**	**18,918,339**	**22,367,188**	**29,038,046**	**3,565,292**	
Fair values of netting arrangements	**1,414,441**	**1,414,441**						
Fair values before netting	**1,808,220**	**1,685,234**						

				Notional amounts by maturity				
Derivative financial instruments 2015	*Positive fair value*	*Negative fair value*	*Notional amount total*	*Within three months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Monthly average*
Held for trading:								
Special commission rate swaps	142,521	58,075	27,057,930	440,282	1,884,510	21,070,102	3,663,036	28,427,096
Foreign exchange and commodity forward contracts	69,263	35,222	19,685,285	12,812,414	6,126,842	746,029	-	21,353,383
Currency and commodity options	91,556	49,830	39,154,686	6,968,117	19,488,469	12,698,100	-	49,779,580
Special commission rate options	4,257	3,881	470,800	-	-	-	470,800	561,911
Held as fair value hedges:								
Special commission rate swaps	-	1,468	37,539	-	-	37,539	-	84,417
Total	307,597	148,476	86,406,240	20,220,813	27,499,821	34,551,770	4,133,836	
Fair values of netting arrangements	1,188,943	1,188,943						
Fair values before netting	1,496,540	1,337,419						

The net fair value of the derivatives is SAR 122.99 million (2015: SAR 159.12 million).

Amounts in SAR'000

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

	Hedged items			**Hedging instruments**		
Description	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instruments**	**Positive fair value**	**Negative fair value**
2016						
Fixed special commission rate investments	**42,185**	**37,504**	**Fair value**	**Special commission rate swaps**	**-**	**928**
Fixed special commission rate deposits	**2,555,877**	**2,552,438**	**Cash flow**	**Commission rate swaps**	**-**	**3,160**

	Hedged items			*Hedging instruments*		
Description	Fair value	Hedge inception value	Risk	Hedging instruments	Positive fair value	Negative fair value
2015						
Fixed special commission rate investments	43,592	37,504	Fair value	Special commission rate swaps	-	1,468

The net losses on the hedging instruments held for fair value hedge are SAR 0.540 million (2015: SAR 0.93 million).

Approximately 19.2% (2015: 59.3%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 21.5% (2015: 12%) of the total positive fair value of the derivatives are with any single counterparty at the reporting date. Derivative activities are carried out by the Group's treasury segment. Margins placed with and received from counter parties for derivative instruments at December 31, 2016 amounted to SAR 62.51 million and SAR 74.64 million (2015: SAR 210.18 million and SAR 43.67 million), respectively.

12 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016	*2015*
Current accounts	**638,336**	617,555
Money market deposits	**709,396**	739,612
Total	**1,347,732**	1,357,167

13 CUSTOMERS' DEPOSITS

	2016	*2015*
Time	**51,208,243**	53,756,517
Demand	**31,752,853**	33,798,204
Saving	**463,904**	453,754
Others	**1,933,788**	1,079,699
Total	**85,358,788**	89,088,174

Time deposits include:

i) Deposits against repurchase agreements with customers	**638,000**	10,000
ii) Islamic deposits	**24,686,222**	29,831,506

Customers' deposits include SAR 1,665 million (2015: SAR 833 million) of margins held for irrevocable commitments and other non-special commission based deposits amounting to SAR 32 billion (2015: SAR 34 billion). Foreign currency deposits at December 31 are as follows:

	2016	*2015*
Time	**3,985,231**	7,057,870
Demand	**3,218,274**	4,321,980
Saving	**34,833**	34,986
Others	**71,129**	151,385
Total	**7,309,467**	11,566,221

Amounts in SAR'000

14 SUBORDINATED DEBT

Subordinated debt represents the following debt securities:

Issued on December 12, 2013:

The Group issued SAR 2,500 million unsecured subordinated Tier II Sukuk which is due in 2023. The Group has the option, subject to the prior written approval of SAMA, to redeem these Sukuk at their redemption amount in December 2018 or in the event of certain changes affecting the taxation and regulatory capital treatment of these Sukuk. The commission rate paid on the above averaged 6 months SIBOR plus 155 basis points (2015: 6 months SIBOR plus 155 basis points).

Issued on November 26, 2012:

The Group issued SAR 1,400 million unsecured subordinated Tier II Sukuk which is due in 2019. The Group has the option, subject to the prior written approval of SAMA, to redeem these Sukuk at their redemption amount in November 2017 or in the event of certain changes affecting the taxation and regulatory capital treatment of these Sukuk. The commission rate paid on the above averaged 6 months SIBOR plus 115 basis points (2015: 6 months SIBOR plus 115 basis point).

The Group has not defaulted on any principal or commission repayments and there has been no breaches with regard to any of these liabilities during 2016 or 2015.

15 OTHER LIABILITIES

	2016	*2015*
Accrued expenses and accounts payable	**779,391**	1,110,131
Others	**541,097**	432,217
Total	**1,320,488**	1,542,348

16 SHARE CAPITAL

The authorised, issued and fully paid share capital consists of 1,143.07 million shares of SAR 10 each (2015: 571.54 million shares of SAR 10 each).

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

	Percentage	***2016***	*2015*
Saudi shareholders	**60%**	**6,858,432**	3,429,216
ABN AMRO Bank N.V	**40%**	**4,572,288**	2,286,144
Total	**100%**	**11,430,720**	5,715,360

The shareholders of the Bank approved a bonus issue of one-for-one share in their Extra Ordinary General Assembly meeting held on May 2, 2016. As a result 571.54 million shares (2015: 95.26 million shares, one share for every five shares held) of SR 10 each, were issued by capitalizing statutory reserve and retained earnings.

During the year the Group also paid a cash dividend of SAR 297.20 million (2015: SAR 619.16 million). A net dividend of SAR 0.25 per share (2015: SAR 1 per share) and SAR 0.22 per share (2015: SAR 0.92 per share) was paid to Saudi shareholders and foreign shareholder, respectively.

17 STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the By-Laws of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up share capital of the Bank. Accordingly, SAR 266.18 million (2015: SAR 505.61 million) has been transferred from retained earnings to the statutory reserve.

18 OTHER RESERVES

	2016	*2015*
Balance at beginning of the year	**(37,691)**	3,564
Net changes in fair value	**(4,178)**	(28,192)
Net amounts transferred to consolidated income statement	**83,016**	(13,063)
Balance at end of the year	**41,147**	(37,691)

Amounts in SAR'000

19 COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2016 and 2015, there were certain legal proceedings outstanding against the Group that arose in the normal course of business. No provision was raised during the year (2015: Nil) as professional legal advice indicates that it is not probable that any further losses will arise with respect to these proceedings.

b) Capital commitments

The Group has capital commitments of SAR 96.7 million (2015: SAR 93.1 million) in respect of leasehold improvements and computer hardware and software purchases.

c) Credit related commitments and contingencies

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

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

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

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

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

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

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

2015	*Within 3 months*	*3 to 12 months*	*1 to 5 Years*	*Over 5 Years*	*Total*
Letters of guarantee	3,049,649	10,779,773	8,632,804	255,069	22,717,295
Letters of credit	2,075,680	3,090,345	179,630	-	5,345,655
Acceptances	3,311,798	20,774	988	-	3,333,560
Irrevocable commitments to extend credit	-	26,786	544,397	2,299,589	2,870,772
Total	8,437,127	13,917,678	9,357,819	2,554,658	34,267,282

Outstanding and unused portion of commitments that can be revoked unilaterally at any time by the Group amounts to SAR 38.06 billion (2015: SAR 36.85 billion).

ii) Commitments and contingencies by counterparty are as follows:	***2016***	*2015*
Government and quasi-government	**86,636**	191,392
Corporate	**24,261,880**	30,758,558
Banks and other financial institutions	**3,168,426**	3,081,726
Other	**1,384,714**	235,606
Total	**28,901,656**	34,267,282

Amounts in SAR'000

d) Operating lease commitments

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

	2016	2015
Less than 1 year	**87,020**	79,945
1 to 5 years	**245,528**	239,709
Over 5 years	**247,930**	263,039
Total	**580,478**	582,693

20 SPECIAL COMMISSION INCOME AND EXPENSE

Special commission income on:

Investments:	2016	2015
Available for sale	**6,787**	6,413
Held to maturity	**2,043**	2,450
Other investments held at amortised cost	**381,659**	213,834
	390,489	222,697
Due from banks and other financial institutions	**15,401**	9,650
Loans and advances	**3,676,734**	2,658,584
Total	**4,082,624**	2,890,931

Special commission expense on:	2016	2015
Due to banks and other financial institutions	**40,137**	4,248
Customers' deposits	**1,406,969**	496,520
Subordinated debt	**128,201**	92,161
Total	**1,575,307**	592,929

21 FEE AND COMMISSION INCOME, NET

Fee and commission income from:	2016	2015
Corporate finance and advisory	**335,227**	416,859
Trade finance	**305,338**	335,340
Card products	**146,098**	132,637
Share brokerage and fund management	**39,473**	51,596
Others	**76,922**	60,220
Total fee and commission income	**903,058**	996,652
Fee and commission expenses on:		
Card products	**69,902**	69,395
Others	**48,415**	40,431
Total fee and commission expenses	**118,317**	109,826
Fee and commission income, net	**784,741**	886,826

22 TRADING INCOME, NET

	2016	2015
Derivatives and others, net	**129,787**	210,026
Total	**129,787**	210,026

Amounts in SAR'000

23 GAINS ON NON-TRADING INVESTMENTS

	2016	*2015*
Realised gain on disposal of non-trading investments	**90,658**	15,050
Total	**90,658**	15,050

24 SALARIES AND EMPLOYEE-RELATED EXPENSES

The following table summarizes the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended December 31, 2016 and 2015, and the forms of such payments.

2016

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

2015

Categories of employees	Number of employees	Fixed compensation paid	Variable compensation paid		
			Cash	Shares	Total
Senior executives who require SAMA's no objection	16	24,796	10,651	12,382	47,829
Employees engaged in control and risk management functions	124	31,261	4,182	1,424	36,867
Employees engaged in risk taking activities	607	127,280	19,020	9,315	155,615
Other employees	1,797	270,997	27,784	5,418	304,199
Total	2,544	454,334	61,637	28,539	544,510
Variable compensation accrued during the year		73,219			
Other employee related expenses paid during the year		112,555			
Other employee related expenses accrued during the year		36,150			
Total salaries and employee related expenses		676,258			

Senior executives requiring SAMA's no objection:

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

Employees engaged in control and risk management functions:

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

Employees engaged in risk taking activities:

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

Other employees:

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

Group Compensation policy:

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

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

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

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

25 BASIC AND DILUTED EARNINGS PER SHARE (EPS)

Basic and diluted earnings per share for the year 2016 and 2015 are calculated by dividing the net income for the year attributable to the equity shareholders by 1,143.07 million shares to give a retrospective effect of change in the number of shares increased as a result of one for one bonus shares issued during the year.

26 DIVIDENDS, ZAKAT AND INCOME TAX

The Board of Directors has proposed not to distribute any dividends for the current year (2015: SAR 297.20 million). Zakat and income tax liabilities for Saudi and non-Saudi shareholder are as follow:

a) Saudi shareholders:

Zakat attributable to Saudi Shareholders for the year is estimated to be SAR 18 million (2015: SAR 35 million), which will be deducted from their share of future dividends.

b) Non-Saudi shareholders:

Income tax payable on the current year's share of income of foreign shareholders is estimated to be SAR 99 million (2015: SAR 164 million) which will be deducted from future years' dividends.

c) Status of Zakat and Income Tax assessments

The Bank has filed its Zakat and income tax returns for the financial years upto and including the year 2015 with the General Authority of Zakat and Tax ("GAZT"). The Bank has received Zakat and income tax assessments for the years 2005 to 2013 raising additional demands aggregating to SAR 281.6 million. This additional exposure is mainly relating to Zakat arising on account of disallowances of certain long term investments and addition of long term financing to Zakat base by the GAZT. The basis for this additional liability is being contested by the Bank in conjunction with all the other banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from GAZT. Management is confident of a favourable outcome on the aforementioned appeals and have therefore not made any provisions in respect of the above.

Assessments for the years 2014 and 2015 are yet to be raised. However, in line with the assessments finalized by the GAZT for the years 2005 to 2013, if long-term investments are disallowed and long-term financing is added to the Zakat base, this would result in an additional Zakat exposure which remains an industry wide issue and disclosure of which might affect the Bank's position in this matter.

Amounts in SAR'000

27 CASH AND CASH EQUIVALENTS

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

	2016	2015
Cash and balances with SAMA (note 4)	**7,487,379**	7,637,869
Statutory deposit	**(4,427,484)**	(4,476,152)
	3,059,895	3,161,717
Due from banks and other financial institutions maturing within three months or less from the acquisition date	**879,369**	734,615
Total	**3,939,264**	3,896,332

28 OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the senior management responsible for operational decision making in the Bank in order to allocate resources to the segments and to assess performance. Transactions between operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers. Special commission is charged to operating segments based on a pool rate, which approximates the marginal cost of funds. The revenue from external parties reported to the senior management, is measured in a manner consistent with that in the consolidated income statement. There have been no changes in the measurement basis for the segment profit or loss since December 31, 2015. Following are the reportable operating segments of the Group:

Corporate banking

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

Personal banking

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

Investment banking and investment services

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

Central treasury and ALCO

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

a) The following is an analysis of the Group's assets, revenues and results by operating segments for the years ended December 31, 2016 and 2015.

2016	*Corporate banking*	*Personal banking*	*Investments banking and investments services*	*Central treasury & ALCO*	*Total*
External revenue / (expense):					
Net special commission income	**2,111,913**	**1,027,942**	**-**	**(632,538)**	**2,507,317**
Fee and commission income, net	**597,207**	**183,579**	**47,172**	**(43,217)**	**784,741**
Trading income, net	**105,073**	**12,552**	**1,386**	**10,776**	**129,787**
Other revenue	**113,579**	**47,270**	**-**	**102,103**	**262,952**
Inter-segment (expense) / revenue	**(912,290)**	**188,761**	**11,063**	**712,466**	**-**
Total segment revenue	**2,015,482**	**1,460,104**	**59,621**	**149,590**	**3,684,797**

Amounts in SAR'000

	Corporate banking	*Personal banking*	*Investments banking and investments services*	*Central treasury & ALCO*	*Total*
Total operating expenses	**429,192**	**751,940**	**43,896**	**110,538**	**1,335,566**
Other material non-cash items: impairment charges for credit losses, net	**853,355**	**314,034**	**-**	**-**	**1,167,389**
Other material non-cash items: impairment charges for AFS investments	**-**	**-**	**-**	**120,246**	**120,246**
Non-operating (gain)	**-**	**-**	**-**	**(3,130)**	**(3,130)**
Segment profit / (expense)	**732,935**	**394,130**	**15,725**	**(78,064)**	**1,064,726**
Segment assets	**51,273,700**	**21,469,397**	**554,329**	**31,773,074**	**105,070,500**
Segment liabilities	**26,267,101**	**27,681,449**	**16,269**	**38,242,887**	**92,207,706**

2015	Corporate Banking	Personal Banking	Investments Banking and Investments services	Central treasury & ALCO	Total
External revenue / (expense):					
Net special commission income	2,253,978	765,429	-	(721,405)	2,298,002
Fee and commission income, net	690,817	192,062	56,197	(52,250)	886,826
Trading income, net	132,518	5,058	2,174	70,276	210,026
Gains on investment held as FVIS, net	-	-	5,802	-	5,802
Other revenue	132,121	46,827	-	20,530	199,478
Inter-segment revenue/(expense)	(1,218,202)	114,475	3,765	1,099,962	-
Total segment revenue	1,991,232	1,123,851	67,938	417,113	3,600,134
					-
Total operating expenses	392,819	631,100	46,274	89,100	1,159,293
Other material non-cash items: impairment charges for credit and other losses, net	172,382	95,898	-	149,908	418,188
Non-operating loss	-	-	-	226	226
Segment profit	1,426,031	396,853	21,664	177,879	2,022,427
Segment assets	59,069,226	17,342,964	542,690	31,115,454	108,070,334
Segment liabilities	25,306,392	29,211,415	22,566	41,502,767	96,043,140

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

2016	*Corporate banking*	*Personal banking*	*Central treasury & ALCO*	*Total*
Non derivative financial assets	**51,273,700**	**21,469,397**	**22,987,115**	**95,730,212**
Commitments and contingencies	**12,531,882**	**-**	**-**	**12,531,882**
Derivatives	**822,104**	**-**	**805,370**	**1,627,474**
2015				
Non derivative financial assets	59,069,226	17,342,964	22,556,777	98,968,967
Commitments and contingencies	16,198,324	-	-	16,198,324
Derivatives	710,186	-	1,035,666	1,745,852

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

29 CREDIT RISK

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

Amounts in SAR'000

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

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

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

The Group's maximum exposure to credit risk computed as per SAMA guidelines as at December 31, 2016 and 2015, without taking into account any collateral held or credit enhancements attached is reflected below:

	2016	*2015*
Due from banks and other financial institutions	**1,024,369**	734,615
Investments, net	**21,116,088**	20,921,008
Loans and advances, net	**72,743,097**	76,412,190
Other assets, net	**846,658**	901,154
Derivatives	**1,627,474**	1,745,852
Credit related commitments and contingencies	**12,531,882**	16,198,324
Total	**109,889,568**	116,913,143

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

30 GEOGRAPHICAL CONCENTRATION

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

2016	***Saudi Arabia***	***GCC and Middle East***	***Europe***	***Americas***	***South East Asia***	***Other countries***	***Total***
Assets							
Cash and balances with SAMA	**7,487,379**	**-**	**-**	**-**	**-**	**-**	**7,487,379**
Due from banks and other financial institutions	**497,576**	**34,632**	**290,913**	**182,616**	**177**	**18,455**	**1,024,369**
Positive fair value derivatives	**283,446**	**28,759**	**81,574**	**-**	**-**	**-**	**393,779**
Investments, net	**20,412,335**	**281,034**	**187,593**	**377,536**	**-**	**-**	**21,258,498**
Loans and advances, net	**72,395,210**	**-**	**-**	**347,887**	**-**	**-**	**72,743,097**
Investment in an associate	**35,697**	**-**	**-**	**-**	**-**	**-**	**35,697**
Property and equipment, net	**1,281,023**	**-**	**-**	**-**	**-**	**-**	**1,281,023**
Other assets, net	**446,079**	**309,654**	**74,650**	**16,229**	**2**	**44**	**846,658**
Total	**102,838,745**	**654,079**	**634,730**	**924,268**	**179**	**18,499**	**105,070,500**

Amounts in SAR'000

	Saudi Arabia	GCC and Middle East	Europe	Americas	South East Asia	Other countries	Total
Liabilities							
Due to banks and other financial institutions	**335,441**	**307,432**	**310,689**	**17,539**	**371**	**376,260**	**1,347,732**
Negative fair value derivatives	**101,331**	**92,566**	**72,602**	**4,294**	**-**	**-**	**270,793**
Customers' deposits	**82,055,931**	**3,016,607**	**38,864**	**2,644**	**44,482**	**200,260**	**85,358,788**
Subordinated debt	**3,909,905**	**-**	**-**	**-**	**-**	**-**	**3,909,905**
Other liabilities	**1,268,515**	**12,499**	**37,171**	**2,303**	**-**	**-**	**1,320,488**
Total	**87,671,123**	**3,429,104**	**459,326**	**26,780**	**44,853**	**576,520**	**92,207,706**
Commitments and Contingencies	**25,011,402**	**1,509,198**	**1,218,389**	**607,401**	**11,005**	**544,261**	**28,901,656**
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	**10,856,813**	**736,409**	**474,020**	**226,318**	**5,502**	**232,820**	**12,531,882**
Derivatives	**963,606**	**256,368**	**407,031**	**469**	**-**	**-**	**1,627,474**
2015							
Assets							
Cash and balances with SAMA	7,637,869	-	-	-	-	-	7,637,869
Due from banks and other financial institutions	436	331,487	37,096	360,908	87	4,601	734,615
Positive fair value derivatives	141,957	16,104	149,536	-	-	-	307,597
Investments, net	20,691,291	284,234	187,695	-	-	100,076	21,263,296
Loans and advances, net	76,412,190	-	-	-	-	-	76,412,190
Investment in an associate	12,567	-	-	-	-	-	12,567
Property and equipment, net	801,046	-	-	-	-	-	801,046
Other assets, net	581,548	289,841	27,922	1,841	2	-	901,154
Total	106,278,904	921,666	402,249	362,749	89	104,677	108,070,334

	Saudi Arabia	GCC and Middle East	Europe	Americas	South East Asia	Other countries	Total
Liabilities							
Due to banks and other financial institutions	403,394	830,048	76,571	8,306	370	38,478	1,357,167
Negative fair value derivatives	89,210	20,111	30,965	8,190	-	-	148,476
Customers' deposits	89,088,174	-	-	-	-	-	89,088,174
Subordinated debt	3,906,975	-	-	-	-	-	3,906,975
Other liabilities	1,498,005	7,812	31,947	4,581	-	3	1,542,348
Total	94,985,758	857,971	139,483	21,077	370	38,481	96,043,140
Commitments and Contingencies	31,745,830	575,471	1,289,301	62,190	11,044	583,446	34,267,282
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	15,093,675	226,997	614,034	31,223	5,522	226,873	16,198,324
Derivatives	807,170	164,307	772,350	1,975	-	50	1,745,852

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

Amounts in SAR'000

31 MARKET RISK

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

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

a) MARKET RISK - TRADING BOOK

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

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

VaR that management uses is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VaR figure should occur, on average, not more than once every hundred days. The VaR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

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

The Group's VaR related information for the year ended December 31, 2016 and 2015 is as provided below.

2016 (VaR)	***Foreign exchange rate risk***	***Special commission rate risk***	***Foreign exchange forwards***	***Overall risk***
As at December 31	**53**	**132**	**51**	**236**
Average for the year	**387**	**512**	**80**	**979**

2015 (VaR)	*Foreign exchange rate risk*	*Special commission rate risk*	*Foreign exchange forwards*	*Overall risk*
As at December 31	35	341	133	509
Average for the year	157	276	56	489

b) MARKET RISK – NON-TRADING OR BANKING BOOK

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

i) SPECIAL COMMISSION RATE RISK

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

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

Banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR million below:

2016

Currency	**Increase/ (decrease) in basis points**	**Sensitivity of net special commission income**	**Sensitivity of equity**				
			6 months or less	**6 to12 months**	**1 to 5 years**	**Over 5 years**	**Total**
USD	**25**	**4**	-	-	-	-	-
	(25)	**(4)**	-	-	-	-	-
SAR	**25**	**27**	-	-	**(13)**	-	**(13)**
	(25)	**(27)**	-	-	**13**	-	**13**
Others	**25**	**-**	-	-	-	-	-
	(25)	**-**	-	-	-	-	-

2015

Currency	Increase/ (decrease) in basis points	Sensitivity of net special commission income	Sensitivity of equity				
			6 months or less	6 to12 months	1 to 5 years	Over 5 years	Total
USD	25	(12)	-	-	-	-	-
	(25)	12	-	-	-	-	-
SAR	25	38	(7)	(5)	-	-	(12)
	(25)	(38)	7	5	-	-	12
Others	25	1	-	-	-	-	-
	(25)	(1)	-	-	-	-	-

The exposure to the effect of various risks associated with fluctuations in the prevailing levels of market special commission rates on the Group's financial position and cash flows is managed.

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

2016	***Within 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Non commission bearing***	***Total***
Assets						
Cash and balances with SAMA	**2,169,000**	**-**	**-**	**-**	**5,318,379**	**7,487,379**
Due from banks and other financial institutions	**450,263**	**145,213**	**-**	**-**	**428,893**	**1,024,369**
Positive fair value derivatives	**85,782**	**254,732**	**53,265**	**-**	**-**	**393,779**
Investments, net	**12,757,008**	**1,628,376**	**4,676,217**	**1,903,260**	**293,637**	**21,258,498**
Loans and advances, net	**38,939,978**	**16,535,735**	**8,658,697**	**8,608,687**	**-**	**72,743,097**
Investments in an associate	**-**	**-**	**-**	**-**	**35,697**	**35,697**
Other assets, net	**287,241**	**-**	**-**	**-**	**559,417**	**846,658**
Total	**54,689,272**	**18,564,056**	**13,388,179**	**10,511,947**	**6,636,023**	**103,789,477**

Amounts in SAR'000

Liabilities	***Within 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Non commission bearing***	***Total***
Due to banks and other financial institutions	**549,508**	**147,159**	**12,729**	**-**	**638,336**	**1,347,732**
Negative fair value derivatives	**45,991**	**196,290**	**26,062**	**2,450**	**-**	**270,793**
Customers' deposits	**39,337,817**	**13,533,729**	**171,106**	**-**	**32,316,136**	**85,358,788**
Subordinated debt	**3,900,000**	**9,905**	**-**	**-**	**-**	**3,909,905**
Other liabilities	**-**	**-**	**-**	**-**	**1,320,488**	**1,320,488**
Shareholders' equity	**-**	**-**	**-**	**-**	**12,862,794**	**12,862,794**
Total liabilities	**43,833,316**	**13,887,083**	**209,897**	**2,450**	**47,137,754**	**105,070,500**
Special commission rate sensitivity - financial position gap	**10,855,956**	**4,676,973**	**13,178,282**	**10,509,497**		
Special commission rate sensitivity on derivative financial instruments	**690,434**	**90,850**	**(671,514)**	**(109,770)**		
Total special commission rate sensitivity gap	**11,546,390**	**4,767,823**	**12,506,768**	**10,399,727**		
Cumulative special commission rate sensitivity gap	**11,546,390**	**16,314,213**	**28,820,981**	**39,220,708**		

2015	*Within 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Non commission bearing*	*Total*
Assets						
Cash and balances with SAMA	2,233,906	-	-	-	5,403,963	7,637,869
Due from banks and other financial institutions	187,727	-	-	-	546,888	734,615
Positive fair value derivatives	160,281	75,296	67,763	4,257	-	307,597
Investments, net	8,241,734	6,158,983	4,650,316	1,722,409	489,854	21,263,296
Loans and advances, net	41,730,183	19,754,880	8,065,859	6,861,268	-	76,412,190
Investment in an associate	-	-	-	-	12,567	12,567
Other assets, net	287,578	-	-	-	613,576	901,154
Total	52,841,409	25,989,159	12,783,938	8,587,934	7,066,848	107,269,288

Liabilities	*Within 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Non commission bearing*	*Total*
Due to banks and other financial institutions	720,634	9,836	9,142	-	617,555	1,357,167
Negative fair value derivatives	34,670	69,723	40,177	3,906	-	148,476
Customers' deposits	47,906,251	6,675,085	192,003	4,696	34,310,139	89,088,174
Subordinated debt	3,900,000	6,975	-	-	-	3,906,975
Other liabilities	-	-	-	-	1,542,348	1,542,348
Shareholders' equity	-	-	-	-	12,027,194	12,027,194
Total liabilities	52,561,555	6,761,619	241,322	8,602	48,497,236	108,070,334
Special commission rate sensitivity - financial position gap	279,854	19,227,540	12,542,616	8,579,332		
Special commission rate sensitivity on derivative financial instruments	686,065	6,539	(641,611)	(50,993)		
Total special commission rate sensitivity gap	965,919	19,234,079	11,901,005	8,528,339		
Cumulative special commission rate sensitivity gap	965,919	20,199,998	32,101,003	40,629,342		

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

ii) CURRENCY RISK

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

2016

Currency exposure	**Change in Currency Rate (%)**	**Effect on Net Income**
USD	**5** **(5)**	**2,265** **(2,265)**
AED	**5** **(5)**	**64** **(64)**
CHF	**5** **(5)**	**5** **(5)**
EUR	**5** **(5)**	**6** **(6)**
GBP	**5** **(5)**	**26** **(26)**
JPY	**5** **(5)**	**69** **(69)**
Others	**5** **(5)**	**137** **(137)**

2015

Currency exposure	Change in Currency Rate (%)	Effect on Net Income
USD	5 (5)	(2,426) 2,426
AED	5 (5)	4,244 (4,244)
CHF	5 (5)	(0) 0
EUR	5 (5)	(6) 6
GBP	5 (5)	(5) 5
JPY	5 (5)	(3) 3
Others	5 (5)	127 (127)

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

	Long / (short) SAR ' 000	
	2016	2015
US Dollar	**45,297**	(48,527)
UAE Dirham	**1,270**	84,888
Swiss Franc	**99**	(3)
Euro	**113**	(123)
Pound Sterling	**525**	(109)
Japanese Yen	**1,382**	(54)
Others	**2,740**	2,540

iii) EQUITY PRICE RISK

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

	2016		2015	
Market Indicies - Tadawul	**Change in equity prices%**	**Effect in SAR '000**	Change in equity prices%	Effect in SAR '000
	+ 5	**6,949**	+ 5	16,943
	- 5	**(6,949)**	- 5	(16,943)
	+ 10	**13,897**	+ 10	33,885
	- 10	**(13,897)**	- 10	(33,885)

32 LIQUIDITY RISK

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

i) Maturity profile of assets and liabilities

The tables below summarise the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period to contractual maturity date as at year end and do not take into account the effective maturities as indicated by the Group's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and other operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO and the Board and its Committees also receive regular reporting on key liquidity risk indicators.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7 % (2015: 7%) of total demand deposits and 4% (2015: 4 %) of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposits liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days or the Bank may raise additional funds through repo facilities available with SAMA against securities issued by the Saudi Government up to 75% of the nominal value of bonds held.

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

2016	***No fixed maturity***	***Within 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Assets						
Cash and balances with SAMA	**4,427,484**	**3,059,895**	**-**	**-**	**-**	**7,487,379**
Due from banks and other financial institutions	**428,893**	**450,476**	**145,000**	**-**	**-**	**1,024,369**
Positive fair value derivatives	**-**	**85,782**	**254,732**	**53,265**	**-**	**393,779**
Investments, net	**293,637**	**5,701,730**	**1,210,973**	**6,316,745**	**7,735,413**	**21,258,498**
Loans and advances, net	**1,839,403**	**24,249,640**	**15,929,651**	**18,295,353**	**12,429,050**	**72,743,097**
Investments in an associate	**35,697**	**-**	**-**	**-**	**-**	**35,697**
Property and equipment, net	**1,281,023**	**-**	**-**	**-**	**-**	**1,281,023**
Other assets, net	**846,658**	**-**	**-**	**-**	**-**	**846,658**
Total	**9,152,795**	**33,547,523**	**17,540,356**	**24,665,363**	**20,164,463**	**105,070,500**

Amounts in SAR'000

	No fixed maturity	*Within 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**638,337**	**549,508**	**147,159**	**12,728**	**-**	**1,347,732**
Negative fair value derivatives	**-**	**45,992**	**196,290**	**26,062**	**2,449**	**270,793**
Customers' deposits	**35,199,661**	**36,454,291**	**12,560,763**	**1,144,073**	**-**	**85,358,788**
Subordinated debt	**-**	**-**	**9,905**	**1,400,000**	**2,500,000**	**3,909,905**
Other liabilities	**1,320,488**	**-**	**-**	**-**	**-**	**1,320,488**
Shareholders' equity	**12,862,794**	**-**	**-**	**-**	**-**	**12,862,794**
Total	**50,021,280**	**37,049,791**	**12,914,117**	**2,582,863**	**2,502,449**	**105,070,500**

2015	*No fixed maturity*	*Within 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Assets						
Cash and balances with SAMA	4,476,152	3,161,717	-	-	-	7,637,869
Due from banks and other financial institutions	546,888	187,727	-	-	-	734,615
Positive fair value derivatives	-	62,023	71,647	119,964	53,963	307,597
Investments, net	489,854	6,969,810	5,778,266	5,643,652	2,381,714	21,263,296
Loans and advances, net	2,313,432	22,744,891	16,625,484	21,776,160	12,952,223	76,412,190
Investments in an associate	12,567	-	-	-	-	12,567
Property and equipment, net	801,046	-	-	-	-	801,046
Other assets, net	901,154	-	-	-	-	901,154
Total	9,541,093	33,126,168	22,475,397	27,539,776	15,387,900	108,070,334

Liabilities and shareholders' equity	*No fixed maturity*	*Within 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Due to banks and other financial institutions	597,554	740,635	9,836	9,142	-	1,357,167
Negative fair value derivatives	-	17,061	43,606	56,927	30,882	148,476
Customers' deposits	35,451,814	46,764,576	6,675,085	192,003	4,696	89,088,174
Subordinated debt	-	-	6,975	1,400,000	2,500,000	3,906,975
Other liabilities	1,542,348	-	-	-	-	1,542,348
Shareholders' equity	12,027,194	-	-	-	-	12,027,194
Total	49,618,910	47,522,272	6,735,502	1,658,072	2,535,578	108,070,334

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

iii) Analysis of financial liabilities by remaining contractual maturities

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

2016	*No fixed maturity*	*Within 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial Liabilities						
Due to banks and other financial institutions	**638,337**	**549,566**	**149,929**	**13,348**	**-**	**1,351,180**
Customers' deposits	**35,199,661**	**36,765,499**	**12,803,729**	**1,153,850**	**-**	**85,922,739**
Subordinated debt	**-**	**-**	**158,421**	**2,246,171**	**2,661,843**	**5,066,435**
Derivatives						
Contractual amounts payable	**-**	**(117,369)**	**(332,165)**	**(871,853)**	**(112,322)**	**(1,433,709)**
Contractual amounts receivable	**-**	**123,910**	**354,898**	**905,860**	**112,959**	**1,497,627**
Total undiscounted financial liabilities	**35,837,998**	**37,321,606**	**13,134,812**	**3,447,376**	**2,662,480**	**92,404,272**

Amounts in SAR'000

2015

Financial Liabilities						
Due to banks and other financial institutions	597,555	740,657	9,841	9,894	-	1,357,947
Customers' deposits	35,451,814	46,817,471	6,744,678	201,543	5,012	89,220,518
Subordinated debt	-		137,276	2,178,322	2,814,946	5,130,544
Derivatives						
Contractual amounts payable	-	(80,154)	(292,594)	(846,543)	(125,434)	(1,344,725)
Contractual amounts receivable	-	91,806	322,071	887,270	128,978	1,430,125
Total undiscounted financial liabilities	36,049,369	47,569,780	6,921,272	2,430,486	2,823,502	95,794,409

33 FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair value and the fair value hierarchy

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

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

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

Level 3: valuation techniques for which significant inputs are not based on observable market data.

2016

Financial assets measured at fair value:	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	**393,779**	-	**393,779**	**-**	**393,779**
Financial investments available for sale	**462,989**	**290,200**	**169,351**	**3,438**	**462,989**
Financial assets not measured at fair value:					
Due from banks and other financial institutions	**1,024,369**	-	**1,024,369**	**-**	**1,024,369**
Held to maturity investments	**61,791**	**58,421**	**1,652**	**-**	**60,073**
Other investments at amortised cost	**20,733,718**	**499,663**	**20,198,967**	**-**	**20,698,630**
Loans and advances	**72,743,097**	-	**-**	**72,614,833**	**72,614,833**
Total	**95,419,743**	**848,284**	**21,788,118**	**72,618,271**	**95,254,673**

Financial liabilities measured at fair value:	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	**270,793**	**-**	**270,793**	**-**	**270,793**
Financial liabilities not measured at fair value:					
Due to banks and other financial institutions	**1,347,732**	**-**	**1,347,732**	**-**	**1,347,732**
Customers' deposits	**85,358,788**	**-**	**85,358,788**	**-**	**85,358,788**
Subordinated debt	**3,909,905**	**-**	**3,909,905**	**-**	**3,909,905**
Total	**90,616,425**	**-**	**90,616,425**	**-**	**90,616,425**

2015

Financial assets measured at fair value:	Carrying value	Level 1	Level 2	Level 3	Total
Derivative financial instruments	307,597	-	307,597	-	307,597
Financial investments available for sale	673,022	486,416	183,168	3,438	673,022
Financial assets not measured at fair value:					
Due from banks and other financial institutions	734,615	-	734,615	-	734,615
Held to maturity investments	75,186	58,401	15,394	-	73,795
Other investments at amortised cost	20,515,088	624,129	19,851,201	-	20,475,330
Loans and advances	76,412,190	-	-	77,051,075	77,051,075
Total	98,717,698	1,168,946	21,091,975	77,054,513	99,315,434

Amounts in SAR'000

Financial liabilities measured at fair value:	Carrying value	Level 1	Level 2	Level 3	Total
Derivative financial instruments	148,476	-	148,476	-	148,476
Financial liabilities not measured at fair value:					
Due to banks and other financial institutions	1,357,167	-	1,357,167	-	1,357,167
Customers' deposits	89,088,174	-	89,088,174	-	89,088,174
Subordinated debt	3,906,975	-	3,906,975	-	3,906,975
Total	94,500,792	-	94,500,792	-	94,500,792

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

The fair values of cash and balances with SAMA, due from banks and other financial institutions and due to banks and other financial institutions, other assets and other liabilities are not significantly different from the carrying values since the underlying amounts for these categories are for shorter durations which indicates that their booking rates are not significantly different from the current market rates. The fair value of subordinated debt approximates carrying value since this is a floating rate liability with special commission rates re-priced every six months. The value obtained from a valuation model may differ from the transaction price of a financial instrument on transaction date. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data or realised through disposal. Subsequent changes in fair value are recognised immediately in the consolidated income statement without reversal of deferred day one profits and losses.

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

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

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter- relationship between significant unobservable inputs and fair value measurement**
Available for sale investments	Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.	None	Not applicable
Other investments held at amortised cost	Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.	None	Not applicable
Loans and advances	Fair valued using discounted cash flow techniques that use observable market data inputs for yield curves and credit spread	Credit spreads	The wider the credit spread the higher the difference between the carrying values and fair values

Amounts in SAR'000

34 RELATED PARTY TRANSACTIONS

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

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

ABN AMRO Bank N.V	***2016***	*2015*
Due from banks and other financial institutions	**243,509**	13,744
Due to banks and other financial institutions	**3,129**	28,307
Derivatives at fair value, net	**(1,710)**	(1,976)
Commitments and contingencies	**81,256**	160,677

Associates & other major shareholders and their affiliate entities with significant influence:	***2016***	*2015*
Loans and advances	**749,019**	711,330
Derivatives at fair value, net	**9,972**	11,205
Investments	**40,028**	40,000
Customers' deposits	**9,644,108**	6,264,673
Subordinated debt	**698,696**	722,000
Commitments and contingencies	**15,447**	48,215

Mutual funds managed by the Group:	***2016***	*2015*
Investments	**151,227**	147,566
Loans and advances	**-**	170,775
Subordinated debt	**15,028**	15,000
Customers' deposits	**259,574**	361,607
Derivatives at fair value, net	**3,210**	10,502

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

	2016	*2015*
Special commission income	**14,262**	14,901
Special commission expense	**196,769**	112,530
Fees from banking services, net	**1,218**	2,609
Fees from management services	**14,898**	18,719
General and administrative expenses	**25,769**	23,499
Directors' remuneration and other related expenses	**4,792**	3,708
Compensation paid to key management personnel	**48,641**	47,829
End of service benefits paid to key management personnel	**3,949**	-

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

35 CAPITAL ADEQUACY

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

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

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

Amounts in SAR'000

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

	2016	2015
Credit Risk RWA	**90,214,396**	96,325,986
Operational Risk RWA	**5,498,588**	4,710,338
Market Risk RWA	**210,754**	278,356
Total Pillar-I RWA	**95,923,738**	101,314,680
Tier I Capital	**12,862,794**	11,729,995
Tier II Capital	**4,220,937**	4,058,774
Total Tier I & II Capital	**17,083,731**	15,788,769
Capital Adequacy Ratio %		
Tier I	**13.41**	11.58
Tier I + Tier II	**17.81**	15.58

36 INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Group offers investment management services to its customers that include the management of investment funds and discretionary portfolios with total assets of SAR 3.29 billion (2015: SAR 3.59 billion), in consultation with professional investment advisors. This includes funds managed under Shariah approved portfolios amounting to SAR 1.55 billion (2015: SAR 1.39 billion). The financial statements of these funds are not consolidated with the consolidated financial statements of the Group. The Group's investment in these funds is included in available for sale investments. Fees earned from management services are disclosed under "related party transactions". Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, therefore, are not included in the consolidated financial statements.

37 SHARE BASED PLAN RESERVE

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

- Eligible Employees are required to continue their employment with the Group for a period of two years from the grant date to have half of their shares vest and another year for the remainder to vest; and
- The Group achieves specific growth thresholds as approved by the Board of Directors where each threshold will accrue a certain value of shares to the Eligible Employees.

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

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

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

	Grant in 2016	***Grant in 2015***	***Grant in 2014***
Plan Commencement date	March 2016	March 2015	March 2014
Value of shares granted on the grant date (SAR)	26,301,969	28,538,602	21,007,936
Fair value per share at grant date (SAR)	27	45.56	40.24
Number of shares granted	974,147	626,396	522,066
Vesting period	March 2018 - 2019	March 2017 - 2018	March 2016 - 2017
Method of settlement	Bank's shares	Bank's shares	Bank's shares

Amounts in SAR'000

During 2015, the Bank reassessed its position and consolidated the Staff Share Plan Fund (the "Fund") in its consolidated financial statements. Consequently, the Group had recognised the Bank's shares held by the Fund as treasury shares amounting to SAR 86.48 million and presented these under share based plan reserve in the consolidated statement of changes in shareholders' equity.

The following is the movement in number of shares in grant at December 31, 2016 and 2015.

	Number of shares	
	2016	2015
Beginning of the year	**1,863,294**	1,598,345
Granted during the year	**3,065,214**	942,845
Vested during the year	**(759,038)**	(621,020)
Forfeited during the year	**(752,469)**	(56,876)
	3,417,001	1,863,294

During the year Share Based Plan related charge to consolidated income statement amounted to SAR 10.81 million (2015: SAR 16.18 million).

38 PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Group has opted not to early adopt the amendments and revisions to the following standards which have been published and are mandatory for compliance for future years by the Group's.

Following is a brief on the new IFRSs and amendments to IFRSs, effective for future periods:

- **IFRS 9 Financial Instruments:**

IFRS 9 Financial Instruments will be effective from 1 January 2018 and will replace IAS 39.The Group will recognize loss allowances based on Expected Credit Loss (ECL) considering forward-looking information. Framework with detailed policies and controls including roles and responsibilities will be implemented. The Group is in the process of evaluating how the new ECL model will impact its ongoing regulatory capital structure planning.

- **IFRS 15 Revenue from Contracts with Customers:**

IFRS 15 -- "Revenue from contracts with customers", applicable for the annual periods beginning on or after 1 January 2018. The new standard presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard will 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 IAS 12:**

Amendments to IAS 12 – "Income Taxes", applicable for the annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference.

- **Amendments to IFRS 2:**

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

- **IFRS 16 Leases:**

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

Amounts in SAR'000

39 COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year's presentation. The impact of these reclassifications on the consolidated financial statements is disclosed below:

	As originally reported	*Reclassification*	*Amounts reported after reclassification*
December 31, 2015			
Assets:			
Loans and advances, net	76,143,850	268,340	76,412,190
Investments, net	21,226,485	36,811	21,263,296
Due from banks and other financial institutions	734,583	32	734,615
Positive fair value derivatives	-	307,597	307,597
Other assets, net	1,513,934	(612,780)	901,154
	99,618,852	-	99,618,852
Liabilities:			
Due to banks and other financial institutions	1,356,874	293	1,357,167
Negative fair value derivatives	-	148,476	148,476
Customers' deposits	88,832,063	256,111	89,088,174
Subordinated debt	3,900,000	6,975	3,906,975
Other liabilities	1,954,203	(411,855)	1,542,348
	96,043,140	-	96,043,140

40 BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 26th Jumada Al-Awwal, 1438H (corresponding to February 23, 2017).