THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED

<u>31 DECEMBER 2016 AND AUDITORS' REPORT</u>

Ernst & Young **KPMG Al Fozan & Partners**

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The National Commercial Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 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 48.

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 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Accounting Standards for Financial Institutions 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 By-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.

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these key audit matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Impairment of financing and advances	As at 31 December 2016, the Group's gross financing and advances amounted to SR 259,521 million (2015: SR 258,504 million), against which an impairment charge of SR 1,931 million (2015: SR 1,600 million) was recognised during the year, aggregating to a cumulative allowance for credit losses of SR 5,928 million (2015: SR 5,564 million) as at the reporting date. Please refer note 7 for details of financing and advances and corresponding impairment charge, and notes 2.5(a), 3.12 and 3.14(a) for details of the accounting policy adopted by the Group for the identification and recognition of related credit losses. Impairment allowance is a highly subjective area due to significant level of judgment applied by the management in the determination of cumulative impairment allowances as at the reporting date. Due to the materiality of the amounts involved and related subjectivity, this is considered as a key audit risk. **Corporate financing and advances** In respect of corporate financing and advances, judgment is applied to determine appropriate parameters and assumptions used to calculate impairment allowances. The Group uses historical experience, evaluating the characteristics of expected problematic customers, valuation of collaterals for secured lending and the expected future cash flows of corporate customers. In addition, we considered the effect of financial stress prevailing in the construction, contracting and related industries on the creditworthiness of relevant counterparties.	Our audit procedures in response to the significant risk associated with the impairment on Group's financing and advances covered assessing the appropriateness of the corresponding impairment allowances. Based on our understanding of the process and key controls, we focused on the identification of loss events and the governance controls over the impairment process, including continuous re-assessment by management. We have performed walkthroughs and testing of relevant key controls to determine whether they were designed, implemented and operated effectively throughout the year. In addition, we tested the IT controls related to systems in use for the computation of impairment. Also, we tested the entity and business unit level controls over the impairment model process in relation to model build (with specific focus on quantitative and qualitative attributes), model monitoring and the annual validation process. **Corporate financing and advances** Where impairment allowances were individually calculated, we assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment allowance. We tested a sample of financing and advances to determine whether management had identified and appropriately accounted for all impairment events and to assess whether impairment had been identified on a timely manner.

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

		We selected samples from the performing portfolio and checked whether any of the selected customers warranted classification as non-performing or impaired. For customers with exposure to the sectors susceptible to prevailing economic conditions, we increased our sample testing of cases individually assessed for impairment, including those customers identified on the watchlist, and those that remained in the 'good book'. In addition, we assessed the completeness of the unidentified impairment provision for these customers. For impaired corporate financing and advances, we obtained an understanding of the basis of measuring impairment allowances and considered whether management's key judgments and expectation were appropriate given the borrowers' circumstances, including the assessment of impairment and the assessment of whether historic experience is appropriate when assessing the likelihood of incurred losses. We also re-performed the impairment allowance calculation. In addition, we tested key inputs to the impairment allowance calculation including the expected future cash flows and valuation of collateral held, and performed tests to determine whether valuations were up to date and appropriate for the purpose. Where impairment allowance was calculated on a collective basis, we tested, on a sample basis, the completeness and accuracy of the inputs to the impairment model used by management, including underlying financing and advances information, by agreeing details to the Bank's Source systems as well as re-computing the impairment allowance calculation. For key assumptions used in the model, we have assessed whether those assumptions were appropriate in the circumstances.

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

	Consumer and credit cards financing and advances Impairment for credit losses in respect of consumer and credit cards financing and advances is determined using models, that aim to capture historical loss norms as a means to estimate incurred credit losses at the reporting date. This entails the collation and assessment of consumer and credit cards financing and advances into pools of homogenous customers that have similar credit risk characteristics. Where required, historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not exist currently. Hence, in lieu of the aforementioned factors, it has been considered as a key audit matter.	**Consumer and credit cards financing and advances** For consumer and credit cards financing and advances, where impairment allowance is estimated on a collective basis or via use of a loss norm percentages, we tested, on a sample basis, the completeness and accuracy of the inputs to the impairment model used by management, including underlying financing and advances information, by agreeing details to the Bank's source systems as well as re-computing the impairment allowance calculation. For the key assumptions used in the model, we have assessed whether those assumptions were appropriate in the circumstances. Moreover, we checked that no changes had been made in the model parameters assumptions unless considered reasonable and required in lieu of any new or emerging facts or circumstances. Furthermore, we assessed the adequacy and appropriateness of financial statement disclosure with respect to impairment on financing and advances.
Impairment of investments	As at 31 December 2016, the gross values of investments (excluding investments carried at fair value through income statement) amounted to SR 109,884 million (2015: SR 132,197 million), against which an impairment of SR 903 million (2015: SR 936 million) has been recognised to date. Please refer note 6 for details of these investments and corresponding impairment charge, and note 3.14 for details of the accounitng policy adopted by the Group for the identification and recognition of related impairment.	Our audit procedures in response to the significant risk associated with the impairment on Group's investments (excluding investments carried at fair value through income statement) included: • an assessment of consistency in application of Group's methodology for impairment assessment and computation • testing relevant internal controls over determination of appropriate impairment triggers, occurrence of impairment events and estimating the amount of impairment losses • an assessment of relevance, reasonableness and completeness of assumptions corresponding to specific instruments

	Such investments, represented by debt and equity instruments, are classified under held to maturity, held at amortised cost and available for sale categories. These are susceptible to credit and market risk. The estimation of credit losses on debt investments (such as bonds, sukuks, collateralized debt obligations) requires the Group to exercise judgment in defining and monitoring objective evidence of impairment, represented by: • the establishment of impairment triggers (including credit rating downgrades, financial or repayment difficulties, etc.) • identification of the occurrence of trigger events, • followed by an estimation of incurred losses at the reporting date using internal methodologies and relevant assumptions (including expected timing of cashflows, discount rates, probability of default factors and loss given default factors). With respect to equity investments, the International Accounting Standards No. 39 requires the recognition of an impairment loss where instance of any significant or prolonged decline in the value of the investment is identified. However, IAS 39 does not prescribe quantitative thresholds in this regard. Accordingly, the Group management exercises judgment in: • the determination of what constitutes significant or prolonged decline. • distinguishing between temporary and permanent decline	• an analysis of the investment portfolio for instances of any previously unidentified impairment triggers. • for a selected sample of investments, recalculation of the impairment loss estimated by the Group, including sensitivity of the impairment loss to any changes in the significant assumptions used. • testing the IT controls related to systems used in the monitoring of impairment triggers and computation of related losses. With respect to the impairment models used, we also tested controls over: • integrity and completeness of data derived from various internal systems and used in these models • periodic model validation/ modification process Moreover, we also assessed the adequacy and appropriateness of financial statements disclosure with respect to impairment in investments.

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

	• continued assessment of impairment in periods subsequent to the initial recognition of loss Due to the significance of amount involved and the exercise of significant judgment by management in the process for determination of incurred losses on both debt and equity investments; we have determined it to be a key audit matter.	
Valuation of unquoted derivative and non-derivative financial instruments carried at fair value	As at 31 December 2016, the carrying values of unquoted derivative and non derivative financial assets and financial liabilities aggregated to SR 16,647 million (2015: SR 20,576 million) and SR 1,469 million (2015: SR 1,445 million) respectively. Please refer to note 39 for details of the composition and gross carrying values of such financial instruments, and notes 3.3 and 3.11 for details of the relevant accounitng policy adopted by the Group. In the absence of observable market inputs; the valuation of certain unquoted derivative and non-derivative financial instruments is derived using complex techniques, applying varied assumptions that are considered appropriate, reasonable and relevant based on management's judgment. The valuation estimate is particularly sensitive to certain inputs, whereby small changes can have a material impact on the Group's reported financial position, results and disclosures.	Our audit procedures in response to the significant risk with respect to the valuation of unquoted derivative and non-derivative financial instruments included the assessment of the Group's overall valuation framework; including: • Obtaining an understanding of the management processes for identification, and mitigation of valuation risk, • Conducting an evaluation of applied judgments and significant inputs used in the valuation, • testing internal controls around reliability of the source and appropriateness of key assumptions, and • testing the controls over approval of new models or changes to existing valuation models. We carried out an independent valuation assessment for a sample of unquoted financial instruments, and in respect of valuation adjustments relating to credit and funding; we assessed the valuation assumptions used, including consideration of alternative valuation methodologies used by other market participants.

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

	Accordingly, due to the significance of unquoted financial instruments and related estimation uncertainty, this has been determined as a key audit matter.	With respect to financial statements disclosure, we have assessed whether the Group has appropriately reflected its exposure to valuation risk of unquoted financial instruments, using appropriate narratives and sensitivity analysis.
Application of hedge accounting	As at 31 December 2016, the positive and negative marked to market values of derivatives designated under hedging relationships aggregated to SR 366 million (2015: SR 251 million) and SR 840 million (SR 2015: SR 996 million) respetively, while the corresponding unrecognised notional values amounted to SR 18,862 million (2015: SR 23,868 million). Please refer note 13 for details of the composition, notional values and carrying values, and note 3.3 for details of the corresponding accounitng policy adopted by the Group in the application of hedge accounting. The IFRS stipulate certain criteria including performance of regular hedge effectiveness testing as a pre-requisite to the application of hedge accounting. Due to the complex nature of the hedge accounting rules and their corresponding application, especially in the context of terminated and rolled over hedges, we have determined hedge accounting to be a key audit matter. .	Our audit procedures in response to the significant risk associated with the application of hedge accounting included: • obtaining a detailed understanding of the Group's framework for financial risk management and hedge accounting. • testing internal controls over the establishment of hedging relationships, preparation of appropriate documentation and hedge monitoring process, including testing the prospective and retrospective effectiveness. In addition, we have also re-performed hedge effectiveness testing for a selected sample of hedges including detailed assessment of accounting for terminated hedges. Where hedge effectiveness was performed or endorsed using external parties, we analyzed and assessed the objectivity, competence and experience of such third parties, including reviews of the reports issued by them. Our procedures also included tests of the design, implementation and operating effectiveness of application controls embedded in the systems used in connection with the accounting for designated hedges. We have also assessed the appropriateness of the financial statement disclosures reflecting the Group's cumulative exposures under hedging relationships at the reporting date.

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

Impairment of goodwill	As at 31 December 2016, the gross value of goodwill in the Group's consolidated financial statements amounts to SR 802 million (2015: SR 968 million) against which cumulative impairment losses and foreign currency translation adjustments aggregate to SR 476 million (2015: SR 575 million) at the reporting date. Please refer note 11 for details of movement during the period and note 3.10 for details of accounting policy adopted by the Group in repsect of initial recognition and subsequent measurement of goodwill. The Group's assessment of the recoverable amount of cash generating unit amounting to SR 4,422 million involves the use of judgement. In accordance with the requirements of relevant International Financial Reporting Standards ("IFRS"), goodwill is subject to impairment reviews at least on annual basis. Such impairment analysis involve modelling techniques, requiring a significant amount of judgment and are subject to a higher risk of estimation uncertainty. It also requires estimates of future cash flows and associated discount and growth rates based on management's view of future business prospects at the time of the assessment. Uncertainty is typically high where the excess of recoverable amount over carrying value is limited and where value in- use is most sensitive to estimates of future cash flows. Accordingly, it has been considered as a key audit matter.	Our audit procedures included the assessment of the Group's process in respect of the recognition and measurement of goodwill impairment, including the assumptions used. We also assessed the appropriateness of key assumptions forming the Group's value-in-use calculation, including dividend and cash flow projections and discount rates. Moreover, we assessed and challenged key management assumptions related to estimated future cash flows, growth and discount rates. We also compared management assumptions against industry benchmarks, applied our understanding of the future prospects of the business from internal and external sources, and compared forecasts to historical experience. Audit procedures also focused on the accuracy and completeness of the information provided by management to support their assessment.

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

	Management has carried out an impairment study as at 30 November 2016. The recoverable amount was determined based on a value in use calculation, using Discounted Dividends Model projections from financial budgets approved by senior management covering a five-year period.	

Other Information included in the Group's 2016 Annual Report

Other information consists of the information included in the Group's 2016 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. 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 Financial Institutions issued by the SAMA, IFRS, the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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 jointly responsible for our audit opinion.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore included in our report as 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.

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8 Jumada Al Awal 1438H
(5 February 2017)

NCB الأهلي
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016 AND 2015

	Notes	2016 SR '000	2015 SR '000
ASSETS			
Cash and balances with SAMA	4	**43,441,291**	27,559,154
Due from banks and other financial institutions	5	**19,213,063**	20,877,843
Investments, net	6	**111,508,971**	134,102,445
Financing and advances, net	7	**253,592,141**	252,940,091
Positive fair value of derivatives, net	13	**2,666,249**	2,682,982
Investments in associates, net	8	**431,156**	423,740
Other real estate, net	9	**849,180**	876,264
Property and equipment, net	10	**4,363,076**	3,716,091
Goodwill and other intangible assets, net	11	**325,733**	470,282
Other assets	12	**5,100,460**	4,993,148
Total assets		441,491,320	448,642,040
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	14	**45,474,171**	48,100,767
Customers' deposits	15	**315,617,907**	323,866,365
Debt securities issued	16	**9,917,765**	9,940,717
Negative fair value of derivatives, net	13	**1,469,280**	1,445,421
Other liabilities	17	**9,086,479**	9,743,213
Total liabilities		381,565,602	393,096,483
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	18	**20,000,000**	20,000,000
Treasury shares	27 & 44	**(121,011)**	(190,510)
Statutory reserve	19	**20,230,366**	19,383,697
Other reserves (cumulative changes in fair values)	20	**730,088**	726,547
Share based payments reserve	27	**34,443**	
Retained earnings		**13,549,488**	9,833,777
Proposed dividend	30	**1,996,904**	1,495,975
Foreign currency translation reserve	3.4(b)	**(3,382,663)**	(2,787,000)
Equity attributable to shareholders of the Bank		53,037,615	48,462,486
Tier 1 Sukuk	29	**5,700,000**	5,700,000
Equity attributable to equity holders of the Bank		58,737,615	54,162,486
NON-CONTROLLING INTERESTS	43	**1,188,103**	1,383,071
Total equity		59,925,718	55,545,557
Total liabilities and equity		441,491,320	448,642,040

Lama A. Ghazzaoui	Saeed M. Al-Ghamdi	Mansour S. Al Maiman
Chief Financial Officer	Chief Executive Officer	Chairman

The accompanying notes 1 to 48 form an integral part of these consolidated financial statements.

NCB الأهلي
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

	Notes	2016 SR '000	2015 SR '000
Special commission income	22	17,520,834	15,416,013
Special commission expense	22	(3,969,366)	(2,834,179)
Net special commission income		13,551,468	12,581,834
Fee income from banking services, net	23	3,363,062	3,336,295
Exchange income, net		1,142,518	1,074,884
(Loss) from FVIS investments, net		(14,123)	(12,011)
Trading income, net	24	387,707	424,091
Dividend income		101,454	179,915
Gains on non-trading investments, net	25	540,206	277,696
Other operating (expenses), net		(424,913)	(377,010)
Total operating income		18,647,379	17,485,694
Salaries and employee-related expenses		3,432,698	3,542,426
Rent and premises-related expenses		786,419	719,273
Depreciation of property and equipment	10	686,330	614,772
Amortisation of intangible assets	11	74,969	189,337
Other general and administrative expenses		2,057,919	1,480,106
Impairment charge for financing and advances losses, net	7.3	1,930,965	1,600,347
Impairment charge on investments, net	6.7	205,720	109,647
Total operating expenses		9,175,020	8,255,908
Income from operations, net		9,472,359	9,229,786
Other (expenses), net			
Other non-operating (expenses), net	26	(56,526)	(81,357)
Other (expenses), net		(56,526)	(81,357)
Net income for the year		9,415,833	9,148,429
Net income for the year attributable to:			
Equity holders of the Bank		9,316,857	9,089,183
Non-controlling interests		98,976	59,246
Net income for the year		9,415,833	9,148,429
Basic and diluted earnings per share (expressed in SR per share)	28	4.66	4.56

Lama A. Ghazzaoui
Chief Financial Officer

Saeed M. Al-Ghamdi
Chief Executive Officer

Mansour S. Al Maiman
Chairman

The accompanying notes 1 to 48 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

	Notes	2016 SR '000	2015 SR '000
Net income for the year		**9,415,833**	9,148,429
Other comprehensive (loss) income items that are or may be reclassified to the consolidated statement of income:			
Foreign currency translation reserve - (losses)		**(855,313)**	(1,044,067)
Available for sale financial assets:			
- Net change in fair values		**90,857**	(799,115)
- Transfers to consolidated statement of income		**(329,850)**	(144,217)
- Impairment charge on available for sale investments	6.7	**193,736**	87,147
Cash flow hedges:			
- Effective portion of change in fair values	13	**(13,462)**	(276,768)
- Net transfers to consolidated statement of income	13	**34,539**	219,603
Total other comprehensive (loss)		**(879,493)**	(1,957,417)
Total comprehensive income for the year		**8,536,340**	7,191,012
Attributable to:			
Equity holders of the Bank		**8,724,736**	7,465,111
Non-controlling interests		**(188,396)**	(274,099)
Total comprehensive income for the year		**8,536,340**	7,191,012

Lama A. Ghazzaoui	**Saeed M. Al-Ghamdi**	**Mansour S. Al Maiman**
Chief Financial Officer	**Chief Executive Officer**	**Chairman**

The accompanying notes 1 to 48 form an integral part of these consolidated financial statements.

NCB الأهلي
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

		Attributable to equity holders of the Bank													
					Other reserves										
2016	Notes	Share capital SR' 000	Treasury shares SR' 000	Statutory reserve SR' 000	Available for sale financial assets reserve SR' 000	Cash flow hedge reserves SR' 000	Share based payments reserve SR' 000	Retained earnings SR' 000	Proposed dividend SR' 000	Foreign currency translation reserve SR' 000	Total equity attributable to shareholders of the Bank SR' 000	Tier 1 Sukuk SR' 000	Total SR' 000	Non-controlling interests SR' 000	Total equity SR' 000
Balance as at 1 January 2016		20,000,000	(190,510)	19,383,697	729,083	(2,537)	-	9,833,777	1,495,975	(2,787,000)	48,462,485	5,700,000	54,162,485	1,383,071	55,545,556
Total comprehensive income/(loss) for the year															
Exchange difference on translating foreign operations		-	-	-	-	-	-	-	-	(595,663)	(595,663)	-	(595,663)	(259,650)	(855,313)
Net changes in fair value of cash flow hedges	20	-	-	-	-	(22,421)	-	-	-	-	(22,421)	-	(22,421)	8,959	(13,462)
Net changes in fair values of available for sale investments	20	-	-	-	127,538	-	-	-	-	-	127,538	-	127,538	(36,681)	90,857
Net transfers to consolidated statement of income		-	-	-	(136,114)	34,539	-	-	-	-	(101,575)	-	(101,575)	-	(101,575)
Net income for the year		-	-	-	-	-	-	9,316,857	-	-	9,316,857	-	9,316,857	98,976	9,415,833
		-	-	-	(8,576)	12,118	-	9,316,857	-	(595,663)	8,724,736	-	8,724,736	(188,396)	8,536,340
Transfer to statutory reserve	19	-	-	846,669	-	-	-	(846,669)	-	-	-	-	-	-	-
Adjustments in non-controlling interests and subsidiaries		-	-	-	-	-	-	7,893	-	-	7,893	-	7,893	(6,572)	1,321
Premium on acquisition of non-controlling interests (see note 1 2(a1))		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tier 1 Sukuk	29	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tier 1 Sukuk related costs	29	-	-	-	-	-	-	(288,096)	-	-	(288,096)	-	(288,096)	-	(288,096)
Adjustment in proposed final dividend for 2015		-	-	-	-	-	-	(4,025)	4,025	-	-	-	-	-	-
Disposal of Treasury shares	44	-	190,510	-	-	-	-	-	-	-	190,510	-	190,510	-	190,510
Gain on disposal of Treasury shares		-	-	-	-	-	-	8,717	-	-	8,717	-	8,717	-	8,717
Treasury shares acquisition for share based payments	27 & 44	-	(121,011)	-	-	-	-	-	-	-	(121,011)	-	(121,011)	-	(121,011)
Proposed final dividend for 2016	30	-	-	-	-	-	-	(1,996,904)	1,996,904	-	-	-	-	-	-
Share based payments reserve	27	-	-	-	-	-	34,443	-	-	-	34,443	-	34,443	-	34,443
Zakat	17	-	-	-	-	-	-	(1,282,062)	-	-	(1,282,062)	-	(1,282,062)	-	(1,282,062)
Dividends paid for 2016 (interim) and 2015 (final)	30	-	-	-	-	-	-	(1,200,000)	(1,500,000)	-	(2,700,000)	-	(2,700,000)	-	(2,700,000)
Balance as at 31 December 2016		20,000,000	(121,011)	20,230,366	720,507	9,581	34,443	13,549,488	1,996,904	(3,382,663)	53,037,615	5,700,000	58,737,615	1,188,103	59,925,718
2015															
Balance as at 1 January 2015		20,000,000	(190,510)	17,172,081	1,580,874	37,014	-	7,371,935	1,296,512	(2,054,269)	45,213,637	-	45,213,637	1,707,254	46,920,891
Total comprehensive (loss)/incomefor the year															
Exchange difference on translating foreign operations		-	-	-	-	-	-	-	-	(732,731)	(732,731)	-	(732,731)	(311,336)	(1,044,067)
Net changes in fair value of cash flow hedges	20	-	-	-	-	(259,154)	-	-	-	-	(259,154)	-	(259,154)	(17,614)	(276,768)
Net changes in fair values of available for sale investments	20	-	-	-	(794,720)	-	-	-	-	-	(794,720)	-	(794,720)	(4,395)	(799,115)
Net transfers to consolidated statement of income		-	-	-	(57,070)	219,603	-	-	-	-	162,533	-	162,533	-	162,533
Net income for the year		-	-	-	-	-	-	9,089,183	-	-	9,089,183	-	9,089,183	59,246	9,148,429
		-	-	-	(851,790)	(39,551)	-	9,089,183	-	(732,731)	7,465,111	-	7,465,111	(274,099)	7,191,012
Transfer to statutory reserve	19	-	-	2,211,616	-	-	-	(2,211,616)	-	-	-	-	-	-	-
Adjustments in non-controlling interests and subsidiaries		-	-	-	-	-	-	17,029	-	-	17,029	-	17,029	(49,147)	(32,118)
Premium on acquisition of non-controlling interests		-	-	-	-	-	-	(22,384)	-	-	(22,384)	-	(22,384)	(937)	(23,321)
Tier 1 Sukuk	29	-	-	-	-	-	-	-	-	-	-	5,700,000	5,700,000	-	5,700,000
Tier 1 Sukuk related costs	29	-	-	-	-	-	-	(53,675)	-	-	(53,675)	-	(53,675)	-	(53,675)
Proposed final dividend for 2015	30	-	-	-	-	-	-	(1,495,975)	1,495,975	-	-	-	-	-	-
Share based payments reserve		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Zakat	17	-	-	-	-	-	-	(1,265,013)	-	-	(1,265,013)	-	(1,265,013)	-	(1,265,013)
Dividends paid for 2015 (interim) and 2014 (final)	29	-	-	-	-	-	-	(1,595,707)	(1,296,512)	-	(2,892,219)	-	(2,892,219)	-	(2,892,219)
Balance as at 31 December 2015		20,000,000	(190,510)	19,383,697	729,084	(2,537)	-	9,833,777	1,495,975	(2,787,000)	48,462,486	5,700,000	54,162,486	1,383,071	55,545,557

Lama A. Ghazzaoui
Chief Financial Officer

Saeed M. Al-Ghamdi
Chief Executive

Mansour S. Al Maiman
Chairman

The accompanying notes 1 to 48 form an integral part of these consolidated financial statements.

NCB الأهلي
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015

	Notes	2016 SR' 000	2015 SR' 000
OPERATING ACTIVITIES			
Net income for the year		9,415,833	9,148,429
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading investments, net		431,990	509,361
(Gains) on non-trading investments, net	25	(540,206)	(277,696)
(Gains) on disposal of property and equipment, net	26	(45,495)	(17,523)
(Gains) on disposal of other real estate, net		(5,388)	(606)
Loss on disposal of other repossessed assets		107,328	15,443
Depreciation of property and equipment	10	686,330	614,772
Amortisation of intangible assets	11	74,969	189,337
Impairment charge for financing losses, net	7 3	1,930,965	1,600,347
Impairment charge on investments, net	6 7	205,720	109,647
Share of results of associates	26	(7,416)	(15,905)
Share based payment expense		(34,443)	-
		12,220,187	11,875,606
Net decrease/(increase) in operating assets:			
Statutory deposits with SAMA		650,265	321,019
Due from banks and other financial institutions with original maturity of more than three months		3,499,492	(2,352,921)
Held as fair value through income statement (FVIS) investments		313,946	273,297
Financing and advances, net		(8,883,233)	(40,762,751)
Positive fair value of derivatives, net		(3,820)	(1,643,934)
Other real estate		205,788	56,544
Other assets		56,705	(1,641,082)
Net (decrease)/increase in operating liabilities:			
Due to banks and other financial institutions		(1,169,220)	14,433,684
Customers' deposits		(2,869,851)	(3,482,756)
Negative fair value of derivatives, net		94,432	84,714
Other liabilities		(1,734,608)	1,717,455
Net cash from (used in) operating activities		2,380,083	(21,121,125)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading / non-FVIS investments		63,151,411	76,287,419
Purchase of non-trading / non-FVIS investments		(41,631,228)	(58,635,720)
Purchase of property and equipment	10	(1,426,541)	(1,022,661)
Proceeds from disposal of property and equipment		58,003	24,292
Net cash from investing activities		20,151,645	16,653,330
FINANCING ACTIVITIES			
Debt Securities Issued	16	53,048	1,306,166
Net movement in non-controlling interests		273	(55,479)
Issuance of Tier 1 Sukuk		-	5,700,000
Tier 1 Sukuk related costs		(288,096)	(53,675)
Purchase of treasury shares for share based payments	27 & 44	(121,011)	-
Proceeds from sale of treasury shares		199,227	-
Final dividend for 2015		(1,200,000)	(1,595,707)
Interim dividend for 2016		(1,500,000)	(1,296,512)
Net cash (used in) from financing activities		(2,856,559)	4,004,793
Net increase (decrease) in cash and cash equivalents		19,675,169	(463,002)
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the year		(548,650)	(982,467)
Cash and cash equivalents at the beginning of the year		16,534,934	17,980,403
Cash and cash equivalents at the end of the year	31	35,661,453	16,534,934
Special commission income received during the year		17,705,558	15,456,814
Special commission expense paid during the year		3,639,142	2,595,622
Supplemental non-cash information			
Movement in other reserve and transfers to consolidated statement of income		(24,182)	(913,350)

Lama A. Ghazzaoui	Saeed M. Al-Ghamdi	Mansour S. Al Maiman
Chief Financial Officer	Chief Executive Officer	Chairman

The accompanying notes 1 to 48 form an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

1. GENERAL

(1.1) Introduction

The financial statements comprise the consolidated financial statements of The National Commercial Bank (the Bank) and its subsidiaries (the Group).

The National Commercial Bank is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and is registered under commercial registration No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank operates through its 374 branches (2015: 352 branches), 19 retail service centers (2015: 17 centers), 9 corporate service centers (2015: 8 centers) and 148 QuickPay remittance centers (2015: 138 centers) in the Kingdom of Saudi Arabia and one overseas branch (Bahrain). The Board of Directors in their meeting dated 23 November 2015 resolved to close the Bank's branch operations domiciled in Beirut, Lebanon (the "branch"). The required regulatory approvals have been received and the closure is expected to be completed in due course.

In an extraordinary general assembly meeting held on 31 March 2015 (corresponding to 30 Jumadi-AlAwal 1435H), the shareholders approved to offer 25% of the Bank's share capital (after capital increase) to the general public under an Initial Public Offering (IPO) and to a minority shareholder of the Bank. The IPO was made for 15% of the Bank's share capital and an additional 10% was allocated to the Public Pension Agency. The shares offered were part of the shareholding of a majority shareholder of the Bank. The IPO was approved by the regulatory authorities and the subscription for the IPO took place between 19 October 2014 to 2 November 2014 and the Bank's shares have been trading on Saudi Stock Exchange (Tadawul) since 12 November 2014.

The Bank's Head Office is located at the following address:

The National Commercial Bank
Head Office
King Abdul Aziz Street
P.O. Box 3555
Jeddah 21481, Saudi Arabia
www.alahli.com

The objective of the Group is to provide a full range of banking services. The Group also provides non-special commission based banking products in compliance with *Shariah* rules, which are approved and supervised by an independent *Shariah* Board.

(1.2) Group's subsidiaries

The details of the Group's significant subsidiaries are as follows:

(a) NCB Capital Company (NCBC)

In April 2007, the Bank formed a capital market company, namely, NCBC, a Saudi Joint Stock Company formed in accordance with Capital Market Authority's Resolution No. 2-83-2005 dated 21 Jumad Awal 1426H (28 June 2005), and registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activitives. The Bank has a 90.71% (2015: 90.71%) direct ownership interest in NCBC and an indirect ownership of 7.14% (2015: 7.16%) (the indirect ownership is held via an intermediary trust for future grant to NCBC employees).

(a.1) NCB Capital Dubai Inc. (formerly Eastgate Capital Holdings Inc.)

The Group has a 97.85% (2015: 97.88%) effective ownership interest in NCB Capital Dubai Inc. a Middle East-based private equity firm acquired through its subsidiary, NCBC. NCBC initially acquired a 77% direct ownership interest in NCB Capital Dubai Inc., which was reduced to 70% in September 2013 without losing control. During the year ended 31 December 2015, NCBC completed the buy-out of the residual 30% from the non-controlling shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

1. GENERAL (continued)

(1.2) **Group's subsidiaries (continued)**

(a.2) NCBC Investment Management Umbrella Company Plc

The Group has a 97.85% (2015: 97.88%) effective aggregate ownership in NCB Capital Saudi Arabian Equity Fund and NCB Capital GCC Equity Fund both of which are registered in Dublin, Ireland under NCBC Investment Management Umbrella Company Plc. The Funds have been established for investments in GCC and KSA based equities via two special purpose entities (SPEs) incorporated in the Kingdom of Bahrain, namely, NCB Capital KSA Equity Company W.L.L. and NCB Capital GCC Equity Company W.L.L.

The Shareholders of the NCBC Investment Management Umbrella Company Plc on August 29, 2016 resolved to voluntary liquidate its operations with immediate effect. At 31 December 2016, the legal proceedings to liquidate the company are under process. Moreover, as of December 31, 2016, NCB Capital KSA Equity Fund and NCB Capital GCC Equity Fund and the related SPEs stand liquidated.

(b) Türkiye Finans Katılım Bankası A.Ş. (TFK)

The Bank has a 67.03% (2015: 67.03%) ownership interest in Türkiye Finans Katılım Bankası A.Ş. (the Turkish Bank). The Turkish Bank operates as a participation bank, by collecting funds through current accounts and profit sharing accounts, and lending funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. On 29 August 2014 TFK's shareholders resolved to increase the Turkish Bank's capital from Turkish Lira (TL) 1,775 to TL 2,600 million (SR 4,443 million to SR 5,803 million) through capitalization of retained earnings of TL 600 million (SR 984 million) and cash contribution of TL 225 million (SR 375 million). The Bank’s share of such cash contribution was TL 169 million (SR 281 million). The increase has been approved by the Turkish Banking Regulatory and Supervision Agency (BRSA).

At 31 December 2016, TFK fully owns the issued share capital of TF Varlık Kiralama AŞ, (TFVK) and TFKB Varlik Kiralama A.Ş., which are special purpose entities (SPEs) established in connection with issuance of sukuks by TFK.

(c) Real Estate Development Company (Redco)

The Bank formed Real Estate Development Company (Redco) as a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030146558 dated 21 Dhul Qida 1424H (corresponding to 13 January 2004). The Bank has a 100% ownership (2015: 100%) in Redco. The objectives of Redco primarily include keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.

(d) Alahli Insurance Service Marketing Company

The Group has 100% (2015: 100%) effective ownership in Alahli Insurance Service Marketing Company, a Limited Liability Company registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030195150 dated Dhul Hijjah 21, 1430H, corresponding to December 8, 2009. The Company is engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.

(e) Saudi NCB Markets Limited

The Bank formed Saudi NCB Markets Limited as a Limited Liability Company registered in the Cayman Islands under Commercial Registration number 866144671587 dated 26 Safar 1437H (corresponding to 8 December 2015). The Bank has 100% ownership. The objectives of Saudi NCB Markets Limited is trading in derivatives and Repos/Reverse Repos on behalf of the Bank.

(f) Eastgate MENA Direct Equity L.P.

On 4 April 2016, the Group completed 100% buy-out of Eastgate MENA Direct Equity L.P. (the “Fund”), a private equity fund domiciled in Cayman Islands and managed by NCB Capital Dubai. The transaction has been approved by the relevant regulatory authorities and the acquisition price has been duly paid out to the divesting shareholders. Accordingly, the Group management re-assessed its control over the Fund in view of the increase in its effective aggregated economic interest. The Fund’s investment objective is to generate returns via investments in Shari’ah compliant direct private equity opportunities in high growth businesses in countries within Middle East and North Africa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

2. BASIS OF PREPARATION

(2.1) Statement of compliance

The consolidated financial statements are prepared in accordance with Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Authority (SAMA) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements are prepared in compliance with Banking Control Law, the provision of Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's by-laws.

(2.2) Basis of measurement

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

(2.3) Functional and presentation currency

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

(2.4) Basis of consolidation

The consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries (see note 1.2). The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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.

(2.5) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. It also requires management to exercise its judgment 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 obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised and any future period affected.

Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

(a) Impairment charge for financing losses

The Group reviews its non-performing financing and advances at each reporting date to assess whether a specific allowance for financing losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the specific allowance.

The Group reviews its financing and advances portfolios to assess an additional portfolio (collective) allowance on a periodic basis. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgements, estimates and assumptions (continued)**

(b) Fair value of financial instruments that are not quoted in an active market

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

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

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.

Financial instruments for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy (see note 39).

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

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

(c) Impairment of available for sale investments

The Group exercises judgment to consider impairment on the available for sale investments at each reporting date. This includes determination of a significant or prolonged decline in the fair value of equity securities below cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share prices. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group considers 30% or more, as a reasonable measure for significant decline below its cost, irrespective of the duration of the decline, and is recognized in the consolidated statement of income as impairment charge on investments. Prolonged decline represents decline below cost that persists for 1 year or longer irrespective of the amount and is, thus, recognized in the consolidated statement of income as impairment charge on investments. The previously recognized impairment loss in respect of equity investments cannot be reversed through the consolidated statement of income.

The Group reviews its debt securities classified as available for sale at each reporting date to assess whether they are impaired. This requires similar judgement as applied to individual assessment of financing and advances (see note 3.14).

(d) Classification of held to maturity investments

The Group follows the guidance of IAS 39 "Financial Instruments Recognition and Measurement" on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

2. BASIS OF PREPARATION (continued)

(2.5) **Critical accounting judgments and estimates (continued)**

(e) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the 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 consolidated financial statements continue to be prepared on the going concern basis.

(f) Impairment of non-financial assets

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

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

For the purpose of impairment testing (see note 11), goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

The previously recognized impairment loss in respect of goodwill cannot be reversed through the consolidated statement of income.

Non-financial assets held under Murabaha arrangements are measured at their lower of cost and net realizable value. Net realizable value is the estimated selling price, less selling expenses. Any impairment loss arising as a result of carrying these assets at their net realizable values is recognized in the consolidated statement of income under other operating (expence), net.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. BASIS OF PREPARATION (continued)

(2.5) Critical accounting judgments and estimates (continued)

(g) Determination of control over investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors rights to remove the Fund Manager.

(h) Provisions for liabilities and charges

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the change in accounting policies resulting from new and amended IFRS, as detailed in note 3.1 below, the accounting policies adopted in the preparation of these financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015.

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

(3.1) Changes in accounting policies

The accounting policies for the preperation of the current year consolidated financial statements include adoption of the following new standards and other amendments to existing standards and a new interpretation mentioned below which has had no material impact on the Group's financial statements on the current period or prior periods:

a) New standards

- IFRS 14 – "Regulatory Deferral Accounts", applicable for the annual periods beginning on or after 1 January 2016, allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first time adoption of IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rate-regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of IFRS.

b) Amendments to existing standards

- 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.1) Changes in accounting policies (continued)

- Amendments to IFRS 11 – “Joint Arrangements”, applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – “Business Combinations” and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

- 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 income 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 statement of income.

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

- 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

  * 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 the consolidated 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.2) **Settlement date accounting**

All regular way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date on which the asset is delivered to the counterparty. When settlement date accounting is applied, the Group accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. 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.

(3.3) **Derivative financial instruments and hedge accounting**

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, swaptions, currency and special commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair values classified under other assets where the fair value is positive and under other liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices and/or valuation models as appropriate.

(3.3.1) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income for the year and are disclosed in trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting as described below.

(3.3.2) 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 statement of income. The embedded derivatives separated from the host are carried at fair value in the trading book with changes in fair value recognised in the consolidated statement of income.

(3.3.3) 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 which hedge the exposure to changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.3) **Derivative financial instruments and hedge accounting (continued)**

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate 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 statement of income in 'Net trading income'. For situations where the hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

(3.3.4) Fair value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income (in the same line item as the hedging instrument). Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument.

(3.3.5) Cash flow hedges

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

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

(3.4) **Foreign currencies**

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of NCB, NCBC, Alahli Insurance Service Marketing Company, and Redco is Saudi Riyals. The functional currency for the Turkish Bank is Turkish Lira and the functional currency of NCB Capital Dubai Inc., NCBC Investment Management Umbrella Company Plc and Saudi NCB Markets Limited is U.S. Dollars.

(a) Transactions and balances of the Bank

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are retranslated into the functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.4) **Foreign currencies (continued)**

(b) Foreign operations

As at the reporting date, the assets and liabilities of the foreign operations are translated into the Group's presentation currency (Saudi Riyals) at the rate of exchange ruling at the statement of financial position date, equity (pre-acquisition) is translated at historical exchange rate at the date of acquisition and income and expenses of the statement of income are translated at the spot exchange rates prevailing at transaction dates on daily basis. Exchange differences arising on translation are taken directly to a separate component of equity (foreign currency translation reserve) and are recognized in consolidated statement of comprehensive income. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the foreign exchange translation reserve is allocated to the non-controlling interest. The deferred cumulative amount of exchange differences recognised in equity will be recognised in the consolidated statement of income in 'Other operating expenses' or 'Other operating income' at the time of any future disposal or partial disposal with loss of control.

Goodwill and intangible assets arising on the acquisition of the foreign operations and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

(3.5) **Offsetting financial instruments**

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

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

(3.6) **Revenue / expenses recognition**

Special commission income and expenses for all special commission-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), including fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the consolidated statement of income using the effective special commission rate basis including premiums amortised and discounts accreted during the year. 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 financial liability to the carrying amount of the financial asset or financial 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 financing 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.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the rate of special commission used to discount the future cash flows for the purpose of measuring the impairment loss.

The calculation of the effective special commission rate 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 financial asset or liability.

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

Income from FVIS financial instruments relates to financial assets designated as FVIS and includes all realised and unrealised fair value changes.

Exchange income from banking services are recognized when earned.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.6) **Revenue / expenses recognition (continued)**

Fees income and expenses are recognized on an accrual basis as the service is provided. Financing commitment fees for financing arrangement that are likely to be drawn down are deferred and recognized as an adjustment to the effective yield on the financing arrangement, if material. Portfolio and other management advisory and service fee income are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee income received on other services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided, if material.

Other fee expenses mainly relate to transaction and services fee, which are expensed as related services are provided.

(3.7) **Trading income (loss), net**

Results arising from trading activities include all realized and unrealized gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets held for trading and foreign exchange differences on open positions. This also includes any ineffective portion of the gain or loss on hedging instruments.

(3.8) **Sale and repurchase agreements (including securities lending and borrowings)**

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets continue to be measured in accordance with related accounting policies for investments held for trading, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense which is accrued over the life of the repo agreement using the effective special commission rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized in the consolidated statement of financial position, as the 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 "financing and advances", as appropriate. The difference between purchase and resale price is treated as special commission income which is accrued over the life of the reverse repo agreement using the effective yield basis.

Securities borrowing and lending transactions are typically secured; collateral takes the form of securities or cash advanced or received. Securities lent to counterparties are retained on the consolidated statement of financial position. Securities borrowed are not recognized on the balance sheet, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability. Cash collateral given or received is treated as a loan and receivable or customer deposit.

(3.9) **Business combinations**

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition, being total consideration of the acquisition, is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition that occured prior to 1 January 2010. For any subsequent acquisitions, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and are included in administrative expenses.

Identifiable assets acquired (including previously unrecognized intangible assets) and liabilities (including contingent liabilities) in an acquisition are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

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

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated statement of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investment or other categories of investment in accordance with the Group's relevant accounting policy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.9) Business combinations (continued)

(a) Subsidiaries

Subsidiaries are entities which are controlled by the Group. To meet the definition of control, all three criteria must be met:

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

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

(b) Non-controlling interests

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

(c) Associates

Associates are enterprises over which the Group exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted value or the recoverable amount.

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

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

(d) Transactions eliminated on consolidation

Inter-group balances, income and expenses (except for foreign currency transaction gains or losses) arising from inter-group transactions are eliminated in full in preparing the consolidated financial statements.

(3.10) Goodwill and other intangible assets

(a) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses; impairment loss of goodwill is charged to the consolidated statement of income. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

(b) Other intangible assets

Intangible assets in the consolidated statement of financial position comprise of customer deposits relationships, the value of the TFK's brands, and other banking relationships. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.10) **Goodwill and other intangible assets (continued)**

(b) Other intangible assets (continued)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their estimated useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income under amortization of intangible assets.

Amortisation of intangible assets is calculated using the straight-line method over their estimated remaining useful lives.

Intangible assets with indefinite lives are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(3.11) **Investments**

All investment securities are financial assets which are initially recognized at cost, being the fair value of the consideration given, including incremental direct transaction costs except for those transaction charges related to investments held as FVIS or for trading, which are not added to the cost at initial recognition and are charged to the consolidated statement of income. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date. Fair values 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 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. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values with non-observable market data.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible.

The subsequent period-end accounting treatment for each class of investment are determined on the basis as set out in the following paragraphs:

(a) Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in the short term.

Securities which are held for trading are subsequently measured at fair value and any gains or losses arising from a change in fair value are included in the consolidated statement of income in the period in which it arises and are disclosed as trading income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) **Investments (continued)**

(b) Held at fair value through income statement (FVIS)

Investments in this category are classified as FVIS on initial recognition. An investment may be designated as FVIS by the management if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases; or a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group’s key management personnel. These include all hedge fund and mutual fund investments that are managed by the Group, directly or indirectly, and whose performance is evaluated on a fair value basis. Equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are not classified under this category.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the period in which it arises and are disclosed as income from FVIS investments.

(c) Available for sale (AFS)

Available for sale investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets, and 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 available for sale are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Any unrealised gains or losses arising from changes in fair value are recognized through the consolidated statement of comprehensive income in "other reserves" under equity until the investments are derecognized or impaired whereupon any cumulative gains or losses previously recognized in equity are reclassified to consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading investments.

For impairment of available for sale investments, see note 3.14(b).

(d) Held to maturity

Investments having 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. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less allowance for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is derecognized 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 intention to hold them to maturity.

(e) Other investments held at amortised cost

Investments having fixed or determinable payments that are not quoted in an active market are classified as other investments held at amortised cost. Such investments whose fair values have not been hedged are stated at amortised cost using an effective yield basis, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized and are disclosed as gains/(losses) on non-trading investments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.12) **Financing and advances**

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

Financing and advances are recognised when cash is advanced to borrowers. They are derecognized when either the borrower repays their obligations, or the financing and advances are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Financing and advances are initially measured at fair value of the consideration given.

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

For presentation purposes, allowance for financing losses is deducted from financing and advances.

(3.13) **Due from banks and other financial institutions**

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

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

(3.14) **Impairment of financial assets**

An assessment is made at the date of each consolidated statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized for changes in its carrying amount as follows:

(a) Impairment of financial assets held at amortised cost

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

A specific allowance for financing losses, due to impairment of a financing 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 allowance is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield basis.

In addition to a specific allowance for financing losses of corporate financing, an additional portfolio allowance for collective impairment is made on a portfolio basis for financing losses where there is an 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 they were originally granted. This allowance is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.14) **Impairment of financial assets (continued)**

(a) Impairment of financial assets held at amortised cost (continued)

Financing 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 commission to genuinely distressed borrowers. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the financing. In other cases, renegotiation leads to a new agreement, which is treated as a new financing. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The financings continue to be subject to an individual or collective impairment assessment, calculated using the financing's original effective yield rate.

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

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

Consumer financings are considered to be impaired when a payment is overdue by 90 days or more. Since the risk metrics for consumer financings are based on a collective "pool" basis, rather than on individual financings, the allowances for consumer financings are also computed on a "pool basis" using the 'flow rate" methodology. The allowance coverage is 100% for such non-performing financings which reach the "write-off point".

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

(b) Impairment of financial assets held at fair value

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. 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 recognized in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss on debt instruments decreases upon subsequent increase in the fair value and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the issuer's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the consolidated statement of income as a reversal of allowance for impairment on investment.

Where a loss has been recognized directly under equity, the cumulative net loss balance recognized in equity is transferred to the consolidated statement of income as impairment loss when the asset is considered to be impaired.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment [also see note 2.5(c)]. Unlike debt securities, the previously recognized impairment loss of equity investments cannot be reversed through the consolidated statement of income as long as the asset continues to be recognized, that is, any increase in fair value, after impairment has been recorded, can only be recognized in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.14) **Impairment of financial assets (continued)**

The Group writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer financings, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related allowance for impairment, if any, and any amounts in excess of available allowance are directly charged to the consolidated statement of income.

For impairment of non-financial assets, see note [2.5(f)].

(3.15) **Other real estate and repossessed assets**

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

Subsequent to the initial recognition, such assets are revalued on a periodic basis and adjusted for any subsequent provision for unrealized revaluation losses. Previously recognised unrealised revaluation losses of such assets can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realized losses or gains on disposal and net rental income are recognised in the consolidated statement of income as other operating income expense, net.

The other real estate assets are disclosed in note 9 while other repossessed assets are included in other assets. Gain/loss on disposal of repossessed assets are included in other operating income, net.

(3.16) **Property and equipment**

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss, if any. Freehold land is not depreciated. Changes in the expected useful lives are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the group. Ongoing repairs and maintenance are expensed as incurred.

The depreciable amount of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Leasehold improvements	Over the lease period or useful economic life whichever is shorter
Furniture, equipment and vehicles	4-10 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the date of each consolidated statement of financial position.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income and are disclosed as other non-operating income (expenses).

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

(3.17) **Financial liabilities**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.18) **Financial guarantees and financing commitments**

In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the 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 amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees net of any cash margin. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income as impairment charge for financing losses, net. The premium received is recognised in the consolidated statement of income as fee income from banking services on a straight line basis over the life of the guarantee, if material.

The specific and portfolio (collective) allowances for letters of credit, guarantees and acceptances are included and presented under other liabilities.

Financing commitments are firm commitments to provide credit under prespecified terms and conditions.

(3.19) **Provisions**

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

(3.20) **Accounting for leases**

(a) Where the Group is the lessee

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

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

(b) Where the Group is the lessor

When assets are transferred under a finance lease, including assets under a lease arrangement in compliance with *Shariah* rules *(Ijara),* the present value of the lease payments is recognised as a receivable and disclosed under financing and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return and is disclosed as special commission income.

(3.21) **Zakat, overseas income tax and deferred tax**

Zakat is the liability of the shareholders. Zakat is computed on the higher of net adjusted income or adjusted shareholders' equity using the basis defined under the Saudi Zakat Regulations. Zakat is paid by the Bank on the shareholder's behalf and is not charged to the consolidated statement of income but is deducted from the gross dividend paid to the shareholders or charged to retained earnings as an appropriation of net income if no dividend has been distributed.

Overseas branches and subsidiaries are subject to income tax as per rules and regulations of the country in which they are incorporated and such taxes are reported under non-operating expenses.

For overseas subsidiaries that are subject to income tax, the deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.22) **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less.

(3.23) **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 derecognized, when the contractual rights to the cash flows from the financial asset expires or the asset is transferred and the transfer qualifies for derecognition.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized 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 derecognized 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 derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expires.

(3.24) **Investment management services**

The financial statements of investment management mutual funds are not included in the consolidated financial statements of the Group. Transactions with the funds are disclosed under related party transactions; the Group’s share of these funds is included in held for trading investments.

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

(3.25) **Financing products in compliance with Shariah rules**

In addition to conventional banking products, the Group offers its customers certain non-special commission based financing products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.25.1) Murabaha

Murabaha is a Shariah-compliant form of financing where the Group, based on requests from its customers, purchases specific commodities and sells them to the customers at an agreed-upon price equal to the Group’s cost plus a specified profit margin, which is payable on a deferred basis in agreed-upon installments. The main uses of Murabaha are in residential, commercial real estate, and trade finance.

(3.25.2) Tayseer

Tayseer Alahli is a Shariah-compliant financing instrument introduced by the Group for customers in need of cash financing. It involves the Group buying commodities from international or local markets and selling them to customers at agreed-upon deferred installment terms. Customers, on their own, or by appointing an agent, resell the commodities to third parties for cash. The main uses of Tayseer are in personal finance, credit cards, corporate finance, structured finance, syndications, project finance, as well as interbank transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.25) **Financing products in compliance with Shariah rules (continued)**

(3.25.3) Ijara with a promise to transfer ownership

Ijara is a Shariah-compliant form of financing where the Group, based on requests from customers, purchases assets with agreed-upon specifications on a cash basis and leases them to customers for an agreed-upon rent to be settled in agreed-upon installments. If the assets are in existance then it is considered to be a specified Ijara, while if the assets are not in existance then it is considered to be a forward Ijara in which case it remains a liability on the Group to deliver the agreed upon usufruct. In the Ijara contract, the Group promises to transfer ownership of the assets to its customers at the end of the lease periods, either by sale at nominal prices or in the form of grants. The main uses of Ijara are in auto lease, residential finance, commercial real estate finance, and structured finance. The main uses of forward Ijara are in project finance as well as structured finance.

(3.25.4) Istisna'a

Istisna'a is a contract for the acquisition of assets to be manufactured in accordance with the specifications of the one who requests the assets to be manufactured/procured. In this product the Group can either be the manufacturer/procurer (Saani) or the party who is seeking the assets to be manufactured/procured (Mustasni). In project finance , the Group takes the role of Mustasni and agrees with the customer to deliver specified assets for an agreed upon price. The Group pays for the asset in staged payments. At the same time, the Group enters into a forward Ijara and leases the assets to be constructured to the customer with promise to transfer ownership. The main use of Istisna'a is in project finance combined with forward Ijara to finance the construction of new projects.

All the above Shariah-compliant financing products are accounted for in conformity with the accounting policies described in these consolidated financial statements. They are included in financing and advances.

(3.26) **Shariah-compliant deposit products**

The Group offers its customers certain deposit products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.26.1) AlKhairaat

AlKhairaat is a Shariah-compliant product based on commodity Murabaha. The Group acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities (3,6,9 or 12 months). Being a retail product, customers are allowed to choose the investment amount, tenure, and currency. Since the Group purchases commodities from its customers, it is liable to them for the capital they invested plus a profit.

(3.26.2) Structured AlKhairaat

This product is an enhanced deposit product which provides a Shariah compliant alternative to structured deposits. It combines a AlKhairaat placement with a promise to enter into a secondary Murabaha transaction for the benefit of the customer where the profit will be linked to a predetermined index. These are capital protected up to a specified percentage (typically 95-100%).

These Shariah-compliant deposit products are accounted for in conformity with the accounting policies described in these financial statements. They are included in customers' deposit.

(3.27) **Shariah-compliant treasury products**

The Group offers its customers certain treasury products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board and Shariah advisor.

(3.27.1) Structured Hedging Products

These products are offered to clients to hedge their existing exposure to foreign currencies. It is based on the concept of Waad (binding promise) where the Group promises to buy/sell a particular amount of foreign currency at an agreed upon price. It may include only one Waad or a combination of Waads.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.27) **Shariah-compliant treasury products (continued)**

(3.27.2) Structured Investment Products

These products are offered to clients to offer them a return that is typically higher than a standard AlKhairaat. There are based on the Structured AlKhairaat product and are designed to give the customers exposure to a number of indexes including foreign currencies, precious metals and Shariah compliant equity indexes.

(3.27.3) Rates Products

These products are offered to clients who have exposure to fixed/floating rates and need hedging solutions. The products are designed around the concept of Waad to enter into Murabaha where the profit is based on a rates index or formula. It may include only one Waad or a combination of Waads.

(3.27.4) Commodity Products

These products are offered to clients who have exposure to commodity prices and need hedging solutions. These products are designed around the concept of Waad to enter into Murabaha where the profit is based on a commodity price index. It may include only one Waad or a combination of Waads.

(3.28) **Treasury shares**

Treasury shares are recorded at acquisition cost and presented as a deduction from equity. Any gains or losses on disposal of such shares are reflected under equity and shall not be recognized in the consolidated statement of income.

(3.29) **End of service benefits**

The provision for end of service benefits is based on the rules stated under the Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries. The provision for the Bank is also in line with independent actuarial valuation.

(3.30) **Staff compensation**

The Bank's Board of Directors and its Nomination, Compensation and Governance Committee oversee the design and implementation of the Bank's Compensation System in accordance with SAMA's Compensation Rules and Financial Stability Board (FSB) Principles and Standards of Sound Compensation Practice.

The Nomination, Compensation and Governance Committee was established by the Board of Directors and is composed of four non-executive members including the Chairman of the Committee. The Committee's role and responsibilities are in line with SAMA's Compensation Rules.

The Committee is responsible for the development and implementation of the compensation system and oversight of its execution, with the objective of preventing excessive risk-taking and promoting corporate financial soundness. The Committee submits its recommendations, resolutions and reports to the Board of Directors for approval.

Key elements of compensation in the Bank:

(3.30.1) Fixed Compensation

The fixed compensation includes salaries, allowances and benefits. Salaries are set in relation to market rates to attract, retain and motivate talented individuals. Salary administration is based on key processes such as job evaluation, performance appraisal and pay scales structure. The competitiveness of pay scales is monitored and maintained through participation in regular market pay surveys.

(3.30.2) Variable Compensation

Variable compensation aims at driving performance and limiting excessive risk taking. The Group operates three plans under variable compensation:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.30) **Staff compensation (continued)**

(3.30.2) Variable Compensation (continued)

(a) Short Term Incentive Plan (Annual Performance Bonus)

The annual performance bonus aims at supporting the achievement of a set of annual financial and non-financial objectives. The financial objectives relate to the economic performance of the Group is business, while the non-financial objectives relate to some other critical objectives relating, for example, to complying with risk and control measures, employees development, teamwork, staff morale etc.

The Group has established a regular performance appraisal process aimed at assessing employees' performance and contribution. Annual performance bonus payments are based on employee contributions, business performance and the Group's overall results. The overall annual performance bonus pool is set as a percentage of the Group's net income, adjusted to reflect the core performance of the employees. The Group does not operate a guaranteed bonus plan.

The cost of this plan is recognized in the consolidated statement of income of the year to which it relates and is normally paid during the 1st quarter of the following year.

(b) Long Term Performance Plan

This plan aims at driving and rewarding achievements that lead to long term corporate success, measured on the basis of Return On net income attributable to the equity holders of the Bank. The plan is rolled out in 3-year cycles. The Bank's actual performance is assessed at the end of each cycle for determining actual payout amounts.

Although all executives whose roles and accountabilities are likely to influence the Bank's long term success are eligible to participate in this plan, their actual selection to participate in the plan is made through a vetting process to ensure their meeting of some mission critical criteria.

The cost of the plan is estimated by reference to a set of expected net income forecasts at the beginning of each cycle and is reviewed annually.

The estimated plan cycle cost is apportioned and charged equally to the annual statements of income of the plan years. The estimate is revised annually and the difference between the latter and former estimate is apportioned and charged equally over the balance of the plan cycle.

(c) Share Based Payment Arrangements

The Bank operates an equity-settled share based payment plan for its key management. The grant-date fair value of such share-based payment arrangement granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

If the employees are not entitled to dividends declared during the vesting period, then the fair value of these equity instruments is reduced by the present value of dividends expected to be paid compared with the fair value of equity instruments that are entitled to dividends. If the employees are entitled to dividends declared during the vesting period, then the accounting treatment depends on whether the dividends are forfeitable. Forfeitable dividends are treated as dividend entitlements during the vesting period. If the vesting conditions are not met, then any true-up of the share-based payment would recognise the profit or loss effect of the forfeiture of the dividend automatically because the dividend entitlements are reflected in the grant-date fair value of the award.

In cases, where an award is forfeited (i.e. when the vesting conditions relating to award are not satisfied), the Bank reverses the expense relating to such awards previously recognized in the consolidated statement of income. Where an equity-settled award is cancelled (other than forfeiture), it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The Group acquires its own shares in connection with the anticipated grant of shares to the key management in future. Until such time as the beneficial ownership of such shares in the Bank passes to the employees, the unallocated / non-vested shares are treated as treasury shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

4. CASH AND BALANCES WITH SAMA

	2016 SR '000	2015 SR '000
Cash in hand	**10,057,750**	8,569,899
Balances with SAMA:		
Statutory deposit	**18,330,826**	18,981,091
Money market placements and current accounts	**15,052,715**	8,164
Total	**43,441,291**	27,559,154

In accordance with article (7) of the Banking Control Law and regulations issued by Saudi Arabian Monetary Authority (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits calculated at the end of each Gregorian month (see note 36). The statutory deposits with SAMA are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents (see note 31).

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016 SR '000	2015 SR '000
Current accounts	**5,139,244**	6,883,270
Money market placements	**13,136,484**	13,058,073
Reverse repos	**937,335**	936,500
Due from banks and other financial institutions	**19,213,063**	20,877,843

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

	2016 SR '000	2015 SR '000
Investment grade (credit rating (AAA to BBB-))	**17,166,530**	19,895,345
Non-investment grade (credit rating (BB+ to C))	**1,406,789**	534,694
Unrated	**639,744**	447,804
Due from banks and other financial institutions	**19,213,063**	20,877,843

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

(a) Held for trading

	Domestic		International		Total	
	2016 SR '000	2015 SR '000	**2016 SR '000**	2015 SR '000	**2016 SR '000**	2015 SR '000
Mutual funds	**708,352**	694,083	-	42,953	**708,352**	737,036
Held for trading	**708,352**	694,083	-	42,953	**708,352**	737,036

(b) Held as FVIS

	Domestic		International		Total	
	2016 SR '000	2015 SR '000	**2016 SR '000**	2015 SR '000	**2016 SR '000**	2015 SR '000
Hedge funds	**-**	-	**1,819,017**	2,104,279	**1,819,017**	2,104,279
Held as FVIS	-	-	**1,819,017**	2,104,279	**1,819,017**	2,104,279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

6. INVESTMENTS, NET (continued)

(6.1) Investments are classified as follows (continued):

(c) Available for sale

	Domestic		International		Total	
	2016 SR '000	2015 SR '000	**2016 SR '000**	2015 SR '000	**2016 SR '000**	2015 SR '000
Fixed rate securities	-	-	**15,858,775**	21,587,718	**15,858,775**	21,587,718
Floating rate securities	-	-	**1,929,212**	4,029,637	**1,929,212**	4,029,637
Equity instruments, Mutual Funds, Hedge Funds and Others	**684,339**	829,330	**2,843,931**	5,068,955	**3,528,270**	5,898,285
Available for sale, gross	**684,339**	829,330	**20,631,918**	30,686,310	**21,316,257**	31,515,640
Impairment	**(145,662)**	-	**(735,093)**	(913,607)	**(880,755)**	(913,607)
Available for sale, net	**538,677**	829,330	**19,896,825**	29,772,703	**20,435,502**	30,602,033

(d) Held to maturity

	Domestic		International		Total	
	2016 SR '000	2015 SR '000	**2016 SR '000**	2015 SR '000	**2016 SR '000**	2015 SR '000
Fixed rate securities	**-**	-	**1,412,388**	1,721,891	**1,412,388**	1,721,891
Floating rate securities	**20,044**	-	-	-	**20,044**	-
Held to maturity	**20,044**	-	**1,412,388**	1,721,891	**1,432,432**	1,721,891

(e) Other investments held at amortised cost

	Domestic		International		Total	
	2016 SR '000	2015 SR '000	**2016 SR '000**	2015 SR '000	**2016 SR '000**	2015 SR '000
Fixed rate securities	**19,737,340**	16,680,267	**34,294,773**	58,222,613	**54,032,113**	74,902,880
Floating rate securities	**22,064,603**	6,422,974	**11,038,927**	17,633,851	**33,103,530**	24,056,826
Other investments held at amortised cost, gross	**41,801,943**	23,103,241	**45,333,700**	75,856,465	**87,135,643**	98,959,706
Impairment	**(6,315)**	-	**(15,660)**	(22,500)	**(21,975)**	(22,500)
Other investments held at amortised cost, net	**41,795,628**	23,103,241	**45,318,040**	75,833,965	**87,113,668**	98,937,206
Investments, net	**43,062,701**	24,626,654	**68,446,270**	109,475,791	**111,508,971**	134,102,445

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

6. INVESTMENTS, NET (continued)

(6.2) The analysis of the composition of investments is as follows:

	2016 SR '000			2015 SR '000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**16,905,057**	**54,398,219**	**71,303,276**	22,943,908	75,268,581	98,212,489
Floating rate securities	**1,929,212**	**33,123,574**	**35,052,786**	4,029,637	24,056,826	28,086,463
Equity instruments, Mutual Funds, Hedge Funds and Others	**2,933,795**	**3,121,844**	**6,055,639**	5,013,394	3,726,206	8,739,600
Investments, gross	**21,768,064**	**90,643,637**	**112,411,701**	31,986,939	103,051,613	135,038,552
Impairment	**(203,913)**	**(698,817)**	**(902,730)**	(101,889)	(834,218)	(936,107)
Investments, net	**21,564,151**	**89,944,820**	**111,508,971**	31,885,050	102,217,395	134,102,445

The above unquoted fixed rate securities and floating rate securities mainly comprise Saudi Government Securities, Foreign Government and Foreign Quasi Government Bonds.

Fixed and floating rate securities also include sovereign, corporate and bank bonds.

Quoted instruments are those which are quoted in an active market. Unquoted instruments also include certain securities which are quoted but for which there is no active market. The carrying value of such securities amounts to SR 41,792 million (2015: SR 72,384 million).

Unquoted equity instruments include investments amounting to SR 47 million (2015: SR 48 million), net of allowance for impairment, that are carried at cost as their fair values cannot be reliably measured.

Other investments held at amortised cost include investments having an amortized cost of SR 4,207 million (31 December 2015: SR 8,491 million) which are held under a fair value hedge relationship. As at 31 December 2016, the fair value of these investments amounts to SR 4,239 million (31 December 2015: SR 8,643 million).

Investments, net, include securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SR 25,549 million, (31 December 2015: SR 5,819 million) and also include investment in sukuks amounting to SR 28,979 million, (31 December 2015: SR 34,167 million).

(6.3) Securities lending transactions

The Bank pledges financial assets for the securities lending transactions which are generally conducted under terms that are usual and customary for standard securitised borrowing contracts. As at 31 December 2016, securities amounting to SR 1,205 million (2015: SR nil) have been lent to counterparties under securities lending transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

6. INVESTMENTS, NET (continued)

(6.4) The analysis of unrealized revaluation gains/losses and fair values of held to maturity investments and other investments held at amortised cost are as follows:

(a) Held to maturity

	2016 SR '000				2015 SR '000			
	Carrying value	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**1,412,388**	**4,840**	**-**	**1,417,228**	1,721,891	26,286	(12,417)	1,735,760
Floating rate securities	**20,044**	**-**	**-**	**20,044**	-	-	-	-
Held to maturity	**1,432,432**	**4,840**	**-**	**1,437,272**	1,721,891	26,286	(12,417)	1,735,760

(b) Other investments held at amortised cost

	2016 SR '000				2015 SR '000			
	Carrying value	**Gross unrealized gain**	**Gross unrealized loss**	**Fair value**	Carrying value	Gross unrealized gain	Gross unrealized loss	Fair value
Fixed rate securities	**54,032,113**	**420,221**	**(325,005)**	**54,127,329**	74,902,880	744,988	(1,561,113)	74,086,754
Floating rate securities	**33,103,530**	**374,281**	**(58,755)**	**33,419,056**	24,056,826	273,462	(202,260)	24,128,028
Other investments held at amortised cost, gross	**87,135,643**	**794,502**	**(383,760)**	**87,546,385**	98,959,706	1,018,450	(1,763,373)	98,214,783
Impairment	**(21,975)**	**-**	**-**	**(21,975)**	(22,500)	-	-	(22,500)
Total	**87,113,668**	**794,502**	**(383,760)**	**87,524,410**	98,937,206	1,018,450	(1,763,373)	98,192,283

(6.5) Counterparty analysis of the Group's investments, net of impairment

	2016 SR '000	2015 SR '000
Government and Quasi Government	**93,316,676**	105,886,655
Corporate	**12,019,220**	11,719,206
Banks and other financial institutions	**6,173,075**	16,496,584
Total	**111,508,971**	134,102,445

6. INVESTMENTS, NET (continued)

(6.6) Credit quality of investments

The credit quality of investments (excluding investments in equities, hedge funds and mutual funds) is managed using reputable external credit rating agencies.

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

2016	**Available for sale**	**Held to maturity**	**Other investments held at amortised cost**	**Total**
Performing:				
Saudi Government Bonds, Sukuk and Treasury Bills	**-**	**-**	**25,539,514**	**25,539,514**
Investment grade	**17,765,114**	**1,412,388**	**57,605,928**	**76,783,430**
Non-investment grade	**232**	**-**	**3,990,197**	**3,990,429**
Unrated	**-**	**20,044**	**-**	**20,044**
Total performing	**17,765,346**	**1,432,432**	**87,135,639**	**106,333,417**
Less: Impairment (collective)	**(139)**	**-**	**(21,976)**	**(22,115)**
Net performing	**17,765,207**	**1,432,432**	**87,113,663**	**106,311,302**

2015	Available for sale	Held to maturity	Other investments held at amortised cost	Total
Performing:				
Saudi Government Bonds, Sukuk and Treasury Bills	-	-	5,818,617	5,818,617
Investment grade	25,366,106	1,721,891	91,334,019	118,422,016
Non-investment grade	250,996	-	1,807,070	2,058,066
Unrated	254	-	-	254
Total performing	25,617,356	1,721,891	98,959,706	126,298,953
Less: Impairment (collective)	(239)	-	(22,500)	(22,739)
Net performing	25,617,117	1,721,891	98,937,206	126,276,214

Investments classified under investment grade above comprise of credit exposures equivalent to Aaa to Baa3 ratings determined by reputable rating agencies.

(6.7) Details of impairment charge on investments are as follows:

	2016	2015
	SR '000	SR '000
Available for sale	**193,736**	87,147
Other investments held at amortised cost	**11,984**	22,500
Total	**205,720**	109,647

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

7. FINANCING AND ADVANCES, NET

(7.1) Financing and advances

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2016					
Performing financing and advances	**3,623,075**	**86,491,329**	**157,278,610**	**8,202,052**	**255,595,066**
Non-performing financing and advances	**112,445**	**476,858**	**3,334,575**	**1,604**	**3,925,482**
Total financing and advances	**3,735,520**	**86,968,187**	**160,613,185**	**8,203,656**	**259,520,548**
Allowance for financing losses (specific and collective) (note 7.2)	**(141,596)**	**(1,175,193)**	**(4,571,224)**	**(40,394)**	**(5,928,407)**
Financing and advances, net	**3,593,924**	**85,792,994**	**156,041,961**	**8,163,262**	**253,592,141**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
2015					
Performing financing and advances	3,392,678	79,688,251	162,603,220	9,137,617	254,821,766
Non-performing financing and advances	95,196	619,980	2,965,169	1,604	3,681,949
Total financing and advances	3,487,874	80,308,231	165,568,389	9,139,221	258,503,715
Allowance for financing losses (specific and collective) (note 7.2)	(136,241)	(1,464,628)	(3,930,360)	(32,395)	(5,563,624)
Financing and advances, net	3,351,633	78,843,603	161,638,029	9,106,826	252,940,091

Others include private banking customers and bank loans.

Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SR 208,918 million (2015: SR 205,671 million).

Allowance for financing losses related to financing products in compliance with Shariah rules is SR 4,799 million (2015: SR 5,103 million).

Special commission relating to non-performing financing and advances at December 31, 2016 is SR 91 million (2015: SR 64 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

7. FINANCING AND ADVANCES, NET (continued)

(7.2) Movements in the allowance for financing losses

The accumulated allowance for financing losses is as follows:

	SR '000				
	Credit cards	**Consumer**	**Corporate**	**Others**	**Total**
2016					
Balance at beginning of the year	**136,241**	**1,464,628**	**3,930,360**	**32,395**	**5,563,624**
Foreign currency translation adjustment	**3,534**	**2,123**	**(345,317)**	**-**	**(339,660)**
Provided during the year	**241,376**	**857,564**	**1,921,768**	**7,999**	**3,028,707**
Bad debts (written off)	**(232,018)**	**(1,163,084)**	**(653,207)**	**-**	**(2,048,309)**
(Recoveries) of amounts previously provided	**(7,537)**	**(21,049)**	**(282,380)**	**-**	**(310,966)**
Other adjustments	**-**	**35,011**	**-**	**-**	**35,011**
Balance at the end of the year	**141,596**	**1,175,193**	**4,571,224**	**40,394**	**5,928,407**

	SR '000				
	Credit cards	Consumer	Corporate	Others	Total
2015					
Balance at beginning of the year	113,890	1,258,383	3,728,542	31,451	5,132,266
Foreign currency translation adjustment	5,315	7,615	(214,989)	-	(202,059)
Provided during the year	187,001	1,173,942	1,067,392	944	2,429,279
Bad debts (written off)	(166,262)	(986,083)	(323,764)	-	(1,476,109)
(Recoveries) of amounts previously provided	(3,703)	(8,053)	(326,821)	-	(338,577)
Other adjustments	-	18,824	-	-	18,824
Balance at the end of the year	136,241	1,464,628	3,930,360	32,395	5,563,624

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

7. FINANCING AND ADVANCES, NET (continued)

(7.3) Impairment charge for financing losses in the consolidated statement of income represents:

			SR '000		
2016	**Credit cards**	**Consumer**	**Corporate**	**Others**	**Total**
Additions during the year	**241,376**	**857,564**	**1,921,768**	**7,999**	**3,028,707**
(Recoveries) of amounts previously provided	**(7,537)**	**(21,049)**	**(282,380)**	-	**(310,966)**
	233,839	**836,515**	**1,639,388**	**7,999**	**2,717,741**
Charge/(reversal) against indirect facilities (included in other liabilities) (note 17)	**279**	**2,967**	**(18,002)**	-	**(14,756)**
(Recoveries) of debts previously written-off	**(3,475)**	**(547,435)**	**(221,381)**	-	**(772,291)**
Direct write-off	-	**271**	-	-	**271**
Net charge for the year (impairment charge for financing losses, net)	**230,643**	**292,318**	**1,400,005**	**7,999**	**1,930,965**

			SR '000		
2015	Credit cards	Consumer	Corporate	Others	Total
Additions during the year	187,001	1,173,942	1,067,392	944	2,429,279
(Recoveries) of amounts previously provided	(3,703)	(8,053)	(326,821)	-	(338,577)
	183,298	1,165,889	740,571	944	2,090,702
Charge/(reversal) against indirect facilities (included in other liabilities) (note 17)	253	3,442	(123,247)	-	(119,552)
(Recoveries) of debts previously written-off	(3,651)	(296,349)	(70,870)	(603)	(371,473)
Direct write-off	-	670	-	-	670
Net charge for the year (impairment charge for financing losses, net)	179,900	873,652	546,454	341	1,600,347

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

7. FINANCING AND ADVANCES, NET (continued)

(7.4) Credit quality of financing and advances

The Group employs an internally developed risk evaluation framework based on risk ratings for assessment of its corporate obligors. The associated rating models are managed by a specialised unit that ensure the end to end robustness of the involved processes. Risk assessment is conducted using a rating scale consisting of 17 risk rating grades, of which sixteen grades are related to the performing portfolio as follows:

• Investment Grade is composed of Very Strong Credit Quality (AAA to BBB-)
• Non-Investment Grade is composed of: Good and satisfactory Credit Quality (BB+ to C)

The lowest rating grade (Default) relate to the non-performing portfolio.

The table below details the credit quality of financing and advances by asset class.

	SR '000 Loans and advances				
	Credit card	**Consumer**	**Corporate**	**Others**	**Total**
2016					
Performing:					
Investment Grade	**-**	**-**	**55,615,824**	**1,996,137**	**57,611,961**
Non-Investment Grade	**-**	**-**	**98,445,707**	**2,371,631**	**100,817,338**
Unrated	**3,623,075**	**86,491,329**	**3,217,079**	**3,834,284**	**97,165,767**
Total	**3,623,075**	**86,491,329**	**157,278,610**	**8,202,052**	**255,595,066**
Less: portfolio (collective) allowance	**(69,704)**	**(945,530)**	**(1,969,527)**	**(40,394)**	**(3,025,155)**
Net performing	**3,553,371**	**85,545,799**	**155,309,083**	**8,161,658**	**252,569,911**
Non-performing:					
Total non-performing	**112,445**	**476,858**	**3,334,575**	**1,604**	**3,925,482**
Less: specific allowance	**(71,892)**	**(229,663)**	**(2,601,697)**	-	**(2,903,252)**
Net non-performing	**40,553**	**247,195**	**732,878**	**1,604**	**1,022,230**
Total financing and advances, net	**3,593,924**	**85,792,994**	**156,041,961**	**8,163,262**	**253,592,141**
Past due but not impaired (performing)					
Less than 30 days	**217,595**	**2,691,197**	**935,377**	**778,318**	**4,622,487**
30-59 days	**79,660**	**794,078**	**332,267**	**315,824**	**1,521,829**
60-89 days	**46,438**	**268,963**	**160,691**	**408,049**	**884,141**
Total	**343,693**	**3,754,238**	**1,428,335**	**1,502,191**	**7,028,457**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

7. FINANCING AND ADVANCES, NET (continued)

(7.4) Credit quality of financing and advances (continued)

	SR '000 Loans and advances				
	Credit card	Consumer	Corporate	Others	Total
2015					
Performing:					
Investment Grade	-	-	50,089,303	2,164,819	52,254,122
Non-Investment Grade	-	-	109,438,495	2,511,420	111,949,915
Unrated	3,392,678	79,688,251	3,075,422	4,461,378	90,617,729
Total	3,392,678	79,688,251	162,603,220	9,137,617	254,821,766
Less: portfolio (collective) allowance	(65,999)	(1,124,373)	(1,484,428)	(32,395)	(2,707,195)
Net performing	3,326,679	78,563,878	161,118,792	9,105,222	252,114,571
Non-performing:					
Total non-performing	95,196	619,980	2,965,169	1,604	3,681,949
Less: specific allowance	(70,242)	(340,255)	(2,445,932)	-	(2,856,429)
Net non-performing	24,954	279,725	519,237	1,604	825,520
Total financing and advances, net	3,351,633	78,843,603	161,638,029	9,106,826	252,940,091
Past due but not impaired (performing)					
Less than 30 days	644,511	2,065,471	1,665,106	2,215	4,377,303
30-59 days	64,758	814,862	575,002	1,369	1,455,991
60-89 days	39,925	374,236	399,991	-	814,152
Total	749,194	3,254,569	2,640,099	3,584	6,647,446

Unrated loans mainly comprise of consumer, credit cards, small businesses and private banking financing and advances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

7. FINANCING AND ADVANCES, NET (continued)

(7.5) Economic sector risk concentrations for the financing and advances and allowances for financing losses are as follows:

2016	**Performing SR' 000**	**Non-performing SR' 000**	**Specific allowance SR' 000**	**Financing and advances, net SR' 000**
Government and quasi Government	**1,063,553**	**-**	-	**1,063,553**
Banks and other financial institutions	**4,327,216**	**130**	**(93)**	**4,327,253**
Agriculture and fishing	**965,895**	**38,331**	**(25,659)**	**978,567**
Manufacturing	**31,578,652**	**685,741**	**(507,891)**	**31,756,502**
Mining and quarrying	**7,877,283**	**18,230**	**(11,340)**	**7,884,173**
Electricity, water, gas and health services	**16,818,742**	**23,572**	**(13,820)**	**16,828,494**
Building and construction	**18,244,932**	**573,344**	**(492,417)**	**18,325,859**
Commerce	**47,825,563**	**1,583,981**	**(1,206,817)**	**48,202,727**
Transportation and communication	**10,913,336**	**122,055**	**(110,196)**	**10,925,195**
Services	**19,185,318**	**212,878**	**(171,013)**	**19,227,183**
Consumer loans and credit cards	**90,114,404**	**589,303**	**(301,555)**	**90,402,152**
Others	**6,680,172**	**77,917**	**(62,451)**	**6,695,638**
	255,595,066	**3,925,482**	**(2,903,252)**	**256,617,296**
Portfolio (collective) allowance				**(3,025,155)**
Financing and advances, net				**253,592,141**

2015	Performing SR' 000	Non-performing SR' 000	Specific allowance SR' 000	Financing and advances, net SR' 000
Government and quasi Government	3,092,573	-	-	3,092,573
Banks and other financial institutions	4,548,671	199	(131)	4,548,739
Agriculture and fishing	810,354	38,231	(24,005)	824,580
Manufacturing	30,847,077	628,839	(525,561)	30,950,355
Mining and quarrying	6,082,992	55,830	(42,731)	6,096,091
Electricity, water, gas and health services	13,183,450	23,554	(9,831)	13,197,173
Building and construction	20,365,035	613,663	(497,121)	20,481,577
Commerce	51,221,958	1,308,842	(1,103,386)	51,427,414
Transportation and communication	11,762,926	90,151	(79,615)	11,773,462
Services	22,907,165	133,203	(102,932)	22,937,436
Consumer loans and credit cards	83,080,929	715,176	(410,497)	83,385,608
Others	6,918,636	74,261	(60,619)	6,932,278
	254,821,766	3,681,949	(2,856,429)	255,647,286
Portfolio (collective) allowance				(2,707,195)
Financing and advances, net				252,940,091

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

7. FINANCING AND ADVANCES, NET (continued)

(7.6) Financing and advances include finance lease receivables (including Ijara in compliance with Shariah rules) which are analysed as follows:

	2016 SR '000	2015 SR '000
Gross receivables from finance leases:		
Less than 1 year	**1,584,530**	1,452,343
1 to 5 years	**19,073,018**	16,626,879
Over 5 years	**25,294,665**	22,613,507
Total	**45,952,213**	40,692,729
Unearned finance income on finance leases		
Less than 1 year	**(155,504)**	(177,216)
1 to 5 years	**(3,611,597)**	(3,443,509)
Over 5 years	**(7,123,854)**	(6,342,164)
Total	**(10,890,955)**	(9,962,889)
Net finance lease receivables	**35,061,258**	30,729,840

Allowance for uncollectable finance lease receivables included in the allowance for financing losses is SR 650 million (2015: SR 660 million).

8. INVESTMENT IN ASSOCIATES, NET

	2016 SR '000	2015 SR '000
Cost:		
At the beginning of the year	**1,014,000**	1,014,000
At 31 December	**1,014,000**	1,014,000
Allowance for impairment and share of results:		
At beginning of the year	**(590,260)**	(606,165)
Share of results in Associates	**7,416**	15,905
At 31 December	**(582,844)**	(590,260)
Investment in associates, net	**431,156**	423,740

Investment in associates primarily represents a 60% (31 December 2015: 60%) ownership interest in the Commercial Real Estate Markets Company and 30% (31 December 2015: 30%) ownership interest in Al-Ahli Takaful Company, which are both registered in the Kingdom of Saudi Arabia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

9. OTHER REAL ESTATE, NET

	2016 **SR '000**	2015 SR '000
Cost:		
At beginning of the year	**958,671**	933,167
Additions	**165,020**	81,442
Disposals	**(200,400)**	(55,938)
At 31 December	**923,291**	958,671
Provision and foreign currency translation:		
Foreign currency translation adjustment	**(56,998)**	(42,264)
Provision for impairment	**(17,113)**	(40,143)
At 31 December	**(74,111)**	(82,407)
Total	**849,180**	876,264

10. PROPERTY AND EQUIPMENT, NET

	2016			2015		
	Land, buildings and leasehold improvements SR '000	**Furniture, equipment and vehicles SR '000**	**Total SR '000**	Land, buildings and leasehold improvements SR '000	Furniture, equipment and vehicles SR '000	Total SR '000
Cost:						
At beginning of the year	**4,061,365**	**3,760,231**	**7,821,596**	3,804,190	3,228,731	7,032,921
Foreign currency translation adjustment	**(78,031)**	**(75,807)**	**(153,838)**	(87,946)	(93,885)	(181,831)
Additions	**651,001**	**775,540**	**1,426,541**	359,791	662,870	1,022,661
Disposals and retirements	**(34,329)**	**(37,289)**	**(71,618)**	(14,670)	(37,485)	(52,155)
At 31 December	**4,600,006**	**4,422,675**	**9,022,681**	4,061,365	3,760,231	7,821,596
Accumulated depreciation:						
At beginning of the year	**1,693,178**	**2,412,327**	**4,105,505**	1,554,749	2,050,773	3,605,522
Foreign currency translation adjustment	**(16,570)**	**(56,550)**	**(73,120)**	(14,724)	(54,679)	(69,403)
Charge for the year	**177,746**	**508,584**	**686,330**	163,306	451,466	614,772
Disposals and retirements	**(23,843)**	**(35,267)**	**(59,110)**	(10,153)	(35,233)	(45,386)
At 31 December	**1,830,511**	**2,829,094**	**4,659,605**	1,693,178	2,412,327	4,105,505
Net book value:						
As at 31 December	**2,769,495**	**1,593,581**	**4,363,076**	2,368,187	1,347,904	3,716,091

11. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

(11.1) Net book value

	2016		2015	
	Goodwill SR '000	**Other intangibles SR '000**	Goodwill SR '000	Other intangibles SR '000
Cost:				
At beginning of the year	**968,302**	**758,803**	1,213,769	951,188
Foreign currency translation adjustment	**(166,784)**	**(130,700)**	(245,467)	(192,385)
At 31 December	**801,518**	**628,103**	968,302	758,803
Amortisation, impairment and foreign currency translation:				
At beginning of the year	**574,789**	**682,034**	720,499	751,160
Charge for the year	-	**74,969**	-	189,337
Foreign currency translation adjustment	**(99,004)**	**(128,900)**	(145,710)	(258,463)
At 31 December	**475,785**	**628,103**	574,789	682,034
Net book value:				
At 31 December	**325,733**	**-**	393,513	76,769

(11.2) Türkiye Finans Katılım Bankası A.Ş., (TFK)

In accordance with the requirements of International Financial Reporting Standards (IFRS), the Group's management has carried out an impairment test as at 30 November 2016 (2015: 30 November 2015), in respect of the goodwill arose on the acquisition of Türkiye Finans Katılım Bankası A.Ş (TFK).

The recoverable amount for TFK as a Cash Generating Unit (CGU) has been determined based on value in use calculation by using Dividend Discount Model, built on the five-year projections approved by the senior management. In preparing the forecasts for the value in use calculation, management has made certain assumptions regarding the future cash flows and level of earnings. Further, the key assumptions used in the calculation of value in use are the discount rate and the perpetual growth rate; the discount rate being a function of the beta, risk free rate, equity risk premium, and expected inflation.

Discount rate of 14.42% (30 November 2015: 13.41%) was used to calculate the present value of future cash flows after incorporating expected inflation adjustments.

The management compared the value in use, calculated based on the above assumptions, with the carrying value of TFK as at the date of the impairment test. As a result, the value in use of TFK was higher than its carrying value; hence, no impairment loss on goodwill has been recognized in respect of TFK for the year ended 31 December 2016. Since the value in use calculation resulted in a higher value than the carrying value of the TFK CGU, as such, the fair value less cost to sell was not required to be estimated, as per the requirements of IFRS.

If the discount rate used for the value in use calculation had been adjusted by +/-1% with all other factors remaining constant, the value in use of TFK, as a CGU, would have been lower by SR 176 million and higher by SR 186 million,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

12. OTHER ASSETS

	2016	2015
	SR '000	SR '000
Assets purchase under Murabah arrangements	**1,400,407**	2,352,665
Prepayments and advances	**896,007**	661,907
Margin deposits against derivatives and repos (note 33)	**974,337**	117,234
Others	**1,829,709**	1,861,342
Total	**5,100,460**	4,993,148

13. DERIVATIVES

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

(a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross-currency special commission rate swaps, principal and fixed and floating special 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 customized contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardized amounts on regulated exchanges. Changes in futures contract values are settled daily.

(c) Forward rate agreements

Forward rate agreements are individually negotiated special commission rate contracts that call for a cash settlement for the difference between a contracted special commission rate and the market rate on a specified future date, based 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.

13. DERIVATIVES (continued)

(e) Structured derivative products

Structured derivative products provide financial solutions to the customers of the Group to manage their risks in respect of foreign exchange, special commission rate and commodity exposures and enhance yields by allowing deployment of excess liquidity within specific risk and return profiles. The majority of the Group's structured derivative transactions are entered on a back-to-back basis with various counterparties.

(13.1) 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, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves profiting from price differentials between markets or products.

(13.2) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 34 - credit risk, note 35 - market risk and note 36 - liquidity risk). Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA.

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

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading, such as special commission rate swaps, special commission rate options and futures, forward foreign exchange contracts and currency options.

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Group also uses special 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

13. DERIVATIVES (continued)

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

				(SR '000) Notional amounts by term to maturity				
2016	**Positive fair value**	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Special commission rate instruments	**1,540,177**	**(1,365,467)**	**98,996,336**	**1,801,057**	**8,050,850**	**41,468,343**	**47,676,086**	**81,408,323**
Forward foreign exchange contracts	**419,845**	**(121,199)**	**83,576,806**	**44,652,869**	**23,776,442**	**15,147,495**	**-**	**86,526,024**
Options	**61,550**	**(29,797)**	**523,504**	**228,053**	**294,322**	**1,129**	**-**	**441,870**
Structured derivatives	**278,803**	**(278,803)**	**48,547,647**	**1,019,984**	**15,973,080**	**31,554,583**	**-**	**73,901,189**
Held as fair value hedges:								
Special commission rate instruments	**221,128**	**(280,887)**	**7,217,146**	**-**	**90,231**	**2,881,454**	**4,245,461**	**9,460,657**
Held as cash flow hedges:								
Special commission rate instruments	**144,745**	**(559,037)**	**11,645,102**	**-**	**39,822**	**9,820,737**	**1,784,543**	**11,840,772**
Total	**2,666,249**	**(2,635,190)**	**250,506,542**	**47,701,963**	**48,224,747**	**100,873,742**	**53,706,090**	
Margin Deposits	**-**	**1,165,910**						
Fair values after netting	**2,666,249**	**(1,469,280)**						

				(SR '000) Notional amounts by term to maturity				
2015	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate instruments	814,101	(727,197)	60,556,293	1,881,702	5,063,073	34,659,024	18,952,494	51,013,902
Forward foreign exchange contracts	235,340	(147,937)	120,780,867	59,481,896	52,361,235	8,937,736	-	135,017,505
Options	6,499	(6,499)	469,269	289,014	180,255	-	-	286,974
Structured derivatives	1,375,582	(1,375,156)	97,077,103	13,429,753	38,784,483	44,862,867	-	158,505,134
Held as fair value hedges:								
Special commission rate instruments	165,377	(455,455)	11,404,632	-	280,457	6,128,713	4,995,462	10,167,392
Held as cash flow hedges:								
Special commission rate instruments	86,083	(540,500)	12,463,636	-	2,125,288	8,282,334	2,056,014	13,034,609
Total	2,682,982	(3,252,744)	302,751,800	75,082,365	98,794,791	102,870,674	26,003,970	
Margin Deposits	-	1,807,323						
Fair values after netting	2,682,982	(1,445,421)						

13. DERIVATIVES (continued)

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

2016	**Fair value**	**Cost**	**Risk**	**Hedging instrument** (SR '000)	**Positive fair value**	**Negative fair value**
Description of hedged items						
Fixed rate instruments	**7,127,105**	**6,961,425**	Fair value	Special commission rate instruments	**221,128**	**(280,887)**
Fixed rate and floating rate instruments	**10,317,449**	**10,339,862**	Cash flow	Special commission rate instruments	**144,745**	**(559,037)**

2015	Fair value	Cost	Risk	Hedging instrument (SR '000)	Positive fair value	Negative fair value
Description of hedged items						
Fixed rate instruments	12,116,933	11,773,329	Fair value	Special commission rate instruments	165,377	(455,455)
Fixed rate and floating rate instruments	12,930,172	13,099,181	Cash flow	Special commission rate instruments	86,083	(540,500)

Approximately 54% (2015: 32%) of the positive fair value of the Group's derivatives are entered into with financial institutions and 46% (2015: 68%) of the positive fair value contracts are with non-financial institutions at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Group's Treasury segment.

Cash flows hedges:

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks.

Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

		SR' 000		
	Within 1 year	**1-3 years**	**3-5 years**	**Over 5 years**
2016				
Cash inflows (assets)	**351,518**	**656,621**	**235,911**	**68,611**
Cash outflows (liabilities)	**(329,229)**	**(595,567)**	**(253,352)**	**(76,900)**
Net cash inflows/(outflows)	**22,289**	**61,054**	**(17,441)**	**(8,289)**

		SR' 000		
	Within 1 year	1-3 years	3-5 years	Over 5 years
2015				
Cash inflows (assets)	314,161	726,383	280,027	99,705
Cash outflows (liabilities)	(323,665)	(612,252)	(269,101)	(132,917)
Net cash inflows/(outflows)	(9,504)	114,131	10,926	(33,211)

13. DERIVATIVES (continued)

Cash flows hedges (continued)

The special commission income and expense relating to cash flow hedges recognized in the consolidated statement of income during the year was as follows:

	2016	2015
	SR '000	SR '000
Special commission income	**39,561**	61,915
Special commission expense	**(18,530)**	(71,298)
Net special commission (expense) income	**21,031**	(9,383)

Movements in the other reserve of cash flows hedges:

	2016	2015
	SR '000	SR '000
Balance at beginning of the year	**(20,151)**	37,014
Net gain/ on cash flow hedges reclassified to the consolidated statement of income	**34,539**	219,603
(Losses)/ from changes in fair value recognised directly in equity, net (effective portion)	**(13,462)**	(276,768)
Balance at end of the year	**926**	(20,151)

The discontinuation of hedge accounting due to disposal of both the hedging instruments and the hedged items, resulted in reclassification of the associated cumulative losses of SR 19 million (2015: SR 8 million) from equity to consolidated statement of income, included in the losses above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016 **SR '000**	2015 SR '000
Current accounts	**4,844,298**	3,846,180
Money market deposits	**22,967,987**	20,385,545
Repos	**17,661,886**	23,869,042
Total	**45,474,171**	48,100,767

15. CUSTOMERS' DEPOSITS

	2016 **SR '000**	2015 SR '000
Current accounts	**223,632,826**	228,925,010
Savings	**162,044**	160,239
Time	**79,010,150**	76,166,443
Others	**12,812,887**	18,614,673
Total	**315,617,907**	323,866,365

Other customers' deposits include SR 3,754 million (2015: SR 4,741 million) of margins held for irrevocable commitments and contingencies (note 21).

Details on foreign currency deposits included in customers' deposits as follows:

	2016 **SR '000**	2015 SR '000
Current accounts	**14,377,090**	12,983,148
Savings	**611**	341
Time	**29,687,462**	38,157,027
Others	**1,511,942**	2,045,309
Total	**45,577,105**	53,185,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

16. DEBT SECURITIES ISSUED

Issuer	Year of issue	Tenure	Particulars	2016 SR '000	2015 SR '000
National Commercial Bank	2014	10 years	Non-convertible unlisted sukuk, callable on the 5th anniversary of the issue data, carrying profit payable semi-annually.	**5,062,404**	5,035,968
Türkiye Finans Katılım Bankası A.Ş.	2013	5 years	Non-convertible sukuk listed on the Irish Stock Exchange, carrying profit at a fixed rate payable semi-annually.	**1,524,558**	1,517,135
	2014	5 years	Non-convertible sukuk listed on the Irish Stock Exchange, carrying profit at a fixed rate payable semi-annually.	**1,878,524**	1,871,024
	2014	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	**670,995**	698,513
	2015	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	**305,965**	318,415
	2015	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate	**-**	499,662
	2016	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate	**475,319**	-
Total				**9,917,765**	9,940,717

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

17. OTHER LIABILITIES

	2016 **SR '000**	2015 SR '000
Zakat	**1,392,221**	1,254,154
Staff-related payables	**2,840,765**	2,484,767
Accrued expenses and accounts payable	**2,031,826**	2,822,922
Allowances for indirect facilities (note 7.3)	**347,273**	381,906
Others	**2,474,394**	2,799,464
Total	**9,086,479**	9,743,213

18. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,000,000,000 shares of SR 10 each (31 December 2015: 2,000,000,000 shares of SR 10 each). The capital of the Bank excluding treasury shares (refer note 44) consists of 1,996,903,527 shares of SR 10 each (31 December 2015: 1,994,633,531 shares of SR 10 each).

19. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income, inclusive of the overseas branches, is required to be transferred to a statutory reserve until this reserve equals as a minimum the paid up capital of the Bank. Moreover, in accordance with the Regulation for Companies in Saudi Arabia, NCBC is also required to transfer a minimum of 10% of its annual net income (after Zakat) to statutory reserve.

Pursuant to the Lebanese Money and Credit Law, the Lebanon branch is required to transfer 10% of its annual net income to statutory reserve. The Turkish Bank transfers 5% of its previous year annual net income to statutory reserve.

The statutory reserves are not currently available for distribution.

20. OTHER RESERVES (CUMULATIVE CHANGES IN FAIR VALUES)

Other reserves represent the net unrealized revaluation gains (losses) of cash flow hedges (effective portion) and available for sale investments. The movement of other reserves during the year is included under consolidated statement of other comprehensive income and the consolidated statement of changes in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

21. COMMITMENTS AND CONTINGENCIES

(21.1) Capital and other non-credit related commitments

The Group's capital commitments as at 31 December 2016 in respect of building and equipment purchases are not material to the financial position of the Group.

(21.2) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as financing and advances.

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipment 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.

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of financing and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot 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.

(a) The contractual maturity structure of the Group's credit-related commitments and contingencies is as follows:

			(SR '000)		
2016	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**5,754,135**	**1,994,996**	**314,273**	**267,142**	**8,330,546**
Guarantees	**7,619,786**	**19,425,960**	**13,005,690**	**5,166,618**	**45,218,054**
Acceptances	**1,267,190**	**1,367,076**	**79,444**	**3,028**	**2,716,738**
Irrevocable commitments to extend credit	**93,873**	**4,245,355**	**6,206,265**	**1,170,180**	**11,715,673**
Total	**14,734,984**	**27,033,387**	**19,605,672**	**6,606,968**	**67,981,011**

			(SR '000)		
2015	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	7,655,304	3,210,068	457,459	11,961	11,334,792
Guarantees	9,112,220	21,391,035	15,808,240	5,081,196	51,392,691
Acceptances	2,707,690	1,714,042	10,044	3,315	4,435,091
Irrevocable commitments to extend credit	287,058	994,960	12,120,088	842,441	14,244,547
Total	19,762,272	27,310,105	28,395,831	5,938,913	81,407,121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

21. COMMITMENTS AND CONTINGENCIES (continued)

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

	2016 SR '000	2015 SR '000
Government and quasi Government	**8,615,230**	10,093,346
Corporate and establishment	**44,725,264**	57,392,196
Banks and other financial institutions	**13,778,639**	12,964,542
Others	**861,878**	957,037
Total	**67,981,011**	81,407,121

(21.3) Operating lease commitments

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

	2016 SR '000	2015 SR '000
Less than 1 year	**253,949**	251,742
1 to 5 years	**708,410**	690,771
Over 5 years	**382,724**	409,692
Total	**1,345,083**	1,352,205

22. NET SPECIAL COMMISSION INCOME

	2016 SR '000	2015 SR '000
Special commission income:		
Investments - available for sale	**1,138,895**	828,996
Investments - held to maturity	**29,431**	28,562
Other investments held at amortised cost	**2,441,211**	2,741,767
Sub total - investments	**3,609,537**	3,599,325
Due from banks and other financial institutions	**662,869**	280,071
Financing and advances	**13,248,428**	11,536,617
Total	**17,520,834**	15,416,013
Special commission expense:		
Due to banks and other financial institutions	**684,594**	486,818
Customers' deposits	**2,245,145**	1,623,238
Debt securities issued	**1,039,627**	724,123
Total	**3,969,366**	2,834,179
Net special commission income	**13,551,468**	12,581,834

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

23. FEE INCOME FROM BANKING SERVICES, NET

	2016 SR '000	2015 SR '000
Fee income:		
Shares brokerage	**311,112**	361,912
Investment management services	**332,577**	355,619
Finance and lending	**1,623,134**	1,476,910
Credit cards	**469,609**	364,317
Trade finance	**603,697**	687,619
Others	**407,458**	379,088
Total	**3,747,587**	3,625,465
Fee expenses:		
Shares brokerage	**91,855**	70,240
Credit cards	**292,466**	217,958
Others	**204**	972
Total	**384,525**	289,170
Fee income from banking services, net	**3,363,062**	3,336,295

24. TRADING INCOME, NET

	2016 SR '000	2015 SR '000
Derivatives	**211,578**	234,810
Foreign exchange	**159,358**	179,987
Mutual funds	**18,995**	9,294
Bonds	**(2,224)**	
Total	**387,707**	424,091

25. GAINS ON NON-TRADING INVESTMENTS, NET

	2016 SR '000	2015 SR '000
Gains on disposal of available for sale investments, net	**329,850**	148,549
Gains on disposal of other investments held at amortised cost, net	**210,356**	129,147
Total	**540,206**	277,696

26. OTHER NON-OPERATING (EXPENSES) INCOME, NET

	2016 SR '000	2015 SR '000
Income tax of foreign operations	**(102,243)**	(93,864)
Share of results of associates (note 8)	**7,416**	15,905
Gain on disposal of property and equipment	**45,495**	17,523
Net other (expenses)	**(7,194)**	(20,921)
Total	**(56,526)**	(81,357)

27. SHARE BASED PAYMENTS RESERVE

On 18 October 2016, the Bank established a share based compensation plan (“equity setteled share based payment plan”) for its key management that entitles the related personnel to awarrd shares in the Bank subject to successfully meeting certain service and performance conditions (“plan conditions”). The vesting period shall be three years commencing 1 January 2016, while the grant date fair value is SR 33.37 per share. As a consequence the Group has recognized an expense of SR 34 million during the year ended 31 December 2016 (presented under salaries and employee-related expenses) with a corresponding credit to a share based payment reserve in the consolidated statement of equity.

Moreover, in connection with the share based payment plan, the Bank has purchased its own shares amounting to SR 121 million in anticipation of the grant of shares to be made to the key management personnel who successfully meet the plan conditions. The acquired shares have been classified as treasury shares and presented under shareholders’ equity in the consolidated statement of equity.

The Bank has secured all necessary regulatory approvals in respect of the share based payment plan and purchase of treasury shares.

28. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2016 and 31 December 2015 is calculated by dividing the net income attributable to equity holders of the Bank for the year by the weighted average number of shares outstanding during the year.

Details of Basic and diluted earnings per share are as follows:

	Basic EPS		**Diluted EPS**	
	2016 SR ’000	2015 SR ’000	**2016 SR ’000**	2015 SR ’000
Net income for the year attributable to Equity holders of the Bank	**9,316,857**	9,089,183	**9,316,857**	9,089,183
Weighted-Average number of shares outstanding	**1,998,411**	1,994,634	**1,999,753**	1,994,634
Earnings per share	**4.66**	4.56	**4.66**	4.56

29. TIER 1 SUKUK

During 2015, the Bank through a Shari’a compliant arrangement ("the arrangement") issued Tier 1 Sukuks (the "Sukuks"), aggregating to SR 5.7 billion. The arrangment was approved by the regulatory authorities and the shareholders of the Bank.

These Sukuks are perpetual securities in respect of which there is no fixed redemption dates and represents an undivided ownership interest of the Sukukholders in the Sukuk assets, with each Sakk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. However, the Bank shall have the exclusive right to redeem or call the Sukuks in a specific period of time, subject to the terms and conditions stipulated in the Sukuk Agreement.

The applicable profit rate on the Sukuks is payable quarterly in arrears on each periodic distribution dates, except upon the occurrence of a non-pay payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

30. NET DIVIDEND AND ZAKAT

During the year, the Board of Directors recommended dividends, net of zakat, for the year as follows:

	Amount SR '000		Rate per share SR	
	2016	2015	**2016**	2015
Interim dividend paid	**1,200,000**	1,595,707	**0.60**	0.80
Proposed final dividend	**1,996,904**	1,495,975	**1.00**	0.75
Total net dividend	**3,196,904**	3,091,682	**1.60**	1.55
Zakat attributable to the Bank's shareholders	**1,187,734**	1,230,013		
Total gross dividend	**4,384,638**	4,321,695		

Zakat assessments have been finalized with the Department of Zakat and Income Tax (GAZT) for all years up to 2011. The Bank has submitted Zakat returns for the years 2012, 2013, 2014 and 2015 obtained final Zakat certificates. The Zakat returns for the years 2012, 2013, 2014 and 2015 are currently under review by GAZT and Zakat assessment for these years is awaited.

31. CASH AND CASH EQUIVALENTS

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

	2016 SR '000	2015 SR '000
Cash and balances with SAMA excluding statutory deposits (note 4)	**25,110,465**	8,578,063
Due from banks and other financial institutions with original maturity of three months or less	**10,550,988**	7,956,871
Total	**35,661,453**	16,534,934

32. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's management.

The Group has five reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Retail	-	Provides banking services, including lending and current accounts in addition to products in compliance with *Shariah* rules which are supervised by the independent *Shariah* Board, to individuals and private banking customers.
Corporate	-	Provides banking services including all conventional credit-related products and financing products in compliance with *Shariah* rules to small sized businesses, medium and large establishments and companies.
Treasury	-	Provides a full range of treasury and correspondent banking products and services, including money market and foreign exchange, to the Group’s clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).
Capital Market	-	Provides wealth management, asset management, investment banking and shares brokerage services (local, regional and international).
International	-	Comprises banking services provided outside Saudi Arabia including TFK.

Transactions between the operating segments are recorded as per the Bank and its subsidiaries' transfer pricing system.

The supports and Head Office expenses are allocated to segments using activity-based costing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

32. OPERATING SEGMENTS (continued)

(32.1) The Group's total assets and liabilities at year end, its operating income and expenses (total and main items) and net income for the year, by business segments, are as follows:

2016	**Retail**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
			(SR '000)			
Total assets	**104,490,622**	**142,829,701**	**152,047,632**	**1,314,208**	**40,809,157**	**441,491,320**
Total liabilities	**184,612,014**	**104,999,736**	**56,723,800**	**222,797**	**35,007,255**	**381,565,602**
Total operating income	**7,549,872**	**4,579,499**	**3,707,099**	**580,721**	**2,230,188**	**18,647,379**
of which:						
-Inter-segment operating income (expense)	**1,567,751**	**(2,005,459)**	**543,418**	**-**	**(105,710)**	**-**
-Total operating income from external customers (of which):	**5,982,126**	**6,584,958**	**3,163,681**	**580,727**	**2,335,887**	**18,647,379**
Net special commission income	**6,131,934**	**3,355,969**	**2,385,485**	**1,239**	**1,676,841**	**13,551,468**
Fee income from banking services, net	**1,209,327**	**1,096,342**	**113,233**	**560,597**	**383,563**	**3,363,062**
Total operating expenses	**4,388,252**	**1,894,205**	**629,935**	**350,967**	**1,911,661**	**9,175,020**
of which:						
- Depreciation of property and equipment	**394,650**	**114,461**	**50,321**	**34,667**	**92,231**	**686,330**
- Impairment charge for financing losses, net	**499,962**	**609,842**	**7,999**	**-**	**813,162**	**1,930,965**
- Impairment charge on investments, net	**-**	**-**	**205,720**	**-**	**-**	**205,720**
Net income (Bank and non-controlling interests)	**3,151,674**	**2,682,167**	**3,064,838**	**233,788**	**283,366**	**9,415,833**

2015	Retail	Corporate	Treasury	Capital Market	International	Total
			(SR '000)			
Total assets	99,916,346	143,147,257	154,322,050	1,857,694	49,398,693	448,642,040
Total liabilities	185,373,097	103,977,045	60,062,266	658,240	43,025,835	393,096,483
Total operating income	6,360,612	4,140,996	4,106,278	691,380	2,186,428	17,485,694
of which:						
-Inter-segment operating income (expense)	681,410	(723,583)	134,426	-	(92,253)	-
-Total operating income from external customers (of which):	5,679,200	4,864,579	3,971,852	691,380	2,278,683	17,485,694
Net special commission income	5,174,681	2,915,110	2,947,289	73	1,544,681	12,581,834
Fee income from banking services, net	993,901	1,120,617	86,278	686,787	448,712	3,336,295
Total operating expenses	4,372,545	1,071,705	472,906	363,107	1,975,645	8,255,908
of which:						
- Depreciation of property and equipment	347,594	103,650	46,964	24,071	92,493	614,772
- Impairment charge for financing losses, net	1,001,940	(87,650)	944	-	685,113	1,600,347
- Impairment charge on investments, net	-	-	108,961	686	-	109,647
Net income (Bank and non-controlling interests)	2,046,995	3,144,776	3,501,741	328,013	126,904	9,148,429

32. OPERATING SEGMENTS (continued)

(32.2) The Group's credit exposure, by business segments, is as follows:

2016			**(SR '000)**			
	Retail	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Statement of financial position assets	**89,169,207**	**134,798,190**	**124,144,377**	**102,858**	**34,542,414**	**382,757,048**
Commitments and contingencies (credit equivalent)	**362,260**	**24,622,496**	**-**	**-**	**16,695,068**	**41,679,824**
Derivatives (credit equivalent)	**-**	**-**	**3,380,707**	**-**	**314,301**	**3,695,008**

2015			(SR '000)			
	Retail	Corporate	Treasury	Capital Market	International	Total
Statement of financial position assets	80,574,800	134,220,563	143,523,695	524,064	43,993,895	402,837,017
Commitments and contingencies (credit equivalent)	378,089	32,519,985	-	-	18,766,534	51,664,608
Derivatives (credit equivalent)	-	-	3,427,473	-	269,182	3,696,655

The credit exposure of assets as per the consolidated statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, financing and advances, positive fair value of derivatives, other receivables and refundable deposits.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

33. Collateral and offsetting

Following are the details of collaterals held/received by the Group and offsetting carried out as at 31 December 2016:

a) The Bank conducts Repo transactions under the terms that are usually based on the applicable GMRA (Global Master Repurchase Agreement) collateral guidelines. The counterparty is allowed to sell or repledge those securities in the event of default by the Bank.

The carrying amount and fair value of securities pledged under agreement to repurchase (repo) are as follows:

	2016 SR '000		2015 SR '000	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Available for sale	**6,555,875**	**6,555,875**	7,194,435	7,194,435
Held to maturity	**847,696**	**852,783**	183,559	191,636
Investments held at amortised cost	**12,208,998**	**11,695,013**	16,625,963	16,654,859
Total	**19,612,569**	**19,103,671**	24,003,957	24,040,930

The Bank has placed a margin deposit of SR 361 million (2015: SR 117 million) as an additional security for these repo transactions.

b) The positive and negative fair values of derivatives are shown gross on the consolidated statement of financial position. The Group held margin deposits aggregating to SR 1.8 billion (2015: SR 1.8 billion) against derivatives as at the year end, amongst which SR 1.2 billion (2015: SR 1.8 billion) is eligible for offsetting and has accordingly been offset at the reporting date.

c) For details of collateral held in respect of financing and advances, please refer note 34.

d) Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2016 and 31 December 2015.

e) For details of margin deposits held for the irrevocable commitments and contingencies, please refer note 15.

f) Securities pledged with the Group in respect of reverse repo transactions comprise of SR 937 million (2015: SR 937 million). The Group is allowed to sell or repledge these securities in the event of default by the counterparty (See note 5).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

34. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument or transaction will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in financing and advances and investments. There is also credit risk in off-statement of financial position financial instruments, such as trade-finance related products derivatives and financing commitments.

For financing and advances and off-statement of financial position financing to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-statement of financial position financial instruments with international counterparties, the Group uses external ratings of the major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group’s risk management policies are designed to identify risks and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily.

The Group manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group’s credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation and the Group assesses counterparties using the same techniques as for its financing activities in order to control the level of credit risk taken.

Concentrations of credit risk may arise in case of sizeable exposure to a single obligor or 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 customer, industry or geographical location.

The debt securities included in investments are mainly sovereign risk and high-grade securities. Analysis of investments by counterparty is provided in note (6.5). For details of the composition of the financing and advances refer to note (7.5). Information on credit risk relating to derivative instruments is provided in note (13) and for commitments and contingencies in note (21). The information on the Group's total maximum credit exposure is given in note (34.1).

Each individual corporate borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the Group’s experience. These risk ratings are reviewed on a regular basis.

Performing credit cards and consumer financing are classified as standard as they are performing and have timely repayment with no past dues.

The Group in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the financing and advances. These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realizable values. The Group holds real estate collateral against transfer of title deed (ifragh) as a collateral but due to the difficulty in seizing and liquidating them, the Group does not consider them as immediate cash flow for impairment assessment for non-performing financing. Financial instruments such as financing and advances and customers' deposits are shown gross on the consolidated statement of financial position and no offsetting has been done. Please refer to note 33 for details of other collaterals held.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

34. CREDIT RISK (continued)

The Group seeks to manage its credit risk exposure through the diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant financing and advances. The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained periodically.

Specific allowances for financing losses for the impaired lending portfolio are maintained by the Group's Credit Risk Management in addition to credit-related specific allowance for investments. Exposures falling within certain high risk ratings are considered impaired and appropriate specific allowances are individually made. An additional portfolio (collective) allowance is allocated over the performing financing and advances as well as investments [refer to notes (3.14 and 2.5(a)) for accounting policy of impairment of financial assets].

(34.1) Maximum credit exposure

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

	2016 **SR '000**	2015 SR '000
Assets		
Due from banks and other financial institutions (note 5)	**19,213,063**	20,877,843
Investments (note 6.6)	**87,113,663**	106,311,302
Financing and advances, net (note 7.4)	**253,592,141**	252,940,091
Other assets - margin deposits against derivatives and repos (note 12)	**974,337**	117,234
Total assets	**360,893,204**	380,246,470
Contingent liabilities and commitments, net (notes 15,17 and 21.2)	**63,879,521**	76,284,007
Derivatives - positive fair value, net (note 13)	**2,666,249**	2,682,982
Total maximum exposure	**427,438,974**	459,213,459

35. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between trading and banking books. Trading book is mainly held by the Treasury division and includes positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested to the Board of Directors. The Risk Group is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

(35.1) MARKET RISK-TRADING BOOK

The principal tool used to measure and control market risk exposure within the Group's trading book is Value at Risk (VaR). The VaR of a trading position is the estimated loss that will arise on the position over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period, except for Fair Value through Income Statement (FVIS) investments which are computed over a 3-month holding period (i.e., VaR is measured daily, except for VaR on FVIS investments which are computed on a monthly basis), to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily and monthly basis respectively for these products. The model computes volatility and correlations using relevant historical market data.

The Group uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The Group also assesses the market risks using VaR in its FVIS investments which are controlled by volume limits. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to the trading book. The daily reports of utilisation of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Committee of the Board.

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

(i) A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.

(ii) A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 1% probability that losses could exceed the VaR.

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

(iv) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

(v) The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading book. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading book and the Group's overall trading position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

35. MARKET RISK (continued)

(35.1) MARKET RISK-TRADING BOOK (continued)

The table below shows the VaR related information for the year ended 31 December 2016 and 31 December 2015 for both Held for Trading and Held as FVIS portfolios:

	(SR '000) Held for Trading			
2016	**Foreign exchange risk**	**Special commission risk**	**Overall risk**	**FVIS**
VaR as at 31 December 2016	**234**	**47**	**281**	**689,303**
Average VaR for 2016	**255**	**413**	**668**	**602,690**

	(SR '000) Held for Trading			
2015	Foreign exchange risk	Special commission risk	Overall risk	FVIS
VaR as at 31 December 2015	180	334	514	797,177
Average VaR for 2015	365	307	672	843,629

(35.2) MARKET RISK - BANKING BOOK

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

(35.2.1) SPECIAL COMMISSION RATE RISK

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

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group’s consolidated statement of income 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 special commission bearing non-trading financial assets and financial liabilities held as at 31 December 2016, including the effect of hedging instruments. The sensitivity of the equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges, as at 31 December 2016 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All significant banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

35. MARKET RISK (continued)

(35.2) MARKET RISK - BANKING BOOK (continued)

(35.2.1) SPECIAL COMMISSION RATE RISK (continued)

							SR '000 Sensitivity of equity (other reserves)						
2016	**Increase / decrease in basis points**		**Sensitivity of special commission income**		**Within 3 months**		**3-12 months**		**1-5 years**		**Over 5 years**		**Total**
Currency													
SR	**± 10**	**±**	**106,678**	**±**	**15**	**±**	**-**	**±**	**2,579**	**±**	**7,921**	**±**	**10,515**
USD	**± 10**	**±**	**14,240**	**±**	**8**	**±**	**94**	**±**	**21,282**	**±**	**84,749**	**±**	**106,133**

							SR '000 Sensitivity of equity (other reserves)						
2015	Increase / decrease in basis points		Sensitivity of special commission income		Within 3 months		3-12 months		1-5 years		Over 5 years		Total
Currency													
SR	± 10	±	87,289	±	-	±	755	±	18,362	±	10,709	±	29,826
USD	± 10	±	16,048	±	-	±	845	±	14,710	±	132,800	±	148,355

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

35. MARKET RISK (continued)

(35.2) MARKET RISK - BANKING BOOK (continued)

(35.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-statement of financial position items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The table below summarizes the Group's exposure to special commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group manages exposure to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Group's exposure to special commission rate risks.

SR '000

2016	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total
Assets						
Cash and balances with SAMA	15,014,000	-	-	-	28,427,291	43,441,291
Due from banks and other financial institutions	11,439,123	204,887	1,013,525	-	6,555,528	19,213,063
Investments, net	34,989,612	6,816,666	29,864,877	34,640,291	5,197,525	111,508,971
- Held for trading	-	-	-	-	708,352	708,352
- Held as FVIS	-	-	-	-	1,819,017	1,819,017
- Available for sale	1,274,796	1,416,114	9,351,899	5,722,538	2,670,155	20,435,502
- Held to maturity	542,775	411,082	478,575	-	-	1,432,432
- Held at amortized cost	33,172,042	4,989,470	20,034,403	28,917,753	-	87,113,668
Financing and advances, net	83,679,903	62,737,323	100,412,954	6,636,480	125,480	253,592,141
- Consumer & Credit Card	4,535,632	2,129,036	82,139,150	572,643	10,458	89,386,918
- Corporate	74,904,597	57,258,508	17,733,680	6,134,515	10,661	156,041,961
- Others	4,237,383	3,321,279	508,947	-	95,653	8,163,262
Positive fair value of derivatives, net	1,064,720	541,551	248,308	35,736	775,933	2,666,249
Total assets	146,187,358	70,300,428	131,539,664	41,312,507	41,081,758	430,421,714
Liabilities						
Due to banks and other financial institutions	31,069,409	13,011,972	974,582	-	418,208	45,474,171
Customers' deposits	57,224,757	20,643,797	1,717,868	3,811	236,027,674	315,617,907
- Current	7,581	-	-	-	223,625,245	223,632,826
- Savings	270	-	-	-	161,774	162,044
- Time	56,644,674	20,643,797	1,717,868	3,811	-	79,010,150
- Other	572,233	-	-	-	12,240,654	12,812,887
Debt securities issued	228,705	291,670	9,397,391	-	-	9,917,765
Negative fair value of derivatives, net	546,343	252,838	420,870	26,637	222,592	1,469,280
Total liabilities	89,069,214	34,200,277	12,510,711	30,448	236,668,473	372,479,123
On-statement of financial position gap	57,118,144	36,100,151	119,028,953	41,282,059	(195,586,715)	
Off-statement of financial position gap	5,999,696	1,908,149	(4,867,947)	(3,023,418)	16,480	
Total special commission rate sensitivity gap	63,117,840	38,008,300	114,161,006	38,258,641	(195,570,235)	
Cumulative special commission rate sensitivity gap	63,117,840	101,126,139	215,287,145	253,545,786	57,975,551	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

35. MARKET RISK (continued)

(35.2) MARKET RISK - BANKING BOOK (continued)

(35.2.1) SPECIAL COMMISSION RATE RISK (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-statement of financial position items (continued)

			SR '000			
2015	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total
Assets						
Cash and balances with SAMA	-	-	-	-	27,559,154	27,559,154
Due from banks and other financial institutions	7,289,926	3,808,097	-	-	9,779,820	20,877,843
Investments, net	22,704,506	11,021,144	38,243,947	54,284,115	7,848,733	134,102,445
- Held for trading	-	-	-	-	737,036	737,036
- Held as FVIS	-	-	-	-	2,104,279	2,104,279
- Available for sale	2,430,971	3,086,680	6,618,660	13,458,304	5,007,418	30,602,033
- Held to maturity	485,026	256,960	979,905	-	-	1,721,891
- Held at amortized cost	19,788,509	7,677,504	30,645,382	40,825,811	-	98,937,206
Financing and advances, net	83,003,966	67,697,056	94,059,425	6,144,265	2,035,379	252,940,091
- Consumer & Credit Card	4,443,120	3,041,129	73,725,861	974,142	10,984	82,195,236
- Corporate	76,512,015	57,955,986	20,074,294	5,170,123	1,925,611	161,638,029
- Others	2,048,831	6,699,941	259,270	-	98,784	9,106,826
Positive fair value of derivatives, net	268,773	609,942	184,001	15,716	1,604,550	2,682,982
Total assets	113,267,171	83,136,239	132,487,373	60,444,096	48,827,636	438,162,515
Liabilities						
Due to banks and other financial institutions	42,276,294	2,040,397	2,998,333	-	785,743	48,100,767
Customers' deposits	54,906,098	8,244,124	13,168,905	1,009,492	246,537,746	323,866,365
- Current	159,644	-	-	-	228,765,366	228,925,010
- Savings	-	-	-	-	160,239	160,239
- Time	53,743,922	8,244,124	13,168,905	1,009,492	-	76,166,443
- Other	1,002,533	-	-	-	17,612,140	18,614,673
Debt securities issued	223,694	307,555	9,409,468	-	-	9,940,717
Negative fair value of derivatives, net	261,129	223,361	399,410	5,310	556,211	1,445,421
Total liabilities	97,667,215	10,815,437	25,976,116	1,014,802	247,879,700	383,353,270
On-statement of financial position gap	15,599,956	72,320,802	106,511,257	59,429,294	(199,052,064)	
Off-statement of financial position gap	8,366,124	3,919,287	(7,858,004)	(4,178,437)	248,971	
Total special commission rate sensitivity gap	23,966,080	76,240,089	98,653,253	55,250,857	(198,803,093)	
Cumulative special commission rate sensitivity gap	23,966,080	100,206,169	198,859,422	254,110,279	55,307,186	

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

35. MARKET RISK (continued)

(35.2) MARKET RISK - BANKING BOOK (continued)

(35.2.2) CURRENCY RISK

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

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

Currency	**2016 SR '000 Long (short)**	2015 SR '000 Long (short)
US Dollar	**(108,701)**	(1,095,263)
TRY	**4,668,104**	4,659,840

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short position.

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2016 on its significant foreign currency positions. The analysis is performed for reasonably possible movements of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity of foreign currencies other than Turkish Lira (TRY) is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

	2016 SR '000			2015 SR '000		
Currency	**Increase/ decrease in currency rate in %**	**Effect on profit**	**Effect on equity**	Increase/ decrease in currency rate in %	Effect on profit	Effect on equity
TRY	**± 10%**	**± 24,125**	**± 466,810**	± 10%	± 23,320	± 465,984

35. MARKET RISK (continued)

(35.2) MARKET RISK - BANKING BOOK (continued)

(35.2.3) EQUITY PRICE RISK

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

The effect on equity (other reserves) as a result of a change in the fair value of equity instruments quoted on Saudi Stock Exchange (Tadawul) and held as available-for-sale at 31 December 2016 and 31 December 2015, due to reasonably possible changes in the prices of these quoted shares held by the Group, with all other variables held constant, is as follows:

	2016 SR '000		2015 SR '000	
Market index - (Tadawul)	**Increase / decrease in market prices %**	**Effect on equity (other reserves)**	Increase / decrease in market prices %	Effect on equity (other reserves)
Impact of change in market prices	**± 10%**	**± 40,164**	± 10%	± 80,693

36. LIQUIDITY RISK

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

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consists of cash, short-term bank deposits and liquid debt securities available for immediate sale and Saudi Government Bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency.

(36.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations; as special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (36.2) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

36. LIQUIDITY RISK (continued)

(36.1) Analysis of financial liabilities by remaining contractual maturities (continued)

SR '000

Financial liabilities	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2016						
Due to banks and other financial institutions	**4,429,756**	**27,104,639**	**13,214,656**	**1,741,494**	**-**	**46,490,545**
Customers' deposits	**236,607,757**	**56,757,159**	**13,939,705**	**9,317,647**	**4,429**	**316,626,697**
- Current	**223,632,826**	**-**	**-**	**-**	**-**	**223,632,826**
- Savings	**162,044**	**-**	**-**	**-**	**-**	**162,044**
- Time	**-**	**56,757,159**	**13,939,705**	**9,317,647**	**4,429**	**80,018,940**
- Other	**12,812,887**	**-**	**-**	**-**	**-**	**12,812,887**
Debt securities issued	**-**	**329,642**	**642,090**	**6,254,023**	**6,982,830**	**14,208,585**
Derivative financial instruments (gross contractual amounts payable)	**-**	**5,776,731**	**493,444**	**7,941,003**	**12,720,661**	**26,931,839**
Total undiscounted financial liabilities	**241,037,514**	**89,968,171**	**28,289,895**	**25,254,167**	**19,707,921**	**404,257,667**

SR '000

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2015						
Due to banks and other financial institutions	3,520,843	39,250,684	2,166,826	3,967,168	-	48,905,521
Customers' deposits	301,229,737	22,930,204	842,845	15,961	-	325,018,747
- Current	228,925,010	-	-	-	-	228,925,010
- Savings	160,239	-	-	-	-	160,239
- Time	53,529,815	22,930,086	842,806	15,952	-	77,318,659
- Other	18,614,673	119	39	9	-	18,614,840
Debt securities issued	-	285,390	1,030,889	5,230,990	5,692,651	12,239,920
Derivative financial instruments (gross contractual amounts payable)	-	7,944,242	2,026,843	9,208,364	7,914,307	27,093,756
Total undiscounted financial liabilities	304,750,580	70,410,519	6,067,403	18,422,484	13,606,958	413,257,944

The contractual maturity structure of the credit-related contingencies and commitments are shown under note (21.2(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

36. LIQUIDITY RISK (continued)

(36.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (36.1) above for the contractual undiscounted financial liabilities.

			(SR '000)	
2016	**Below 1 year**	**Over 1 year**	**No-fixed maturity**	**Total**
Assets				
Cash and balances with SAMA	18,718,880	14,664,661	10,057,750	43,441,291
financial institutions	12,135,817	7,077,246	-	19,213,063
Investments, net	363,804	108,213,300	2,931,867	111,508,971
Held for trading	-	-	708,352	708,352
Held as FVIS	363,803	1,455,214	-	1,819,017
Available for sale	-	18,211,987	2,223,515	20,435,502
Held to maturity	-	1,432,432	-	1,432,432
Other investments held at amortized cost	-	87,113,668	-	87,113,668
Financing and advances, net	2,262,970	251,329,171	-	253,592,141
Consumer & Credit Card	270,014	89,116,904	-	89,386,918
Corporate	1,075,273	154,966,688	-	156,041,961
Others	917,682	7,245,580	-	8,163,262
Positive fair value of derivatives, net	-	2,666,249	-	2,666,249
Investment in associates, net	-	-	431,156	431,156
Other real estate, net	-	-	849,180	849,180
Property and equipment, net	-	-	4,363,076	4,363,076
Goodwill and other intangible assets, net	-	-	325,733	325,733
Other assets	-	-	5,100,460	5,100,460
Total assets	33,481,471	383,950,627	24,059,222	441,491,320
Liabilities and equity				
Due to banks and other financial institutions	22,075,944	23,398,227	-	45,474,171
Customers' deposits	72,946,529	242,671,378	-	315,617,907
Current accounts	44,726,565	178,906,261	-	223,632,826
Savings	32,409	129,635	-	162,044
Time	23,703,045	55,307,105	-	79,010,150
Others	4,484,510	8,328,377	-	12,812,887
Debt securities issued	-	9,917,765	-	9,917,765
Negative fair value of derivatives, net	-	1,469,280	-	1,469,280
Other liabilities	-	-	9,086,479	9,086,479
Total liabilities	95,022,473	277,456,650	9,086,479	381,565,602

36. LIQUIDITY RISK (continued)

(36.2) MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

			(SR '000)	
2015	Below 1 year	Over 1 year	No-fixed maturity	Total
Assets				
Cash and balances with SAMA	3,804,382	15,184,873	8,569,899	27,559,154
Due from banks and other financial institutions	13,058,072	7,819,771	-	20,877,843
Investments, net	420,855	128,620,189	5,061,401	134,102,445
Held for trading	-	-	737,036	737,036
Held as FVIS	420,856	1,683,423	-	2,104,279
Available for sale	-	26,277,669	4,324,364	30,602,033
Held to maturity	-	1,721,891	-	1,721,891
Other investments held at amortized cost	-	98,937,206	-	98,937,206
Financing and advances, net	2,921,448	250,018,643	-	252,940,091
Consumer & Credit Card	292,722	81,902,514	-	82,195,236
Corporate	1,619,983	160,018,046	-	161,638,029
Others	1,008,742	8,098,084	-	9,106,826
Positive fair value of derivatives, net	-	2,682,982	-	2,682,982
Investment in associates, net	-	-	423,740	423,740
Other real estate, net	-	-	876,264	876,264
Property and equipment, net	-	-	3,716,091	3,716,091
Goodwill and other intangible assets, net	-	-	470,282	470,282
Other assets	-	-	4,993,148	4,993,148
Total assets	20,204,757	404,326,458	24,110,825	448,642,040
Liabilities and equity				
Due to banks and other financial institutions	27,696,110	20,404,657	-	48,100,767
Customers' deposits	75,182,118	248,684,247	-	323,866,365
Current accounts	45,785,002	183,140,008	-	228,925,010
Savings	32,048	128,191	-	160,239
Time	22,849,933	53,316,510	-	76,166,443
Others	6,515,136	12,099,537	-	18,614,673
Debt securities issued	-	9,940,717	-	9,940,717
Negative fair value of derivatives, net	-	1,445,421	-	1,445,421
Other liabilities	-	-	9,743,213	9,743,213
Total liabilities	102,878,228	280,475,042	9,743,213	393,096,483

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

37. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(37.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows:

2016	(SR '000)					
	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	41,809,145	27,743	146,759	1,208,085	249,559	43,441,291
Due from banks and other financial institutions	7,299,086	2,575,281	1,738,833	5,921,970	1,677,893	19,213,063
Investments, net	43,062,701	28,380,037	3,246,881	3,929,553	32,889,799	111,508,971
- Held for trading	708,352	-	-	-	-	708,352
- Held as FVIS	-	-	189,116	-	1,629,901	1,819,017
- Available for sale	538,677	2,740,857	1,540,781	3,097,308	12,517,879	20,435,502
- Held to maturity	20,044	-	580,143	832,245	-	1,432,432
- Held at amortized cost	41,795,628	25,639,180	936,841	-	18,742,019	87,113,668
Financing and advances, net	216,785,426	3,129,397	2,733,780	28,394,203	2,549,335	253,592,141
- Consumer & Credit Card	84,605,477	1,752	-	4,779,689	-	89,386,918
- Corporate	124,985,860	2,847,684	2,733,779	23,614,514	1,860,124	156,041,961
- Others	7,194,089	279,961	-	-	689,212	8,163,262
Positive fair value of derivatives, net	1,183,542	169,989	1,118,295	184,666	9,757	2,666,249
Investment in associates, net	427,109	-	-	-	4,047	431,156
Goodwill and other intangible assets, net	-	-	-	325,733	-	325,733
Total	310,567,009	34,282,447	8,984,548	39,964,210	37,380,390	431,178,604
Liabilities						
Due to banks and other financial institutions	13,934,946	6,996,551	15,774,477	6,625,997	2,142,200	45,474,171
Customers' deposits	289,248,405	4,022,748	25,125	22,252,000	69,629	315,617,907
- Current	217,421,760	24,112	-	6,140,329	46,625	223,632,826
- Savings	161,774	270	-	-	-	162,044
- Time	59,455,175	3,990,248	25,125	15,539,602	-	79,010,150
- Other	12,209,696	8,117	-	572,069	23,005	12,812,887
Debt securities issued	5,062,404	-	-	4,855,361	-	9,917,765
Negative fair value of derivatives, net	594,511	4,063	460,697	409,922	87	1,469,280
Total	308,840,266	11,023,362	16,260,299	34,143,280	2,211,916	372,479,123
Commitments and contingencies (note 21.2)	39,402,591	3,999,184	2,808,693	13,146,055	8,624,488	67,981,011
- Letter of credit	5,134,239	623,612	1,271,526	773,204	527,965	8,330,546
- Guarantees	22,026,719	1,901,362	1,321,993	11,962,075	8,005,905	45,218,054
- Acceptances	2,305,962	-	-	410,776	-	2,716,738
- Irrevocable commitments to extend credit	9,935,671	1,474,210	215,174	-	90,618	11,715,673
Credit exposure (credit equivalent) (note 32.2):						
Commitments and contingencies	24,239,477	2,191,060	1,381,728	8,100,017	5,767,542	41,679,824
Derivatives	799,319	620,859	1,960,529	314,301	-	3,695,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

37. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(37.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows (continued):

(SR '000)

2015	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	24,750,539	31,248	515,760	552,899	1,708,708	27,559,154
Due from banks and other financial institutions	6,219,106	4,574,434	1,071,650	7,038,722	1,973,931	20,877,843
Investments, net	24,626,701	37,826,432	7,395,442	3,579,840	60,674,030	134,102,445
- Held for trading	694,083	42,953	-	-	-	737,036
- Held as FVIS	47	-	252,351	-	1,851,881	2,104,279
- Available for sale	829,330	484,852	4,450,458	2,437,789	22,399,604	30,602,033
- Held to maturity	-	-	579,840	1,142,051	-	1,721,891
- Held at amortized cost	23,103,241	37,298,627	2,112,793	-	36,422,545	98,937,206
Financing and advances, net	208,317,964	3,702,011	2,811,655	36,751,824	1,356,637	252,940,091
- Consumer & Credit Card	75,370,510	1,788	-	6,822,938	-	82,195,236
- Corporate	124,325,353	3,553,989	2,811,655	29,928,887	1,018,145	161,638,029
- Others	8,622,100	146,233	-	-	338,493	9,106,826
Positive fair value of derivatives, net	1,757,869	34,353	771,433	119,327	-	2,682,982
Investment in associates, net	423,740	-	-	-	-	423,740
Goodwill and other intangible assets, net	-	-	-	470,282	-	470,282
Total	266,095,919	46,168,478	12,565,940	48,512,894	65,713,306	439,056,537
Liabilities						
Due to banks and other financial institutions	7,082,624	12,005,134	18,265,133	7,693,730	3,054,146	48,100,767
Customers' deposits	292,131,455	2,879,154	24,664	28,807,063	24,029	323,866,365
- Current	221,715,708	231,960	-	6,977,244	98	228,925,010
- Savings	160,239	-	-	-	-	160,239
- Time	52,674,567	2,636,714	24,664	20,830,498	-	76,166,443
- Other	17,580,940	10,480	-	999,321	23,932	18,614,673
Debt securities issued	5,035,968	-	-	4,904,749	-	9,940,717
Negative fair value of derivatives, net	319,777	27,043	688,884	409,717	-	1,445,421
Total	304,569,824	14,911,331	18,978,681	41,815,259	3,078,175	383,353,270
Commitments and contingencies (note 21.2)	49,696,022	2,667,233	1,900,850	16,063,089	11,079,927	81,407,121
- Letter of credit	7,961,067	676,647	60,679	1,180,501	1,455,898	11,334,792
- Guarantees	25,738,095	1,170,700	1,530,584	14,142,974	8,810,338	51,392,691
- Acceptances	3,695,477	-	-	739,614	-	4,435,091
- Irrevocable commitments to extend credit	12,301,383	819,886	309,587	-	813,691	14,244,547
Credit exposure (credit equivalent) (note 32.2):						
Commitments and contingencies	32,433,012	1,395,553	1,307,638	9,730,998	6,797,407	51,664,608
Derivatives	1,967,751	637,404	822,318	269,182	-	3,696,655

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA’s prescribed methodology.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

37. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(37.2) The distribution by geographical concentration of non-performing financing and advances and specific allowance are as follows:

	(SR '000)		
2016	**The Kingdom of Saudi Arabia**	**Turkey**	**Total**
Non performing financing and advances	**2,442,618**	**1,482,864**	**3,925,482**
Less: specific allowance	**(1,929,574)**	**(973,678)**	**(2,903,252)**
Net	**513,044**	**509,186**	**1,022,230**
2015			
Non performing financing and advances	2,074,866	1,607,083	3,681,949
Less: specific allowance	(1,790,215)	(1,066,214)	(2,856,429)
Net	284,651	540,869	825,520

38. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

The fair values of on-statement of financial position financial instruments, except for other investments held at amortised cost and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of financing and advances, commission bearing customers' deposits, due from/to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from/to banks and other financial institutions. The estimated fair values of held-to-maturity investments and other investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively. The fair values of these investments are disclosed in note 6.4.

The fair values of derivatives and other off-statement of financial position financial instruments are based on the quoted market prices when available and/or by using the appropriate valuation techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

39. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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 takes place either:

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

Fair value information of the Group's financial instruments is analysed below.

a. Fair value information for financial instruments at fair value

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

Level 1: quoted prices in active markets for the same instrument.

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	(SR '000)			
2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	**-**	**2,666,249**	**-**	**2,666,249**
Financial assets designated at FVIS	**-**	**1,713,941**	**105,076**	**1,819,017**
Financial assets available for sale	**12,513,409**	**7,507,573**	**414,520**	**20,435,502**
Held for trading	**708,352**	**-**	**-**	**708,352**
Other investments held at amortized cost, net - fair value hedged (see note (6.2))	**-**	**4,239,300**	**-**	**4,239,300**
Total	**13,221,761**	**16,127,063**	**519,596**	**29,868,420**
Financial liabilites				
Derivative financial instruments	**-**	**1,469,280**	**-**	**1,469,280**
Total	**-**	**1,469,280**	**-**	**1,469,280**

	(SR '000)			
2015	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	2,682,982	-	2,682,982
Financial assets designated at FVIS	-	1,953,023	151,256	2,104,279
Financial investments available for sale	23,456,904	6,333,485	811,644	30,602,033
Held for trading	737,036	-	-	737,036
Other investments held at amortized cost, net - fair value hedged (see note (6.2))	-	8,643,192	-	8,643,192
Total	24,193,940	19,612,682	962,900	44,769,522
Financial liabilites				
Derivative financial instruments	-	1,445,421	-	1,445,421
Total	-	1,445,421	-	1,445,421

39. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

b. Fair value information for financial instruments not measured at fair value

The fair value of financing and advances, net amounts to SR 249,953 million (31 December 2015: SR 253,101 million).The fair value of the held to maturity and other investments held at amortized cost is disclosed in note 6.4.

The fair values of due from banks and other financial institutions, due to banks and other financial institutions, customers deposits and debt securities issued at 31 December 2016, 31 December 2015 approximate their carrying values.

c. Valuation technique and significant unobservable inputs for financial instruments at fair value

The Group uses various valuation techniques for determination of fair values for financial instruments classified under levels 2 and 3 of the fair value hierarchy. These techniques and the significant unobservable inputs used therein are analysed below.

The Group utilises fund manager reports (and appropriate discounts or haircuts where required) for the determination of fair values of private equity funds and hedge funds. The fund manager deploys various techniques (such as discounted cashflow models and multiples method) for the valuation of underlying financial instruments classified under level 2 and 3 of the respective fund's fair value hierarchy. Significant unobservable inputs embedded in the models used by the fund manager include risk adjusted discount rates, marketability and liquidity discounts and control premiums.

For the valuation of unquoted debt securities and derivative financial instruments, the Group obtains fair value estimates from reputable third party valuers, who use techniques such as discounted cash flows, option pricing models and other sophisticated models.

d. Transfer between Level 1 and Level 2

There were no transfers between level 1 and level 2 during 31 December 2016 (31 December 2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

39. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

e. Reconciliation of Level 3 fair values

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

Movement of level 3 is as follows:

	2016 **SR '000**	2015 SR '000
Balance at beginning of the year	**962,900**	1,543,371
Total gains/(losses) (realized and unrealized) in consolidated statement of income	**-**	3,632
Total (losses)/gains in consolidated statement of comprehensive income	**(58,831)**	(135,251)
Purchases	**242,834**	48,536
(Sales)	**(448,918)**	(239,703)
(Settlements)	**-**	-
Transfer to/(from) level 3	**(178,389)**	(257,685)
Balance at end of the year	**519,596**	962,900

Transfer out of level 3

During the year ended 31 December 2016, an amount of SR 178 million (31 December 2015: SR 258 million) was transferred to level 1 pursuant to the initial public offering of a private equity investment held by Eastgate MENA Direct Equity L.P. (note 1.2f)).

f. Sensitivity analysis for significant unobservable inputs in valuation of financial instruments at fair value

No significant unobservable inputs were applied in the valuation of hedge funds and private equities for the year ended 31 December 2016 and hence sensitivity analysis is not applicable for the period.

40. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the management and the Board, the related party transactions are performed on an arm's length basis. The related party transactions are governed by the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are entered/conducted also at market rates.

(40.1) The balances as at 31 December included in the financial statements are as follows:

	2016 **SR '000**	2015 SR '000
Bank's Board of Directors and senior executives:		
Financing and advances	**367,969**	316,092
Customers' deposits	**227,086**	666,440
Commitment and contingencies	**100,895**	127,356
Investments (Assets under Management)	**4,668**	3,422
Other liabilities - end of service benefits	**32,082**	27,933
Major shareholders:		
Customers' deposits	**12,530,609**	24,378,166
Commitment and contingencies	**-**	107,953
Investments (Assets under Management)	**2,458,136**	881,509
Group's investment fund		
Investment	**708,201**	737,083
Customers' deposits	**288,324**	159,093
Subsidiaries		
Financing and advances	**1,737,500**	1,687,500
Customers' deposits	**2,408**	2,264
Investments	**363,750**	363,750

Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Related parties are the persons or close members of those persons' families and their affiliate entities where they have control, joint control or significant influence over these entities.

40. RELATED PARTY TRANSACTIONS (continued)

(40.2) Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2016	2015
	SR '000	SR '000
Special commission income	**55,956**	52,268
Special commission expense	**367,163**	314,435
Fees and commission income and expense, net	**210,674**	267,981

(40.3) The total amount of compensation paid to the Group key management personnel and Board of Directors during the year is as follows:

	2016	2015
	SR '000	SR '000
Directors' remuneration	**11,815**	14,787
Short-term employee benefits	**117,798**	120,219
End of service benefits	**3,955**	4,775

The Bank's Board of Directors includes the Board and Board related committees (Executive Committee, Risk Management Committee, Compensation and Nomination Committee and Audit Committee). For Group's senior executives compensation, refer to note 41.

41. GROUP'S STAFF COMPENSATION

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 years ended December 31 2016 and 2015, and the forms of such payments:

	2016			2015		
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis)**	**Variable compensation (on cash basis)**	Number of employees	Fixed compensation (on accrual basis)	Variable compensation (on cash basis)
		SR '000	**SR '000**		SR '000	SR '000
Senior executives	**23**	**38,156**	**95,621**	23	38,020	65,535
Employees engaged in risk taking activities	**315**	**124,505**	**46,273**	317	124,346	32,641
Employees engaged in control functions	**411**	**148,656**	**51,739**	390	142,761	40,038
Other employees	**7,286**	**1,316,928**	**231,626**	7,433	1,354,162	285,031
Other employee related benefits	**-**	**412,842**	**-**	-	435,120	-
Subsidiaries	**4,275**	**524,405**	**98,871**	4,423	514,960	104,061
Group total	**12,310**	**2,565,492**	**524,131**	12,586	2,609,369	527,306

All forms of payment for fixed and variable compensation are in cash.

The Bank's senior executives are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Employees engaged in risk taking activities comprise those officers of the business sectors of Individual Banking, Corporate and Treasury, who are the key drivers in undertaking business transactions, and managing related business risks.

Employees engaged in control functions include employees in Risk Management, Internal Audit, Compliance, Finance and Legal divisions.

The Group's variable compensation recognized as staff expenses in the consolidated statement of income for 2016 is SR 554 million (2015: SR 475 million) which will be paid to employees during quarter 1 of 2017.

42. CAPITAL ADEQUACY

(42.1) Capital adequacy ratio

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

The Group monitors the adequacy of its capital using the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires Banks to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risks which comprise the Pillar 1 minimum capital requirements.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from 1 January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

The following table summarizes the Bank's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	Risk weighted assets	
	2016	2015
	SR 000	SR 000
Credit risk	**311,695,219**	328,281,725
Operational risk	**32,802,763**	29,525,304
Market risk	**8,048,978**	7,347,137
Total Pillar-1 - risk weighted assets	**352,546,960**	365,154,166
Core capital (Tier 1)	**59,670,175**	55,101,066
Supplementary capital (Tier 2)	**8,025,155**	7,707,197
Core and supplementary capital (Tier 1 and Tier 2)	**67,695,330**	62,808,263
Capital Adequacy Ratio (Pillar 1):-		
Core capital (Tier 1)	**16.9%**	15.1%
Core and supplementary capital (Tier 1 and Tier 2)	**19.2%**	17.2%

Tier 1 capital of the Group comprises share capital, statutory reserve, other reserves, proposed dividend, retained earnings, tier 1 eligible debt securities and non-controlling interests less treasury shares, goodwill, intangible assets, foreign currency translation reserve and other prescribed deductions. Tier 2 capital comprises of eligible debt securities issued and prescribed amounts of eligible portfolio (collective) provisions less prescribed deductions.

The Group uses the Standardized approach of Basel III to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and operational risk). The Group's Risk Management is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel III requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

43. GROUP'S INTEREST IN OTHER ENTITES

43.1 MATERIAL PARTLY-OWNED SUBSIDIARIES

a) Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which TFK operate. The supervisory frameworks require TFK to keep certain levels of regulatory capital and liquid assets, limits its exposure to other parts of the Group and comply with other ratios. The carrying amounts of TFK's assets and liabilities are SR 40,531 million and SR 36,998 million respectively (2015: SR 48,460 million and SR 44,044 million respectively).

b) Non-controlling interests in subsidiaries

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

	2016	2015
	SR '000	SR '000
Summarised statement of financial position		
Financing and advances, net	**28,394,203**	36,751,824
Other assets	**12,136,879**	12,195,346
Liabilities	**36,998,013**	44,827,813
Net assets	**3,533,069**	4,119,357
Carrying amount of NCI	**1,164,853**	1,358,152
Summarised statement of income		
Total operating income	**2,222,377**	2,173,193
Net income	**284,944**	158,567
Total comprehensive income	**(586,288)**	(851,335)
Total comprehensive income allocated to NCI	**(193,299)**	(280,685)
Summarised cash flow statement		
Net cash from (used in) from operating activities	**1,805,529**	(2,505,429)
Net cash (used in) investing activities	**(989,863)**	(376,796)
Net cash from financing activities	**53,104**	1,473,664
Net increase / (decrease) in cash and cash equivalents	**868,770**	(1,408,561)

43. GROUP'S INTEREST IN OTHER ENTITES (continued)

43.2 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

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

Type of structured entity	Nature and purpose	Interest held by the Group
Mutual funds	To generate fees from managing assets on behalf of third party investors. These funds are financed through the issue of units to investors.	• Investments in units issued by the fund • Management fees
Hedge funds	To generate returns from trading in the units/shares of the fund and/or via distributions made by the fund. These funds are financed through the issue of units/shares to investors.	• Investments in units issued by the fund
Private equity funds	To generate returns from long-term capital appreciation in the net worth of the fund, reaslised via periodic distributions and eventual exit at the end of the life of the fund. These funds are financed through the issue of units/ shares to investors.	• Investments in units/ shares issued by the fund

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

	2016 **SR '000**	2015 SR '000
Mutual funds	**708,352**	737,036
Hedge funds	**1,819,017**	2,104,279
Private equity funds	**482,177**	682,978
Total	**3,009,546**	3,524,293

The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. At 31 December 2016, the Group holds an interest in all structured entities it has sponsored. These are mainly represented by mutual funds established and managed by NCBC and private equity funds established and managed by NCB Capital Dubai Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2016

44. TREASURY SHARES

During the year, the bank purchased its own shares amounting to SAR 121 million to be held for the employee share based incentive scheme (refer note 3.30(c) and note 27). Moreover, the Bank disposed of its treasury shares amounting to SAR 191 million (previously acquired in satisfaction of a debt) via regular market transactions as well as put through trades at a net gain of SR 8.7 million.

45. INVESTMENT SERVICES

The Bank offers investment management services to its customers through its subsidiary NCB Capital company. Assets under management outstanding at 31 December 2016 amounted to SR 113,003 million (2015: SR 74,809 million) (note 3.24).

46. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to current year presentation, which are not material in nature.

47. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective up to the date of issuance of the Group consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. The Group is currently assessing the implications of the below mentioned standards and amendments on the Group's consolidated financial statements and the related timing of adoption.

Following is a summary of the new IFRS and amendments to IFRS effective for annual periods beginning on or after 1 January 2017

Effective for annual periods	Standard, amendment or interpretation	Summary of requirements
1 January 2019	IFRS 16	IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. The Group is in the process of evaluating how the new lease accounting model will impact its leasing arrangements.
1 January 2018	IFRS 9	IFRS 9 Financial Instruments will replace IAS 39 by building models using internal and external experts. The Group will recognize loss allowances based on Expected Credit Loss (ECL) considering forward-looking information. Setting framework with detailed policies and controls including roles and responsibilities will be implemented. The Group is in the process of evaluating how the new ECL model will impact its ongoing regulatory capital structure planning and further details will be provided once the assessment is complete.
1 January 2018	Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
1 January 2017	IFRS 15	IFRS 15 Revenue from contracts with customers provides a framework that replaces the existing revenue recognition model under IAS 18. Entities applying IFRS 15 would need to apply a five-step model to determine when to recognize revenue and at what amount. The model specifies that revenue should be recognized when an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. The Group is in the process of evaluating how the new revenue recognition model will impact its revenue generating arrangements.
1 January 2017	Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses
1 January 2017	Amendments to IAS 7	Disclosure Initiative
1 January 2017	IFRS 12	IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12.
1 January 2018	Amendments to IAS 40	The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.
1 January 2018	IFRIC 22	The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration.
1 January 2018	Amendments to IAS 28	IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is aninvestment - by - investment choice.

48. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 26 January 2017 (corresponding to 28 Rabi AlThani 1438H).

Lama A. Ghazzaoui	**Saeed M. Al-Ghamdi**	**Mansour S. Al Maiman**
Chief Financial Officer	**Chief Executive Officer**	**Chairman**