The Saudi British Bank
Consolidated Financial Statements
For the year ended

31 December 2017

SABB ساب

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Building a better working world

KPMG

KPMG Al Fozan & Partners
Certified Public Accountants

Independent auditors' report to the shareholders of The Saudi British 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 Saudi British Bank ("SABB" or the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the summary of significant accounting policies and other explanatory notes from 1 to 41.

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

Basis for opinion

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

Key audit matters

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

Independent auditors' report to the shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances As at 31 December 2017, the gross loans and advances was Saudi Riyals 120.562 billion against which impairment provision of Saudi Riyals 3.556 billion was maintained. This includes impairment against specific financing and collective impairment recorded on a portfolio basis through modelling. We considered this as a key audit matter as the Group makes complex and subjective judgements and makes assumptions to determine the impairment and the timing of recognition of such impairment. In particular, the determination of impairment against loans and advances includes: o The identification of impairment events and judgments used to calculate the impairment against specific corporate loans and advances; o The use of assumptions underlying the calculation of collective impairment for portfolios of loans and advances, and the use of the models to make those calculations; and o An assessment of the Group's exposure to certain economic sectors affected by current economic conditions. *Refer to note 2(m) to the consolidated financial statements for the significant accounting policy relating to impairment of loans and advances, note 6 which details the disclosure of impairment against loans and advances and note 1.1(f)(i) which explains the impairment assessment methodology used by the Group.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. This included testing of: - entity level controls over the modelling process including model review, and monitoring and approval of assumptions by the senior management; and - controls over the identification of impaired loans and advances, the data transfer from source systems to impairment models and model outputs to the general ledger and the calculation of the impairment allowance. For loans which are individually assessed for impairment, we performed the following procedures on a sample basis: - tested assumptions underlying impairment calculation including forecasted future cash flows, discount rates and estimated recovery from any underlying collateral etc; - tested loans and advances (including loans that had not been identified by management as potentially impaired) to form our own assessment as to whether impairment events had occurred and to assess whether impairment had been identified and recorded in a timely manner; and

Independent auditors' report to the shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances (continued)	- tested loans and advances for economic sectors adversely affected by the current economic conditions to evaluate management's impairment assessment for such loans as per the Group's internal credit grading processes. For corporate collective impairment models used by the Group, we tested on a sample basis: - the extracts of historical data from underlying systems; - the assumptions used by management including probability of default; and - the calculations within the model. For retail collective impairment, we assessed the reasonablness of the net flow rate model used by the Bank by performing the following: - Assessed the appropriateness of the qualitative and quantitative changes in the underlying loan portfolio on a sample basis; - Tested the veracity of the date inputs used in the models including the flow of gross exposures, historical loss rates and analysis of delinquency bandings on a sample basis; and - Recalculated the model output calculations.

Independent auditors' report to the shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of derivatives The Group has entered into various derivatives including special commission rate and currency swaps ("Swaps"), spot and foreign exchange forward contracts ("Forwards"), special commission rate and currency options ("Options"). Certain derivative contracts are over the counter ("OTC") derivatives and hence, the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations including adjustments to counterparty's own credit risk. The majority of these derivatives are held for trading. However, the Group utilizes certain Swaps for hedge accounting purposes for hedging fair value or cash flow risks. Valuation of derivatives could have a material impact on the consolidated financial statements. We considered this as a key audit matter as there is complexity and subjectivity involved in determining the valuation of derivatives, where complex modelling techniques are being used. *Refer to the significant accounting policies note 2(d) to the consolidated financial statements and note 10 which explains the derivative positions and the valuation methodology used by the Group.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuation of derivatives including the testing of relevant automated controls covering the fair valuation process for derivatives. We selected a sample of derivatives and: - Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; - Evaluated and checked the methodologies, inputs and assumptions used by the Group in determining fair values; - Involved our valuation specialists to perform an independent valuation of the derivatives and compared the result with management's valuation; and - Considered the adequacy of the Group's disclosures about the valuation basis and inputs used in the fair value measurement.

Independent auditors' report to the shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter

Fee from banking services
 	
The Group charges loan transaction and service fee upfront to the borrowers on loans. All such fees are an integral part of generating an involvement with the resulting financial instrument and therefore all such fees should be considered for making an adjustment to effective yield and such adjustment should be recognised in accordance with IFRS.
 	
However, due to the large number of transactions with mostly insignificant fee amounts, assessment of amortisation of fee income based on effective yield is made by the management based on certain thresholds. For transactions below the threshold, management performs an assessment at year end to estimate what the cumulative and for the current period potential adjustment would have been, had the required amounts been amortised on a loan by loan basis, and adjust if the impact is considered material.
 	
We considered this as a key audit matter since use of management assumptions and thresholds could result in material over / under statement of Group's profitability.
 	
Refer to the significant accounting policies note 2(g) to the consolidated financial statements.
	We performed the following procedures:
	
	- We assessed the design and implementation and tested the operating effectiveness of the controls over the consistent application of management's assumptions and thresholds for recognition of fee income.
	
	- We evaluated the assumptions and thresholds used by management for assessing the effective yield of loans and amortising fee income accordingly.
	
	- We obtained management's assessment of the impact of the use of assumptions and thresholds and:
	
	  - traced the historical and current year data used by management to the underlying accounting records on a sample basis;
	  - checked the accuracy of the management's assessment including calculations and related assumptions on a sample basis; and
	  - considered the impact of non-amortisation of fees on an effective yield basis with regard to the net income for the year and the net equity at the reporting date amongst other measures.

Independent auditors' report to the shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of available for sale investments Available for sale investments comprise a portfolio of debt and equity investments. These instruments are measured at fair value with the corresponding fair value change recognised in other comprehensive income. The fair value of majority of these financial instruments is determined through the application of valuation techniques, which often involve the exercise of judgment by management and the use of assumptions and estimates. Estimation uncertainty exists for those instruments not traded in an active market and where the internal modelling techniques use significant observable valuation inputs (i.e. level 2 valuation). The valuation of the Group's available for sale investments in level 2 is considered a key audit matter given the degree of complexity involved in valuing these financial instruments and significance of the judgment and estimates made by management. *Refer note 1.1(f)(ii) to the consolidated financial statements which explains critical accounting judgments and estimates, note 2(i)(ii) which details significant accounting policies and note 35 which explains the investment valuation methodology used by the Group.*	We assessed the design and implementation and tested the operating effectiveness of key controls over management's processes for performing valuation of investments classified as available for sale, which are not traded in an active market. We performed an assessment of the methodology and the appropriateness of valuation models and the inputs used to value available for sale investments. We tested the valuation of a sample of available for sale investments not traded in an active market. As part of these audit procedures we assessed the key inputs used in the valuation such as expected cash flows, risk free rates and credit spreads by benchmarking them with observable external data.

Independent auditors' report to the shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of investments As at 31 December 2017, the Group held investments (net of impairment) of Saudi Riyals 26.977 billion. These investments comprise of equities, government and corporate bonds/sukuk, which are subject to the risk of impairment in value due to either adverse market conditions and/or liquidity constraints faced by the issuers. For assessing the impairment of equities, management monitors volatility of share prices and uses the criteria of significant or prolonged decline in their fair values below their costs as the basis for determining impairment. A significant or prolonged decline in fair value of an equity instrument below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the equity instrument. In assessing whether it is prolonged, the time-period for which the fair value of the equity instrument has been below its original cost is evaluated. For assessing the impairment of other instruments including debt instruments such as government and corporate bonds/sukuk, management considers them to be impaired when there is evidence of a deterioration in the financial health of the investee, economic sector performance, changes in technology and operational and financing cash flows. We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the consolidated financial statements. *Refer to note 2(m) of the consolidated financial statements for the accounting policy relating to the impairment of investments, note 1.1(f)(iii) for the critical accounting judgements and estimates, and notes 31 and 32 for the disclosures of credit and market risks respectively.*	We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for identification of indicators of impairment such as significant or prolonged decline in the fair value of equities below their original cost and/or any issuer defaults relating to other investments including government and corporate bonds/sukuk. For equity investments, on a sample basis, we: - Assessed the appropriateness of management's criteria for determining the significant or prolonged decline in the value of investments; - Evaluated the basis for determining the fair value of investments; - Independently tested the valuations of investments; and - Considered the price fluctuation / movement during the holding period to determine if the significant or prolonged criteria is met. For other investments including government and corporate bonds/sukuk, on a sample basis, we assessed the creditworthiness of counter parties based on available market information and assessed cash flows from the instruments, as provided by the management, to consider any defaults based on contractual terms and conditions of these instruments.

Independent auditors' report to the shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Zakat The Group files its tax/zakat return with the General Authority of Zakat and Tax ("GAZT") on an annual basis. The GAZT has issued assessment orders for the years from 2005 up to 2009, which resulted in significant additional exposure amounting to Saudi Riyals 433 million. The significant additional exposure maninly relates to zakat and resulted due to disallowance of certain long-term investments and the addition of long term financing to the Zakat base by the GAZT. The interpretation of the GAZT is being challenged by the Bank and the appeal proceedings are underway at various levels of available appellate forums. Assessments for the years 2010 onwards are yet to be raised. However, in line with the assessments finalised by the GAZT for the years 2005 to 2009, if long-term investments are disallowed and long-term financing is added to the Zakat base this would result in significant additional zakat exposure. The amount of the potential additional zakat exposure is not disclosed in the consolidated financial statements as management expects that such disclosure might affect the Bank's position in this matter. The management makes judgments about the incidence and quantum of zakat liabilities (which are subject to the future outcome of assessments by the GAZT) and based on such judgments, management expects a favourable outcome of the appeal process. We considered this as a key audit matter as it involves significant management judgement and estimation and the additional exposure can be material to the consolidated financial statements. *Refer to note 2(v) for the accounting policy relating to zakat and note 27 for the related disclosures for zakat.*	In order to assess the status and likely outcome of the matter, we obtained correspondences between the Group, GAZT and Group's zakat consultants to determine the amount of the additional demand made by the GAZT. We further obtained the related appeal documents to confirm the fact that the matter has been contested at various appellate forums and to assess the status of those appeals. We held meetings with those charged with governance and senior management of the Group to obtain update on the zakat matter and the results of their interactions with the relevant appellate forums. We also used our internal specialists to assess the appropriateness of the exposure disclosed for the years assessed by GAZT, the appropriateness of management's judgments relating to the zakat matter in light of the facts and circumstances of the Bank and the appropriateness of the provision held by the Group. We also assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group.

Independent auditors' report to the shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

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

Independent auditors' report to the shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

Independent auditors' report to the shareholders of The Saudi British 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)

- 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.

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

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

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

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KPMG Al Fozan & Partners
Certified Public Accountants

Independent auditors' report to the shareholders of The Saudi British Bank (A Saudi Joint Stock Company)

Report on other legal and regulatory requirements

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

Ernst & Young

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9 Jamad Al-Thani 1439H
(25 February 2018)

The Saudi British Bank
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	2017 SAR'000	2016 SAR'000
ASSETS			
Cash and balances with SAMA	3	**26,874,499**	24,121,821
Due from banks and other financial institutions	4	**13,490,700**	8,217,746
Positive fair value derivatives	10	**532,364**	721,912
Investments, net	5	**26,976,751**	29,273,055
Loans and advances, net	6	**117,006,087**	120,964,815
Investment in an associate and a joint venture	7	**524,924**	642,297
Property and equipment, net	8	**1,134,927**	1,038,352
Other assets	9	**1,075,092**	1,075,896
Total assets		**187,615,344**	186,055,894
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**3,690,975**	3,419,174
Customers' deposits	12	**140,239,513**	140,639,785
Debt securities in issue	13	**2,998,748**	4,517,636
Borrowings	14	**1,682,445**	1,709,958
Negative fair value derivatives	10	**481,195**	604,793
Other liabilities	15	**5,051,997**	3,885,620
Total liabilities		**154,144,873**	154,776,966
Equity			
Equity attributable to equity holders of the Bank			
Share capital	16	**15,000,000**	15,000,000
Statutory reserve	17	**9,545,984**	8,557,339
Other reserves	18	**488**	24,052
Retained earnings		**7,858,470**	7,127,537
Proposed dividends	27	**939,650**	570,000
Total equity attributable to equity holders of the Bank		**33,344,592**	31,278,928
Non-controlling interest	19	**125,879**	-
Total equity		**33,470,471**	31,278,928
Total liabilities and equity		**187,615,344**	186,055,894

Mathew Pearce
Chief Financial Officer

David Dew
Managing Director & Authorized Member

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

The Saudi British Bank
CONSOLIDATED STATEMENT OF INCOME
For the years ended 31 December

	Notes	2017 SAR'000	2016 SAR'000
Special commission income	21	**6,051,288**	6,075,102
Special commission expense	21	**953,404**	1,318,187
Net special commission income		**5,097,884**	4,756,915
Fees and commission income, net	22	**1,255,534**	1,340,843
Exchange income, net		**431,407**	478,045
Income from FVIS financial instruments		**-**	6,994
Trading income, net	23	**258,398**	261,648
Dividend income		**52,499**	37,844
Gains on available for sale investments, net	24	**30,944**	26,297
Other operating income, net		**242**	18
Total operating income		**7,126,908**	6,908,604
Salaries and employee related expenses	25	**1,228,591**	1,228,958
Rent and premises related expenses		**139,773**	135,660
Depreciation	8	**124,785**	110,903
General and administrative expenses		**697,414**	608,029
Provision for credit losses, net	6	**1,001,828**	944,560
Impairment of other financial assets, net	5	**48,855**	49,540
Total operating expenses		**3,241,246**	3,077,650
Income from operating activities		**3,885,662**	3,830,954
Share in earnings of an associate and a joint venture	7	**68,916**	63,777
Net income		**3,954,578**	3,894,731
Basic and diluted earnings per share (in SAR)	26	**2.64**	2.60

Mathew Pearce
Chief Financial Officer

David Dew
Managing Director & Authorized Member

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

The Saudi British Bank
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended 31 December

	Notes	2017 SAR' 000	2016 SAR' 000
Net income		**3,954,578**	3,894,731
Other comprehensive income for the years – items that may be reclassified subsequently to consolidated statement of income			
Available for sale financial assets			
- Net change in fair value	18	**(87,156)**	405,301
- Transfer to consolidated statement of income, net	18	**19,056**	(26,297)
Cash flow hedges			
- Net change in fair value	18	**89,927**	11,326
- Transfer to consolidated statement of income, net	18	**(54,276)**	(6,080)
Total other comprehensive (loss) / income for the years		**(32,449)**	384,250
Total comprehensive income		**3,922,129**	4,278,981

Mathew Pearce
Chief Financial Officer

David Dew
Managing Director & Authorized Member

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements

The Saudi British Bank
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended 31 December

		Attributable to equity holders of the bank							
		Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total	Non-controlling interest	Total Equity
2017	**Notes**	**SAR '000**	**SAR '000**	**SAR '000**	**SAR '000**	**SAR '000**	**SAR '000**	**SAR '000**	**SAR '000**
Balance at the beginning of the year		15,000,000	8,557,339	24,052	7,127,537	570,000	31,278,928	-	31,278,928
Total comprehensive income for the year									
Net income for the year		-	-	-	3,954,578	-	3,954,578		3,954,578
Net changes in fair value of cash flow hedges	18	-	-	89,927	-	-	89,927	-	89,927
Net changes in fair value of available for sale investments	18	-	-	(87,156)	-	-	(87,156)	-	(87,156)
Transfer to consolidated statement of income	18	-	-	(35,220)	-	-	(35,220)	-	(35,220)
				(32,449)	3,954,578		3,922,129		3,922,129
Non-controlling interest arising on business combination		-	-	-	-	-	-	125,879	125,879
Treasury shares	18	-	-	6,655	-	-	6,655	-	6,655
Employee share plan reserve		-	-	2,230	-	-	2,230	-	2,230
Transfer to statutory reserve	17	-	988,645	-	(988,645)	-	-	-	-
Zakat for the year	27	-	-	-	(63,000)	(27,000)	(90,000)	-	(90,000)
Income tax for the year	27	-	-	-	(316,500)	(131,068)	(447,568)	-	(447,568)
2016 final dividend paid, net of zakat and income tax	27	-	-	-	-	(411,932)	(411,932)	-	(411,932)
2017 interim dividend paid, net of zakat and income tax	27	-	-	-	(915,850)	-	(915,850)	-	(915,850)
2017 final proposed dividend, net of zakat and income tax	27	-	-	-	(939,650)	939,650	-	-	-
Balance at the end of the year		15,000,000	9,545,984	488	7,858,470	939,650	33,344,592	125,879	33,470,471
2016									
Balance at the beginning of the year		15,000,000	7,583,656	(340,608)	5,361,489	570,000	28,174,537	-	28,174,537
Total comprehensive income for the year									
Net income for the year		-	-	-	3,894,731	-	3,894,731	-	3,894,731
Net changes in fair value of cash flow hedges	18	-	-	11,326	-	-	11,326	-	11,326
Net changes in fair value of available for sale investments	18	-	-	405,301	-	-	405,301	-	405,301
Transfer to consolidated statement of income	18	-	-	(32,377)	-	-	(32,377)	-	(32,377)
				384,250	3,894,731		4,278,981		4,278,981
Treasury shares	18	-	-	(18,357)	-	-	(18,357)	-	(18,357)
Employee share plan reserve		-	-	(1,233)	-	-	(1,233)	-	(1,233)
Transfer to statutory reserve	17	-	973,683	-	(973,683)	-	-	-	-
2015 Final dividend paid	27	-	-	-	-	(570,000)	(570,000)	-	(570,000)
2016 Interim dividend paid	27	-	-	-	(585,000)	-	(585,000)	-	(585,000)
2016 Final proposed dividend	27	-	-	-	(570,000)	570,000	-	-	-
Balance at the end of the year		15,000,000	8,557,339	24,052	7,127,537	570,000	31,278,928	-	31,278,928

Mathew Pearce
Chief Financial Officer

David Dew
Managing Director & Authorized Member

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

The Saudi British Bank
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended 31 December

	Notes	2017 SAR'000	2016 SAR'000
OPERATING ACTIVITIES			
Net income for the year		**3,954,578**	3,894,731
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading investments, net		**10,150**	40,192
Gains on non-trading investments, net	24	**(30,944)**	(26,297)
Depreciation	8	**124,785**	110,903
Income from FVIS financial instruments		**-**	(6,994)
Cash flow hedge gain transfer to consolidated statement of income		**(54,276)**	(6,080)
Share in earnings of an associate and a joint venture	7	**(68,916)**	(63,777)
Provision for credit losses, net	6	**1,001,828**	944,560
Employee share plan reserve		**13,386**	10,710
Impairment of other financial assets, net	5	**48,855**	49,540
		4,999,446	4,947,488
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA	3	**691,152**	203,452
Due from banks and other financial institutions with an original maturity of more than three months from date of acquisition		**(1,579,983)**	(527,223)
Loans and advances, net		**2,956,900**	4,037,261
Other assets and derivatives		**438,566**	410,324
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**271,801**	1,584,268
Customers' deposits		**(373,936)**	(8,247,393)
Other liabilities and derivatives		**271,374**	65,171
Net cash from operating activities		**7,675,320**	2,473,348
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-trading investments		**21,177,306**	73,459,574
Purchase of non-trading investments		**(18,443,972)**	(66,883,021)
Purchase of property and equipment	8	**(219,531)**	(157,800)
Dividend from a joint venture	7	**56,500**	114,715
Acquisition of subsidiary, net of cash and cash equivalent acquired	19	**84,384**	-
Net cash from investing activities		**2,654,687**	6,533,468
FINANCING ACTIVITIES			
Debt securities in issue	13	**(1,518,888)**	4,698
Borrowings		**(27,513)**	1,662,970
Treasury shares purchased		**(4,500)**	(30,300)
Dividends paid		**(1,642,304)**	(1,023,634)
Net cash (used in) / from financing activities		**(3,193,205)**	613,734
Increase in cash and cash equivalents		**7,136,802**	9,620,550
Cash and cash equivalents at the beginning of the year		**22,958,777**	13,338,227
Cash and cash equivalents at the end of the year	28	**30,095,579**	22,958,777
Special commission received during the year		**6,069,144**	5,918,030
Special commission paid during the year		**1,062,816**	1,283,214
Supplemental non-cash information:			
Net changes in fair value and transfers to consolidated statement of income		**(32,449)**	384,250

Mathew Pearce
Chief Financial Officer

David Dew
Managing Director & Authorized Member

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

1. General

The Saudi British Bank ("SABB" or the "Bank") is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 81 branches (2016: 84 branches) in the Kingdom of Saudi Arabia. SABB employed 3,263 staff as at 31 December 2017 (2016: 3,317). The address of SABB's head office is as follows:

The Saudi British Bank
P.O. Box 9084
Riyadh 11413
Kingdom of Saudi Arabia

The objectives of SABB are to provide a range of banking services. SABB also provides Shariah approved products, which are approved and supervised by an independent Shariah Board established by SABB.

SABB has 100% (2016:100%) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (a subsidiary company of SABB - see note 7) within the Kingdom of Saudi Arabia as per the agreement between the two subsidiaries. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2016:100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

SABB has 100% (2016:100%) ownership interest in a subsidiary, SABB Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). SABB has 99.8% direct and 0.2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary's main purpose is the registration of real estate and to hold and manage collateral on behalf of the Bank.

On 17 May 2017, SABB established a Special Purpose Vehicle ("SPV") SABB Markets Limited, a wholly owned subsidiary incorporated as a limited liability company under the laws of Cayman Islands. The subsidiary will engage in derivatives trading and repo activities. The subsidiary has not yet commenced operations.

SABB has 65% (2016: 32.5%) ownership interest in a subsidiary, SABB Takaful, a joint stock company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010234032 dated 20 Jumad Awal 1428H (6 June 2007). SABB Takaful became a subsidiary of SABB effective 23 November 2017 (note 19). SABB Takaful's principal activity is to engage in Shariah compliant insurance activities and offer family and general Takaful products to individuals and corporates in the Kingdom.

SABB had 100% (2016:100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi limited liability company formed in accordance with Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jamada II 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). On 15 June 2017, the subsidiary was liquidated.

SABB has participated in three Structured Entities for the purpose of effecting syndicated loan transactions and to secure collateral rights over specific assets of the borrowers under Islamic financing structures. The entities have no other business operations.

1. Saudi Kayan Assets Leasing Company
2. Rabigh Asset Leasing Company
3. Yanbu Asset Leasing Company

SABB owns 50% (2016: 50%) share in each entity. SABB does not consolidate the entities as it does not have the right to variable returns from its involvement with the entities and ability to affect those returns through its power over the entities. The related underlying funding to the borrower is recorded on SABB's books.

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

1.1. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Bank have been prepared;

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

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

Refer note 2(v) for the accounting policy of zakat and income tax and note 40 for the disclosure of the impact of change in the accounting policy resulting from the SAMA Circular.

b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held at fair value through income statement ("FVIS") and available for sale. In addition, assets and liabilities that are hedged in a fair value hedging relationship are carried at fair value to the extent of the risks that are being hedged.

c) Functional and presentation currency

These consolidated financial statements are expressed in Saudi Arabian Riyals (SAR), rounded off to the nearest thousands, which is the functional currency of SABB.

d) Presentation of consolidated financial statements

The Bank presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 33 (b).

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of SABB and its subsidiaries (collectively referred to as "the Bank"). The financial statements of the subsidiaries are prepared for the same reporting year as that of SABB, using consistent accounting policies.

Subsidiaries are entities which are directly or indirectly controlled by SABB. SABB controls an entity (the "investee") over which it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to SABB and cease to be consolidated from the date on which the control is transferred from SABB.

Intra-group transactions and balances have been eliminated upon consolidation.

f) Critical accounting judgements and estimates

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 and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Impairment losses on loans and advances

Impairment methodology

The Bank's policy is to create impairment allowances for impaired loans promptly and appropriately, when there is objective evidence that impairment of a loan or portfolio of loans has occurred.

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the consolidated statement of financial position date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

Collective impairment allowances are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis due to the large number of individually insignificant loans in the portfolio. The estimation methods include the use of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than historical experience.

Where changes in economic, regulatory or behavioural conditions result in the most recent trends in portfolio risk factors being not fully reflected in the models, risk factors are taken into account by adjusting the impairment allowances derived from historical loss experience. Risk factors include loan portfolio growth, product mix, unemployment rates, concentration, geographical concentrations, loan product features, economic conditions such as trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns.

The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience.

Losses for impaired loans are recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances that are calculated on individual loans or on groups of loans assessed collectively, are recorded as charges to the consolidated income statement and are recorded against the carrying amount of impaired loans on the consolidated Statement of Financial Position. Losses which may arise from future events are not recognised.

Individually assessed loans and advances

The factors considered in determining whether a loan is individually significant for the purposes of assessing impairment include the size of the loan, the number of loans in the portfolio, and the importance of the individual loan relationship, and how this is managed. Loans that meet these criteria will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective assessment methodology (see below).

Loans considered as individually significant are typically to corporate and commercial customers, are for larger amounts and are managed on an individual basis. For these loans, the Bank considers on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used to make this assessment include:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees, where the concession is not insignificant; and

- there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

For loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- The Bank's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the bank and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely costs of obtaining and selling collateral as part of foreclosure;
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- when available, the secondary market price of the debt.

The determination of the realisable value of security is based on the market value at the time the impairment assessment is performed. The value is not adjusted for expected future changes in market prices, though adjustments are made to reflect local conditions such as forced sale discounts.

Impairment losses are calculated by discounting the expected future cash flows of a loan, which includes expected future receipts of contractual interest, at the loan's original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require.

Collectively assessed loans and advances

Impairment is assessed collectively to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment or for homogeneous groups of loans that are not considered individually significant. Retail lending portfolios are generally assessed for impairment collectively as the portfolios are generally large homogeneous loan pools.

The collective impairment allowance is determined after taking into account:

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

The period between a loss occurring and its identification is estimated by management for each identified portfolio based on economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. An estimated period may vary over time as these factors change.

Statistical methods are used to determine collective impairment losses for homogeneous groups of loans not considered individually significant. Losses in these groups of loans are recorded individually when individual loans are removed from the group and written off.

The methods that are used to calculate collective allowances are:

- When appropriate empirical information is available, the Bank uses roll-rate methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be written off as a result of the events occurring before the reporting date but

which the bank is not able to identify individually. Individual loans are grouped using ranges of past due days; statistical analysis is then used to estimate the likelihood that loans in each range will progress through the various stages of delinquency and become irrecoverable. Additionally, individual loans are segmented based on their credit characteristics as described above. In applying this methodology, adjustments are made to estimate the periods of time between a loss event occurring and its discovery, for example through a missed payment, (known as the emergence period) and the period of time between discovery and write-off (known as the outcome period). Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss.

- When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll-rate methodology, the bank adopts a basic formulaic approach based on historical loss rate experience, or a discounted cash flow model. Where a basic formulaic approach is undertaken, the period between a loss event occurring and its identification is estimated by local management, and is typically between six and twelve months.

The inherent loss within each portfolio is assessed on the basis of these models using historical data observations, which are updated periodically to reflect recent portfolio and economic trends. When the most recent trends arising from changes in economic, regulatory or behavioural conditions are not fully reflected in the models, they are taken into account by adjusting the impairment allowances derived from the models to reflect these changes as at the reporting date.

Incurred but not yet identified impairment
Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessment. These credit risk characteristics may include country of origination, type of business involved, type of products offered, security obtained or other relevant factors. This assessment captures impairment losses that the bank has incurred as a result of events occurring before the reporting date, which the bank is not able to identify on an individual loan basis, and that can be reliably estimated. When information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed individually.

Write-off of loans and advances
Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. Where written off loans are subsequently recovered, a credit is recognised in the consolidated statement of income.

Collateral and other credit enhancements held
The Bank's practice is to lend on the basis of customers' ability to meet their obligations out of cash flow resources rather than rely on the value of security offered. Depending on a customer's standing and the type of product, facilities may be provided without security. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the bank may utilise the collateral as a source of repayment.

Depending on its form, collateral can have a significant financial effect in mitigating our exposure to credit risk.

Additionally, risk may be managed by employing other types of collateral and credit risk enhancements such as second charges, other liens and unsupported guarantees, but the valuation of such mitigants is less certain and their financial effect has not been quantified.

ii. Fair value of financial instruments

The Bank measures financial instruments, such as, derivatives, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 35 to these consolidated financial statements.

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Bank 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 Bank 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 as explained above.

iii. Impairment of available for sale equity investments and debt instruments

The Bank exercises judgement to consider impairment on the available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, the Bank 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.

iv. Classification of held to maturity investments

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

v. Classification of fair value through income statement

The Bank follows criteria set in IAS 39 when classifying financial assets and liabilities to fair value through income statement. In making this judgement, the Bank evaluates its compliance with the conditions as prescribed in IAS 39.

vi. Determination of control over investees

The control indicators set out note 1.1 (e) are subject to management’s judgements.

vii. Provisions for liabilities and charges

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

g) Going concern

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

2. Summary of significant accounting policies

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

a) Changes in accounting policies

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

i. the change in the accounting policy in relation to accounting for zakat and income tax as prescribed by SAMA effective 1 January 2017 (see note 1.1 a); and

ii. the adoption of the following amendments to existing standard mentioned below, which had an insignificant effect/no financial impact on the consolidated financial statements of the Bank on the current year or prior year, and is not expected to have any significant effect in future years.

Amendments to existing standards

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

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

- Amendments to IFRS 12, Disclosure of Interests in Other Entities: The amendments apply retrospectively and are effective for annual periods beginning on or after 1 January 2017.

  The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraph B10-B16, apply to an entity's interest in a subsidiary, an associate or a joint venture (or portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

b) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Bank 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 included in general and administrative expenses.

When the Bank acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate

consideration transferred, the Bank re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for impairment, they are written down if required.

c) Trade date accounting

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

d) 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, currency and special commission rate options (both written and purchased), are measured at fair value (premium received for written options). All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models or pricing models, as appropriate.

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

iii) Hedge accounting

The Bank designates certain derivatives as hedging instruments in qualifying hedging relationships. 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 recognised asset or liability, and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, it is required that 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 the 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 Bank will assess the effectiveness of the hedging relationship. Subsequently, the effectiveness of the hedge is assessed on an ongoing basis.

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 recognised immediately in the consolidated statement of income. The related portion of the hedged item is recognised in the consolidated statement of income. 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. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

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 recognised in the consolidated statement of comprehensive income. The ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. On discontinuation of hedge accounting on cash flow hedges any cumulative gain or loss that was recognised in other reserves, is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other reserves is transferred to the consolidated statement of income for the year.

e) Foreign currencies

The consolidated financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are transferred to exchange income in the consolidated statement of income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except for differences arising on the retranslation of available for sale equity instruments or when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity depending on the underlying financial asset.

f) Offsetting financial instruments

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

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

g) Revenue/expenses recognition

Special commission income and expense

Special commission income and expense for all commission-bearing financial instruments is recognised in the consolidated statement of income on an effective yield basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

If 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 original effective commission rate applied to the new carrying amount.

The calculation of the effective yield takes into account all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees paid or received related transaction costs, and discounts or premiums that are an integral part of the effective commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

When the Bank enters into 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.

Special commission income on Shariah approved products received but not earned is netted off against the related assets.

Exchange income/ loss
Exchange income/loss is recognised when earned/incurred.

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

Fees and commission income and expenses
Fees and commission income are recognised on an accrual basis when the related services have been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost are recognised as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contract, usually on a time proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time are recognised over the period when the service is being provided. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the service is received. Any fee income received but not earned is classified under other liabilities.

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

Day one profit
Where the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated statement of income in 'Net trading income'. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated statement of income when the inputs become observable, or when the instrument is derecognised.

h) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Bank retains substantially all the risks and reward of ownership and continued to be measured in accordance with related accounting policies for the underlying financial assets held as FVIS, 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 and amortised over the life of the repo agreement, using the effective yield method.

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

i) Investments

All investment securities are initially recognised at their fair value which represents the consideration given, including acquisition charges associated with the investment (except for investments held as FVIS, where acquisition charges 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 method and are taken to special commission income.

Following initial recognition, for securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date. Investments in listed equity instruments are valued at the exchange quoted prices as of day close. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

Following initial recognition, for securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security.

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

(i) Held as FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS at inception or on adoption of the revised IAS 39. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short term. An investment may be designated as FVIS by the management if it satisfies the criteria set out below (except for equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured):

- it is a financial instrument containing one or more embedded derivatives that significantly modify the cash flows resulting from the financial instrument, or
- it is a financial instrument with an embedded derivative that is required to be separated from the host contract under IAS 39, but the Bank is unable to measure reliably the embedded derivative separately either at acquisition or at a subsequent reporting date

The fair value designation is made in accordance with the Risk Management Strategy approved by the Bank's Assets and Liabilities Committee (ALCO) and is irrevocable. Designated financial assets are recognised when the Bank enters into the contractual provisions of the arrangements with counterparties on trade date and derecognised when sold.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the period in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected as income from financial instruments designated as FVIS in the consolidated statement of income. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments.

(ii) Available for sale

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

Investments classified as "available for sale", are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in the consolidated statement of comprehensive income. On derecognition, any cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is included in the consolidated statement of income for the period.

Equity investments classified under available-for-sale investments whose fair value cannot be reliably measured are carried at cost.

(iii) Held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as "held at amortised cost". Such investments whose fair values have not been hedged are stated at amortised cost, less provision for impairment. Investments in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. Any gain or loss is recognised in the consolidated statement of income when the investment is derecognised and is disclosed as gains/ (losses) on non-trading investments. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method.

(iv) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than those that meet the definition of "held at amortised cost" are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

j) Investment in equity-accounted investees

The Bank's interests in equity-accounted investees comprise interests in an associate and a joint venture.

Associate is an entity in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Bank has joint control, whereby the Bank has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

Interests in an associate and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Bank's share of the profit or loss and Other Comprehensive Income ("OCI") of equity-accounted investees, until the date on which significant influence or joint control ceases.

The statement of income reflects the Bank's share of the results of operations of the associate and the joint venture.

The reporting dates of the associate and joint venture are identical to the Bank and their accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Unrealised profits and losses resulting from transactions between the Bank and its associate and joint venture are eliminated to the extent of the Bank's interest in the associate and joint venture.

k) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market.

All loans and advances are initially measured at cost, being the fair value of consideration given, including acquisition charges associated with the loans and advances.

The Bank's loans and advances are classified as held at amortised cost less any amount written off and provisions for impairment.

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

l) 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 provisions for impairment, if any.

m) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.

When a financial asset is uncollectible, it is written off against the related provision for impairment. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

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

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

i. Impairment of financial assets held at amortised cost

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

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

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. Renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a revised rate of commission to genuinely distressed borrowers. This 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 loan. In other cases, renegotiation leads to a new agreement, this is treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

Consumer loans are considered to be impaired when a payment is overdue for specified number of days as per related product programs. Since the risk metrics for consumer loans are based on a collective "pool" basis, rather than on individual loans, the provisions for consumer loans are also computed on a "pool basis" using the 'flow rate" methodology. The provision coverage is 100% for such non-performing loans (other than home loans), which reach the "write-off point" (write-off points which are set at 180 days past due). 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 provision for impairment, if any, and any amounts in excess of available provision are directly charged to consolidated statement of income.

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

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

ii. Impairment of financial assets held at fair value

For financial assets held at fair value, where a loss has been recognised directly through the consolidated statement of comprehensive income under shareholders' equity, the cumulative net loss recognised in shareholders' equity is transferred to the consolidated statement of income when the asset is considered to be impaired.

iii. *Impairment of available for sale investments*

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

The Bank 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.

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's quarterly reporting schedule. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

iv. *Impairment of available for sale- debt securities*

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

n) Property and equipment

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

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

Buildings	33 years
Leasehold improvements	over the period of the lease contract
Furniture, equipment, vehicles and software	3 to 4 years

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

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

o) Financial liabilities

All money market deposits, customer deposits, borrowing and debt securities in issue are initially recognised at cost, being fair value of consideration received.

Subsequently all commission bearing financial liabilities where fair values have not been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognised in the consolidated statement of income.

p) Provisions

Provisions are recognised when a reliable estimate can be made by the Bank of 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. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

q) Guarantees and loan commitments

Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank'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. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in "provision for credit losses".

The premium received is recognised in the consolidated statement of income in "Fees and commission income, net" on a straight-line basis over the life of the guarantee.

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

r) Accounting for leases

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

s) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with SAMA and placements with SAMA excluding the statutory deposit, and due from banks and other financial institutions with an original maturity of three months or less from date of acquisition.

t) Derecognition of financial instruments

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

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

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

u) Assets held in trust or in fiduciary capacity

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

v) Zakat and income taxes

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

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

Zakat and income taxes are not charged to the Bank's consolidated statement of income as they are the liabilities of the shareholders and therefore are deducted from the dividends paid to the shareholders.

w) Shariah approved banking products

In addition to conventional banking, the Bank offers its customers certain Shariah approved banking products, which are approved by its Shariah Board.

All Shariah approved banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

x) End of service benefits

The provision for end of service benefits is made based on actuarial valuation in accordance with Saudi Arabian Labour Laws. Net obligation, with respect to end of service benefits, to the Bank is reviewed by using a projected unit credit method. The assumptions used to calculate the scheme obligations include assumptions such as expected future salaries growth, expected employee resignation rates, and discount rate to discount the future cash flows.

y) Share Based payments

Under the terms of the Equity Based Long Term Bonus Plan, eligible employees of the Bank are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, the Bank delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions.

The cost of the plans is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the shares (‘the vesting date’). The cumulative expense recognized for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank’s best estimate of the number of equity instruments that will ultimately vest.

3. Cash and balances with SAMA

	2017 SAR'000	2016 SAR'000
Cash in hand	**1,304,487**	1,444,680
Statutory deposit	**8,161,763**	8,852,915
Placements with SAMA	**17,379,275**	13,545,153
Other balances	**28,974**	279,073
Total	**26,874,499**	24,121,821

In accordance with the Banking Control Law and regulations issued by SAMA, SABB is required to maintain a statutory deposit with SAMA at stipulated percentages of its deposit liabilities calculated at the end of each month. The statutory deposit with SAMA is not available to finance SABB's day-to-day operations and therefore is not part of cash and cash equivalents. Placements with SAMA represents securities purchased under an agreement to re-sell (reverse repo) with SAMA.

4. Due from banks and other financial institutions

	2017 SAR'000	2016 SAR'000
Current accounts	**6,808,077**	6,504,871
Money market placements	**6,682,623**	1,712,875
Total	**13,490,700**	8,217,746

5. Investments, net

a) Investment securities are classified as follows:

	Domestic		**International**		**Total**	
i) Available for sale	**2017 SAR'000**	2016 SAR'000	**2017 SAR'000**	2016 SAR'000	**2017 SAR'000**	2016 SAR'000
Fixed rate securities	**3,953,887**	9,527,852	**5,300,583**	6,484,068	**9,254,470**	16,011,920
Floating rate securities	**5,034,970**	5,235,548	**566,590**	702,486	**5,601,560**	5,938,034
Equities and others	**1,375,807**	1,030,549	**20,768**	27,308	**1,396,575**	1,057,857
Available for sale investments, net	**10,364,664**	15,793,949	**5,887,941**	7,213,862	**16,252,605**	23,007,811

Available for sale investments, net includes impairment provision of SAR 170.0 million (2016: SAR 120.0 million) for domestic equities and SAR 16.6 million (2016: SAR 17.7 million) for international floating rate securities.

ii) Held at amortised cost						
Fixed rate securities	**7,727,105**	3,669,682	**-**	-	**7,727,105**	3,669,682
Floating rate securities	**2,696,958**	2,595,562	**300,083**	-	**2,997,041**	2,595,562
Held at amortised cost investment, net	**10,424,063**	6,265,244	**300,083**	-	**10,724,146**	6,265,244
Investments, net	**20,788,727**	22,059,193	**6,188,024**	7,213,862	**26,976,751**	29,273,055

b) The analysis of the composition of investments is as follows:

	2017			2016		
	Quoted SAR'000	**Unquoted SAR'000**	**Total SAR'000**	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	**16,901,399**	**80,176**	**16,981,575**	12,970,303	6,711,299	19,681,602
Floating rate securities	**3,082,064**	**5,516,537**	**8,598,601**	3,849,227	4,684,369	8,533,596
Equities and others	**1,367,052**	**29,523**	**1,396,575**	1,022,685	35,172	1,057,857
Investments, net	**21,350,515**	**5,626,236**	**26,976,751**	17,842,215	11,430,840	29,273,055

c) The analysis of unrealised gains and losses and the fair values of held at amortised cost investments, are as follows:

	2017 SAR'000				2016 SAR'000			
	Carrying value	**Gross unrealised gains**	**Gross unrealised losses**	**Fair value**	Carrying value	Gross unrealised gains	Gross unrealised losses	Fair value
Held at amortised cost								
Fixed rate securities	**7,727,105**	**-**	**(97,604)**	**7,629,501**	3,669,682	-	(5,141)	3,664,541
Floating rate securities	**2,997,041**	**5,639**	**-**	**3,002,680**	2,595,562	8,900	-	2,604,462
Total	**10,724,146**	**5,639**	**(97,604)**	**10,632,181**	6,265,244	8,900	(5,141)	6,269,003

d) The analysis of investments by counterparty is as follows:

	2017 SAR'000	2016 SAR'000
Government and quasi government	**20,278,786**	23,115,165
Corporate	**3,493,616**	3,389,668
Banks and other financial institutions	**3,194,621**	2,759,510
Others	**9,728**	8,712
Total	**26,976,751**	29,273,055

Others represent available for sale investments in unquoted shares that are carried at cost, as their fair value cannot be reliably measured.

e) Credit quality of investments

	2017 SAR'000	2016 SAR'000
Saudi sovereign debt	**13,459,686**	15,419,496
Investment grade	**7,857,169**	8,482,937
Non-investment grade	**562,699**	721,726
Unrated investments including equities	**5,097,197**	4,648,896
Total	**26,976,751**	29,273,055

The Saudi sovereign debt comprises of Saudi Government Development Bonds, Saudi International Bonds, Saudi Sukuks, Saudi Floating Rate Notes and Treasury Bills.

Investment Grade includes those investments having credit exposure equivalent to Standard and Poor's Ratings from AAA to BBB.

The unrated category mainly comprises of Saudi corporate bonds, private equities, quoted and unquoted equities. Unrated investments include equity investments of SAR 1,016.5 million (2016: SAR 1,057.9 million).

f) Movements of allowance for impairment of investments

	2017 SAR'000	2016 SAR'000
Balance at beginning of the year	**137,716**	88,176
Provided during the year	**50,000**	50,000
Amounts recovered during the year	**(1,145)**	(460)
Balance at end of the year	**186,571**	137,716

6. Loans and advances, net

a) Loans and advances are classified as follows:

	2017			**SAR' 000**
	Credit cards	**Consumer loans**	**Commercial loans and overdrafts**	**Total**
Performing loans and advances	**2,232,841**	**21,552,924**	**94,882,921**	**118,668,686**
Non-performing loans and advances	**5,623**	**105,065**	**1,782,846**	**1,893,534**
Total loans and advances	**2,238,464**	**21,657,989**	**96,665,767**	**120,562,220**
Provision for credit losses	**(115,664)**	**(441,087)**	**(2,999,382)**	**(3,556,133)**
Loans and advances, net	**2,122,800**	**21,216,902**	**93,666,385**	**117,006,087**

	2016			SAR' 000
	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Performing loans and advances	2,308,508	24,380,165	95,510,374	122,199,047
Non-performing loans and advances	3,858	121,815	1,529,806	1,655,479
Total loans and advances	2,312,366	24,501,980	97,040,180	123,854,526
Provision for credit losses	(102,355)	(356,714)	(2,430,642)	(2,889,711)
Loans and advances, net	2,210,011	24,145,266	94,609,538	120,964,815

Loans and advances, net include Shariah approved products totalling SAR 92,611.4 million (2016: SAR 96,096.9 million) which are stated at cost less provision for credit losses of SAR 1,842.5 million (2016: SAR 1,490.5 million).

Non-performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 209.1 million (2016: SAR 217.3 million).

b) Movement in provision for credit losses

	2017			**SAR' 000**
	Credit cards	**Consumer loans**	**Commercial loans and overdrafts**	**Total**
Balance at beginning of the year	**102,355**	**356,714**	**2,430,642**	**2,889,711**
Bad debts written off	**(129,793)**	**(399,439)**	**(55,472)**	**(584,704)**
Provided during the year, net of reversals	**143,102**	**483,812**	**626,857**	**1,253,771**
Recoveries of amounts previously provided	**-**	**-**	**(2,645)**	**(2,645)**
Balance at the end of the year	**115,664**	**441,087**	**2,999,382**	**3,556,133**

	2016			SAR' 000
	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Balance at beginning of the year	89,998	268,520	2,128,028	2,486,546
Bad debts written off	(95,659)	(324,583)	(333,675)	(753,917)
Provided during the year, net of reversals	108,016	412,777	640,025	1,160,818
Recoveries of amounts previously provided	-	-	(3,736)	(3,736)
Balance at the end of the year	102,355	356,714	2,430,642	2,889,711

The allowance for credit losses related to commercial loans and overdrafts as mentioned above includes a collective allowance amounting to SAR 1,534.5 million (2016: SAR 1,200.2 million) related to the performing portfolio.

Provision for credit losses charged to the consolidated statement of income related to Shariah approved products is SAR 749.0 million (2016: SAR 521.9 million).

The net charge to consolidated statement of income on account of provision for credit losses is SAR 1,001.8 million (2016: SAR 944.6 million), which is net of recoveries of amounts previously provided as shown above and recoveries of debts previously written off amounting to SAR 249.3 million (2016 : SAR 212.5 million).

c) Credit quality of loans and advances

i) Neither past due nor impaired

	2017			**SAR' 000**
Grades	**Credit cards**	**Consumer loans**	**Commercial loans and overdrafts**	**Total**
Strong	-	-	**13,071,772**	**13,071,772**
Good	-	**8,244,886**	**46,512,304**	**54,757,190**
Satisfactory	**2,068,417**	**11,253,881**	**29,853,387**	**43,175,685**
Special Mention	-	-	**3,247,353**	**3,247,353**
Total	**2,068,417**	**19,498,767**	**92,684,816**	**114,252,000**

	2016			SAR' 000
Grades	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Strong	-	-	7,825,136	7,825,136
Good	-	10,625,968	47,621,490	58,247,458
Satisfactory	2,146,964	12,073,697	35,855,729	50,076,390
Special Mention	-	-	3,142,602	3,142,602
Total	2,146,964	22,699,665	94,444,957	119,291,586

Strong: Financial status, capitalisation, earnings, liquidity, cash generation and management will all be of highest quality. A strong capacity to meet longer term and short term financial commitments.

Good: Financial condition exhibits no major adverse trends prevalent. Capacity to meet medium and short term financial commitments is considered fair, but more sensitive to external changes or market conditions.

Satisfactory: A counterparty whose financial position is average but not strong. The overall position will not be causing any immediate concern but more regular monitoring will be necessary as a result of susceptibilities to external changes or market conditions.

Special Mention: Financial condition weak and capacity, or inclination, to repay, is in doubt. The financial status of the borrower requires close monitoring and ongoing assessment.

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

	2017			SAR' 000
	Credit cards	**Consumer loans**	**Commercial loans and overdrafts**	**Total**
From 1 day to 30 days	**56,569**	**1,631,669**	**669,063**	**2,357,301**
From 31 days to 90 days	**53,275**	**279,785**	**1,024,368**	**1,357,428**
From 91 days to 180 days	**54,580**	**142,703**	**285,918**	**483,201**
Over 180 days	**-**	**-**	**218,756**	**218,756**
Total	**164,424**	**2,054,157**	**2,198,105**	**4,416,686**

	2016			SAR' 000
	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
From 1 day to 30 days	59,645	1,349,201	256,468	1,665,314
From 31 days to 90 days	51,195	193,494	303,155	547,844
From 91 days to 180 days	50,704	137,805	502,508	691,017
Over 180 days	-	-	3,286	3,286
Total	161,544	1,680,500	1,065,417	2,907,461

iii) Economic sector risk concentrations for the loans and advances and provision for credit losses are as follows:

2017 **SAR'000**	**Performing**	**Non performing**	**Provision for credit losses**	**Loans and advances, net**
Government and quasi Government	**7,771,991**	**-**	**-**	**7,771,991**
Finance	**7,076,588**	**-**	**-**	**7,076,588**
Agriculture and fishing	**855,355**	**-**	**-**	**855,355**
Manufacturing	**18,549,066**	**168,196**	**(144,947)**	**18,572,315**
Mining and quarrying	**3,518,518**	**-**	**-**	**3,518,518**
Electricity, water, gas and health services	**3,673,031**	**32,799**	**(32,799)**	**3,673,031**
Building and construction	**10,010,328**	**720,305**	**(583,861)**	**10,146,772**
Commerce	**28,188,884**	**356,945**	**(307,065)**	**28,238,764**
Transportation and communication	**5,758,488**	**77,966**	**(77,966)**	**5,758,488**
Services	**5,359,114**	**6,899**	**(6,899)**	**5,359,114**
Consumer loans and credit cards	**23,785,765**	**110,688**	**-**	**23,896,453**
Others	**3,526,714**	**419,736**	**(311,326)**	**3,635,124**
Accrued special commission	**594,844**	**-**	**-**	**594,844**
Collective impairment provision	**-**	**-**	**(2,091,270)**	**(2,091,270)**
Total	**118,668,686**	**1,893,534**	**(3,556,133)**	**117,006,087**

2016 SAR'000	Performing	Non performing	Provision for credit losses	Loans and advances, net
Government and quasi Government	4,023,873	-	-	4,023,873
Finance	9,439,355	-	-	9,439,355
Agriculture and fishing	462,334	-	-	462,334
Manufacturing	22,010,886	127,552	(62,378)	22,076,060
Mining and quarrying	2,649,341	-	-	2,649,341
Electricity, water, gas and health services	3,672,439	-	-	3,672,439
Building and construction	10,852,909	680,253	(519,831)	11,013,331
Commerce	28,600,331	277,331	(245,287)	28,632,375
Transportation and communication	4,829,263	77,966	(77,966)	4,829,263
Services	5,529,610	16,426	(16,206)	5,529,830
Consumer loans and credit cards	26,688,673	125,673	-	26,814,346
Others	2,765,222	350,278	(308,730)	2,806,770
Accrued special commission	674,811	-	-	674,811
Collective impairment provision	-	-	(1,659,313)	(1,659,313)
Total	122,199,047	1,655,479	(2,889,711)	120,964,815

The provision for credit losses on the consumer loans and advances is calculated on a collective basis and included in the collective impairment provision.

The collective impairment provision is based on an asset quality matrix, which includes the grading structure in respect of the credit risk of the customers as well as general economic outlook.

d) Collateral

The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk in the loans and advances. This collateral mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets.

As of 31 December 2017, the carrying amount of gross non-performing loans and advances amounted to SAR 1,893.5 million (2016: SAR 1,655.5 million) and the value of identifiable collateral held against those loans and advances amount to SAR 1,521.1 million (2016: SAR 1500.4 million).

The table below set out the principal types of collateral held against loan and advances;

	2017	2016	Principal type of Collateral held
Credit Card and Consumer Loans			
Mortgage Finance	**100%**	100%	Residential Property
Personal Finance	**-**	-	
Credit Cards	**0.002%**	0.02%	Cash
Commercial Loans and Overdrafts			
Commercial Real Estate	**100%**	100%	Commercial and Residential Property
Other Finance	**42%**	42%	Marketable equity securities, Property and Cash

7. Investment in an associate and a joint venture

SABB owns 51% (2016: 51%) of the shares of HSBC Saudi Arabia Limited, a joint venture with HSBC. No single investor group can direct the activities of the entity without cooperation of the other. Both investors can appoint an equal number of board members and thereby board resolutions require joint decision making. Hence, SABB does not consolidate the entity as it does not have rights to variable returns from its involvement with the entity and ability to

affect those returns through its power over the entity. The main activities of HSBC Saudi Arabia Limited are to provide a full range of investment banking services including investment banking advisory, brokerage, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

During the year, SABB increased its ownership percentage in its associate, SABB Takaful, from 32.5% to 65% (note 19). This has resulted in SABB owning a controlling stake in SABB Takaful. SABB Takaful has become a subsidiary of SABB and therefore, SABB consolidates SABB Takaful financial statements starting November 2017.

	2017			2016		
	HSBC Saudi Arabia Limited SAR' 000	**SABB Takaful SAR' 000**	**Total SAR' 000**	HSBC Saudi Arabia Limited SAR' 000	SABB Takaful SAR' 000	Total SAR' 000
Balance at beginning of the year	**513,678**	**128,619**	**642,297**	565,898	127,337	693,235
Share of undistributed profits	**67,746**	**1,170**	**68,916**	62,495	1,282	63,777
Dividend received	**(56,500)**	**-**	**(56,500)**	(114,715)	-	(114,715)
Acquired as a subsidiary	**-**	**(129,789)**	**(129,789)**	-	-	-
Balance at end of the year	**524,924**	**-**	**524,924**	513,678	128,619	642,297

Share of an associate and a joint venture financial statements:

	2017		2016	
	HSBC Saudi Arabia Limited SAR' 000	**SABB Takaful SAR' 000**	HSBC Saudi Arabia Limited SAR' 000	SABB Takaful SAR' 000
Total assets	**635,181**	**-**	524,486	122,392
Total liabilities	**228,726**	**-**	124,007	5,002
Total equity	**406,455**	**-**	400,479	117,390
Total income	**200,651**	**-**	206,914	4,491
Total expenses	**124,486**	**-**	135,642	638

8. Property and equipment, net

	Land and buildings SAR'000	**Leasehold improvements SAR'000**	**Equipment, furniture and vehicles SAR'000**	**Software SAR'000**	**2017 Total SAR'000**	2016 Total SAR'000
Cost						
As at 1 January	**902,366**	**543,091**	**520,689**	**89,869**	**2,056,015**	1,958,463
Additions	**18,767**	**38,918**	**69,878**	**47,508**	**175,071**	102,747
Acquisition of a subsidiary during the year	**-**	**-**	**397**	**10,964**	**11,361**	-
Disposals	**-**	**-**	**(590)**	**-**	**(590)**	(5,195)
As at 31 December	**921,133**	**582,009**	**590,374**	**148,341**	**2,241,857**	2,056,015
Accumulated depreciation						
As at 1 January	**370,360**	**397,768**	**413,242**	**73,917**	**1,255,287**	1,149,579
Charge for the year	**12,691**	**41,490**	**56,011**	**14,593**	**124,785**	110,903
Acquisition of a subsidiary during the year	**-**	**-**	**159**	**9,373**	**9,532**	-
Disposals	**-**	**-**	**(590)**	**-**	**(590)**	(5,195)
As at 31 December	**383,051**	**439,258**	**468,822**	**97,883**	**1,389,014**	1,255,287
Net book value						
As at 31 December 2017	**538,082**	**142,751**	**121,552**	**50,458**	**852,843**	
As at 31 December 2016	532,006	145,323	107,447	15,952		800,728
Capital work in progress					**282,084**	237,624
Total					**1,134,927**	1,038,352

9. Other assets

	2017 SAR'000	2016 SAR'000
Accounts receivable	**521,642**	448,166
Advance tax	**235,900**	254,098
Others	**317,550**	373,632
Total	**1,075,092**	1,075,896

10. Derivatives

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

a) Forwards and futures

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

b) 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 predetermined price.

c) 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, fixed and floating special commission payments are exchanged in different currencies.

d) Forward rate agreements

Forward rate agreements are over-the-counter 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.

Risk-related adjustments

Bid-offer:
IFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Credit valuation adjustment ('CVA'):
The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that SABB may not receive the full market value of the transactions.

Debit valuation adjustment ('DVA'):
The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that SABB may default, and that SABB may not pay the full market value of the transactions.

Credit valuation adjustment/debit valuation adjustment methodology:
SABB calculates a separate CVA and DVA for each counterparty to which the entity has exposure. SABB calculates the CVA by applying the probability of default ('PD') of the counterparty conditional on the non-default of SABB to the expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, SABB calculates the DVA by applying the PD of SABB, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to SABB and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

Derivatives held for trading purposes
Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers 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 favourable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products.

Derivatives held for hedging purposes
The Bank has adopted a comprehensive system for the measurement and management of risk (see note 31 - credit risk, note 32 - market risk and note 33 - liquidity risk). Part of the risk management process involves managing the Bank'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 the levels of currency risk by setting limits on 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 also established the levels 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 maintain special commission rate gaps within the established limits.

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

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Bank 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 the details of the hedged items and hedging instruments, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Hedge effectiveness testing
To qualify for hedge accounting, SABB requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective both prospectively and retrospectively, on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed and the method adopted by an entity to assess hedge effectiveness will depend on its risk management strategy. For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated, with the effectiveness range being defined as 80% to 125%. Hedge ineffectiveness is recognised in the consolidated statement of income 'Net trading income'.

Cash flow hedges
The Bank is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission income at a variable rate. The Bank uses commission rate swaps as cash flow hedges of 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:

2017	Within 1 year	1-3 years	3-5 years	SAR' 000 Over 5 years
Cash inflows (assets)	**41,654**	**86,625**	**38,319**	**6,787**
Cash out flows (liabilities)	**(4,964)**	**(9,337)**	**-**	**-**
Net cash inflow	**36,690**	**77,288**	**38,319**	**6,787**
2016	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	30,218	134,081	114,441	165,134
Cash out flows (liabilities)	(14,301)	(3,608)	-	-
Net cash inflow	15,917	130,473	114,441	165,134

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

The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts as at 31 December, analysed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to market risk nor credit risk, which is generally limited to the positive fair value of the derivatives.

Notional amounts by term to maturity

2017 SAR'000	**Positive fair value**	**Negative fair value**	**Notional amount total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
Derivatives held for trading:							
Special commission rate swaps	**270,248**	**(241,185)**	**41,249,303**	**5,108,269**	**3,515,608**	**27,423,804**	**5,201,622**
Special commission rate options	**91,904**	**(93,830)**	**15,748,090**	**-**	**2,857,148**	**12,358,141**	**532,801**
Forward foreign exchange contracts	**34,516**	**(25,406)**	**14,073,054**	**12,274,747**	**1,608,807**	**189,500**	**-**
Currency options	**18,355**	**(18,441)**	**41,251,205**	**15,974,503**	**22,689,202**	**2,587,500**	**-**
Currency swaps	**18,023**	**(16,521)**	**3,205,935**	**250,000**	**1,468,435**	**1,487,500**	**-**
Others	**14,862**	**(14,861)**	**360,836**	**-**	**-**	**360,836**	**-**
Derivatives held as fair value hedges:							
Special commission rate swaps	**42,027**	**(40,034)**	**6,498,750**	**187,500**	**1,200,000**	**2,748,750**	**2,362,500**
Derivatives held as cash flow hedges:							
Special commission rate swaps	**30,282**	**(15,273)**	**1,390,000**	**-**	**-**	**1,190,000**	**200,000**
Currency swaps	**12,147**	**(15,644)**	**1,419,078**	**333,034**	**186,044**	**900,000**	**-**
Total	**532,364**	**(481,195)**	**125,196,251**	**34,128,053**	**33,525,244**	**49,246,031**	**8,296,923**

2016 SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:							
Special commission rate swaps	229,698	(206,844)	36,848,122	2,733,963	11,883,157	20,102,625	2,128,377
Special commission rate options	87,500	(87,500)	8,815,118	-	50,000	7,365,118	1,400,000
Forward foreign exchange contracts	116,874	(49,190)	19,420,843	14,283,065	4,003,297	1,134,481	-
Currency options	145,808	(148,103)	143,436,015	35,574,192	79,705,017	28,156,806	-
Currency swaps	14,028	(11,472)	1,423,750	-	-	1,423,750	-
Others	425	(425)	425,786	64,950	360,836	-	-
Derivatives held as fair value hedges:							
Special commission rate swaps	86,254	(54,188)	3,904,331	-	187,500	2,254,331	1,462,500
Derivatives held as cash flow hedges:							
Special commission rate swaps	32,875	(34,092)	2,465,000	-	-	1,300,000	1,165,000
Currency swaps	8,450	(12,979)	1,071,317	-	-	1,071,317	-
Total	721,912	(604,793)	217,810,282	52,656,170	96,189,807	62,808,428	6,155,877

The Bank enters into structured currency option products with clients which involve one or more derivatives included in the structure. In such instances, the fair value of the individual structured product represents a net valuation of the underlying derivatives. The sum of all option notionals included in each structure as of the reporting date is disclosed in the table above.

The tables below show a summary of the hedged items, the nature of the risk being hedged, the hedging instruments and their fair values.

2017 **SAR'000** **Description of the hedged items:**	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Fixed commission rate investments	**6,485,500**	**6,498,750**	Fair value	Special commission rate swap	**42,027**	**(40,034)**
Floating commission rate investments	**1,390,142**	**1,390,000**	Cash flow	Special commission rate swap	**30,282**	**(15,273)**
Fixed commission rate investments	**1,229,903**	**1,230,592**	Cash flow	Currency swap	**12,147**	**(15,041)**
Fixed commission rate deposits	**187,500**	**187,500**	Cash flow	Currency swap	**-**	**(603)**

2016 SAR'000 Description of the hedged items:	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed commission rate investments	3,872,738	3,904,682	Fair value	Special commission rate swap	86,254	(54,188)
Floating commission rate investments	2,315,251	2,465,270	Cash flow	Special commission rate swap	32,875	(34,092)
Fixed commission rate investments	883,189	883,195	Cash flow	Currency swap	8,450	(8,575)
Fixed commission rate deposits	187,500	187,500	Cash flow	Currency swap	-	(4,404)

The hedge inception value has been adjusted, where necessary, to reflect book values.

The net losses on the hedging instruments for fair value hedges are SAR 30.1 million (2016: net gains of SAR 83.6 million). The net gains on the hedged item attributable to the hedged risk are SAR 18.6 million (2016: net losses of SAR 84.8 million).

Approximately 65% (2016: 48%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and out of which 8% (2016: 7%) of the positive fair value contracts are with any individual counterparty at the consolidated statement of financial position date.

11. Due to banks and other financial institutions

	2017 **SAR'000**	2016 SAR'000
Current accounts	**1,780,975**	2,624,448
Money market deposits	**1,910,000**	794,726
Total	**3,690,975**	3,419,174

Money market deposits also include deposits placed by SAMA amounting to SAR Nil (2016: SAR 200.0 million).

12. Customers' deposits

	2017 **SAR'000**	2016 SAR'000
Demand	**88,538,701**	82,345,754
Savings	**6,868,200**	7,320,350
Time	**43,860,973**	49,386,046
Margin	**971,639**	1,587,635
Total	**140,239,513**	140,639,785

Customers' deposits include SAR 77,572.4 million (2016: SAR 79,195.3 million) deposits under Shariah approved product contracts.

The above deposits include the following deposits in foreign currency:

	2017 SAR'000	2016 SAR'000
Demand	**11,946,994**	10,450,712
Savings	**294,069**	320,548
Time	**8,930,155**	8,741,338
Margin	**216,606**	730,550
Total	**21,387,824**	20,243,148

13. Debt securities in issue

	2017 SAR'000	2016 SAR'000
SAR 1,500 million 5 year subordinated Sukuk - 2012	**-**	1,510,459
SAR 1,500 million 7 year subordinated Sukuk - 2013	**1,500,452**	1,502,104
SAR 1,500 million 10 year subordinated Sukuk- 2015	**1,498,296**	1,505,073
Total	**2,998,748**	4,517,636

SAR 1,500 million 5 year subordinated Sukuk – 2012

The Sukuk was issued by SABB on 28 March 2012 and matured in March 2017. The Sukuk was issued as a partial commercial exchange from senior to subordinated debt to the extent of SAR 1,000 million. The remaining portion of SAR 500 million was fully subscribed in cash.

The Sukuk carried effective special commission income at three months' SAIBOR plus 120 bps payable quarterly. The Sukuk was unsecured and was listed on the Saudi Stock Exchange (Tadawul).

SAR 1,500 million 7 year subordinated Sukuk – 2013

The Sukuk was issued by SABB on 17 December 2013 and matures in December 2020. This is a Basel III compliant issuance and SABB has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and the terms and conditions of the agreement.

The Sukuk carries effective special commission income at six months' SAIBOR plus 140 bps payable semi-annually. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

SAR 1,500 million 10 year subordinated Sukuk -2015

The Sukuk was issued by SABB on 28 May 2015 and matures in May 2025. This is a Basel III compliant issuance and SABB has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.
The Sukuk carries effective special commission income at six months' SAIBOR plus 130 bps payable semi-annually. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

14. Borrowings

	2017 SAR'000	2016 SAR'000
Borrowing from IFC	**-**	15,663
Syndicated Loan	**1,682,445**	1,694,295
Total	**1,682,445**	1,709,958

Borrowing from IFC represents a 12 year fixed rate loan that carries special commission at the rate of 5.11% payable semi-annually. The loan was taken on 7 July 2005 and matured on 15 June 2017.

Syndicated loan represents a floating rate loan obtained by the Bank on 19 October 2016 amounting to USD 450 million at three months' LIBOR plus 125 bps payable quarterly. The loan is unsecured and matures on 19 October 2019.

15. Other liabilities

	2017 SAR'000	2016 SAR'000
Accounts payable	**1,098,226**	1,122,161
Drawings payable	**809,135**	496,478
Dividends payable	**174,765**	331,191
End of service benefits	**434,890**	414,510
Others	**2,534,981**	1,521,280
Total	**5,051,997**	3,885,620

16. Share capital

The authorised, issued and fully paid share capital of SABB consists of 1,500 million shares of SAR 10 each (2016: 1,500 million shares of SAR 10 each). The ownership of the SABB's share capital is as follows:

	2017	2016
Saudi shareholders	**60%**	60%
HSBC Holdings BV (a wholly owned subsidiary of HSBC Holdings plc)	**40%**	40%

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of SABB. Accordingly, a sum of SAR 988.6 million (2016: SAR 973.7 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18. Other reserves

Cash flow hedges and available for sale investments

2017 SAR'000	Cash flow hedges	Available for sale investments	Total
Balance at beginning of the year	**(25,644)**	**76,309**	**50,665**
Net change in fair value	**89,927**	**(87,156)**	**2,771**
Transfer to consolidated statement of income	**(54,276)**	**19,056**	**(35,220)**
Net movement during the year	**35,651**	**(68,100)**	**(32,449)**
Sub total	**10,007**	**8,209**	**18,216**
Treasury shares			**(37,494)**
Employee share plan reserve			**19,766**
Sub total			**(17,728)**
Balance at end of the year			**488**

2016 SAR'000	Cash flow hedges	Available for sale investments	Total
Balance at beginning of the year	(30,890)	(302,695)	(333,585)
Net change in fair value	11,326	405,301	416,627
Transfer to consolidated statement of income	(6,080)	(26,297)	(32,377)
Net movement during the year	5,246	379,004	384,250
Sub total	(25,644)	76,309	50,665
Treasury shares			(44,149)
Employee share plan reserve			17,536
Sub total			(26,613)
Balance at end of the year			24,052

The discontinuation of hedge accounting during prior years resulted in reclassification of the associated cumulative gains of SAR 54.3 million (2016: SAR 6.1 million) from equity to the consolidated statement of income included in the above numbers under cash flow hedges.

19. Business combination

On 17 August 2017, SABB entered into an agreement with HSBC Asia Holdings BV and certain other wholly-owned subsidiaries of HSBC Holdings plc (together HSBC) to purchase HSBC's combined 32.5% shareholding in SABB Takaful, a Saudi Joint Stock Company listed in Tadawul, at a purchase price of SAR 10.66 per share, totaling SAR 117.8 million. This transaction was completed on 23 November 2017, resulting in SABB owning 65% in SABB Takaful. Effective 23 November 2017, SABB Takaful has been classified as a subsidiary and no longer treated as an associate. The acquisition has been accounted for using the acquisition method. SABB elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets. SABB Takaful's principal activity is to engage in Shariah compliant insurance activities and offer family and general Takaful products to individuals and corporates in the Kingdom.

Due to the proximity of the acquisition to the year end, SABB is currently in the process of allocating the purchase consideration to the identifiable assets, liabilities and contingent liabilities acquired. However, the Group has provisionally accounted for the acquisition based on the provisional fair value of the assets and liabilities as of the acquisition date which is summarized below:

SAR'000 **Assets**	**Provisional fair value recognised on acquisition**	**Carrying amount**
Due from banks and other financial institutions	**228,512**	**228,512**
Investments, net	**533,191**	**533,191**
Property and equipment, net	**1,829**	**1,829**
Other assets	**144,482**	**144,482**
Total assets	**908,014**	**908,014**
Liabilities		
Other liabilities	**548,359**	**548,359**
Total liabilities	**548,359**	**548,359**
Total identifiable net assets at provisional fair value	**359,655**	
Non-controlling interest	(125,879)	
Goodwill arising on acquisition	13,806	
Total consideration	**247,582**	
This comprises of:		
Cash paid on acquisition	117,793	
Fair value of previously held equity interest	129,789	

	SAR'000
Cash flow on acquisition	
Cash and cash equivalents in subsidiary acquired	202,177
Cash consideration paid	(117,793)
Net cash inflow on acquisition	**84,384**

Adjustment to the provisional values will be finalised within twelve months of the date of acquisition as allowed by International Financial Reporting Standard 3 "Business Combinations".

20. Commitments and contingencies

a) Legal proceedings

As at 31 December 2017, there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.

b) Capital commitments

As at 31 December 2017, the Bank has capital commitments of SAR 912.9 million (2016: SAR 317.2 million) in respect of land, buildings and equipment purchases.

c) Credit related commitments and contingencies

Credit related commitments and contingencies mainly comprise guarantees, letters of credit, acceptances and commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The cash requirement under these instruments is considerably less than the amount of the related commitment because the Bank generally expects the customers to fulfil their primary obligation.

Commitments to extend credit represent the unutilised portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unutilised commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unutilised 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 be terminated without being funded.

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

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	**5,122,801**	**3,732,706**	**435,493**	**1,709,938**	**11,000,938**
Guarantees	**8,608,542**	**22,753,910**	**10,456,345**	**10,787,136**	**52,605,933**
Acceptances	**2,188,752**	**1,092,795**	**401**	**-**	**3,281,948**
Irrevocable commitments to extend credit	**125,500**	**1,324,643**	**825,000**	**1,242,934**	**3,518,077**
Total	**16,045,595**	**28,904,054**	**11,717,239**	**13,740,008**	**70,406,896**

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	4,835,710	3,693,984	1,574,616	1,115,000	11,219,310
Guarantees	10,239,017	21,815,831	14,994,739	7,948,197	54,997,784
Acceptances	1,682,585	1,456,144	938	-	3,139,667
Irrevocable commitments to extend credit	130,000	1,000,000	292,502	941,092	2,363,594
Total	16,887,312	27,965,959	16,862,795	10,004,289	71,720,355

The unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank, is SAR 49,316 million (2016: SAR 51,739 million).

e) The analysis of credit related commitments and contingencies by counterparty is as follows:

	2017 SAR'000	2016 SAR'000
Government and quasi government	**3,398,385**	2,669,792
Corporate	**52,768,439**	56,085,585
Banks and other financial institutions	**14,226,426**	12,883,545
Other	**13,646**	81,433
Total	**70,406,896**	71,720,355

f) Operating lease commitments

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

	2017 SAR'000	2016 SAR'000
Less than 1 year	**78,187**	16,035
1 to 5 years	**188,271**	213,868
Over 5 years	**105,199**	129,637
Total	**371,657**	359,540

21. Net special commission income

	2017 SAR'000	2016 SAR'000
Special commission income		
Investments		
– available for sale investments	**380,681**	419,022
– held at amortised cost	**160,226**	113,613
	540,907	532,635
Due from banks and other financial institutions	**254,849**	60,425
Loans and advances	**5,255,532**	5,482,042
Total	**6,051,288**	6,075,102
Special commission expense		
Due to banks and other financial institutions	**15,370**	5,430
Customers' deposits	**769,596**	1,153,945
Debt securities in issue	**124,830**	150,063
Borrowings	**43,608**	8,749
Total	**953,404**	1,318,187
Net special commission income	**5,097,884**	4,756,915

22. Fees and commission income, net

	2017 SAR'000	2016 SAR'000
Fee and commission income:		
- Fund management fees	**9,496**	12,410
- Trade finance	**648,546**	695,328
- Corporate finance and advisory	**132,301**	144,793
- Cards	**523,074**	478,088
- Other banking services	**344,837**	365,486
Total fee and commission income	**1,658,254**	1,696,105
Fee and commission expense:		
- Cards	**(307,381)**	(256,389)
- Custodial services	**(718)**	(590)
- Other banking services	**(94,621)**	(98,283)
Total fee and commission expense	**(402,720)**	(355,262)
Fees and commission income, net	**1,255,534**	1,340,843

23. Trading income, net

	2017 SAR'000	2016 SAR'000
Foreign exchange income, net	**98,541**	195,310
Derivatives	**156,488**	66,448
Debt securities	**271**	(267)
Others	**3,098**	157
Total	**258,398**	261,648

24. Gains on non-trading investments, net

	2017 SAR'000	2016 SAR'000
Available for sale investments	**30,944**	26,297

25. Salaries and employee related expenses

	2017 SAR'000	2016 SAR'000
Salaries and allowance	**732,515**	739,351
Housing allowance	**120,075**	123,332
End of service benefits	**57,682**	53,464
Others	**318,319**	312,811
Total	**1,228,591**	1,228,958

a) Quantitative Disclosure

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

2017		**Fixed**	**Variable compensation paid in 2017**		
Category	**Number of Employees ***	**compensation SAR'000**	**Cash SAR'000**	**Shares SAR'000**	**Total SAR'000**
Senior executives requiring SAMA no objection	**22**	**40,225**	**29,056**	**14,276**	**43,332**
Employees engaged in risk taking activities	**587**	**188,061**	**65,486**	**5,382**	**70,868**
Employees engaged in control functions	**299**	**105,114**	**21,335**	**729**	**22,063**
Other employees	**2,544**	**488,791**	**74,235**	**2,128**	**76,364**
Outsourced employees	**554**	**38,034**	**3,415**	**-**	**3,415**
Total	**4,006**	**860,225**	**193,527**	**22,515**	**216,042**

Variable compensation accrued in 2017	**215,907**
Other employee related benefits	**152,459**
Total salaries and employee related expenses	**1,228,591**

2016		Fixed	Variable compensation paid in 2016		
Category	Number of Employees *	compensation SAR'000	Cash SAR'000	Shares SAR'000	Total SAR'000
Senior executives requiring SAMA no objection	20	32,061	24,224	10,227	34,451
Employees engaged in risk taking activities	554	176,745	60,388	7,070	67,458
Employees engaged in control functions	296	99,839	21,836	1,535	23,371
Other employees	2,716	480,039	72,166	1,718	73,884
Outsourced employees	493	39,731	5,566	-	5,566
Total	4,079	828,415	184,180	20,550	204,730

Variable compensation accrued in 2016	197,836
Other employee related benefits	202,707
Total salaries and employee related expenses	1,228,958

* Represent all employees who worked for the Bank and were compensated during the year 2017 or 2016, whether they are still active or no longer employed by the bank.

Senior executives (requiring SAMA no objection):
This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank whose appointment requires no objection from SAMA. This covers the Managing Director and other executives directly reporting to him.

Employees engaged in risk taking activities:
This comprises of management staff within the business lines (Corporate, Trade Services, Private Banking and Treasury employees), who are responsible for executing and implementing the business strategy on behalf of the Bank. This also includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertaking and executing business proposals and treasury dealing activities.

Employees engaged in control functions:
This refers to employees working in divisions that are not involved in risk taking activities but engaged in review functions (Risk Management, Compliance, Internal Audit, Treasury Operation, Amanah Islamic Banking Services, Finance and Accounting). These functions are fully independent from risk taking units.

Other employees:
This includes all other employees of the Bank, excluding those already reported under categories mentioned above.

Outsourced employees:
This includes staff employed by various agencies who supply services to the Bank on a full-time basis in non-critical roles. None of these roles require risk undertaking or control.

b) Qualitative Disclosure

Compensation disclosure for the Annual Financial Statements
SAMA being the Banking industry regulator for the Kingdom of Saudi Arabia has issued its Rules on compensation practices. In compliance with the SAMA Rules on compensation practices, a compensation policy endorsed by Nomination and Remuneration Committee and approved by the Board of Directors has been formulated and implemented.

SABB Compensation Policy

i. Policy Objectives
The policy sets the guidelines as to how both fixed and variable pay will be managed at SABB. The scope of policy covers the following: all categories of employees; its subsidiaries; all compensation elements; key determinants of compensation; approval process; reporting processes; bonus deferral process; share retention and relevant stakeholder's roles and responsibilities.

The objectives of the policy are to: align the reward practices with the Bank's strategy & values so as to support the successful execution of the strategy in a risk compliant manner; offer an attractive employee value proposition to attract, retain and motivate competent and committed people; and ensure the financial sustainability of SABB.

ii. Compensation Structure
SABB's compensation operates on a Total Package basis that is benchmarked to market data from peers in the appropriate industry. Total Package comprises of the following blend of fixed and variable compensation elements: salaries, allowances; benefits; annual bonuses; short-term incentives; and long-term incentives.

iii. Performance Management System
The performance of all employees is evaluated against agreed targets using a Performance Scorecard methodology, financial, customer, process and people. A calibration process is applied to ensure fair and equitable performance evaluation. The performance management methodology at SABB focuses on the differentiation of individual performance and drives the variable reward strategy which encourages high performance within a risk compliant manner.

iv. Risk-adjustment for Variable Pay schemes
The Bank has reviewed all its variable pay schemes, with the assistance of external remuneration consultants, to ensure that any bonus pay pools have taken into account all relevant risks. The determination of bonus pools is based on appropriate performance factors adjusted for risk. The bonus pool for the Control functions have been ring fenced from short term profits in alignment with SAMA regulations.

v. Bonus Deferral
Bonus deferral in the form of equity applies to all employees who are either subject to SAMA "No Objection" and /or undertake or control significant risk undertaking by the Bank. Bonuses of all these employees will be subject to deferral over a three year vesting period. The vesting will be subject to malus conditions.

vi. Nomination and Remuneration Committee
The Nomination and Remuneration Committee has oversight of the remuneration structures and policies for all employees to ensure that: all performance based bonuses are adjusted for risk, compensation structures are regulatory compliant, and effective in achieving its stated objectives.

c) Share based bonus payments

The Bank has Share Based Equity settled Bonus payment plans outstanding at the end of the year. Under the terms of these plans, eligible employees of the Bank are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, the Bank delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions. The cost of the plans is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date'). The cumulative expense recognized for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

The movement in the number of shares under Share Based Equity settled Bonus payment plans is as follows:

	Number of shares	
	2017	2016
Beginning of the year	**919,102**	648,351
Forfeited	**(180,850)**	(37,132)
Exercised/Expired	**(404,674)**	(310,882)
Granted during the year	**809,276**	618,765
End of the year	**1,142,854**	919,102

The weighted average price of shares granted during the year was SAR 20.67 (2016: SAR 21.41).

26. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended 31 December 2017 and 2016 are calculated by dividing the net income for the year attributable to the equity holders of the Bank by the weighted average number of issued shares.

27. Gross dividends, Zakat and income tax

The Board of Directors has proposed a gross final dividend of SAR 1,110 million for the year 2017 (2016: SAR 570.0 million). During 2017, an interim dividend of SAR 1,125 million (2016: SAR 585.0 million) was also proposed and paid. Dividends will be paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

Saudi shareholders:
Zakat attributable to the Saudi shareholders for the year amounted to approximately SAR 63.0 million (2016: SAR 60.3 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholders of SAR 1.42 per share (2016: SAR 0.70 per share).

Non Saudi shareholders
Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 316.5 million (2016: SAR 313.7 million).

The share of dividend of HSBC Holdings BV will be paid after deducting the related taxes due.

Status of Zakat and Income Tax assessments
The Bank has filed its Zakat and Income Tax returns with the General Authority of Zakat and Tax (GAZT) and paid Zakat and Income Tax for financial years up to and including the year 2016 and has received the assessments for the years up to 2009 in which the GAZT raised additional demands aggregating to SAR 487 million for the years 2005 to 2009. This liability has further reduced to SR 433 million based on the favourable decision rendered by Preliminary Appeal Committee for Zakat and Tax Matters (PAC) on certain items contested by Bank. These additional demands include SAR 413 million on account of "disallowance of long-term investments and the addition of long term financing to the Zakat base by the GAZT". The basis for the additional Zakat liability is being contested by the Bank before the Higher Appeal Committee for Zakat and Tax Matters (HAC). Management is confident of a favourable outcome on the aforementioned appeals and have therefore not made any provisions in respect of the above.

The assessments for the years 2010 to 2016 are yet to be raised by the GAZT. However, if long-term investments are disallowed and long-term financing is added to the Zakat base, in line with the assessments finalized by GAZT for the years referred to above, it would result in significant additional zakat exposure to the Bank which remains an industry wide issue and disclosure of which might affect the Bank's position in this matter.

28. Cash and cash equivalents

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

	2017 SAR'000	2016 SAR'000
Cash and balances with SAMA excluding the statutory deposit amounting to SAR 8,162 million (2016: SAR 8,853 million) (note 3)	**18,712,736**	15,268,906
Due from banks and other financial institutions with an original maturity of three months or less from date of the acquisition	**11,382,843**	7,689,871
Total	**30,095,579**	22,958,777

29. Employee benefit obligation

a) General description

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

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

	2017 SAR'000	2016 SAR'000
Defined benefit obligation at the beginning of the year	**414,510**	382,382
Current service cost	**43,919**	40,184
Interest cost	**15,830**	14,565
Benefits paid	**(37,523)**	(21,086)
Unrecognized actuarial gain	**(1,846)**	(1,535)
Defined benefit obligation at the end of the year	**434,890**	414,510

c) Charge for the year

	2017 SAR'000	2016 SAR'000
Current service cost	**43,919**	40,184
Interest cost	**15,830**	14,565
Total	**59,749**	54,749

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

	2017	2016
Discount rate	**4.00% p.a**	4.00% p.a
Expected rate of salary increase	**2.90% p.a**	3.00% p.a
Normal retirement age	**60 years**	60 years

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

e) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2017 to the discount rate (4.00%), salary escalation rate (2.90%), withdrawal assumptions and mortality rates.

	SAR'000		
	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	(36,788)	42,353
Expected rate of salary increase	1.00%	44,709	(39,428)
Normal retirement age	1 year	(1,078)	1,102

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

f) Expected maturity

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

SAR'000

2017	**Less than a year**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
434,890	**19,765**	**47,398**	**71,875**	**510,569**	**649,607**

2016	Less than a year	1-2 years	2-5 years	Over 5 years	Total
414,510	22,138	27,154	74,427	489,363	613,082

The weighted average duration of the defined benefit obligation is 9.11 years (2016 : 9.47 years).

30. Operating segments

The Bank's primary business is conducted in Saudi Arabia.

Transactions between the operating segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

a) The Bank's reportable segments are as follows:

Retail Banking –caters mainly to the banking requirements of personal and private banking customers.

Corporate Banking –caters mainly to the banking requirements of commercial and corporate banking customers.

Treasury –manages the Bank's liquidity, currency and special commission rate risks. It is also responsible for funding the Bank's operations and managing the Bank's investment portfolio and liquidity position.

Others – includes activities of the Bank's investment in insurance subsidiary, SABB Takaful, its investment banking joint venture, HSBC Saudi Arabia, and equity investments.

Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2017 and 2016, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

2017 **SAR'000**	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others**	**Total**
Total assets	**27,728,040**	**92,111,925**	**65,338,461**	**2,436,918**	**187,615,344**
Total liabilities	**58,902,458**	**73,940,989**	**20,753,067**	**548,359**	**154,144,873**
Investment in a joint venture	**-**	**-**	**-**	**524,924**	**524,924**
Total operating income	**2,567,438**	**3,219,555**	**1,287,416**	**52,499**	**7,126,908**
Total operating expenses	**1,656,023**	**1,330,550**	**156,754**	**97,919**	**3,241,246**
Share in earnings of an associate and a joint venture	**-**	**-**	**-**	**68,916**	**68,916**
Net income for the year	**911,415**	**1,889,005**	**1,130,662**	**23,496**	**3,954,578**
Net special commission income	**2,102,772**	**2,190,731**	**804,381**	**-**	**5,097,884**
Fees and commission income, net	**344,590**	**911,173**	**(229)**	**-**	**1,255,534**
Trading income, net	**114**	**8,788**	**249,496**	**-**	**258,398**
Credit losses and impairment provision, net	**388,082**	**613,746**	**(1,145)**	**50,000**	**1,050,683**

2016 SAR'000	Retail Banking	Corporate Banking	Treasury	Others	Total
Total assets	31,557,936	92,352,010	60,445,793	1,700,155	186,055,894
Total liabilities	62,549,688	69,843,491	22,383,787	-	154,776,966
Investment in an associate and a joint venture	-	-	-	642,297	642,297
Total operating income	2,357,828	3,139,913	1,373,023	37,840	6,908,604
Total operating expenses	1,614,513	1,259,899	153,238	50,000	3,077,650
Share in earnings of an associate and a joint venture	-	-	-	63,777	63,777
Net income for the year	743,315	1,880,014	1,219,785	51,617	3,894,731
Net special commission income	1,865,335	2,027,300	864,280	-	4,756,915
Fees and commission income, net	374,440	961,060	5,343	-	1,340,843
Trading income, net	184	23,782	237,682	-	261,648
Credit losses and impairment provision, net	398,717	545,843	(460)	50,000	994,100

b) Total operating income by operating segments

2017 **SAR'000**	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others**	**Total**
External	**2,109,765**	**4,331,267**	**633,377**	**52,499**	**7,126,908**
Internal	**457,673**	**(1,111,712)**	**654,039**	**-**	**-**
Total operating income	**2,567,438**	**3,219,555**	**1,287,416**	**52,499**	**7,126,908**

2016 SAR'000	Retail Banking	Corporate Banking	Treasury	Others	Total
External	2,217,505	4,212,457	440,798	37,844	6,908,604
Internal	140,319	(1,072,544)	932,225	-	-
Total operating income	2,357,824	3,139,913	1,373,023	37,844	6,908,604

c) The Bank's credit exposure by operating segment is as follows:

2017 **SAR'000**	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others**	**Total**
Assets	**25,586,028**	**91,420,059**	**64,285,585**	**355,301**	**181,646,973**
Commitments and contingencies	**6,823**	**33,102,276**	**-**	**-**	**33,109,099**
Derivatives	**-**	**-**	**1,207,929**	**-**	**1,207,929**
Total	**25,592,851**	**124,522,335**	**65,493,514**	**355,301**	**215,964,001**

2016 SAR'000	Retail Banking	Corporate Banking	Treasury	Others	Total
Assets	29,326,780	91,638,035	59,110,084	-	180,074,899
Commitments and contingencies	71,948	33,653,270	-	-	33,725,218
Derivatives	-	-	1,832,448	-	1,832,448
Total	29,398,728	125,291,305	60,942,532	-	215,632,565

Credit exposure comprises the carrying value of assets excluding cash, property and equipment, other assets, investment in associate and joint venture and equity investments, and the credit equivalent value for commitments, contingencies and derivatives based on the credit conversion factor as prescribed by the SAMA.

31. Credit risk

The Board of Directors is responsible for the overall risk management approach within SABB and for reviewing its effectiveness.

The Board's designated committee for risk matters is the Board Risk Committee which approves and provides oversight for the Bank's risk framework, plans and performance targets, which include the establishment of risk appetite statements, risk management strategies, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk on credit related commitments and contingencies and derivatives.

The Bank assesses the probability of default of counterparties using internal rating tools. Also the Bank uses external ratings, of major rating agencies, where available.

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

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

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in market's products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counterparty is provided in note 5. For details of the composition of loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 10 and for commitments and contingencies in note 20. The information on Bank's maximum credit exposure by operating segment is given in note 30.

a) Geographical concentration of assets, liabilities, commitments and contingencies, and credit exposure

2017 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,304,487	-	-	-	-	1,304,487
Balances with SAMA	25,541,038	-	-	-	-	25,541,038
Other balances	28,974	-	-	-	-	28,974
Due from banks and other financial institutions						
Current accounts	-	33,378	1,776,450	4,944,942	53,307	6,808,077
Money market placements	5,287,342	1,132,021	175,354	78,010	9,896	6,682,623
Investments, net						
Available for sale	10,364,664	2,627,612	2,660,200	75,572	524,557	16,252,605
Amortised cost	10,424,063	-	300,083	-	-	10,724,146
Positive fair value derivatives						
Held for trading	182,547	37,273	228,088	-	-	447,908
Held as fair value hedges	-	-	42,027	-	-	42,027
Held as cash flow hedges	-	8,695	33,734	-	-	42,429
Loans and advances, net						
Credit cards	2,122,800	-	-	-	-	2,122,800
Consumer loans	21,216,902	-	-	-	-	21,216,902
Commercial loans and overdrafts	93,251,815	189,570	225,000	-	-	93,666,385
Investment in an associate and a joint venture	524,924	-	-	-	-	524,924
Property and equipment, net	1,134,927	-	-	-	-	1,134,927
Other assets	1,075,092	-	-	-	-	1,075,092
Total	172,459,575	4,028,549	5,440,936	5,098,524	587,760	187,615,344
Liabilities						
Due to banks and other financial institutions						
Current accounts	2,597	539,170	1,138,595	47,687	52,926	1,780,975
Money market deposits	1,175,123	734,877	-	-	-	1,910,000
Customer deposits						
Demand	87,667,777	6,830	812,433	37,709	13,952	88,538,701
Saving	6,868,200	-	-	-	-	6,868,200
Time	42,914,272	-	863,150	3,836	79,715	43,860,973
Margin	971,639	-	-	-	-	971,639
Debt securities in issue	2,998,748	-	-	-	-	2,998,748
Borrowings	-	280,408	785,139	-	616,898	1,682,445
Negative fair value derivatives						
Held for trading	110,945	25,517	273,782	-	-	410,244
Held as fair value hedges	-	-	40,034	-	-	40,034
Held as cash flow hedges	-	9,331	21,586	-	-	30,917
Other liabilities	5,051,997	-	-	-	-	5,051,997
Total	147,761,298	1,596,133	3,934,719	89,232	763,491	154,144,873
Commitments and contingencies	57,458,258	1,024,673	4,800,473	917,318	6,206,174	70,406,896
Credit exposure (stated at credit equivalent amounts)						
Assets	166,896,125	3,844,804	4,900,891	5,117,496	887,657	181,646,973
Commitments and contingencies	27,101,134	486,385	2,301,949	594,552	2,625,079	33,109,099
Derivatives	623,485	245,584	309,565	-	29,295	1,207,929
Total credit exposure	194,620,744	4,576,773	7,512,405	5,712,048	3,542,031	215,964,001

2016 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,444,680	-	-	-	-	1,444,680
Balances with SAMA	22,398,068	-	-	-	-	22,398,068
Other balances	279,073	-	-	-	-	279,073
Due from banks and other financial institutions						
Current accounts	2,035	86,174	1,488,611	4,861,975	66,076	6,504,871
Money market placements	520,890	1,034,216	157,769	-	-	1,712,875
Investments, net						
Available for sale	15,793,949	3,203,490	602,050	2,422,827	985,495	23,007,811
Amortised cost	6,265,244	-	-	-	-	6,265,244
Positive fair value derivatives						
Held for trading	358,426	32,228	203,675	-	4	594,333
Held as fair value hedges	-	649	85,605	-	-	86,254
Held as cash flow hedges	5,050	19,563	16,712	-	-	41,325
Loans and advances, net						
Credit cards	2,210,011	-	-	-	-	2,210,011
Consumer loans	24,145,266	-	-	-	-	24,145,266
Commercial loans and overdrafts	94,056,828	214,571	328,125	10,014	-	94,609,538
Investment in an associate and a joint venture	642,297	-	-	-	-	642,297
Property and equipment, net	1,038,352	-	-	-	-	1,038,352
Other assets	1,075,896	-	-	-	-	1,075,896
Total	170,236,065	4,590,891	2,882,547	7,294,816	1,051,575	186,055,894
Liabilities						
Due to banks and other financial institutions						
Current accounts	194,601	247,086	594,692	1,570,193	17,876	2,624,448
Money market deposits	202,092	592,634	-	-	-	794,726
Customer deposits						
Demand	81,680,986	4,117	620,945	8,775	30,931	82,345,754
Saving	7,318,311	2,039	-	-	-	7,320,350
Time	48,379,359	-	926,935	18,792	60,960	49,386,046
Margin	1,587,635	-	-	-	-	1,587,635
Debt securities in issue	4,517,636	-	-	-	-	4,517,636
Borrowings	-	282,383	806,335	-	621,240	1,709,958
Negative fair value derivatives						
Held for trading	144,433	69,779	289,322	-	-	503,534
Held as fair value hedges	-	-	54,188	-	-	54,188
Held as cash flow hedges	-	10,977	36,094	-	-	47,071
Other liabilities	3,885,620	-	-	-	-	3,885,620
Total	147,910,673	1,209,015	3,328,511	1,597,760	731,007	154,776,966
Commitments and contingencies	60,327,209	983,785	4,161,724	1,272,506	4,975,131	71,720,355
Credit exposure (stated at credit equivalent amounts)						
Assets	164,599,518	4,539,570	4,238,843	5,648,738	1,048,230	180,074,899
Commitments and contingencies	28,239,980	481,883	2,065,426	500,988	2,436,941	33,725,218
Derivatives	763,978	205,834	845,683	-	16,953	1,832,448
Total credit exposure	193,603,476	5,227,287	7,149,952	6,149,726	3,502,124	215,632,565

b) The distributions by geographical concentration of impaired loans and advances and provision for credit losses are as follows:

2017 SAR'000	**Saudi Arabia**	**GCC and Middle East**	**Europe**	**North America**	**Other Countries**	**Total**
Non-performing loans, net	**1,893,534**	**-**	**-**	**-**	**-**	**1,893,534**
Provision for credit loss	**3,556,133**	**-**	**-**	**-**	**-**	**3,556,133**

2016 SAR'000	Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Non-performing loans, net	1,655,479	-	-	-	-	1,655,479
Provision for credit loss	2,889,711	-	-	-	-	2,889,711

32. Market risk

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

Market Risk exposures in the trading book are restricted to derivatives classified as held for trading as disclosed in these consolidated financial statements. Market Risk exposures in the non-trading or banking book arise on special commission rate risk and equity price risk as disclosed in part b) of this disclosure.

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

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. The Bank applies a VAR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for change in market conditions.

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

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

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

In addition to VAR, the Bank also carries out stress testing of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's Risk Management Committee (RMC) committee for their review.

The Bank's VAR related information is as follows:

			SAR'000
2017	**Foreign exchange**	**Special commission rate**	**Overall risk**
VAR as at 31December 2017	**567**	**1,686**	**1,663**
Average VAR for 2017	**1,179**	**6,359**	**6,461**
Minimum VAR for 2017	**385**	**1,202**	**1,312**
Maximum VAR for 2017	**1,958**	**17,846**	**17,495**

			SAR'000
2016	Foreign exchange	Special commission rate	Overall risk
VAR as at 31December 2016	1,492	6,693	7,084
Average VAR for 2016	568	4,210	4,268
Minimum VAR for 2016	13	508	562
Maximum VAR for 2016	2,326	11,374	11,398

b) Market risk – non trading or banking book

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

i) Special commission rate risk

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non- trading financial assets and financial liabilities repricing as at 31 December 2017, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets; including the effect of any associated hedges as at 31 December 2017 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity period of the asset or swap and represent only those exposures that directly impact OCI of the Bank.

			2017				**SAR' 000**
Currency	**Increase in basis points**	**Sensitivity of Special Commission Income**	**Sensitivity of Equity**				
			6 months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	**Total**
SAR	**+ 100**	**58,570**	**(15,645)**	**(551)**	**(233,353)**	**(73,997)**	**(323,546)**
USD	**+ 100**	**50,469**	**(5,821)**	**(15,393)**	**(137,477)**	**(175,836)**	**(334,527)**
EUR	**+ 100**	**23**	**-**	**-**	**-**	**-**	**-**
Others	**+ 100**	**15,529**	**(1,244)**	**(654)**	**-**	**-**	**(1,898)**

			2017				SAR '000
Currency	**Decrease in basis points**	**Sensitivity of Special Commission Income**		**Sensitivity of Equity**			
			6 months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	**Total**
SAR	**- 100**	**(58,570)**	**15,645**	**551**	**233,353**	**73,997**	**323,546**
USD	**- 100**	**(50,469)**	**5,821**	**15,393**	**137,477**	**175,836**	**334,527**
EUR	**- 100**	**(23)**	**-**	**-**	**-**	**-**	**-**
Others	**- 100**	**(15,529)**	**1,244**	**654**	**-**	**-**	**1,898**

			2016				SAR' 000
Currency	Increase in basis points	Sensitivity of Special Commission Income		Sensitivity of Equity			
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	+ 100	39,050	(15,926)	(1,016)	(123,834)	(21,302)	(162,078)
USD	+ 100	20,323	(4,469)	(17,047)	(107,423)	(117,010)	(245,949)
EUR	+ 100	1,024	(5)	(100)	(14,036)	97	(14,044)
Others	+ 100	1	(107)	(144)	(9,872)	-	(10,123)

			2016				SAR '000
Currency	Decrease in basis points	Sensitivity of Special Commission Income		Sensitivity of Equity			
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	- 100	(39,050)	15,926	1,016	123,834	21,302	162,078
USD	- 100	(20,323)	4,469	17,047	107,423	117,010	245,949
EUR	- 100	(1,024)	5	100	14,036	(97)	14,044
Others	- 100	(1)	107	144	9,872	-	10,123

The Bank is exposed to risks associated with fluctuations in the levels of market special commission rates. The table below summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or the maturity dates. The Bank is exposed to special commission rate risks as a result of mismatches or gaps in the amounts of assets and liabilities and derivative financial instruments that reprice or mature in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	1,304,487	1,304,487
Balances with SAMA	17,379,275	-	-	-	8,161,763	25,541,038
Other balances	-	-	-	-	28,974	28,974
Due from banks and other financial institutions						
Current accounts	-	-	-	-	6,808,077	6,808,077
Money market placements	6,682,623	-	-	-	-	6,682,623
Investments, net						
Available for sale	3,146,235	5,242,268	4,155,107	2,692,484	1,016,511	16,252,605
Amortised cost	3,104,781	-	6,274,238	1,345,127	-	10,724,146
Positive fair value derivatives						
Held for trading	-	-	-	-	447,908	447,908
Held as fair value hedges	-	-	-	-	42,027	42,027
Held as cash flow hedges	-	-	-	-	42,429	42,429
Loans and advances, net						
Credit cards	2,122,800	-	-	-	-	2,122,800
Consumer loans	50,082	275,175	12,100,664	8,790,981	-	21,216,902
Commercial loans and overdrafts	63,248,889	23,717,020	6,172,514	527,962	-	93,666,385
Investment in an associate and a joint venture	-	-	-	-	524,924	524,924
Property and equipment, net	-	-	-	-	1,134,927	1,134,927
Other assets	-	-	-	-	1,075,092	1,075,092
Total assets	95,734,685	29,234,463	28,702,523	13,356,554	20,587,119	187,615,344
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	1,780,975	1,780,975
Money market deposits	1,910,000	-	-	-	-	1,910,000
Customer deposits						
Demand	-	-	-	-	88,538,701	88,538,701
Saving	6,868,200	-	-	-	-	6,868,200
Time	32,728,263	8,663,365	2,469,345	-	-	43,860,973
Margin	-	-	-	-	971,639	971,639
Debt securities in issue	6,935	2,991,813	-	-	-	2,998,748
Borrowings	-	1,682,445	-	-	-	1,682,445
Negative fair value derivatives						
Held for trading	-	-	-	-	410,244	410,244
Held as fair value hedges	-	-	-	-	40,034	40,034
Held as cash flow hedges	-	-	-	-	30,917	30,917
Other liabilities	-	-	-	-	5,051,997	5,051,997
Equity	-	-	-	-	33,470,471	33,470,471
Total liabilities and equity	41,513,398	13,337,623	2,469,345	-	130,294,978	187,615,344
Commission rate sensitivity on assets and liabilities	54,221,287	15,896,840	26,233,178	13,356,554	(109,707,859)	
Commission rate sensitivity on derivative financial instruments	5,693,909	(1,803,430)	(1,727,979)	(2,162,500)	-	
Total special commission rate sensitivity gap	59,915,196	14,093,410	24,505,199	11,194,054	(109,707,859)	
Cumulative special commission rate sensitivity gap	59,915,196	74,008,606	98,513,805	109,707,859	-	

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	1,444,680	1,444,680
Balances with SAMA	13,545,153	-	-	-	8,852,915	22,398,068
Other balances	-	-	-	-	279,073	279,073
Due from banks and other financial institutions						
Current accounts	-	-	-	-	6,504,871	6,504,871
Money market placements	1,712,875	-	-	-	-	1,712,875
Investments, net						
Available for sale	12,155,818	3,259,574	4,684,769	1,849,793	1,057,857	23,007,811
Amortised cost	2,615,440	-	3,149,838	499,966	-	6,265,244
Positive fair value derivatives						
Held for trading	-	-	-	-	594,333	594,333
Held as fair value hedges	-	-	-	-	86,254	86,254
Held as cash flow hedges	-	-	-	-	41,325	41,325
Loans and advances, net						
Credit cards	2,210,011	-	-	-	-	2,210,011
Consumer loans	50,608	313,238	13,774,452	10,006,968	-	24,145,266
Commercial loans and overdrafts	63,885,759	23,955,833	6,234,667	533,279	-	94,609,538
Investment in an associate and a joint venture	-	-	-	-	642,297	642,297
Property and equipment, net	-	-	-	-	1,038,352	1,038,352
Other assets	-	-	-	-	1,075,896	1,075,896
Total assets	96,175,664	27,528,645	27,843,726	12,890,006	21,617,853	186,055,894
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	2,624,448	2,624,448
Money market deposits	794,726	-	-	-	-	794,726
Customer deposits						
Demand	-	-	-	-	82,345,754	82,345,754
Saving	7,320,350	-	-	-	-	7,320,350
Time	34,325,175	9,729,761	5,331,110	-	-	49,386,046
Margin	-	-	-	-	1,587,635	1,587,635
Debt securities in issue	1,517,636	3,000,000	-	-	-	4,517,636
Borrowings	6,795	15,663	1,687,500	-	-	1,709,958
Negative fair value derivatives						
Held for trading	-	-	-	-	503,534	503,534
Held as fair value hedges	-	-	-	-	54,188	54,188
Held as cash flow hedges	-	-	-	-	47,071	47,071
Other liabilities	-	-	-	-	3,885,620	3,885,620
Equity	-	-	-	-	31,278,928	31,278,928
Total liabilities and equity	43,964,682	12,745,424	7,018,610	-	122,327,178	186,055,894
Commission rate sensitivity on assets and liabilities	52,210,982	14,783,221	20,825,116	12,890,006	(100,709,325)	
Commission rate sensitivity on derivative financial instruments	1,659,331	(220,000)	(1,141,831)	(297,500)	-	
Total special commission rate sensitivity gap	53,870,313	14,563,221	19,683,285	12,592,506	(100,709,325)	
Cumulative special commission rate sensitivity gap	53,870,313	68,433,534	88,116,819	100,709,325	-	

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

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank does not maintain material non trading open currency positions. Foreign currency exposures that arise in the non-trading book are transferred to the trading book and are managed as part of the trading portfolio. The foreign exchange risk VAR disclosed in note 32(a) reflects the Bank's total exposure to currency risk.

The Bank is exposed to fluctuations in foreign currency exchange rates. The Board of Directors sets limits on the level of exposure by currency, and in total for both overnight and intraday positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2017 SAR'000 Long (short)	2016 SAR'000 Long (short)
US Dollar	**1,396,961**	1,989,574
Euro	**(7,695)**	(293)
Sterling Pounds	**(5,756)**	(840)
Other	**(65,895)**	1,099

iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available for sale. A 10 per cent increase or decrease in the value of the bank's available for sale equities at 31 December 2017 would have correspondingly increase or decrease equity by SAR 136.7 million (2016: SAR 102.3 million).

33. Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA 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 securities.

The table below summarises the maturity profile of the Bank's financial liabilities. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and does not take account of effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows. All derivatives used for hedging purposes are shown by maturity based on their contractual, undiscounted repayment obligations. As the major portion of the derivatives trading book comprises of back to back transactions and consequently the open derivatives trading exposures are small, the management believes that the inclusion of trading derivatives in the contractual maturity table is not relevant for an understanding of the timing of cash flows and hence these have been excluded.

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

a) Analysis of financial liabilities by remaining contractual maturities

The table below sets out Bank's contractual undiscounted financial liabilities.

2017 SAR'000	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Financial liabilities						
Due to banks and other financial institutions						
Current accounts	**1,780,975**	**-**	**-**	**-**	**-**	**1,780,975**
Money market deposits	**1,910,161**	**-**	**-**	**-**	**-**	**1,910,161**
Customer deposits						
Demand	**-**	**-**	**-**	**-**	**88,538,701**	**88,538,701**
Saving	**6,868,200**	**-**	**-**	**-**	**-**	**6,868,200**
Time	**32,774,761**	**8,738,880**	**2,682,084**	**-**	**-**	**44,195,725**
Margin	**97,873**	**158,667**	**490,861**	**224,238**	**-**	**971,639**
Debt securities in issue	**25,781**	**77,344**	**1,656,230**	**1,778,471**	**-**	**3,537,826**
Borrowings	**11,042**	**33,127**	**1,718,762**	**-**	**-**	**1,762,931**
Derivatives :						
- Special commission contractual amounts payable (receivable)	**(3,492)**	**(9,684)**	**(33,304)**	**(4,689)**	**-**	**(51,169)**
Total undiscounted financial liabilities	**43,465,301**	**8,998,334**	**6,514,633**	**1,998,020**	**88,538,701**	**149,514,989**

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions						
Current accounts	2,624,448	-	-	-	-	2,624,448
Money market deposits	795,411	-	-	-	-	795,411
Customer deposits						
Demand	-	-	-	-	82,345,754	82,345,754
Saving	7,320,350	-	-	-	-	7,320,350
Time	34,685,674	10,426,340	5,261,382	-	-	50,373,396
Margin	188,163	649,271	616,763	133,438	-	1,587,635
Debt securities in issue	1,516,773	108,704	1,880,127	1,689,047	-	5,194,651
Borrowings	9,193	43,609	1,761,046	-	-	1,813,848
Derivatives :						
- Special commission contractual amounts payable (receivable)	(64,242)	18,930	(45,660)	(26,147)	-	(117,119)
Total undiscounted financial liabilities	47,075,770	11,246,854	9,473,658	1,796,338	82,345,754	151,938,374

b) Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

2017 SAR'000	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,304,487	-	-	-	-	1,304,487
Balances with SAMA	17,379,275	-	-	-	8,161,763	25,541,038
Other balances	28,974	-	-	-	-	28,974
Due from banks and other financial institutions						
Current accounts	6,808,077	-	-	-	-	6,808,077
Money market placements	5,912,266	632,845	137,512	-	-	6,682,623
Investments, net						
Available for sale	1,398,652	2,066,457	7,030,538	4,740,449	1,016,509	16,252,605
Amortised cost	77,028	12,171	6,849,959	3,784,988	-	10,724,146
Positive fair value derivatives						
Held for trading	447,908	-	-	-	-	447,908
Held as fair value hedges	42,027	-	-	-	-	42,027
Held as cash flow hedges	42,429	-	-	-	-	42,429
Loans and advances, net						
Credit cards	2,122,800	-	-	-	-	2,122,800
Consumer loans	62,418	419,940	11,358,852	9,375,692	-	21,216,902
Commercial loans and overdrafts	43,697,308	18,509,759	13,378,254	18,081,064	-	93,666,385
Investment in an associate and a joint venture	-	-	-	-	524,924	524,924
Property and equipment, net	-	-	-	-	1,134,927	1,134,927
Other assets	211,724	589,042	-	-	274,326	1,075,092
Total assets	79,535,373	22,230,214	38,755,115	35,982,193	11,112,449	187,615,344
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	1,780,975	-	-	-	-	1,780,975
Money market deposits	1,910,000	-	-	-	-	1,910,000
Customer deposits						
Demand	-	-	-	-	88,538,701	88,538,701
Saving	6,868,200	-	-	-	-	6,868,200
Time	32,728,263	8,663,365	2,469,345	-	-	43,860,973
Margin	97,873	158,667	490,861	224,238	-	971,639
Debt securities in issue	6,935	-	1,495,907	1,495,906	-	2,998,748
Borrowings	-		1,682,445	-	-	1,682,445
Negative fair value derivatives						
Held for trading	410,244	-	-	-	-	410,244
Held as fair value hedges	40,034	-	-	-	-	40,034
Held as cash flow hedges	30,917	-	-	-	-	30,917
Other liabilities	1,443,904	93,182	139,773	15,530	3,359,608	5,051,997
Equity	-	-	-	-	33,470,471	33,470,471
Total liabilities and equity	45,317,345	8,915,214	6,278,331	1,735,674	125,368,780	187,615,344

2016 SAR'000	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,444,680	-	-	-	-	1,444,680
Balances with SAMA	13,545,153	-	-	-	8,852,915	22,398,068
Other balances	279,073	-	-	-	-	279,073
Due from banks and other financial institutions						
Current accounts	6,504,871	-	-	-	-	6,504,871
Money market placements	1,222,925	50,000	439,950	-	-	1,712,875
Investments, net						
Available for sale	8,589,884	1,916,493	6,861,768	4,581,808	1,057,858	23,007,811
Amortised cost	25,211	-	3,300,028	2,940,005	-	6,265,244
Positive fair value derivatives						
Held for trading	594,333	-	-	-	-	594,333
Held as fair value hedges	86,254	-	-	-	-	86,254
Held as cash flow hedges	41,325	-	-	-	-	41,325
Loans and advances, net						
Credit cards	2,210,011	-	-	-	-	2,210,011
Consumer loans	50,608	313,238	13,774,452	10,006,968	-	24,145,266
Commercial loans and overdrafts	46,981,561	16,934,896	13,436,553	17,256,528	-	94,609,538
Investment in an associate and a joint venture	-	-	-	-	642,297	642,297
Property and equipment, net	-	-	-	-	1,038,352	1,038,352
Other assets	134,450	640,307	-	-	301,139	1,075,896
Total assets	81,710,339	19,854,934	37,812,751	34,785,309	11,892,561	186,055,894
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	2,624,448	-	-	-	-	2,624,448
Money market deposits	794,726	-	-	-	-	794,726
Customer deposits						
Demand	-	-	-	-	82,345,754	82,345,754
Saving	7,320,350	-	-	-	-	7,320,350
Time	34,325,174	9,729,762	5,331,110	-	-	49,386,046
Margin	188,163	649,271	616,763	133,438	-	1,587,635
Debt securities in issue	1,517,636	-	1,500,000	1,500,000	-	4,517,636
Borrowings	6,795	15,663	1,687,500	-	-	1,709,958
Negative fair value derivatives						
Held for trading	503,534	-	-	-	-	503,534
Held as fair value hedges	54,188	-	-	-	-	54,188
Held as cash flow hedges	47,071	-	-	-	-	47,071
Other liabilities	564,801	91,469	137,204	15,245	3,076,901	3,885,620
Equity	-	-	-	-	31,278,928	31,278,928
Total liabilities and equity	47,946,886	10,486,165	9,272,577	1,648,683	116,701,583	186,055,894

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The maturities of commitments and contingencies are given in note 20(d) of the consolidated financial statements.

34. Offsetting of financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

				Amount not set off in the consolidated statement of financial position		
SAR'000	**Gross amount of recognised financial assets**	**Gross amounts offset in the consolidated statement of financial position**	**Amounts presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
2017						
Due from banks and other financial institutions	**13,913,257**	**(422,557)**	**13,490,700**	**-**	**-**	**13,490,700**
2016						
Due from banks and other financial institutions	10,852,629	(2,634,883)	8,217,746	-	-	8,217,746

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

				Amount not set off in the consolidated statement of financial position		
SAR'000	**Gross amount of recognised financial liabilities**	**Gross amounts offset in the consolidated statement of financial position**	**Amounts presented in the consolidated statement of financial position**	**Financial instruments**	**Cash collateral pledged**	**Net amount**
2017						
Derivatives	**481,195**	**-**	**481,195**	**-**	**(104,238)**	**376,957**
2016						
Derivatives	604,793	-	604,793	-	(268,301)	336,492

35. Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Consequently, differences can arise between the carrying values and fair value estimates.

The fair values of recognised financial instruments are not materially different from their carrying values.

Determination of fair value and fair value hierarchy

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

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

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

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

2017 SAR'000	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets					
Derivative financial instruments	**532,364**	**-**	**532,364**	**-**	**532,364**
Financial investments available for sale	**16,252,605**	**1,367,052**	**14,856,030**	**29,523**	**16,252,605**
Investments held at amortised cost	**10,724,146**	**-**	**10,632,181**	**-**	**10,632,181**
Loans and advances	**117,006,087**	**-**	**-**	**115,751,698**	**115,751,698**
Financial Liabilities					
Customers deposits	**140,239,513**	**-**	**140,371,074**	**-**	**140,371,074**
Derivative financial instruments	**481,195**	**-**	**481,195**	**-**	**481,195**
Debt securities in issue	**2,998,748**	**-**	**2,998,748**	**-**	**2,998,748**
Borrowings	**1,682,445**	**-**	**1,682,445**	**-**	**1,682,445**

2016 SAR'000	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets					
Derivative financial instruments	721,912	-	721,912	-	721,912
Financial investments available for sale	23,007,811	1,022,685	21,949,953	35,173	23,007,811
Investments held at amortised cost	6,265,244	-	6,269,003	-	6,269,003
Loans and advances	120,964,815	-	-	119,380,837	119,380,837
Financial Liabilities					
Customers deposits	140,639,785	-	140,760,543	-	140,760,543
Derivative financial instruments	604,793	-	604,793	-	604,793
Debt securities in issue	4,517,636	-	4,517,636	-	4,517,636
Borrowings	1,709,958	-	1,709,958	-	1,709,958

Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, special commission rate options, forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives are fair valued using the bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs to these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.

Available for sale investments classified as Level 2 include plain vanilla bonds for which market quotes are not available. These are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.

Available for sale investments classified as Level 3 include Private Equity Funds, the fair value of which is determined based on the fund's latest reported net assets value (NAV) as at the reporting date. The movement in Level 3 financial instruments during the year relates to fair value and capital repayment movement only. Loans and advances are classified as Level 3, the fair value of which is determined by discounting future cash flows using risk adjusted expected SIBOR rates.

There were no transfers between the levels of fair value hierarchies during the year.

The total amount of the changes in fair value recognised in the consolidated statement of income, which was estimated using valuation technique, is positive SAR 49.2 million (2016: positive SAR 61.2 million).

The values obtained from valuation model may be different from the transaction price of financial instrument on transaction date. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated income statement without reversal of deferred day one profits and losses. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discounts rates, bond and equity prices and foreign currency exchange rates.

The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market process and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

36. Related party transactions

Managerial and specialised expertise is provided under a technical services agreement with HSBC Holdings plc, the parent company of HSBC Holdings BV. This agreement was renewed on 30 September 2017 for a period of five years.

In the ordinary course of its activities, the Bank 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 limits set by the Banking Control Law and the regulations issued by SAMA.

The year end balances included in the consolidated financial statements resulting from such transactions are as follows:

	2017 SAR'000	2016 SAR'000
The HSBC Group:		
Due from banks and other financial institutions	**3,623,200**	5,243,173
Investments	**694,772**	781,379
Other assets	**240,471**	567,281
Negative fair value derivatives, net	**7,461**	55,583
Due to banks and other financial institutions	**823,819**	1,011,970
Borrowings	**281,250**	281,250
Other liabilities	**87,423**	154,160
Commitments and contingencies	**2,067,824**	2,191,791

The above investments include investments in an associate and a joint venture amounting to SAR 524.9 million (2016: SAR 642.3 million).

Directors, board committees, other major shareholders, key management personnel and their affiliates:

	2017 SAR'000	2016 SAR'000
Investments	**-**	100,000
Loans and advances	**3,619,695**	2,952,344
Customers' deposits	**5,902,027**	6,332,302
Debt securities issued	**700,000**	1,000,000
Positive fair value derivatives, net	**9,976**	14,536
Other liabilities	**15,327**	5,812
Commitments and contingencies	**59,946**	68,594

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

	2017 SAR'000	2016 SAR'000
Related mutual funds:		
Customers' deposits	**279,853**	410,699

Subsidiaries

	2017 SAR'000	2016 SAR'000
Other assets	**34,000**	-
Related mutual funds:		
- Investments	**380,066**	-
- Other assets	**724**	-

Transactions with related parties included in the consolidated financial statements are as follows:

	2017 SAR'000	2016 SAR'000
Special commission income	**111,526**	138,129
Special commission expense	**169,170**	170,816
Fees and commission income	**16,136**	20,252
Services charges paid to HSBC group	**42,045**	38,130
Profit share arrangement relating to investment banking activities	**500**	653
Share in earnings of an associate and a joint venture	**68,916**	63,777
Acquisition of SABB Takaful	**117,793**	-
Directors' and board committees' remuneration	**5,014**	3,252

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

	2017 SAR'000	2016 SAR'000
Short-term employee benefits (salaries and allowances)	**31,459**	28,340
Employment termination benefits	**6,121**	2,774

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

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2017. The details of these schemes have been separately disclosed in note 25 to these consolidated financial statements.

37. Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. SAMA requires the Bank to hold the minimum level of the regulatory capital and to maintain a ratio of total regulatory capital to the risk-weighted assets at or above the agreed minimum of 8%.

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

	2017 SAR'000	2016 SAR'000
Risk Weighted Assets (RWA)		
Credit Risk RWA	**162,589,324**	161,899,067
Operational Risk RWA	**13,712,152**	13,333,290
Market Risk RWA	**2,278,175**	2,514,488
Total RWA	**178,579,651**	177,746,845
Tier I Capital	**33,344,592**	31,278,928
Tier II Capital	**4,132,367**	3,600,244
Total I & II Capital	**37,476,959**	34,879,172
Capital Adequacy Ratio %		
Tier I ratio	**18.67%**	17.60%
Tier I + Tier II ratio	**20.99%**	19.62%

38. Prospective changes in accounting standards

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

Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after January 01, 2018:

- IFRS 15 – "Revenue from contracts with customers", applicable for the annual periods beginning on or after 1 January 2018. The new standard presents a five-step model to determine when to recognise revenue, and at what amount. As IFRS 15 does not apply to financial instruments or insurance contracts, the assessment is focused on those products and business lines which generate fee income. While IFRS 15 contains more structured guidance than the existing Standard IAS 18, the outcomes for revenue recognition are very similar to current practice of allocating income over the period of the service rendered and therefore IFRS 15 is not expected to have a material impact on the Bank.

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

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

- IFRS 9 – "Financial Instruments" will be effective from 1 January 2018 and will replace IAS 39 by building models using internal and external experts. The Bank 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 Bank 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.

39. Implementation and impact analysis of IFRS 9

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

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

The majority of the bank's debt instruments that are currently classified as available for sale (AFS) will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change in the accounting for these assets except for new impairment requirements.

The majority of financial assets that are classified as loans and receivables and are measured at amortised cost under IAS 39 are expected to be measured at amortised cost under IFRS 9 as well.

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

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

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

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

- **Stage 1**: Performing assets: Financial asset(s) that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.
- **Stage 2**: Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL.
- **Stage 3**: Impaired assets: For Financial asset(s) that are impaired, the Bank will recognise the impairment allowance based on lifetime ECL.

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

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

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

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

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

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

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

- According to transitional provisions for initial application of IFRS 9, the bank is allowed to recognize any difference between previous carrying amount under IAS 39 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings. Accordingly, the overall impact on equity and the aggregated carrying value of relevant financial assets is estimated to be 4.5% and 1.0% respectively on the date of initial application arising due to application of expected credit loss model as against Incurred loss model;

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

- Based on the balances as at 31 December 2017, the day 1 impact of IFRS 9 (applicable from 1 January 2018) would be an estimated reduction of approximately 1.66% in Capital Adequacy Ratio which would be transitioned over five years in accordance with SAMA guidelines.

- Gains or losses realized on the sale of equity instruments classified as FVOCI will no longer be transferred to profit or loss.

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

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

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

40. Comparative figures

Effective 1 January 2017, SAMA issued a Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax, with the following implications:

- the Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from 1 January 2017; and
- zakat and income tax are accrued on a quarterly basis and recognized in the consolidated statement of changes in shareholders' equity with a corresponding liability recognized in the consolidated statement of financial position.

Consequently, the Bank amended its accounting policy to accrue zakat and income tax on a quarterly basis and charge to retained earnings. Previously, zakat and income tax were deducted from the payment of dividend. When dividends were proposed, zakat and income tax were initially recorded as part of the proposed dividends apportioned from retained earnings and disclosed within equity. Subsequently upon approval of dividends by the shareholders at the general assembly, they were reclassified to other liabilities. The retrospective impact of the change in the accounting policy was not considered material and hence comparative information has not been restated.

The cumulative adjustment due to change in accounting policy has been recorded in the current year's consolidated financial statements as disclosed in the table below.

	31 December 2017	
	Consolidated statement of changes in equity	**Consolidated statement of financial position**
SAR'000	**Retained earnings**	**Other Liabilities**
Zakat for the year	63,000	63,000
Income tax for the year	316,500	316,500
Total	**379,500**	**379,500**

Certain other prior year figures have been reclassified to conform with the current year's presentation.

41. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 2 Jumaada Al-Thaany 1439H (Corresponding 18 February 2018).