بنك الرياض
riyad bank

Annual Report 2017

riyadbank.com


بسم الله الرحمن الرحيم

Custodian of the Two Holy Mosques
King Salman Bin Abdulaziz Al Saud

HRH Mohammad Bin Salman Bin Abdulaziz Al Saud
Second Deputy Prime Minister and Minister of Defence

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“We will be the leading Saudi bank, first in quality, first in value, first in caring for our customers and responding to their needs, by continuously improving our services, while enhancing our shareholders’ value.”

FINANCIAL STATEMENTS HIGHLIGHTS 2017

Total Assets

216,282m
(SAR Million Riyals)

2017 ›	216
2016 ›	218
2015 ›	223
2014 ›	215
2013 ›	205

Loans & Advances, net

138,838m
(SAR Million Riyals)

2017 ›	139
2016 ›	143
2015 ›	145
2014 ›	134
2013 ›	132

Customer Deposits

154,366m
(SAR Million Riyals)

2017 ›	154
2016 ›	157
2015 ›	168
2014 ›	165
2013 ›	154

Shareholder's Equity

38,623m
(SAR Million Riyals)

2017 ›	38
2016 ›	37
2015 ›	36
2014 ›	35
2013 ›	34

(SAR' Millions) Financial Statements Highlights	2017	2016	2015	2014	2013
Total Assets	**216,282**	217,619	223,316	214,589	205,246
Loans & Advances, net	**138,838**	142,909	145,066	133,820	131,524
Investments, net	**46,370**	45,157	44,765	47,148	43,733
Customer Deposits	**154,366**	156,684	167,853	164,806	153,934
Shareholders' Equity	**38,623**	36,973	36,295	35,337	33,670
Net Special Commission Income	**5,935**	5,301	5,180	5,123	4,689
Fee & Commission Income, net	**1,510**	1,503	1,784	2,014	1,812
Total Operating Income *	**8,148**	7,738	8,005	8,032	7,103
Operating Expenses excluding provisions	**2,975**	3,009	2,904	2,780	2,551
Provisions	**1,227**	1,386	1,052	900	605
Total Operating Expenses	**4,202**	4,395	3,956	3,680	3,156
Net Income	**3,946**	3,342	4,049	4,352	3,947
Earnings Per Share (SAR)**	**1.32**	1.11	1.35	1.45	1.32
Return on Average Assets ***	**1.8%**	1.5%	1.8%	2.1%	2.0%
Return on Equity	**10.2%**	9.0%	11.2%	12.3%	11.7%
Number of Branches in KSA	**340**	337	334	318	252
Number of ATMs	**2,592**	2,667	2,777	2,551	2,518

* Total Operating Income includes the Share of Income from Associates

** Previous year figures are restated since Bonus Issue is made during 2014.

*** Average is Calculated by adding opening and closing balances and divide it by 2

Riyad Bank offers
a comprehensive range of banking services for companies and individuals, and provides funding for all commercial and industrial projects and activities.

Board of Directors

CHAIRMAN'S STATEMENT

Summarizing Riyad Bank's annual report for 2017 in a few lines is no easy task. The true value of a team's accomplishments can't be fully represented in mere letters, as it's a value that never fades away, and can never be forgotten by those who accomplished it. Instead they draw more inspiration from it to live a great experience.

A year ago, I was given the honor of leading this banking institution. It was a heavy trust to carry and a great inheritance that was passed from men who created a series of accomplishments that gave the Bank a prestigious position and reputation. And as much as it is a strength to rely on a wealth of accomplishments, it also commands a tremendous responsibility and a difficult task that I didn't bear alone, but with the cooperation of my colleagues on the board, and the competence of the Bank's officials and all its parties, as well as the trust of its stakeholders and loyalty of its agents. They are the source of the Bank's support in heading towards its desired position, and our true wealth that achieves our ambitions and aspirations. I would like to extend my deepest thanks and gratitude to every individual in Riyad Bank for their dedication and contributions, and for the trust of its clients and their genuine loyalty.

2017 was a year full of achievements befitting a year that coincides with the 60th anniversary of establishment of one of the biggest banking institutions in the Kingdom and the region, the first Saudi shareholding company, the first Saudi bank to hire a Saudi woman, and the first bank to use the latest mechanization and financial technologies in its services and transactions, as well as plenty of other features.

2017 also marked the launch of Transformation Strategy 2022 which aims for Riyad Bank to be the number one bank in the Kingdom of Saudi Arabia and the first choice of clients in 2022. The strategy will achieve that by a comprehensive transformation program that contains 4 pillars, the first of which is a focus on clients through offering products for individuals and companies that meets all their needs. The second is innovation, as we will be working to offer a unique experience to clients that is quick, comfortable, and modern through the latest digital products and innovations in the banking industry. The third pillar will focus on productivity, by benefiting from a comprehensive selection of channels and resources at the highest level of efficiency. The fourth pillar revolves around the work environment and guaranteeing the best professional practices.

On the accomplishments front, Riyad Bank's activities during 2017 were a reflection of the achievements by the Kingdom's economic transformation process led by the Custodian of the Two Holy Mosques King Salman bin Abdulaziz and Crown Prince Mohammed bin Salman. The Bank has marched on, in steady and confident steps, towards realizing its plans to develop its capabilities, maintain its solid base, and reinforce its standards and banking practices which provide the highest and most prestigious levels of services for its clients, under the wise financial and regulatory policies adopted by the Saudi Arabian Monetary Authority (SAMA), which has contributed to the stability and growth of the Saudi banking sector.

In light of this, and represented in numbers, which is the truest form of expression for achievements, the financial returns for 2017 reflect the Bank's successes in continuing on its path of accomplishments and growth, as the Bank achieved annual profits of SR3,946 million, which is an 18.1% increase compared to SR3,342 million last year. The Bank's assets at end year 2017 were SR216,282 million, and the clients' deposits accounts were SR154,366 million. The net loans recorded a decline of 2.8%, becoming SR138,838 million compared to SR142,909 million last year. The Bank managed to enhance its capital base with property rights reaching SR38,623 million.

Judging by the results achieved by the Bank, the board has recommended distribution of net profits valued at SR2,190 million to the shareholders for 2017 at a rate of 7.3% from the share value.

In Retail Banking, the Bank continued developing its strategies and future plans in 2017 through a number of initiatives and accomplishments that were launched this year that were instrumental in achieving the Bank's objectives, raising its productivity, and gaining the satisfaction of its clients. The most important one was the launch of a group of products in cooperation with the Real Estate Development Fund and the Ministry of Housing, such as offering real estate funding services for the Bank's clients through the Subsidized Home Finance and Al-Moyassar Home Mortgage products.

As for improving customer experience and loyalty, we have developed the loyalty program (Hassad) which reinforces customers' trust in the Bank, and we have increased competitive benefits to include a bigger selection of products and services, including credit cards.

In keeping with the expansion policy of the Bank, the total number of branches in the Kingdom increased to 340. We also launched a mechanism for opening and renewing new individual accounts, which will contribute to improving customer experience and raising the quality of service.

In the digital transformation field, the Bank has made sure to invent more banking solutions by implementing new technologies and bringing the latest technologies in the digital banking world to serve our clients at any time and place. Credit cards can now be used without the need for a security code within a set spending limit, in addition to the immediate issuance of the cards.

As for ATMs, Riyad Bank has a large network containing 2592 ATMs spread across all parts of the Kingdom, which is why our efforts have been focused on improving the efficiency of this network in general. It was one of the most important accomplishments

"2017 was a year full of achievements befitting a year that coincides with the 60th anniversary of establishment of one of the biggest banking institutions in the Kingdom and the region."

3,946
Net Income
(SAR millions)

340
Number of Branches in KSA

2,592
Number of ATMs

in 2017, making us the first Saudi bank to install 14 ATMs for foreign currencies distributed among branches.

As for Corporate Banking, Riyad Bank continued its quest to become the leading bank in the area through its role in financing the corporate sector. The Bank had a primary role through the corporate financial services sector in financing deals for companies and projects, and expanding its commercial links to the biggest corporate clients in all industrial sectors. Our client portfolio of SMEs has grown exponentially in 2017, as Riyad Bank became the leader in banks that are cooperative with the Kafala program through its contribution of financing 32% of the total establishments that had been financed in 2017, a total of 568 establishments.

The Bank also participated in arranging financing for companies that target industrial investment, offering financial support and consultation services to Saudi manufacturer companies in joint projects with prestigious international companies. The Bank also participated in infrastructural projects for transportation in Riyadh.

As for Islamic Banking, Riyad Bank last year has pushed towards creating a new batch of products and solutions in compliance with the Islamic Sharia and based on the views of the Sharia authority within the Bank.

And because our values, nationalism, and humanity are the basis of our policies and sustainable development strategies, the Bank has continued its contributions on all fronts and in all fields. 2017 was a year full of activities, initiatives, and events that Riyad Bank has contributed to supporting and financing, as it has been more actively involved in conferences, forums, and national, humanitarian, cultural, professional, economic, and scientific events. It was also a partner of many institutions, societies, and humanitarian and charity organizations.

If the annual report is considered a summary of a past year, it also gives a first impression of an upcoming financial year, which we strive to fill with accomplishments that add to the Bank's record of achievements, enriching its experience, and contributing to the path of prosperity and development in our dear nation.

In conclusion, I would be remiss not to thank the shareholders of Riyad Bank and our clients for their loyalty and trust, from which we draw the strength to proceed in satisfying their demands and achieving what befits them including returns, products, and services, and what befits the history and track record of Riyad Bank.

I would also like to thank again my fellow colleagues on the board for what they have shown in devoted efforts and continuous support, which is what enabled us to reach where were are today, and which is what we shall use to pave the way for the further accomplishments we aim to achieve in the next year, with the determination of all the members of Riyad Bank's big family, including the employees whose dedication and performance had an active role in translating the Bank's vision and taking it forward.

Chairman of the Board
Eng. Abdullah Mohammed Al-Issa

BOARD OF DIRECTORS

Executive Committee
Abdul-Rahman Amin Jawa (Chairman)
Talal Ibrahim Al-Qudaibi
Mohammed Abdulaziz Al-Afaleq
Mutaz Qusai Al-Azzawi
Nader Ibrahim Al-Wehibi

Audit Committee
Jamal Abdul-Karim Al-Rammah (Chairman)
Mohammed Omair Al-Otaibi
Abdul Raouf Sulaiman Banaja
Abdul Aziz Abdullah Al-Duailej
Abdullah Abdullatif Al-Saif

The Nomination & Compensation Committee
Mohammed Talal Al-Nahas (Chairman)
Talal Ibrahim Al-Qudaibi
Jamal Abdul-Karim Al-Rammah
Nader Ibrahim Al-Wehibi


1.


2.


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5.

1. Abdullah Mohammed Al-Issa
Chairman of the Board

2. Ibrahim Hassan Sharbatly
Board Member

3. Jamal Abdul-Karim Al-Rammah
Board Member

4. Talal Ibrahim Al-Qudaibi
Board Member

5. Abdul-Rahman Amin Jawa
Board Member

Strategic Planning Group

Abdullah Mohammed Al-Issa (Chairman)
Ibrahim Hassan Sharbatly
Talal Ibrahim Al-Qudaibi
Abdul-Rahman Amin Jawa
Mohammed Talal Al-Nahas

Risk Committee

Mohammed Abdulaziz Al-Afaleq (Chairman)
Mohammed Omair Al-Otaibi
Mutaz Qusai Al-Azzawi


6.


7.


8.


9.


10.

6. Mohammed Talal Al-Nahas
Board Member

7. Mohammed Abdulaziz Al-Afaleq
Board Member

8. Mohammed Omair Al-Otaibi
Board Member

9. Mutaz Qusai Al-Azzawi
Board Member

10. Nader Ibrahim Al-Wehibi
Board Member

EXECUTIVE MANAGEMENT

Abdulmajeed A. Al-Mubarak
Chief Executive Officer

Thalib A. Al-Shamrani
Senior Executive Vice President, Chief Risk Officer

Abdulaziz S. Al-Malki
Executive Vice President, Treasury & Investments

Adnan S. Al-Joyan
Executive Vice President, Support Services

Ossama A. Bukhari
Executive Vice President, Corporate Banking

Ahmed Y. Al-Tayeb
Executive Vice President, Risk Management

Riyadh O. Al-Zahrani
Executive Vice President, Retail Banking

Mohamad A. Al-Rabeah
Executive Vice President,
Marketing

Hani A. Abu Al Naja
Executive Vice President,
Branches

Aiedh M. Al-Zahrani
Executive Vice President,
Business Technology

Mohammed Qureshah
Executive Vice President,
Finance

Abdulaziz Al-Asker
Executive Vice President,
Credit

Enji Al-Ghazzawi
Executive Vice President,
Operations

Mohammed Abo Al-Naja
Executive Vice President,
Corporate Services

Nader S. Al Koraya
Executive Vice President,
Treasury

Saad Musheeb Al Qahtani
Executive Vice President,
Human Resources

REPORT OF THE BOARD OF DIRECTORS

The Riyad Bank Board of Directors is pleased to submit its annual report to our esteemed shareholders which covers the performance of the Bank and its subsidiaries for the fiscal year ending on 31st December 2017. It includes information about the Bank's activities, its most important accomplishments, strategies, financial results, the Board of Directors and its different committees, as well as other complementary information that meet the needs of this report's users.

Main Bank Activities:

Riyad Bank is primarily concerned with banking and investment activities both for its own benefit and for others in the Kingdom of Saudi Arabia and abroad. The Bank provides a full range of Corporate and Retail Banking services, financing activities, commercial and industrial projects and infrastructure projects through its 340 branches in the Kingdom as well as the London Branch in the United Kingdom, the Houston Agency in the United States and a representative office in Singapore. Through its wholly owned subsidiary, Riyad Capital, the Bank offers a variety of asset management and investment banking services, meeting the needs of individuals by providing brokerage services in the capital markets, and a wide range of investment and investment fund services.

The Bank operates through the following major operational departments:

Retail Banking: Provides Retail Banking, Private Banking, Golden Banking and small and medium-sized enterprises (SMEs), which include deposits, credit and investment products.

Investment Services & Brokerage: Provides investment management services and asset management activities related to handling, management, arranging, advising and securities services.

Corporate Banking: Provides services and deals mainly with current accounts, corporate deposits, loans, current accounts receivables, other credit facilities and derivative products.

Treasury and Investment: Provides capital markets with financial services, trading services, treasury services and portfolio management.

Statement of the impact of the Bank's divisions on the volume of business and their contributions to the 2017 results:

SR in thousands:

Division	Net income (Loss)	Percentage
Retail Banking	1,627,697	41.2%
Investment Services and Brokerage *	164,585	4.2%
Corporate Banking	1,809,435	45.9%
Treasury and Investment	1,313,652	33.3%
Other**	(969,373)	(24.6%)
Total***	3,945,996	100%

*Represents Riyad Capital

**Other supporting divisions

***The impact of other subsidiaries are unsubstantial to the Bank's results

Strategy and Objectives:

Riyad Bank continued to focus on supporting the Saudi economy and strengthening its role in supporting business within the Kingdom, in addition to the contribution of the Bank's offices and branches in London, Houston and Singapore in developing business with Saudi Arabia.

In 2017, the Bank maintained its leadership in Corporate Banking, particularly in trade finance products, and in operating its branch network to serve its customers in the Kingdom. Efforts have been intensified to develop digital banking through the use of new and improved technologies. The Bank will maintain these efforts to serve the aspirations of its customers.

During the same year, the Board of Directors and Executive Management reviewed the Bank's strategy. Looking ahead, the Bank plans to be a leading bank in the Kingdom based on the capabilities of its affiliates and on having a customer base, products and services that will drive it to meet that end.

Despite the current challenges in the economic and competitive environment, the Bank believes that there are opportunities in the sectors focused on by the ambitious economic road map of the Kingdom's 2030 Vision. Riyad Bank draws its strength from its loyal customer base which trusts the Bank to meet their financial and banking needs.

2017 witnessed the launch of Riyad Bank's 2022 strategy, which aims for Riyad Bank to be the clients' first choice. The Bank's strategy is based on 4 main pillars:

1. Focusing on customers through providing products for individuals and companies that meet all their needs. Customer satisfaction is the main measure of success of all the Bank's departments.
2. Innovation that meets customers' needs and provides them with distinctive services.
3. Increasing productivity in order to enrich the customer experience.
4. A focus on the work environment to ensure the following of the best practices for the benefit of the Bank's staff and customers.

These 4 pillars will help achieve the following objectives:

- Making Riyad Bank the first digital bank in the Kingdom of Saudi Arabia
- Increasing the Bank's revenues through increasing Retail and Corporate Banking sales
- Developing and strengthening the services provided to private banking customers, the Government sector and SMEs
- Developing cross selling across all different sectors of the Bank
- Developing the level of services provided to customers through developing and improving the level of communication and responsibility while focusing on customer service

Through its 2022 strategy, the Bank looks forward to strengthening its position at the forefront of the Saudi banking sector by enhancing its market share, increasing profit and profit growth, and improving its banking services and products.

The Bank will continue its digital transformation plans, automate all banking transactions and expand its reach across the Kingdom through ATMs and digital branches. It also seeks to expand the base of beneficiaries through community service programs and initiatives, and to strengthen its partnership with charitable and humanitarian organizations.

Riyad Bank will pay significant attention to its employees, developing their skills, enhancing their capabilities and improving the work environment since they are the Bank's real asset to which it pays the most attention.

Subsidiaries

Subsidiaries	Capital in SAR	Total shares*	Ownership in %	Main activity	Establishment country	Activity country
Riyad Capital	200,000,000	200,000,000	100%	Undertaking trading activities as Principal and Agent, and undertaking to cover, establishing and managing funds and investment portfolios, in addition to arranging and providing Consultancy and Custody Services for securities, portfolio management and trading	KSA	KSA
Ithraa Riyad Real Estate	10,000,000	1,000,000	100%	The keeping and management of assets provided by customers as collateral, and the sale and purchase of real estate for financing purposes for which the company was established	KSA	KSA
Riyad Company for Insurance Agency	500,000	50,000	100%	Works as an agent for selling insurance products, including its own and those managed by other main insurance companies	KSA	KSA
Curzon Street Properties Ltd	12,738	2,000	100%	A company established for the purpose of owning properties	Isle of Man	UK
Riyad Financial Markets Ltd	187,500	50,000	100%	Undertaking transactions of financial derivatives, and re-purchase agreements with international parties on behalf of Riyad Bank	Cayman Islands	KSA

*Represents total issued shares except those of Riyad Capital as 1 share only has been issued and is kept with the Bank

The following is a detailed overview of the Bank subsidiaries:

1 - Riyad Capital:

Riyad Capital is a Saudi limited liability company wholly owned by Riyad Bank with a paid up capital of SAR 200 million, and is licensed by the Saudi Capital Market Authority for Dealing as Principal, Agent and Underwriter; Arranging; Advising and Custody Services. Riyad Capital's business is managed from its headquarters in Riyadh.

Through its asset management division, Riyad Capital continues to innovate and develop investment products that cater to the needs of its investors. Riyad Capital is committed to increasing the "Riyad REIT" Fund to reach 1 billion seven hundred million riyals by 2017. "Riyad REIT" was also listed at Tadawul as the 1st real estate investment fund traded in the Kingdom. 'Riyad Taqnia Fund' is a high risk investment fund that invests in a range of promising companies in various fields such as financial technology (fintech), e-commerce, cloud computing and logistics. Riyad Capital's closed Riyad Hospitality Fund is a private equity fund established to acquire a stake in Boudl Resorts and Hotels. Riyad Money Fund (SAR) maintained its outstanding performance in the market, increasing its volume by 110.8%.

Riyad Capital provides specialized financial advisory that span all investment banking activities such as the management of sukuk issuances and corporate shares, in addition to mergers and acquisition advisory and structured finance.

The Brokerage and Trading Department launched a number of initiatives that support and enhance Riyad Capital's position in the market. In addition to the diversified portfolio of investment services offered by the company. The new Mubasher Pro was launched at the end of 2017 which offers direct trade through the channel. The department also gave access to international trading through smart devices. The department is currently working on the development of technical solutions that will attract new customers through the e-platform without having to visit the branch or RC centers. This will improve customer service and at the same time limit the cost incurred by investment centers.

In terms of international brokerage services, the strong performance of international equity trading services continued, especially with the continuation of the international equity trading campaigns and the addition of numerous services such as research and analysis. This resulted in doubling the number of customers and the net profit generated by these services during 2017.

As for local brokerage services, the Board of Directors approved a margin-financing product, which is expected to help increase brokerage profits, hence improving Riyad Capital's market share. Riyad Capital also continued to promote local equity market products in cooperation with Riyad Bank, which has contributed considerably to enhancing the profits of local trading services.

During 2017, the Custody and Securities Services Department continued to develop products and services, including the development of an Advanced Storage System (iCustodyPlus).

This is in addition to introducing a new range of products, including:

- Local Market Fund and Trustee Services including and Sub-Custodian services after obtaining the license from Tadawul
- GCC Custody and Fund & Trustee Services following the appointment of a regional custodian, selected after the application of due diligence standards and conditions
- Fund and Trustee Services for real estate

Payment, management and custody services for sukuk issuing and local bond

As part of its development strategy, the Custody and Securities Services Department is currently initiating the launch of Fund & Trustee Services in international markets by selecting and appointing the best international custodians, following the implementation of the necessary standards, including due diligence procedures.

Asset Management at Riyad Capital in 2017 has continued to promote investment culture among its customers by providing an investment advisory service dedicated to affluent customers offered with utmost privacy and professionalism. Three branches in Riyadh, Al-Khobar and Jeddah have been allocated to assist customers in evaluating their investment options carefully and accurately which in turn expanded Riyad Capital's Asset Management and Trading services.

2 - Ithraa Al-Riyad Real Estate Company:

Ithraa Al-Riyad Real Estate Company, which is registered in the Kingdom of Saudi Arabia, is a limited liability company wholly owned to Riyad Bank. With its headquarters located in Riyadh, it has a paid up capital of SAR 10 million comprising a million shares with a nominal value of SAR 10 per share. The company is responsible for providing services for real estate owners and others. It also has the right to buy and sell real estate and similar assets in pursuit of the financing purposes for which it was established.

3 - Riyad Company for Insurance Agency:

Riyad Company for Insurance Agency is a limited liability company wholly owned by Riyad Bank with a paid up capital of SAR 500,000. Registered in the Kingdom of Saudi Arabia with its headquarters in Riyadh, the agency focuses on marketing and selling the insurance products of Al-Alamiya Cooperative Insurance to Riyad Bank and its Corporate and Retail customers in the Kingdom. Riyad Company for Insurance Agency has entered into an insurance agreement with Al-Alamiya Cooperative Insurance as well as another agreement to distribute insurance products with Riyad Bank, and has obtained the approval of SAMA, operating in accordance to its rules and regulations. In 2017 Riyad Company for Insurance Agency activated its business significantly. Among its activities was the design of insurance umbrellas to cover mortgage finance products, trade finance products and credit card shields.

Summary of Achievements of the Bank's Divisions and Departments:

Retail Banking:

Throughout 2017, Retail Banking continued to implement initiatives which had a significant impact on achieving the Bank's objectives, increasing its productivity and improving customer satisfaction. The most important of these was the launch of a series of integrated products in cooperation with the Real Estate Development Fund and the Ministry of Housing, including providing mortgage services to the Bank's customers through Subsidized Home Finance and Al-Moyassar Home Mortgage packages. The Bank also made a major improvement to its payment solution offerings through the launch of a smart bracelet and mobile sticker, as well as the launch of Riyad Pay wallet, a safe and advanced payment option.

To enhance customer commitment and increase the Bank's competitive advantage, the Hassad program was further developed to include points accumulated for a wider range of banking products and services, including credit cards.

At the branches level and in line with its expansion policy, the Bank opened 4 new branches in 2017, increasing the total number of branches in the Kingdom to 340. A new system for opening/updating accounts for new customers has also been launched, contributing to improving customer experience and the quality of service.

With regards to ATMs, Riyad Bank has a wide network of 2,592 machines spread throughout the Kingdom, and therefore the main focus is on increasing the efficiency of the network in general. One of the most important achievements during 2017 was the installation of 14 foreign currency exchange ATMs distributed across branches to serve both Riyad Bank and other bank customers who hold mada cards. These included two machines, at King Fahad International Airport in Dammam and King Khalid International Airport in Riyadh. The Bank also sent its mobile ATM trucks to many events to make it easier for customers to access cash.

Private Banking:

Riyad Bank has 4 dedicated private banking centers around the Kingdom offering advanced banking services, investment solutions and credit facilities to serve this important segment of high net worth individuals.

During the 1st quarter of 2017, the Bank launched a free hotline for private banking customers (666-122-800), which is managed by a team of experts and aims to provide the highest quality of services to this important segment.

Diamond and Golden Banking:

As part of the Bank's efforts to constantly develop its services to meet the needs of its customers, Golden Banking was revamped in the 3rd quarter of the year, adding new features and priority treatment across all branches and banking channels. As a result, the number of Golden Banking staff and service centers inside branches increased to give customers a more customized experience.

In the 4th quarter of 2017, the Diamond Banking program was launched, offering exclusive Diamond Banking centers with a new identity and superior banking services and benefits to serve this segment with utmost efficiency and professionalism. The first dedicated Diamond Banking center in Riyadh was launched as part of a number of centers that will provide banking services and products through a staff of highly qualified relationship managers and a designated meeting room and lounge for customer reception and service.

One of the most important achievements during 2017 was the installation of 14 foreign currency exchange ATMs distributed across branches to serve both Riyad Bank and other bank customers who hold mada cards. These included two machines, at King Fahad International Airport in Dammam and King Khalid International Airport in Riyadh.

Ladies Banking:

The number of ladies' branches reached a total of 80 throughout the Kingdom, offering all services in line with client expectations. Riyad Bank also continued to provide the most advanced and latest services, resulting in a significant increase in the number of customers.

Digital Banking:

The year 2017 witnessed positive and influential changes in the ambitious strategy of the Bank to become the best digital bank in the region. As per the set plan, the year witnessed the completion of the foundation phase of the Bank's digital banking strategy.

Digital banking services for university student was launched. They included Riyad Online, Riyad Mobile and Riyad Phone, in addition to Smart Watch and Riyad Token applications. Students were also offered smart payment methods such as "Smart Wristband" and "Mobile Sticker", in addition to the Virtual card that can be used to shop online.

Furthermore, 2 new services with added value to customers were launched. The first of these was Wazin Auto Saving Program which offers an innovative, smart and easy solution through Riyad Online to help customers achieve their goals through balancing their spending with their saving. The second is the Riyad Foreign Currency Exchange ATMs which allow withdrawals of 4 foreign currencies (US Dollar, Euro, British Sterling, UAE Dirhams) using mada cards issued by other banks, not only Riyad Bank, although we were the first Saudi bank to launch this.

Customers were also given the ability to apply online for products and offers. Riyad Online users can now request a credit card with the click of a button and have it delivered through a courier service or a customer service representative without visiting a branch. Furthermore, "A Second Account in Seconds" is accessible for Riyad Online and Riyad Mobile users granting them the ability to instantly open a savings account with Sharia complaint returns. An update to this service also gave customers the ability to instantly open a current or savings account without returns in 4 currencies. Moreover, the user experience on the Bank's website was also improved to make the application for banking products smoother, contributing to the increase in the number of sales opportunities.

The year 2017 witnessed positive and influential changes in the ambitious strategy of the Bank to become the best digital bank in the region.

A special program was launched to encourage the usage of digital banking channels and drive traffic away from branches and call center in coordination with the Customer Relations Management (CRM) department in Retail Banking. This was achieved through the following activities:

- Launching several campaigns to encourage customers to register and use digital banking channels as their main banking method; furthermore, employees of branches are motivated to direct customers to use digital banking channels after undertaking specialized training courses for branch meet and greet staff.
- Making the most frequently requested banking services at branches and the call center available digitally.
- Updating the branch system to make it mandatory when new customers open accounts to register for digital banking channels, and allowing current customers to register for digital channels. A dashboard is available that shows every customer's digital status.
- Improving the registration process by making it faster and easier. A single registration is now sufficient for multiple channels. This can be done through Riyad Mobile, Riyad Line, Riyad Self Service and branches, in addition to the main channel, Riyad Online.
- Upgrading the system for Riyad Line to help customer service representatives at the call center to resolve problems through a single call, contributing to the overall improvement in performance and customer satisfaction.

This is in addition to doing all that is necessary to achieve digital banking's main objectives, which are:

- Spreading a digital strategy and culture: through the implementation of and follow-up on the execution of the digital strategy of the Bank as a whole, in addition to employing experts in the field to ensure that best practices are followed.
- Digitization: through focusing on digital innovation and working on providing a unique experience for digital channel users, with the utilization of smart and modern methodologies for solution development and project management.
- Managing the digital channels and working on making most services available digitally to customers in order to reduce the numbers of visits to branches and calls to the call center.

Corporate Banking:

Riyad Bank continues to play a major role in the Corporate Banking sector by financing corporate deals and enterprises and expanding its business relationships with major corporate clients across all industries. Moreover, the Bank strives to be the premier corporate bank in the region through its role in financing the corporate sector. Riyad Bank pays specific attention to the needs of corporate clients by offering them high-quality products to satisfy their growing expectations within a highly competitive business environment.

Riyad Bank works to offer the best Trade Finance services. As a part of this obligation, the Bank expanded its Trade Finance offices to include carefully chosen primary locations throughout the Kingdom, including Jubail, Yanbu and the Second Industrial City in Riyadh.

During 2017, and in line with the increased non-oil exports from the Kingdom, which is one of the goals set in the 2030 Vision, Riyad Bank increased its focus on serving Saudi exporters and facilitating their non-oil exports from the Kingdom. Our services have also been expanded to cover 5 regions in the Kingdom so that the increasing needs of businesses and SMEs in these areas are met.

Aligning with the Bank's strategy to become the leading digital bank, Corporate Banking launched Mobile Banking services for smart phones. In addition, electronic collection solutions have been improved by introducing "Riyad Collect" (a virtual account solution) for leasing and brokerage companies.

The Bank improved the experience of its corporate customers, making the customer journey more efficient through redesigning and digitalizing the current operation cycle and introducing a new structure. The portfolio of SMEs has grown in 2017 and the Bank maintained its leading position in the market among other banks that are part of the "Kafalah" program.

Riyad Bank continued to innovate financing solutions and introduce unique banking products, as it financed about 32% of the total number of enterprises financed during the year. It also financed 37% of the enterprises that obtained credit facilities within the 4th quarter of the same year. This was done in cooperation with the "Kafalah" program, which is a joint initiative among the Ministry of Finance and Saudi banks. The results of the "Kafalah" program during the quarter contributed to establishing Riyad Bank's leading position in the Kingdom.

Furthermore, the Bank achieved exceptional results in SME financing under the "Kafalah" program, reaching approximately 1 billion riyals during 2017. In collaboration with "Kafalah", the Bank offers a wide range of financing solutions designed to meet the needs and capabilities of these enterprises.

The Bank is keen to enable new sectors in the market, in support of the economic diversity plans of the Kingdom's 2030 Vision. The entertainment sector obtained about 11% of the support provided from the Bank during the last quarter of the year. Other sectors that received support included IT, tourism, industry, health and education, within a plan that included qualitative and feasibility requirements aimed at enabling a more diversified and stable economy.

Aligning with the Bank's strategy to become the leading digital bank, Corporate Banking launched Mobile Banking services for smart phones.

In line with the Kingdom's 2030 Vision, Riyad Bank continued to grant credit facilities and corporate services to finance major projects and participate in the arrangement of financing for companies with a relation to the Public Investments Fund (PIF), which targets industrial investments. The Bank also offered financial support and expanded consultative services to Saudi Manufacturing Companies in joint ventures with reputed international companies. Moreover, the Bank participated in transportation infrastructure projects in Riyadh.

The Bank was selected to play the role of Agent in refinancing the Industrial Cities Development and Operating Company (ICDOC), which is a leading developer and operator of industrial cities in the Kingdom, including the Jeddah and Dammam industrial cities. Moreover, Riyad Bank was one of the first participants and financers of the Real Estate Development Fund (REDF). This subsidized financing is a Shari'ah compliant and subsidized housing financing program that was implemented with the participation of banks and leasing companies. The Bank was also appointed as the Murabaha Financing Agent of the National Industrialization Company (Tasnee) and participated in refinancing the Ma'aden Aluminum Company (MAC).

Treasury and Investment:

The Treasury and Investment Department played an important role in efficiently managing the Bank's liquidity and funding requirements for various banking activities. Treasury continued to play a central role in managing interest rate and foreign exchange risk exposure to ensure they remain within the limits set by the Bank.

In a challenging economic environment, Treasury provided innovative and customized solutions to customers for managing interest rate and foreign exchange risk exposures. In line with the Bank's overall cross-selling strategy, Treasury continued to focus on identifying and capturing cross-selling opportunities in coordination with the Bank's other business divisions. In order to provide better pricing to customers for hedging solutions, Treasury set up a Special Purpose Vehicle (SPV) in the Cayman Islands for executing derivative trades with international counterparties.

Investment portfolios managed by Treasury continued to outperform the benchmarks on a relative and absolute basis. Treasury continues to further build upon investment capabilities within the Bank to manage investment portfolios more efficiently and at a lower cost.

Islamic Banking:

During the year, Riyad Bank continued its efforts to innovate and design a portfolio of Sharia compliant banking products and solutions approved by the Sharia Committee at the Bank, which extended to daily banking transactions, and financing and investment solutions for all segments of Retail and Corporate Banking.

Islamic Banking adopted a specialized training program aimed at introducing its employees to Islamic Banking and its products. The management has also made a periodic assessment of the performance of the Bank's Islamic Banking branches by conducting more than 50 follow-up visits to these branches.

The Islamic Banking department also held 12 consultation meetings with the Sharia Committee at the Bank, through which it has structured many of the products and financing solutions provided by the Bank throughout the year. These included products and contracts for Murabaha and Ijarah financing transactions, such as the adoption of Ijarah products, which promise fixed-rate leasing and financing, as well as the adoption of programs and conventions for the Real Estate Development Fund, such as the accreditation of the Advance Payment Guarantee Program and Subsidized Home Finance. In addition to the adoption of procedures and contracts to grant the Bank's customers a Sharia compliant facility in place of conventional debt facilities and in line with the requirements of Retail and Corporate Banking, Islamic Banking adopted investment solutions provided by Riyad Capital, such as the Sharia Committee's decision on the structure of the Saudi Riyal Sukuk program, which is based on Mudaraba, Murabaha and short sales. This is in addition to the adoption of the terms and conditions of the Riyad Equity Fund and Riyad Riyal Trading Fund. In addition, Islamic Banking obtained many fatwas issued by the Sharia Board regarding the services and operations provided by the Bank to its clients.

Overseas Branches:

Through an overseas banking network represented by our branch offices in London, a Houston-based agency, and a Singapore Representative Office, Riyad Bank provides banking solutions to a corporate customer base abroad. This allows the Bank to provide its customers with tailored services to meet their needs. The Bank offers advice on investments and business in the Kingdom of Saudi Arabia leading to an increase in customer investments both within and outside of the Kingdom. The London Branch plays an active role in providing tailored banking services to the Bank's customers in the Kingdom and their affiliated companies in order to support their European investments in various sectors. Riyad Bank is also the only window for Saudi banks in the Americas. We are also present in the Far East, where our Singapore Representative Office helps Riyad Bank customers take advantage of investment opportunities in Asia, and to develop relationships

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with correspondents and Asian corporations who have business activities in Saudi Arabia.

Business Technology:

The year 2017 witnessed a major improvement in many e-services, resulting in Riyad Bank receiving the Tier 3 Gold Certification of Operational Sustainability from the American Up Time Institute, which is specialized in the assessment of global data and information centers.

The acquisition of this certification by Riyad Bank's Information Center is an unprecedented achievement in the Middle East and Africa, as no bank in the region has received it before. The Tier 3 Certification is the top award as per the applied global standards for the reliability, performance and sustainability of data centers. It takes into account the operational sustainability standards of data center owners, managers, and operators and the ability of data center operations to extract high performance from installed infrastructure, reduce the risk of downtime and avoid human error.

The Institute issues the certificate based on the commitment of the enterprise under evaluation to several criteria. These include the operational sustainability of the data centers' owners, managers and operators, and its operational performance and risks. Compliance with recommended behaviors helps to achieve high infrastructure performance, reduce the risk of downtime, avoid costly errors, and detect opportunities for increased efficiency.

An EMC information storage system was also activated. Employing flash storage for open systems and central computers, it meets all current needs and speeds up the performance of the Bank's workloads, providing data continuously, and enhancing efficiency, speed of response and the compression of embedded data. The EMC system has also been used for elastic storage, updating data storage devices for the central archive, providing data storage space, and providing a cloud solution for archival storage. This ensures data protection in times of disaster.

A Network Performance Management (NPM) system has been implemented, signaling a shift from error management to performance management, allowing network administrators and managers to easily monitor errors, troubleshoot them, and analyze what is happening across the Bank's network. This system helps solve network-based performance problems quickly and proactively.

The development of the Bank's technology is aimed at meeting the growing need for more sophisticated, flexible and reliable electronic services. IT management has been instrumental in creating many applications, initiatives and electronic services in response to customers' growing needs. Among these initiatives was the installation of infrastructure for the new Call Center, including new services, such as automated customer redial services, improved automatic customer communication services for collection and sales, video call services, and social media tools support.

Riyad Bank is the first bank to introduce voice access to phone banking. This service helped to reduce the rates of invalid access to the phone banking service, improve speed of access, and reduce the Bank's staff's efforts in reactivating lost secret numbers. Voice commands provide direct access to required services, and facilitate the execution of services for customers.

Riyad Bank was the first Saudi bank to launch the "PayPass" and "PayWave" services. They allow Mastercard and Visa cardholders to pay by swiping their cards on the point of sales screen for operations with low values (100 riyals or less), allowing for a total cumulative value of 300 riyals without the need for secret numbers. The card system was developed through the addition of new features that allow the system to issue smart phone stickers and bracelets that work on the mada Atheer network. This allows customers to pay quickly and easily at the point of sales device by passing their bracelets or mobile devices through a scanner. Riyad Bank is the first bank in the Kingdom to provide this type of service.

Riyad Bank also launched the first digital wallet in the Kingdom, which allows customers to conduct electronic transactions using Android smart phones by converting Riyad Bank credit into digital credit. This gives customers a unique experience of managing their credit cards transactions safely.

More services have become available through ATMs. These included "EZ Transfer" and "Western Union Remittance" for "My Pay" prepaid card customers. In addition, selected ATMs have been programmed to allow withdrawals in foreign currencies. This service is available to all mada customers in the Kingdom.

Business Technology Governance and Information Security:

The Business Technology Governance department continued to strengthen the Bank's business technology environment, allowing it to adopt more security controls, and provide better data protection and security against threats and emergencies. The Information Security department contributed to the establishment and review of more than 65 technical designs for the Bank's various projects.

The Business Continuity department successfully implemented Business Continuity Automation, which mechanizes the Business Continuity Lifecycle in line with the Enterprise Continuity Policy. Riyad Bank is one of the few banks in Saudi Arabia that has implemented this pioneering business continuity automation system. In parallel, the department conducted a business continuity test for 42 departments, as well as disaster management tests.

In line with the Bank's policies, the Change Management department, in association with other departments, processed around 2,150 change requests during 2017. This figure includes basic, technical, emergency and minor changes.

Business Technology Governance also contributed to reducing risks to information security. Riyad Bank places great importance on providing a high tech work environment with a difficult

Riyad Bank also launched the first digital wallet in the Kingdom, which allows customers to conduct electronic transactions using Android smart phones.

to penetrate firewall system. Thus, 2017 witnessed major developments and achievements in this field.

The Business Technology Governance department worked to achieve the Bank's strategy for digital transformation by re-designing applications, platforms and electronic portals; developing performance indicators to match the strategic transformation of business technology; and supporting the transformation of the Bank's digital governance model.

One of the prominent achievements in restructuring the Bank's technologies was strategic planning for the Riyad Mobile project. This was available through developing a unified platform for the mobile application, the restructuring and development of technical infrastructure, and the updating of portals and technological platforms to support the various strategic initiatives of the Bank's digital transformation.

Automation, efficiency and transparency are the core principles maintained by the Business Continuity Department, which has successfully implemented Business Continuity Automation. This ensures continuity of the business cycle and the application of pioneering systems.

The Change Management department has worked closely with other departments to provide a modern testing environment, enhancing their capabilities and improving their efficiencies. This ensures a better working environment by providing continuous training for management staff, the participation of relevant departments in quality testing before the actual implementation of systems related to the infrastructure, and the development of quality testing methods and tests.

The Bank's Compliance Department also actively participates in the implementation of the requirements of the Foreign Account Tax Compliance Act (FATCA).

Change Management also reviews and evaluates business continuity services at Riyad Bank at all levels and carries out periodic and continuous programs to test the ability of the Bank's departments to continue their business as well as implement technological loss and disaster tests. This assists the Bank in enhancing and developing services in addition to following international standards applied by all financial and banking institutions and SAMA requirements.

Compliance Department:

Riyad Bank continuously seeks to promote a culture of commitment, maintaining its values and professional standards at various levels and with all activities. These standards include local and international regulatory requirements, working regulations, and ethical rules and practices.

The Compliance Department is responsible for compliance controls, implementing an effective compliance program that includes oversight, advise, and regulatory and awareness management of compliance concepts, as well as the monitoring of AML / CFT banking operations.

The Compliance Department always strives to ensure that the Bank complies with current and future regulatory requirements, such as regulations and circulars issued by SAMA and other legislative bodies. It also complies with any other new requirements, such as circulars related to the introduction of new banking products and services, Anti-Money Laundering system updates, the Anti-Terrorism and Financing of Terrorism Law, Corporate Governance Regulations issued by the CMA, and any regulations issued by any other supervisory bodies.

In this regard, the Compliance Department analyzes and examines the requirements for new and updated regulations and conducts risk assessments to monitor the impacts of these updates on the Bank and its regulations.

The Bank continued to comply with the recommendations of the International Finance Committee against Money Laundering and the Financing of Terrorism and the rules of the Office of Foreign Assets Control for combating money laundering and the financing of terrorism and the financing of the proliferation of weapons of mass destruction.

The Bank's Compliance Department also actively participates in the implementation of the requirements of the Foreign Account Tax Compliance Act (FATCA), and the Joint Reporting Standard developed by the Organization for Economic Co-operation and Development (OECD). It is also compliant with the Value Added Tax (VAT) system and the regulations issued by the General Authority for Zakat and Income that will be in place by the onset of 2018.

The Compliance Department is committed to achieving the highest standards of quality and applying best practices in terms of identifying risks of non-compliance with the Bank, providing business advisory services to the Bank, and raising awareness and education on compliance issues and combating money laundering and terrorist financing. In 2017, the Department developed and implemented a monitoring and follow-up plan based on risk assessment approved by the Audit Committee nominated by the Board of Directors.

Community Service:

In 2017, the Bank was actively involved in national, humanitarian, cultural, professional, economic and scientific conferences, forums, and events. It has been a distinguished partner of many institutions, associations, humanitarian and charitable organizations, which have benefited from its experience in the field of community service and its reputation acquired over several decades of giving.

The Bank's most prominent community service initiatives during 2017:

Riyad Bank supported small and medium-sized enterprises (SMEs) by sponsoring conferences and related events, or by increasing its contributions to financing such projects. The Bank participated in the First Forum of the General Assembly of Small and Medium Enterprises, and sponsored the First Forum for Small and Medium Enterprises - Challenges and Opportunities at the Jazan Youth Center. Riyad Bank also sponsored an SMEs initiative at King Abdullah Economic City entitled "Home Partners Initiative".

In the context of its active role in the Saudization of jobs and in providing promising career opportunities to young nationals in various sectors, the Bank continued to participate actively in professional and career events organized by Saudi universities.

The Bank adopted and co-sponsored several activities and programs for children, such as the 3rd edition of the "small merchant program". The Bank continued to support and sponsor annual programs dedicated to the care of children with special needs, in addition to supporting new programs and initiatives through partnerships with charitable societies and organizations. The Bank continued to sponsor the 11th Youth Club Summer Center for Children with Special Needs, and the Summer Club at the Association of Disabled Children in Al-Baha. The Bank sponsored the annual Children's Graphics and Creativity Program (Eid Cards 2017) in partnership with the Association of Disabled Children in Riyadh. The Bank also sponsored visits to children in hospitals during Eid. It also renewed its sponsorship of the activities of the Summer Center at the King Khalid Charity Society in Tabuk for the second consecutive year.

The Bank increased its partnerships with associations and bodies that provide health care to various groups in Saudi society. Four agreements were signed with the Friends of Patients Committees in Riyadh, Abha, Al-Medina Al Monawara, and Tarif, under which the Bank is committed to providing medical equipment. In addition to this, the Bank supported the Parkinson Society with educational films, treating patients and taking part in sponsoring World Safety Day at Prince Sultan Humanitarian City. The Bank also continued its annual sponsorship and support for a campaign to raise awareness of the importance of early screening for breast cancer and a community awareness campaign on oral and dental health. It also participated in the International Day of Older Persons and supported the Youth Club for Special Needs Forum, the Birr Association in Sharurah and the Charity Society for Food (It'aam).

The Bank annually sponsors charity transportation programs, offering buses for: Al-Baha Charity Association for the Care of Orphans (Aknaf), Wedad Charity Organization for Orphans, the Friends of Patients in Tarif, Hail and Riyadh, Al Ahsa Cancer Society, Charitable Society for the Care and Rehabilitation of the Disabled in the Eastern Region (Yafea), Maternity and Childhood Society in the Eastern Region and Al Wafa Charity Association in Riyadh.

In the same context, the Bank donated 10 golf club karts to the Association of Friends of the Elderly for the purpose of transporting elderly people to and from Makkah. It also donated buses to Al-Naqaha Hospital to help coma, quadriplegia and paralysis patients. It provided buses to the home care program of the King Faisal Specialist Hospital and Research Center in Riyadh, and the Down Syndrome Society, the Autism Family Society, and the Healthcare Organization in AlBaha.

As part of its community development initiatives, the Bank continued to support productive families, helping to expand the participation of women, people with special needs and the unemployed. For the third year in a row, Riyad Bank continues to support the Nabatah program, helping them to acquire professional skills that qualify them to enter the labor market and become productive members of society. It also supported the 6th edition of an agricultural training program for people with simple mental disabilities. At the same time, the Bank contributed to the development and financing of the Productive Families Association in Riyadh.

The Bank, through a team of staff volunteers, also carried out the 8th annual "winter clothing" campaign, targeting needy families in a large number of villages and remote areas to provide them with necessities to help them cope with harsh winter conditions. The Bank also participated in a Ramadan charity effort where 33,000 food basket and tens of thousands of heaters and toys were distributed among children and the destitute.

The Bank continued its "loyalty" program to care for deceased employees' families, launching an annual version of the program to continue the distribution of prepaid electronic cards to beneficiary families to meet their requirements and needs and help improve their lives.

Riyad Bank sponsored and supported a number of events, festivals, exhibitions, and cultural, heritage, tourist, developmental, educational, awareness, economic and sports forums. Among these events are the Boarder Guard Awareness Campaigns and the National Festival of Heritage and Culture in Ganadriya.

It participated in the activities of King Faisal University (Cross-Country Crossroads Scout Camp) and supported the Qassim Corner at the National Festival of Heritage and Culture, as well as other events.

The Bank is committed to supporting the cultural movement in the Kingdom. It sponsored and financed the Book of the Year Award which is awarded by the Literary Club in Riyadh. On the occasion of the tenth anniversary of the award, a new category of the award was established for authors aged 35 and younger.

Human Resources:

In line with the Bank's 2022 strategy, the Human Resources department developed a plan that is consistent with the future direction of the Bank. It is aimed at developing human resources policies, procedures and systems in order to enhancing performance, build staff capabilities and achieve the desired results of the strategy. The department, in cooperation with all the Bank's other departments, improves the working environment and builds an organizational culture based on performance management and teamwork aimed at achieving a clear and common goal.

Employees benefited from 17,000 specialized internal and external programs and training opportunities during the year. The practice of attracting and retaining the best talents also continued, and this was recognized when the Bank was awarded the Best Employer Award in the Kingdom in 2017 by global professional communication network "LinkedIn". The Bank also has the highest Saudization rate in the banking sector at 94%. The percentage of female employees was 26%, all of whom are Saudis.

Changes in incentive programs for employees during 2017:

Statement	Investment Savings (SR 1,000)		
	Share of employee	Bank share	Total
Balance as at the beginning of the year	37,407	14,293	51,700
Added during 2017	9,341	3,406	12,747
Excluded in 2017	(9,223)	(4,134)	(13,357)
End of year balance	37,525	13,565	51,090

Effectiveness of Internal Control Procedures:

The Executive Management works pursuant to an internal control system based on the highest standards, in addition to fully complying with the requirements issued by SAMA. The control system defines the Board of Directors' and all sub-committees' responsibilities. The Bank was also keen on the continuous improvement of governance and internal control procedures, which aim to provide integration between risk management and internal control systems, and raise awareness as an integral part of an effective governance system.

The Internal Control department works with all stakeholders in the Bank to raise the efficiency and effectiveness of the internal control system through collecting all the necessary information from internal or external regulators, sorting it, defining its importance, and following up the necessary plans for enhancing the internal control system.

The Bank annually publishes and reviews annual statements submitted by the executive management and control units on the adequacy and efficiency of the internal control system, and reports on internal control and various types of risk based on their priorities to the Audit Committee and Executive Management at all levels, as well as to the Operational Risk and Compliance Committee.

Taking into account the nature of any internal control system, as described below, the Board of Directors confirms that the internal control system is sound and has been effectively implemented, and that the Bank has a systematic mechanism for designing and implementing internal control systems. The key elements of the Bank's internal control system cover specific powers and responsibilities, including financial, administrative and credit responsibilities. This is done for various administrative levels, including the Board of Directors and Executive Management, ensuring that tasks and responsibilities are separated. The Bank's internal committees analyze and monitor risks both quantitatively and qualitatively. These include committees to monitor market, liquidity, operational, strategic and compliance risk. They then report on such risks to the relevant committees of the Board of Directors.

It should also be noted that no matter how effective the regulatory regime is, it cannot provide absolute assurance. There are limitations that prevent it from detecting or preventing some oversight gaps. The effectiveness of future prediction and the efficiency of the current regulatory system compared to the future period are subject to the principle that the controls may be inadequate in the future due to changing circumstances or due to the adherence to certain policies and procedures.

The Board of Directors, through its Audit Committee, reviews the internal audit reports and the evaluation of the various internal control systems in accordance with an annual plan approved by the Audit Committee. Risk management reports, compliance management, etc.

are regularly reviewed. The reports include any gaps identified as well as executive management efforts to ensure that they are addressed and that controls are established to ensure that they are not duplicated. Based on the reports of the supervisory authorities that were reviewed by the Committee during the past year, as well as the annual confirmations / disclosures obtained from the Executive Management, the Audit Committee considers that there are no regulatory gaps or material weaknesses in the Bank's business, which affects the integrity and fairness of the financial statements.

It is within the objectives of the Board of Directors to obtain reasonable assurances about the integrity of the design of the internal control system and its effectiveness.

Risk Management:

Credit Risk:

Credit risk for financial institutions lies in their poor standards, lack of clarity and lack of management expertise, in particular their misjudgment of the accuracy of risk measurement, their lack of attention to economic changes and their impact on the stability of the credit situation of clients.

The inability of debtors and their failure to fulfill their obligations under contractual terms are among the most important credit risk indicators that the Bank must study, analyze and focus on. It identifies the sources of repayment and the guarantees provided and matches them with the size of the debt, ensuring a knowledge of the activity of the debtor and that it does not violate the regulations and laws, and the Bank's credit policies.

Credit risk is managed within a tight framework of principles, tools, activities and administrative structures at the bank level. They support the Bank's efforts to improve the quality of assets and follow up on compliance with the procedures and rules established by SAMA. The Bank achieves this through clear credit criteria, subject to continuous periodic follow-up.

The Bank applies an advanced credit rating system in accordance with international standards for both Corporate Banking customers and individual customers, the latter of which are subject to a different credit rating system. It also develops a standard measurement tool that enables the Bank to integrate ratings issued by external rating agencies into the Bank's internal classification system. This is to provide a comprehensive picture of asset quality and enter the information into the Bank's internal classifications table and thus calculate capital adequacy ratios in accordance with advanced methods. It pinpoints the potential for default which is a prerequisite for calculating credit losses in accordance with new accounting standards.

The Bank complies with all Basel requirements in measuring the capital adequacy ratio required to cover credit risk according to the standard method (Standardized Approach), which is one of SAMA's requirements.

In 2015, the Bank switched to the Internal Credit Risk Assessment Standard (Internal Rating Based / IRB) after successfully upgrading its credit rating models in line with the requirements of Basel. It was also able to develop a special system to verify the validity and completeness of these models.

In 2016, the Bank conducted a new round of independent periodic tests to validate the quantitative and qualitative results of its credit rating models in accordance with the expectations of SAMA.

This coincided with the Bank's creation of the basic infrastructure necessary for the use of models in credit decision making. For internal evaluation of credit risk, it relied on accurate measurements of risk and return potential, with simultaneous review of the Bank's approved risk policies to demonstrate their compliance with credit rating systems.

In order to keep abreast of financial developments, and to implement new accounting standards (IFRS 9) as an alternative to the current standard (IAS 39), the Bank has taken advanced steps to develop and optimize credit rating systems for the purpose of calculating short and long term risk tolerance rates. They are a key component in calculating expected credit losses which will be applied from the beginning of 2018.

In addition, the business rules and regulations relating to the calculation of credit default rates have been identified, developed and modified. The principles of asset valuation, activity flows and the appropriate governance structure have been adjusted. The Bank has adopted programs and technological solutions required to calculate expected credit losses and to recognize them in accordance with IFRS 9 accounting standards and the directives of SAMA.

At the retail level, Risk Management is in the final stages of applying the advanced internal evaluation standard AIRB which is compliant with Basel standards and SAMA requirements. It used quantitative models for measuring default and collection rates to calculate expected credit losses and to recognize them in accordance with IFRS 9 accounting standards.

Risk Management places great importance on the activities of Retail Banking, in order to ensure the implementation of a digital strategy that improves customer experience.

Market and Liquidity Risks:

Market and Liquidity Risk Management is responsible for measuring and monitoring market risk and asset and liability risk arising from fluctuations in the fair value or future cash flows of financial instruments as a result of changes in market prices within the framework and risk limits approved by the Board of Directors. The department prepares reports on their business and submits them periodically to concerned parties within the Bank.

The primary market risk measurement adopted by the Bank is the value at risk (VaR) standard, which monitors the change and volatility of market prices and the relationship of the changes to each other. In addition, the Bank applies several advanced standards to improve analytical capabilities in market risk management, including stress tests and analysis of market risk sensitivity. The Bank continues to work on its strategy to develop its operations and systems to manage market and liquidity risks and implement the latest regulatory requirements as per the requirements of SAMA within the specified time ranges.

Financial Crimes Risk:

Financial crimes pose a major threat to financial institutions and their employees, and may reduce their ability to provide banking services and affect the confidence they enjoy with regulators, customers and business partners negatively. In addition, they jeopardize the Bank's continuity and reputation, doing harm to its local and international reputation. As a result, during 2017, the Bank was keen on completing its plan to improve and develop its financial fraud control system.

Operational Risk:

Operational risk is an important part of the business of financial institutions, especially after the rapid development and growth of banking services and their reliance on ICT. Operational risks can be defined as those that arise as a result of inadequate or failed internal work processes, individuals, and systems or external causes. This definition includes legal risks. Accordingly, the Operational Risk Department is responsible for verifying the application of SAMA's instructions regarding risks arising from deficiencies in operations, systems, infrastructure or human error. In 2017, the Bank continued its strategy to enhance risk-based operational risk management. It is also in the final stages of signing an agreement to upgrade its risk management system.

BASEL III Pillar 3 Disclosures:

The third pillar of the recommendations of the Basel III Committee is the required publishing of a number of quantitative and qualitative disclosures. These are published and posted on the Bank's website www.riyadbank.com in accordance with SAMA instructions. Such disclosures are not subject to examination or review from the Bank's external auditors.

Under the Revised Basel III Pillar 3, certain quantitative and qualitative disclosures are required, and these disclosures are available on the Bank's website: www.riyadbank.com as required by the SAMA. Such disclosures are not subject to review or audit by the external auditors.

Stress Testing:

The Bank continued to implement and improvise its Overarching Stress Testing Framework, covering all material risks relating to banking activities under the oversight of the Board of Directors with continuous review of the policies, frameworks and rules of governance related to it. Under this framework, risk owners also review the stress methodologies along with underlying assumptions to maintain the efficacy of the stress models deployed.

Financial Results:

Riyad Bank posted a net profit of SAR 3,946 million for the 12 months ended 31st December, 2017, an increase of 18.1% over the SR 3,342 million earned during the same period last year. In light of the current economic changes and challenges, the Bank continued to focus on major banking activities and to maintain its financial position. Investments amounted to SR 46,370 million compared to SR 45,157 million, an increase of 2.7%. On the other hand, net loans and advances decreased by 2.8% to SR 138,838 million compared to SR 142,909 million in the previous year. Customer deposits amounted to SR 154,366 million compared to SR 156,684 million for the previous year, a decrease of 1.5%. Assets amounted to SR 216,282 million compared to SR 217,619 million for the previous year, a decrease of 0.6%.

The total operating income amounted to SR 8,125 million during the 12 months ended 31st December, 2017 compared to SAR 7,702 million for the same period last year, an increase of 5.5%.

Reflecting the robustness of the Bank's assets and the diversification of its financing and investment products, the Bank achieved a rise in net special commissions amounting to SR 5,935 million during the 12 months ending on 31st December, 2017 compared to SR 5,301 million for the same period last year, an increase of 12%. The stock during the same period was SR 1.32.

The Bank's net profit for the 12 months ended 31st December, 2017 was attributable to a 5.5% increase in total operating income, mainly due to higher net special commission income and non-trading investments, and partly offset by lower income from other operations and income from remittance currencies. It is also due to a 4.4% decrease in total operating expenses, mainly as a result of a decrease in provisions for credit losses and the absence of provisions for investment losses.

Significant differences in operating results compared to the previous year:

SR million

Statement	2017	2016	Change log	Change%
Net profit / loss	3,946	3,342	604	18.1%
Total operating income	8,125	7,702	423	5.5%
Net special commission income	5,935	5,301	634	12.0%
Earnings per share	1.32	1.11	0.21	18.9%
Total assets	216,282	217,619	(1,337)	0.6%
Investments	46,370	45,157	1,213	2.7%
Loan and advances portfolio	138,838	142,909	(4,071)	(2.8)
Customer deposits	154,366	156,684	(2,318)	(1.5%)

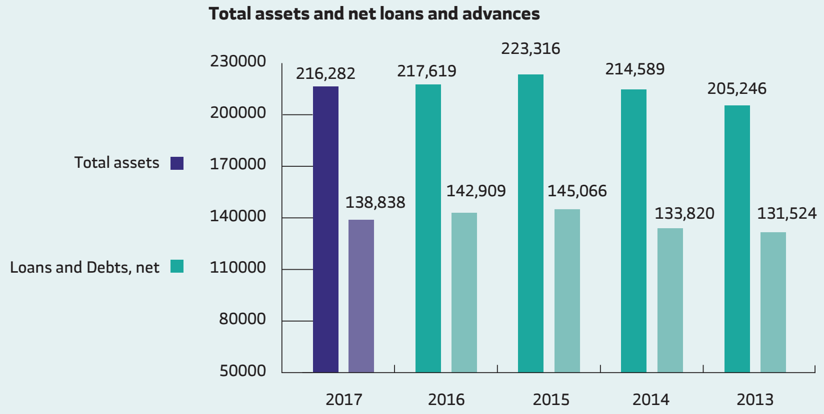
Summary of the Bank's financial results over the last 5 years:

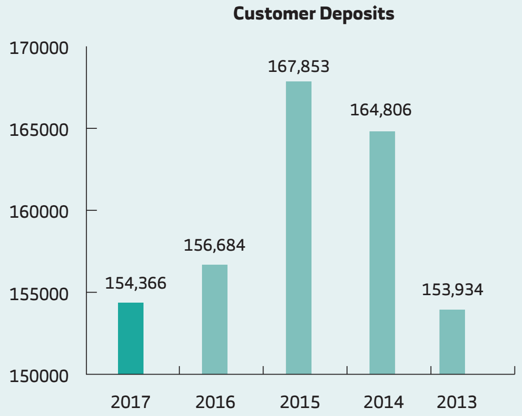
A) The following is an analysis of the most significant items in the consolidated statement of financial position:

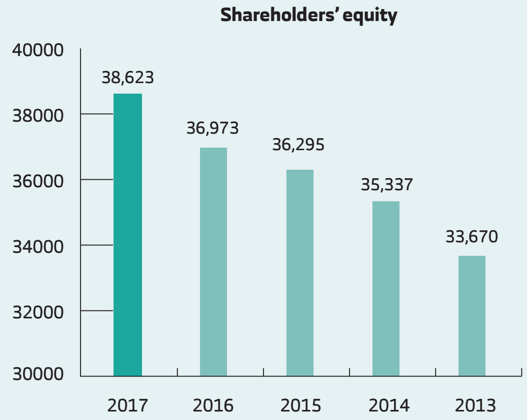
SR Million

Statement	2017	2016	2015	2014	2013
Assets					
Cash and balances with banks and SAMA	27,876	25,829	29,839	29,231	25,372
Loans and advances, net	138,838	142,909	145,066	133,820	131,524
Investments, net	46,370	45,157	44,765	47,148	43,733
Property, equipment and other real estate	1,987	2,107	2,153	2,098	2,100
Other assets	1,211	1,617	1,493	2,292	2,517
Total assets	216,282	217,619	223,316	214,589	205,246
Liabilities					
Balances with banks	7,056	8,837	4,500	3,791	7,582
Customer deposits	154,366	156,684	167,853	164,806	153,934
Other liabilities	16,237	15,126	14,668	10,655	10,060
Shareholders' equity	38,623	36,973	295	35,337	33,670

*Certain comparative figures have been reclassified to conform with the current period.





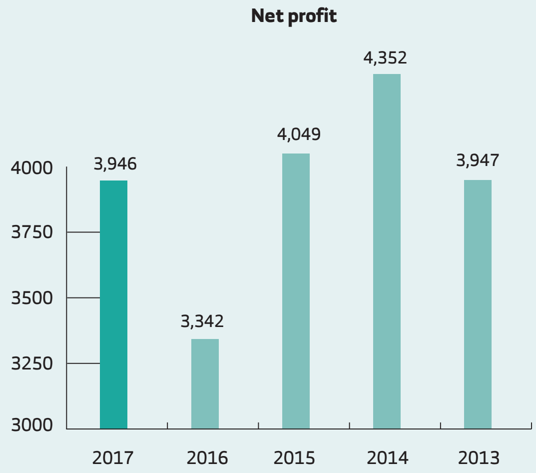


B) The following is an analysis of the main items of the consolidated statement of income:

SR Million

Statement	2017	2016	2015	2014	2013
Total operating income and net profit of the associates	8,148	7,737	8,005	8,032	7,103
Total operating expenses	4,202	4,395	3,956	3,680	3,156
Net profit	3,946	3,342	4,049	4,352	3,947
Earnings per share (SR)	1.32	1.11	1.35	1.45	1.32

* Certain comparative figures have been reclassified to conform to the current period.



Geographical Analysis of the Bank's Total Income: Total income for the period ended 31st December 2017 from operations amounted to SR 10,364 million within the Kingdom and SR 1,069 million from outside the Kingdom.

Geographical analysis of the total revenues of the Bank and its subsidiaries inside the Kingdom:

SR Million

Year	Inside Kingdom of Saudi Arabia			Total revenue from within the Kingdom
	Western Province	*Central Province	Eastern Province	
2017	1,858	7,043	1,463	10,364

* The amount indicated for the Central Province includes central investments relating to the investment and treasury sector that totals SR 3,790 million, and is not linked to a specific geographic sector within the Kingdom. It also includes revenues related to other areas that cannot be separated.

Geographical Analysis of the Total Income of the Bank's International Operations:

SR million

Year	Outside the kingdom					Total revenue from outside the Kingdom
	GCC and the Middle East	Europe	North America and Latin America	South East Asia	Other Regions	
2017	170	258	595	17	29	1,069

Appropriation of Earnings:

The Bank abides by all relevant, applicable rules and regulations and observes the following policies in distributing dividends to its shareholders:

a) A transfer of 25% of the net profit to the statutory reserve. Such transfers may be discontinued when the total statutory reserve is equal to the paid-up capital.

b) Upon the recommendation of the Board of Directors and the approval of the Annual General Assembly, dividends are distributed among shareholders, each in proportion to their shareholdings.

c) The Bank's strategic direction determines the distribution of the interim and annual dividends. The dividends proposed for the second half of the year are included in the shareholders' equity, and will remain there until the Annual General Assembly approves the Board of Directors' recommendation.

The Board of Directors recommended the appropriation of earnings as follows:

(SR 1 thousand)

Retained earnings from 2016	**2,604,039**
Net income of the year 2017	**3,945,996**
Total	**6,550,035**
Appropriation as follows:	
Zakat as per the Sharia'	500,000
Cash dividends distributed to shareholders for the first half of 2017	1,050,000
Cash dividends, proposed for distribution to shareholders for the second half of 2017	1,140,000
Transfer to statutory reserve	986,499
Retained earnings at the end of the year 2017	**2,873,536**

The Bank distributed dividends to shareholders on 16th July, 2017 for the first half of the year at 35 halalas per share. The remaining portion of the proposed dividend for the second half of 2017 is 38 halalas per share, which will be distributed following approval by the General Assembly. The total dividends for the whole of 2017 will amount to SR 2,190 million, 73 halalas per share, equal to 7.3% of the par value of the share, after deduction of Zakat.

The Bank's Credit Rating

Classification Agency	Long-term	Short term	The road ahead
Fitch	A-	F2	Stable
Capital Intelligence	A+	A1	Stable
Standard & Poor's	BBB+	A2	Stable

Financing and Issued Debt Securities

During the normal course of its transactions, the Bank will exchange and borrow funds from banks and SAMA at the commission rate customary in the market and this is properly recognized in the Bank's consolidated financial statements.

A private placement of initial Sukuks worth SR 4,000 million (four thousand million Saudi riyals) was completed on 6th November, 2013 with a maturity period of 7 years. The Bank enjoys the right to recover them at the end of the fifth year. Its 3 months SAIBOR rate reaches +0.68 basis points. Special Sukuks were also put forward on 24th June, 2015 with SR 4,000 million (SR 4 thousand million), and a maturity period of 10 years, which can be redeemed after 5 years. The cost of the Sukuks reaches 6 months SAIBOR + 115 points. The Bank aims to diversify sources of funding, extend maturity and support sources of finance.

The Bank also confirms the following:

- There are no debt instruments issued by subsidiaries.
- There are no outstanding loans payable to subsidiaries.
- The Bank has not issued or granted any convertible debt instruments or any contractual securities, notes of rights issue, or similar rights during 2017.
- The Bank has not issued or granted any transfer or subscription rights under convertible debt instruments, contractual securities, subscription rights notes or similar rights during 2017.
- The Bank or its subsidiaries have not recovered, bought or canceled any redeemable debt instruments.

Disclosure of treasury shares held by the Bank and details of their use

The Bank does not maintain any treasury shares.

Applicable Accounting Standards:

The Bank prepares its financial statements and is reviewed by the Bank's auditors in accordance with financial institutions accounting standards issued by SAMA and International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). There are no material differences from the accounting standards issued by the Saudi Organization for Certified Public Accountants.

A point of interest here is the decision of the Saudi Organization for Certified Public Accountants on 11th February, 2014 allowing the Board of Directors of the Saudi Organization for Certified Public Accountants to apply International Accounting Standards in one installment after being approved by the Saudi Organization for Certified Public Accountants. This covers the financial statements prepared for the financial periods on 1st January, 2017, and the CMA's circular on 21st August, 2016 requiring the companies listed in the financial market to disclose the upcoming stages of transitioning to international accounting standards. Accordingly, the Bank announced on the website of the Saudi Stock Exchange Tadawul on Wednesday 31st August, 2016 that its financial statements are prepared in accordance with International Accounting Standards (IFRS), therefore there isn't any impact on the financial statements following the application of these standards.

Accrued Regulatory Payments:

There are no accrued regulatory payment(s) due by the Bank for the year 2017 except for those illustrated below:

(SR Thousand)

Statement	2017	
	Outstanding	Due
Zakat - The General Authority for Zakat and Tax	-	98,650 (approximate)
Taxes charged by the Bank on behalf of some non-resident entities (as per the terms of the contract)	3,700	-
Taxes payable on foreign branches of the Bank for the benefit of official authorities outside the Kingdom	31,916	-
General Organization for Social Insurance	96,255	
Costs of visas, passports and Labor Office fees	410,5	-
Any other Regulatory Payments*	11,827	

* Government fees (renewal / issuance of licenses, commercial register, signage fees, and provision of data from Elm).

Penalties, Sanctions and Preventative Provisions

SAMA Penalties:

Subject of violation	Current fiscal year 2017	
	Number of penal decisions	Total amount of financial penalties in SR
Violation of supervisory instructions	9	1,569,500
Violation of instructions for protecting customers	1	128,000
Violation of instructions for due diligence on anti-money laundering and financing of terrorism	1	195,000
Violation of instructions regarding the performance level of ATMs and Point of Sale machines	3	110,000

Penalties and statutory sanctions imposed by other supervisory, regulatory or judicial authorities:

Entity	Classification of Violation	Number of fines	Total amount of financial penalties in SR
CMA	Riyad Capital violations of instructions on anti-money laundering and financing of terrorism	1	160,000
CMA	Non-compliance by Riyad Capital to link the investment accounts of its customers with their bank accounts and not to prevent the accounts of investment clients from receiving money transfers from bank accounts not registered in their names	1	10,000
CMA	Non-compliance by Riyad Capital in committing to the time limit granted to authorized persons to transfer the ownership of individual institutions in Investment Fund Units and any other investment products of authorized persons	1	10,000
Riyadh Municipality	Fees for signage fines and location licenses for ATMs	10	1,970,800
Municipalities and other government parties		36	124,200

Transactions with related parties:

The following statement shows the balances resulting from related party transactions as at 31st December, 2017 which were made during the ordinary course of the Bank's business as defined by the relevant parties in Article 1 of the Corporate Governance Regulations:

In SR thousands

Statement	Total
Loans and advances	8,773,545
Customer deposits	33,265,339
Derivatives (at fair value)	3,747
Commitments and contingent liabilities (irrevocable)	5,818,398
Special commission income	503,159
Special commission expenses	379,040
Fees and commissions income, net	88,178
Miscellaneous operating expenses	107,353

Transactions with related parties include a series of transactions and contracts for which the Bank has a direct interest, as follows:

Nature of contract	Name of the relevant party	Owner	Term Period of The Contract :		Annual Contract Value
			From	To	(SR)
Rent for 4 ATMs for 3 years at Al Olaya Towers - Riyad	Member of the Board of Directors Mr. Nader Ibrahim Al-Wehibi works for the General Organization for Social Insurance, and is the representative of the organization within the Board of Directors	General Organization for Social Insurance	25th December, 2014	24th December, 2017	284,000
Renting the headquarters of the branch on 60th Street (286) for Exhibitions No. (1,2,3,5) - Riyad	Member of the Board of Directors Mr. Nader Ibrahim Al-Wehibi works for the General Organization for Social Insurance, and is the representative of the organization within the Board of Directors	General Organization for Social Insurance	14th October, 2015	10th September, 2018	900,000
Rent of the Private Banking Center 255 for the two offices (2,3) in the ground floor of Olaya Towers - Riyad	Member of the Board of Directors Mr. Nader Ibrahim Al-Wehibi works for the General Organization for Social Insurance, and is the representative of the organization within the Board of Directors	General Organization for Social Insurance	15th October, 2013	15th October, 2018	877,800
Renting the headquarters of the General Administration Building - Riyad	Member of the Board of Directors Mr. Nader Ibrahim Al-Wehibi works for the General Organization for Social Insurance, and is the representative of the organization within the Board of Directors	General Organization for Social Insurance	13th March, 2013	18th January, 2018	5,198,000
Renting Offices in Ground Floor and Mezzanine of Olaya Towers – Riyad for the Wealth Management and Research teams of Riyad Capital	Member of the Board of Directors Mr. Nader Ibrahim Al-Wehibi works for the General Organization for Social Insurance, and is the representative of the organization within the Board of Directors	General Organization for Social Insurance	22nd December, 2013	10th March, 2019	1,079,210

Nature of contract	Name of the relevant party	Owner	Term Period of The Contract :		Annual Contract Value
			From	To	(SR)
Renting 5 floors in Al Olaya Towers (Information Technology Sector) - Riyad	Member of the Board of Directors Mr. Nader Ibrahim Al-Wehibi works for the General Organization for Social Insurance, and is the representative of the organization within the Board of Directors	General Organization for Social Insurance	10th September, 2014	10th September, 2019	6,742,601
Renting 7 floors in Olaya Towers (Operations Sector) - Riyad	Member of the Board of Directors Mr. Nader Ibrahim Al-Wehibi works for the General Organization for Social Insurance, and is the representative of the organization within the Board of Directors	General Organization for Social Insurance	8th January, 2016	7th January, 2021	8,631,359
Contract for sending Golden Banking bulk messages through Short Messaging Service Center (SMSC)	Board Member Mr. Mohammed Bin Talal Al-Nahhas Member of the Board of Directors	Saudi Telecom Company	14th December, 2017	13th December, 2018	1,800,000
Internet Protocol Virtualization Service Agreement	Board Member Mr. Mohammed Bin Talal Al-Nahhas Member of the Board of Directors	Saudi Telecom Company	18th December, 2016	17th December, 2019	9,434,880
Protection programs for Dense Wavelength Division Multiplexing technology (DWDM) for the amount of SR 8,541,000 over a period of 3 years	Mr. Abdullah Mohammed Al-Issa, Vice Chairman of the Board of Directors	Etihad Etisalat Company - Mobily	1st June, 2015	31st May, 2018	2,847,000

Data Disclosure for Small, Medium and Micro Enterprises:

1- Qualitative Disclosures:

a) The approved definition of small, medium and micro enterprises, and any initiatives taken by the Bank to support these establishments as well as the number of employees:

Riyad Bank's rating is generally in line with SAMA definitions for small, medium and small enterprises. Classification is based on different criteria depending on the availability of data.

Micro-enterprises:

The Retail Banking department serves micro enterprises through branches.

Small enterprises:

The Emerging Enterprises unit in the Corporate Banking department manages transactions with this category of enterprises. The number of employees was 80 employees on 31st December, 2017.

Medium-sized enterprises:

The Trade Finance unit in the Corporate Banking department manages transactions with this category of enterprises. The number of employees was 80 employees on 31st December, 2017.

B) Training initiatives and workshops provided to clients and employees in 2017.

Number of training days provided to employees	114
Number of training days provided to customers	-

2- Quantitative Disclosure:

SR in thousands

2017	Micro	Small	Medium	Total
Loans to SMEs - Items within the budget	13,855	639,184	6,723,978	7,377,017
Loans to SMEs - Off-budget items (nominal value)	402,566	1,322,507	7,709,397	9,434,470
Within-budget loans for SMEs as a proportion of total loans within the budget	0.01%	-0.45%	4.77	5.23%
Extra budgetary loans for SMEs as a proportion of total extra budgetary loans	Other	1.6%	9.1	11.1
Number of loans (both within and off-budget)	2,756	7,069	13,842	23,667
Number of loans clients (both within and off-budget)	1,528	1,721	1,167	4,416
Number of secured loans from the "Kafalah" program (Both within and off-budget)	-	3,226	-	3,226
Total secured loans from the "Kafalah" program (both within and off-budget)	-	814,351	-	814,351

SR in thousands

2016	Micro	Small	Medium	Total
Loans to SMEs - items within the budget	37,055	628,184	6,892,701	7,557,940
Loans to SMEs - off-budget items (nominal value)	424,075	1,449,996	8,019,531	9,893,602
Within-budget loans for SMEs as a proportion of total loans within the budget	0.03	0.43	4.74%	5.19
Extra budgetary loans For SMEs as a proportion of total extra budgetary loans	Other	6.1%	Clients	10.6
Number of loans (both within and off-budget)	2,641	6,490	13,749	22,880
Number of loans clients (both within and off-budget)	1,544	1,570	1,183	4,297
Number of secured loans from the "Kafalah" program (both within and off-budget)	-	2,465	-	2,465
Total loans from the "Kafalah" program (both within and off-budget)	-	713,320	-	713,320

Members of the Board of Directors and its committees

Board of Directors:

The Bank is managed by a Board of Directors of 10 members elected by the General Assembly every 3 years. The current Board of Directors comprises 4 independent members and 6 non-executive members in accordance with the definitions set forth in Article 1 of the Corporate Governance Regulations issued by the Capital Market Authority. The number of meetings of the Board during 2017 was 8 sessions, and the proportion of attendance of these meetings was 100%. Taking into account those attending on behalf of others, the attendance rate of original members was 96%.

Membership classification for board members and their affiliations with listed liability companies within the Kingdom, their qualifications and experience.

Member's name	Membership Category	Membership in the Bank	Membership in listed liability companies (within the Kingdom)	Current Positions	Previous Positions	Qualifications
Eng. Abdullah Mohammed Al-Issa	Independent	Chairman Head of Planning Group Strategy	Dur Hospitality Company - Chairman of Board of Directors Union Communications Company (Mobily) - Deputy Chairman of the Board Saudi Basic Industries Corporation (SABIC) - Member of the Board of Directors Saudi Arabian Mining Company (Ma'aden) -Member of the Board of Directors	Chairman - Abdullah Mohammed Al-Issa Office (Consulting Engineers) Chief Executive Officer - Asilah Investment Company	Chairman of the Board - Arab Cement Company Chairman of the Board - National Medical Care Company Chairman of the Board - Cement Products Industries Company Member of the Board of Directors - Jadwa Investment Company Member of the Board of Directors - King Faisal Schools	Master of Engineering Project Management - Southern Methodist University - USA Bachelor of Industrial Engineering - Southern Methodist University - USA
Jamal Abdul-Karim Al-Rammah	Independent	Vice Chairman Audit Committee Chairman Member of the Risk Management Committee	None		Chairman of the Board - Saudi Aramco Insurance Company "Stellar" Former Secretary of Treasury Saudi Arabian Oil Company "Aramco" Member of the Board of Directors of Aramco and several companies affiliated to Saudi Aramco and joint companies inside and outside the Kingdom and leaving membership after retirement	Executive Executives Program - Harvard University - USA Bachelor of Business Administration and Economics A number of administration and finance programs in many universities and international and internal institutions

Member's name	Membership Category	Membership in the Bank	Membership in listed liability companies (within the Kingdom)	Current Positions	Previous Positions	Qualifications
Ibrahim Hassan Sharbatly	Non-executive	Member of the Strategic Planning Group	None	Vice Chairman of the Board of Directors - Nahla Trading & Contracting Vice Chairman of the Board of Directors - Samaco Vice Chairman of the Board of Directors - Nahla Urban Development Vice Chairman of the Board of Directors - Al Amin Distinguished Urban Development Vice Chairman of the Board of Directors - Al Amin Distinguished for Real Estate Investment Vice Chairman of the Board of Directors - Fast Cars (Fast) Chairman of the Board - Smile Telecom Africa Member of the Board - Golden Coast Egypt	Member of the Board of Directors - Commercial Union for Cooperative Insurance	Bachelor of Business Administration - Faculty of Commerce and Business Administration - Bristol - UK
Talal Ibrahim Al-Qudaibi	Non-executive	Executive Committee Member Member of the Nomination and Remuneration Committee Member of the Strategic Planning Group	None		Chief Executive Officer - Riyad Bank Chairman - Royal One Sun Insurance (Middle East) - Bahrain Member of the Board of Directors – Riyad Financial Company	Master of Economics - University of Southern California - USA Bachelor of Business Administration, Portland State University, USA

Member's name	Membership Category	Membership in the Bank	Membership in listed liability companies (within the Kingdom)	Current Positions	Previous Positions	Qualifications
Abdul-Rahman Amin Jawa	Non-executive	Chairman of the Executive Committee Member of the Strategic Planning Group	Saudi Equipment & Supplies Co. (SACO) - Chairman of Board of Directors		Chairman of the Board - Saudi Tourist Checks Company Vice Chairman - Saudi Fransi Capital Board Member - Banque Saudi Fransi Member of the Board of Directors - Softico Board Member - Allianz Saudi Fransi Cooperative Insurance Member of the Board of Directors Member of the Board of Directors - Kam Saudi Fransi Company Member of the Board of Directors - French Trading Company Board Member - Saudi French Cooperative Insurance Company Allianz	Advanced Management Program Business Administration - Harvard University - USA (Training Program) Bachelor of Business Administration - Ohio University - USA

Member's name	Membership Category	Membership in the Bank	Membership in listed liability companies (within the Kingdom)	Current Positions	Previous Positions	Qualifications
Mohammed Talal Al-Nahas	Non-executive	Member of the Strategic Planning Group	International Water and Power Works (Aqua power) - Member of the Board of Directors Saudi Basic Industries Corporation (SABIC) - Member of the Board of Directors Taiba Holding Company - Member of the Board of Directors Saudi Telecom Company - Member of the Board of Directors	Governor of the General Organization for Retirement Member of the Board of Directors - Leading Investment Company	Member of the Audit and Risk Committee - General Retirement Corporation General Manager Banking Branches - Al-Anma Bank Regional Manager for Central Region Branches - Samba Financial Group Head of Banking and Rapid Transfer Branches - SAMBA Financial Group Deputy General Manager, Samba Financial Group Senior Product Manager - Samba Financial Group Product / Manager - Samba Financial Group	Executive Management Program - University of Michigan - United States of America Bachelor of Accounting - King Saud University
Mohammed Abdulaziz Al-Afaleq	Independent	Chairman of Risk Management Committee Executive Committee Member	None	Chairman of the Board of Directors - Al Hussein & Al-Afaleq Group of Companies	General Manager of Industrial Projects - Al Hussein & Al-Afaleq Group of Companies	Master of Business Administration, St. Edward University, Austin, USA Bachelor of Industrial Management - King Fahd University of Petroleum and Minerals

Member's name	Membership Category	Membership in the Bank	Membership in listed liability companies (within the Kingdom)	Current Positions	Previous Positions	Qualifications
Mohammad Omair Al-Otaibi	Non-executive	Audit committee Member of the Risk Management Committee	National Gas & Industrialization Company - Chairman of Board of Directors Abdulla Saad Aboumati Office - Member of the Board of Directors Al Yamama Steel Industries Co - Member of the Board of Directors Saudi Re for Cooperative Reinsurance Co - Member of the Board of Directors		Member of the Board - Middle East Ship Management Company - Dubai Member of the Board of Directors - NSCSA Baltimore, United States Member of the Board of Directors - Al-Bahr Company for the transport of bulk cargo Member of the Board - United Arab Glass Company Member of the Board of Directors - National Chemical Transport Company Member of the Board West of England Luxembourg Member of the Board International Shipowners Reinsurance - Luxembourg Executive Vice President of Finance - Saudi National Shipping Company	MBA - University of Western Michigan - USA Advanced Management Program - Harvard University - USA Executive Management Program - University of Michigan, United States of America Bank Strategic Management Program - Ireland Bachelor of English Language - Imam Muhammad bin Saud University

Member's name	Membership Category	Membership in the Bank	Membership in listed liability companies (within the Kingdom)	Current Positions	Previous Positions	Qualifications
Eng. Mutaz Qusai Al-Azzawi	Independent	Chairman of Nominations and Remuneration Committee Executive Committee Member	Savola Group - Member of the Board of Directors Arab Cement Company - Member of the Board of Directors Herfy Company Food Services - Member of the Board of Directors	Board Member - Savola Foods Member of the Board - United Sugar Member of the Board of Directors and CEO - Saudi Industrial Construction and Engineering Projects Company Member of the Board of Directors and CEO - Saudi Technology and Trading Company Member of the Board of Directors and Executive Director - Al-Midtaa Development Company Chairman of the Board - Qatraneh Cement - Jordan Member of the Board - United Sugar Company - Egypt Member of the Board of Directors - Afia International Company - Egypt Member of the Board of Directors - Alexandria Sugar Company - Egypt Member of the Board - Queen Food Industries - Egypt Member of the Board of Directors - Butterfly Company for Food Industries - Egypt	Board Member - Merrill Lynch - Saudi Arabia	Bachelor of Computer Engineering - King Saud University

Member's name	Membership Category	Membership in the Bank	Membership in listed liability companies (within the Kingdom)	Current Positions	Previous Positions	Qualifications
Nader Ibrahim Al-Wehibi	Non-executive	Executive Committee Member Member of the Nomination and Remuneration Committee	Jarir Marketing Company - Member of the Board of Directors	Assistant Governor for Insurance Affairs - General Organization for Social Insurance	Member of the Board of Directors - National Medical Care Company Director General of Planning and Development - General Organization for Social Insurance	Master of Social Protection Policies - University of Maastricht - The Netherlands Bachelor of Insurance - Indiana State University - USA

* No members of the Board of Directors have any membership in companies listed outside the Kingdom.

The following table depicts the Board of Directors meetings during 2017:

Board meetings attendance in person or by proxy in 2017**								
Members	12th February, 2017	27th March, 2017	22nd May, 2017	31st July, 2017	11th September, 2017	30th October, 2017	14th November, 2017	25th December, 2017
Eng. Abdullah Mohammed Al-Issa	✓	✓	✓	✓	✓	✓	✓	✓
Jamal Abdul-Karim Al-Rammah	✓	✓	✓	✓	✓	✓	✓	✓
Ibrahim Hassan Sharbatly	✓	✓	✓	By proxy	✓	✓	✓	✓
Talal Ibrahim Al-Qudaibi	✓	✓	✓	✓	By proxy	✓	✓	✓
Abdul-Rahman Amin Jawa	✓	By proxy	✓	✓	✓	✓	✓	✓
Mohammed Talal Al-Nahas	✓	✓	✓	✓	✓	✓	✓	✓
Mohammed Abdulaziz Al-Afaleq	✓	✓	✓	✓	✓	✓	✓	✓
Mohammad Omair Al-Otaibi	✓	✓	✓	✓	✓	✓	✓	✓
Mutaz Qusai Al-Azzawi	✓	✓	✓	✓	✓	✓	✓	✓
Nader Ibrahim Al-Wehibi *	✓	✓	✓	✓	✓	✓	✓	✓

* Members representing Al Nahda Contracting & Trading, Public Investment Fund (PIF), General Organization for Social Insurance (GOSI) and Public Pension Agency (PPA) respectively.

** All members of the Board of Directors are elected, including the corporate representatives.

Committees of the Board of Directors:

The Board of Directors of Riyad Bank has delegated some of its functions to the main committees composed of members of the Bank's Board of Directors. Exceptions are the Audit Committee which comprises 2 members of the Board of Directors and 3 members from outside the Board.

The Board of Directors carries out its responsibilities through several committees which comprise Riyad Bank Board members, except for the Audit Committee, which, in addition to two members from the Board of Directors, includes three external, independent, non-Board members and the Nomination and Remuneration Committee which comprises three members from the Board and two members from outside the Board.

The main functions of the Board's Committees are as follows:

1- Executive Committee:

Powers and Responsibilities:

The Executive Committee exercises credit, banking and financial powers which are granted by the Board of Directors. The Executive Committee of the Bank consists of 5 members. The number of meetings of the Committee during 2017 was 11 sessions, and the attendance rate was 96%.

Meetings of the Executive Committee in 2017

The attendance of the members of the Executive Committee in person or by proxy for the meetings of the Committee in 2017						
Members	8th January, 2017	5th February, 2017	13th March, 2017	27tth March, 2017	10th April, 2017	
Abdul-Rahman Amin Jawa	✓	✓	✓	by proxy	✓	
Talal Ibrahim Al-Qudaibi	✓	✓	by proxy	✓	✓	
Mohammed Abdul Aziz Al-Afaliq	✓	✓	✓	✓	✓	
Moataz Qusai Al-Azzawi	✓	✓	✓	✓	✓	
Nader Ibrahim Al-Wehibi *	✓	✓	✓	✓	✓	
Members	21st May, 2017	12th June, 2017	31st July, 2017	10th September, 2017	13th November, 2017	24th December, 2017
Abdul-Rahman Amin Jawa	✓	✓	✓	✓	✓	✓
Talal Ibrahim Al-Qudaibi	✓	✓	✓	✓	✓	✓
Mohammed Abdul Aziz Al-Afaliq	✓	✓	✓	✓	✓	✓
Moataz Qusai Al-Azzawi	✓	✓	✓	✓	✓	✓
Nader Ibrahim Al Wehibi *	✓	✓	✓	✓	✓	✓

2 - Audit Committee:

Roles and Responsibilities:

The Audit Committee oversees financial reporting, compliance and compliance processes, monitors the effectiveness and efficiency of the internal control system, recommends the selection of auditors, reviews the interim and annual financial statements and recommends them to the Board of Directors. The number of meetings of the Committee during 2017 was 6 sessions, and the attendance rate was 93%. The Audit Committee of the Bank consists of 5 members, including 3 members from outside the Board of Directors. They are Mr. Abdullah Abdullatif Al-Saif, Dr. Abdul Raouf Sulaiman Banaja and Mr. Abdul Aziz Abdullah Al-Duailej. The Audit Committee was formed by the General Assembly on 26th December, 2016.

Audit Committee Meetings in 2017

Attendance of the members of the Audit Committee of meetings of the Committee in 2017						
Members	12th January, 2017	11th February, 2017	21st March, 2017	15th June, 2017	19th September, 2017	20th December, 2017
Jamal Abdul-Karim Al-Rammah	✓	✓	✓	✓	✓	✓
Mohammed Omair Al-Otaibi	✓	✓	✓	✓	✓	✓
Abdul Aziz Al-Duailej	✓	✓	✓	✓	✓	✓
Abdullah Al-Saif	✓	x	✓	✓	✓	✓
Dr. Abdul Raouf Banaja	x	✓	✓	✓	✓	✓

3 - Risk Management Committee:

Roles and Responsibilities:

The Risk Management Committee assists the Board in its responsibility to fully supervise the Bank's risk strategy, review acceptable risk levels, make recommendations to the Board of Directors, and monitor the Executive Management's compliance with Board approved risk limits and their consistency with the levels approved by the Board. The Risk Management Committee of the Bank consists of 3 members, the number of meetings of the Committee during 2017 was 5 sessions, and the attendance rate was 93%.

The Risk Management Committee was formed in accordance with a resolution issued by the Board of Directors of the Bank to carry out the tasks entrusted to it. It is provided with various periodic reports covering all aspects of the Bank's various risks and the extent to which the Executive Management complies with the regulatory controls for managing these risks and the adequacy of the procedures taken to mitigate them.

Risk Management Committee meetings in 2017

Attendance of the members of the Risk Management Committee in person or by proxy for Committee meetings in 2017					
Members	2nd February, 2017	10th April, 2017	21st May, 2017	10th September, 2017	24th December, 2017
Jamal Abdul-Karim Al-Rammah *			✓	X	✓
Mohammed Abdulaziz Al-Afaleq	✓	✓	✓	✓	✓
Mohammed Omair Al-Otaibi	✓	✓	✓	✓	✓
Eng. Mutaz Qusai Al-Azzawi *	✓	✓			

* On 8th May, 2017, Eng. Mutaz Al-Azzawi left the Risk Management Committee and joined Mr. Jamal Al-Rammah's Committee.

4. Nomination and Remuneration Committee:

Roles and Responsibilities:

The Nomination and Remuneration Committee shall support the Board of Directors in respect of the Board's governance, propose a policy of remuneration for Board members and its committees and senior management officers, and review and evaluate the adequacy and effectiveness of the remuneration, compensation and incentive policy on a regular basis. This is to ensure that the objectives are met and to present their recommendations to the Board of Directors. The Committee shall also evaluate the methods of remuneration payment and submit recommendations to the Board of Directors for any promotion, salary increase, bonus or any modification to the benefits of senior management officers in accordance with the Bank's approved authority system and review the compliance of the remuneration policy with SAMA rules.

It also establishes the policy of candidacy and selection for membership of the Board of Directors and ensures that all members meet the statutory requirements of membership of the Board in accordance with the relevant regulations. The Committee consists of 5 members, including 2 members from outside the Board of Directors, namely Timothy John Miller and Mr. Mohammad Nazzal Al Khalidi. The number of meetings of the Committee during 2017 was 6 sessions, with 96% attendance.

Meetings of Nominations and Remuneration Committee in 2017

The attendance of the members of the Nomination and Remuneration Committee in person or by proxy for the meetings of the Committee in 2017						
Members	23rd April, 2017	24th May, 2017	12th June, 2017	11th September, 2017	23rd April 2017	23rd April, 2017
Eng. Mutaz Qusai Al-Azzawi	✓	✓	✓	✓	✓	✓
Talal Ibrahim Al-Qudaibi	✓	✓	✓	x	✓	✓
Nader Ibrahim Al-Wehibi	✓	✓	✓	✓	✓	✓
Mohammad Nazzal Al-Khaldi	✓	✓	✓	✓	✓	✓
Dr. Timothy John Miller *					✓	✓

* Mr. Timothy John Miller was appointed on 31st October, 2017

5- Strategic Planning Group:

Roles and responsibilities:

This group oversees the preparation of strategic directions for the Bank and follows up on and evaluates the steps taken to achieve its objectives. It also reviews the main projects initiated by the Bank and reviews the financial and operating performance of the Bank as compared to the strategic objectives set. The group consists of 5 members, and the number of group meetings during 2017 was 3 sessions. Attendance rate, both in person or by proxy, was 100%.

Strategic Planning Group meetings in 2017

The attendance of the members of the Strategic Planning Group in person or by proxy in 2017			
Members	2nd April, 2017	17th April, 2017	19th September, 2017
Eng. Abdullah Mohammed Al-Issa	✓	✓	✓
Ibrahim Hassan Sharbatly	✓	✓	✓
Talal Ibrahim Al-Qudaibi	✓	✓	✓
Abdul-Rahman Amin Jawa	by proxy	by proxy	✓
Mohammed Talal Al-Nahas	✓	✓	✓

Qualifications and experience of members of external committees

Names of committee members	Current Positions	Previous Positions	Qualifications
Abdul Raouf Sulaiman Banaja	• Member of the External Audit Committee - Riyad Bank • Member of the Board of Directors - Matbuly United Group • Membership of the board of directors and equity funds - National Bank • Member of the Audit Committee - Savola Group • Member of the Audit Committee - Savola Food Company • Member of the Audit Committee - Panda Retail Company		• PhD in Economics - University of California • Master of Economics - University of California - USA • Bachelor of Mathematics and Physics - University of Riyad
Abdul Aziz Abdullah Al-Duailej	• Member of the External Audit Committee - Riyad Bank • Chairman of the Board - Saudi Advanced Industries Company • Vice Chairman - Al Salam Aviation Industry • Member of the Board of Directors - Saudi Printing & Packaging Company • Member of the Board of Directors - Taiba Holding Company • Member of the Board of Directors - Stabat Real Estate Development Company • Member of the Board of Directors - Deutsche Gulf Finance Company • CEO - Advanced Electronics Company	• Member of the Board - Saudi Research & Publishing Company • Member of the Board of Directors - Saudi Pipe Company • Member of the Board of Directors - First Real Estate Development Company • Board Member - Saudi Fish Company • Member of the Board of Directors - Thabat Real Estate Development Company • Member of the Board - Aayan Capital Company • Member of the Board - First Company for Construction • Chief Executive Officer - Middle East Specialized Cables Company • Chief Executive Officer - Adwan Chemical Industries Company • Chairman - First Middle East - Dubai • Chairman of the Board of Directors - First Industrial Company - Egypt • Member of the Board - First International Company - Kuwait • Member of the Board - Oil Services Company Limited - Bahrain	• Bachelor of Science - Industrial Management Specialization University of Petroleum and Minerals

Names of committee members	Current Positions	Previous Positions	Qualifications
Abdullah Abdullatif Al- Saif	• Member of the External Audit Committee - Riyad Bank • Chairman of the Board - Qassim Cement • Member of the Board - Herfy Food Services • Member of the Board of Directors - Immunity • Member of the Board of Directors - Special Laboratories	• Member of the Board of Directors - Saudi Printing • Chief Executive - Private Laboratories	• Master of Industrial Engineering - University of Arizona • BSc in Industrial Engineering and Mining Engineering - University of Washington - United States of America
Mohammed Nazzal Al-Khaldi	• Member of the External Nomination and Remuneration Committee - Riyad Bank • HR Consultant - General Retirement Corporation • Member of Nominations and Remuneration Committee - Leading Investment Company		• Executive MBA - Al Yamamah University • Bachelor of Business Administration, Human Resource Management and Management, King Abdulaziz University
Dr. Timothy John Miller *	• Member of the Nomination and Remuneration Committee - Riyad Bank • Member of the Board of Directors - EQUINTI PLC • He is currently a non-executive member of the Board of Directors of several companies, including being a member of the Board of Equiniti Financial Services Limited, the Toronto Stock Exchange and the St Martin Academy	• Member of the Board of Directors - Standard Chartered Bank	• PhD in Business Administration - Nottingham University • Master of Business Administration - Scottish Business School • Master of Arts - University of Stirling • BA in History and Economics - University of Stirling - UK

The actions taken by the Board of Directors to inform its members, especially non-executives, of shareholders' proposals and comments on the Bank and its performance:

This shall be achieved by presenting the received proposals of the shareholders during the General Assembly meetings. In the event of receiving any other proposals of the Bank, the Chairman of the Board of Directors shall be informed to present them during the earliest meeting and to note them in the minutes of the Board, if any.

Recommendations of the Audit Committee, which are in conflict with the decisions of the Board of Directors or rejected by the Board, regarding the appointment of the Bank auditor, his dismissal, the determination of his fees, the assessment of his performance, the justifications for this recommendation and the reasons for not taking them

No recommendations of the Audit Committee are in conflict with the Board of Directors' decisions. The Board of Directors has not made any recommendations regarding the appointment, dismissal, fees and performance assessment of the Bank's auditor.

Remuneration of Board members, its committees and senior executives during 2017

The remuneration paid to members of the Board of Directors of Riyad Bank and its committees is determined in accordance with the guidelines set by the Supervisory Authorities. Generally, it is governed by the main principles of governance of banks operating in the Kingdom, the compensation regulations issued by SAMA and the Corporate Governance Regulations issued by the Capital Market Authority, the Corporate Regulations issued by the Ministry of Trade and Investment, and the Bank bylaws.

Based on Nomination and Remuneration Committee recommendations, the Board of Directors also determines the remuneration of senior executives, making sure that they are consistent with the Bank's strategic objectives and can be effective in motivating senior management to meet these objectives.

Remuneration of Board of Directors' and its Committees':

(SR 1 thousand)

Statement	Independent members	Non-executive members	Executive members	Total	Members of external committees
Fixed Rewards					
A certain amount*	1,575	2,330	-	3,905	460
Attending Board meetings allowance	160	225	-	385	-
Total attendance allowance for committee meetings	265	370	-	635	120
In-kind benefits	-	-	-	-	-
Reward for technical, administrative and consulting work	-	-	-	-	-
The remuneration of the Chairman of the Board, the CEO or the Secretary if he is a member	-	-	-	-	-
Total	**2,000**	**2,925**	-	**4,925**	**580**
Variable Rewards				-	-
A percentage of the profits	-	-	-	-	-
Periodic remuneration	-	-	-	-	-
Short-term incentive plans	-	-	-	-	-
Long-term incentive plans	-	-	-	-	-
Shares granted	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**
End-of-Service Benefit	**-**	**-**	**-**	**-**	**-**
Grand total	**2,000**	**2,925**	**-**	**4,925**	**580**
Expenses	**131**	**60**	**-**	**191**	**48**

* The Board of Directors' remuneration is SR 400 thousand per member, while the reward of the Chairman is SR 500 thousand. The maximum limit of the total remuneration for each member, including the Chairman of the Board, does not exceed SR 500 thousand. This includes attendance allowances for the meetings of the Board and its committees, as specified in the Bank's by laws; except for the remuneration of the Audit Committee members which do not fall under the maximum limit stipulated in the Bank's by laws and the regulatory procedures issued by the Capital Market Authority.to govern joint stock companies.

Salaries and compensation data for 6 senior executives (including Chief Executive Officer and Chief Financial Officer):

Statement	Amount in SR thousands
Fixed Rewards	
Salaries	11,040
Allowances	1,501
In-kind benefits	106
Total	**12,647**
Variable Rewards	
Periodic remuneration	4,598
Profits	-
Short-term incentive plans	-
Long-term incentive plans	1.699
Shares granted	-
Total	**6,297**
End-of-Service Benefit	**1,360**
Total executives' remuneration for the Board, if any	**-**
Grand total	**20,304**

Waiver of interest by shareholders, Board of Directors members or senior executives

- There are no arrangements or agreements regarding the waiver of any salaries, remuneration or compensation by any of the members of the Board of Directors or any senior executive.
- There are no arrangements or agreements on the waiver of any rights to profits by any of the Bank's shareholders.

Cash dividends were distributed to all shareholders for the first half on 16th July, 2017. Cash dividends for the second half of 2017 will be distributed to the Bank's shareholders by the end of Bank's General Assembly Meeting. Shareholders registered in the Bank's records at Securities Depository Center Company (Edaa) will receive their dividends by the second trading day following the date of the Assembly to be held during the 1st quarter of 2018. It will be announced later after obtaining the necessary approvals from relevant authorities.

Qualifications and experience of the Executive Management

Executive Management Names	Current Positions	Previous Positions	Qualifications	Experience
Abdulmajeed Abdullah Al-Mubarak	CEO	Chief Executive Officer - Riyad Bank	Bachelor of Science - University of Arkansas	27 years
Thalib Ali Al-Shamrani	Senior Vice President - Chief Risk Officer	Executive Vice President of Finance - Riyad Bank	Bachelor of Business Administration - King Abdulaziz University	41 years
Abdulaziz Saleh Al-Malki	Executive Vice President, Treasury and Investment	Director of Customer Investment Department - Riyad Bank	Bachelor of Business Administration - King Abdulaziz University	37 years
Ahmed Yahya Al-Tayeb	Executive Vice President of Risk Management	Senior Vice President - Head of Lending Portfolio Services - Riyad Bank	Bachelor of Business Administration - King Abdulaziz University	39 years
Ossama Abdul Baqi Bukhari	Executive Vice President of Corporate Banking	Executive Vice President of Credit Sector - Riyad Bank	Bachelor of Economics - King Abdulaziz University	35 years
Adnan Saleh Al-Joyan	Executive Vice President, Support Services Sector	Executive Vice President for Human Resources - Riyad Bank	Bachelor of Archeology - King Saud University	27 years
Riyadh Otaibi Al-Zahrani	Executive Vice President of Retail Banking	Executive Vice President, Business Support Sector, Riyad Bank	Bachelor of Accounting - King Saud University	25 years
Mohamad Abdul Aziz Al-Rabeah	Executive Vice President of Marketing	First Vice President - Marketing & Communications - Riyad Bank	Master of Financial Markets - Arab Academy for Banking Sciences	29 years
Hani Abdullah Abu Al Naja	Executive Vice President of Branches Sector	Senior Vice President - Regional Manager - Riyad Bank	Bachelor of Accounting - King Abdulaziz University	27 years
Aiedh Mohamed Al-Zahrani	Executive Vice President of Business Technology	Senior Vice President - Director of Systems Support Department - Riyad Bank	Bachelor of Information Systems - King Saud University	22 years
Mohammed Ali Qureshah	Executive Vice President of Finance	First Vice President - Financial Sector - Riyad Bank	Bachelor of Accounting - King Abdulaziz University	20 years
Abdulaziz Abdullah Al-Asker	Executive Vice President of the Credit Sector	Senior Vice President - Director of Evaluation and Credit Approvals - Riyad Bank	Bachelor of Accounting - King Saud University	19 years
Enji Ahmed Al-Ghazzawi	Chief Operating Officer	Senior Vice President - Corporate Banking Manager - Riyad Bank	Bachelor of Translation King Saud University	23 years
Mohammed Abdul Aziz Abo Al-Naja	Executive Vice President of Corporate Banking	Senior Vice President - Corporate Banking Manager - Riyad Bank	Bachelor of Systems - King Saud University	22 years
Nader Sami Al Koraya	Executive Vice President, Treasury and Investment	Senior Vice President - Treasurer - Riyad Bank	MBA - California State University	25 years
Saad Musheeb Al Qahtani	Executive Vice President for Human Resources - Riyad Bank	Deputy General Manager of Human Capital Strategy - Al-Anma Bank	Bachelor of Industrial Management - King Fahd University of Petroleum and Minerals	22 years

Changes in major shareholdings:

The following table shows the Bank's main owners each of whom owns 5% or more of the shares and the changes in their ownership rates as of the end of trading on (31st December, 2017):

Name of shareholder	Number of shares at the beginning of the year	Number of shares at the end of the year	Net change	Changes Percentage	Ownership
Public Investment Fund (PIF)	652,608,000	652,608,000	0	0.00%	21.7536%
General Organization for Social Security (GOSI)	501,757,200	501,757,200	0	0.00%	16.7252%
Public Pension Agency (PPA)	277,040,918	278,822,231	1,781,313	0.64	9.2941%
Al-Nahla Trading and Construction Company	250,778,637	250,778,637	0	0.00%	8.3593%
Aseela Investment Co. (MASC Holding Company previously)	240 million	240 million	0	0.00%	8.0000%

* To the nearest four decimal points

In obtaining the above data, the Bank relied on its records with the Saudi Stock Exchange (Tadawul) at the end of trading on 31st December, 2017.

Ownership of the Board Directors, Senior Executives, their spouses and minor children in the Bank's shares and changes during 2017

The following 2 tables detail shareholdings and any change for the Bank's Board of Directors, Senior Executives, their spouses and minor children in the shares or credit instruments of the Company and its subsidiaries and any change that occurred during the year:

(A) Board Members and, their spouses and minor children:

The name of those who own interests	Number of shares at the beginning of the year	Number of shares at the end of the year	Net change	Changes Percentage	Debt instruments
Eng. Abdullah Mohammed Al-Issa	1,262,000	1,262,000	-	0.00%	-
Jamal Abdul-Karim Al-Rammah	1,142	1,142	-	0.00%	-
Ibrahim Hassan Sharbatly	1,344,390	1,344,390	-	0.00%	-
Talal Ibrahim Al-Qudaibi*	113,383	66,864	(46,519)	(41.03%)	-
Abdul-Rahman Amin Jawa	13,440	13,440	-	0.00%	-
Mohammed Talal Al-Nahas	-	-	-	0.00%	-
Mohammed Abdulaziz Al-Afaleq	81,000	87,000	6,000	7.41%	-
Mohammed Omair Al-Otaibi	1,000	1,000	-	0.00%	-
Eng. Mutaz Qusai Al-Azzawi	1,000	1,000	-	0.00%	-
Nader Ibrahim Al Wehibi	-	-	-	0.00%	-

*The number of listed shares decreased by the end of 2017. They included shares of relatives of Board member Mr. Talal Ibrahim Al-Qudaibi that do not meet the definition specified in this table.

B) Senior executives, their spouses and Minor Children

The name of those who own interests	Number of shares at the beginning of the year	Number of shares at the end of the year	Net change	Changes Percentage	Debt instruments
Nader Sami Al Koraya	-	8,830	8,830	100.00%	-

General Assemblies held during 2017

Riyad Bank held 1 assembly for its shareholders during the fiscal year 2017, which is the Extraordinary General Assembly held on 28 Jumada II 1438 H, corresponding to 27th March, 2017. The attendance record of the Board of Directors members for the Extraordinary General Assembly was as follows:

Name	Attendance Status
Eng. Abdullah Mohammed Al-Issa	✓
Jamal Abdul-Karim Al-Rammah	✓
Ibrahim Hassan Sharbatly	✓
Talal Ibrahim Al-Qudaibi	✓
Abdul-Rahman Amin Jawa	Absent
Mohammed Talal Al-Nahas	✓
Mohammed Abdulaziz Al-Afaleq	✓
Mohammed Omair Al-Otaibi	✓
Eng. Mutaz Qusai Al-Azzawi	✓
Nader Ibrahim Al Wehibi *	✓

A statement of the number of bank requests for shareholders' records, and their dates and reasons during 2017

Request Date	Reason
1st January, 2017	Corporate Actions - Shareholders' statements by the end of 2016
28th March, 2017	Earnings
2nd July, 2017	Earnings
10th August, 2017	Corporate Actions - Updating shareholders' data
28th December, 2017	Corporate Actions - Shareholders' statements by the end of 2017

Board of Directors' Affirmations

- The accounting records have been prepared correctly.
- The internal control system has been prepared on a sound basis, and effectively implemented.
- There was no doubt about the Bank's ability to continue its activity.
- There is no contract to which the Bank is a party in which there is a substantial interest of any of the Bank's Chairman and members of the Board of Directors, the Chief Executive Officer, the Executive Vice President of Finance or any person directly related to any of them except as stated in the transaction with relevant parties.

Interests in shares entitled to vote

No interested party in the voting shares shall be entitled persons (other than members of the Board of Directors, senior executives and their relatives) who have notified the Bank of such rights under Article (45) of the Registration and Listing Rules. There was no change in those rights during fiscal year 2017.

External Auditors:

The Extraordinary General Assembly of the shareholders of the Bank held its annual meeting on 27th March, 2017, appointing Ernst & Young and Pricewaterhouse Coopers as auditors for the financial year ended 31st December, 2017. The next meeting of the General Assembly will consider the reappointment or replacement of the current auditors and determine their fees for the audit of the Bank for the financial year ended 31st December, 2018, after being informed of the recommendations of the Audit Committee and the Board of Directors.

Auditors' reservations on the annual financial statements

The auditors' report shows that the financial statements are free of material misstatement and there are no reservations.

Recommendations of the Board of Directors to replace auditors and their reasons for it

The Board has not recommended the replacement of any auditors prior to the end of their designated period.

Corporate Governance Regulations

The Bank is committed to implementing the provisions of the Corporate Governance Regulations issued by the Capital Market Authority. It is keen to comply with all the regulations of governance and to keep abreast of developments.

Acknowledgements: The Board of Directors would like to take this opportunity to express its sincere thanks and appreciation to the Custodian of the Two Holy Mosques King Salman bin Abdulaziz- May Allah bless him -, and to His Royal Highness Prince Mohammed bin Salman bin Abdulaziz, Crown Prince Deputy Prime Minister and Minister of Defense and the wise government. Much is owed to the Ministry of Finance, the SAMA and the Capital Market Authority (CMA) and Ministry of Commerce and Industry for the help, support and encouragement they provide the banking and financial institutions sector.

The Board of Directors is also pleased to give its deep thanks and gratitude to the Bank's shareholders, clients and correspondents for their valuable support and confidence. The Board extends its thanks and appreciation to the employees for their continuous and sincere efforts to develop and improve their performance and achieve the Bank's objectives.

Board of Directors

Riyadh, Jumada Alawwal 26, 1439 H

12th February, 2018

In 2017, the Bank launched 4 new branches, bringing the total to 340 branches across the Kingdom.

Summary of Achievements 2017

2017 ACHIEVEMENTS

Retail Banking

Throughout 2017, the retail banking sector continued to implement its strategy through a number of initiatives, which had a significant impact on achieving the Bank's objectives, increasing its productivity and improving customer satisfaction. The most important of this was the launch of a series of integrated products in cooperation with the Real Estate Development Fund and the Ministry of Housing, such as providing mortgage services to the Bank's customers through Subsidized Home Finance and Al-Moyassar Home Mortgage . The Bank also made a major leap towards the future of payment solutions through the launch of a smart bracelet and mobile sticker, as well as the launch of the Riyad Pay wallet, a safe and advanced payment option.

As part of the efforts to improve our services to customers, a mechanism for issuing PIN numbers for student cards was developed by allowing the issuance and reissuance of PINs through all Riyad Bank ATMs located throughout the Kingdom.

In terms of improving customer experience and loyalty, Hassad program was further developed to enhance customer commitment and increase the Bank's competitive advantage to include points accumulated for a wider range of banking products and services, including credit cards.

At the branches level and in line with its expansion policy, the Bank opened four new branches in 2017, increasing the total number of branches in the Kingdom to 340. A new system for opening/updating accounts for new customers has also been launched, contributing to improving customer experience and the quality of service.

With regards to ATMs, Riyad Bank has a wide network of 2,592 machines spread throughout the Kingdom, and therefore the main focus is on increasing the efficiency of the network in general. One of the most important achievements during 2017 was the installation of 14 foreign currency exchange ATMs distributed across branches to serve both Riyad Bank and other bank customers who hold mada cards. This included two machines, at King Fahad International Airport in Dammam and King Khalid International Airport in Riyadh. The Bank also sent its mobile ATM trucks to many events to facilitate cash for customers.

Private Banking

Riyad Bank has 4 dedicated Private Banking centers around the Kingdom offering advanced banking services, investment solutions and credit facilities to serve this important segment of high net worth individuals.

During the first quarter of 2017, the Bank launched a free number for Private Banking customers (800-122-666) managed by a team of experts to provide the best quality of services to this important segment.

Diamond and Golden Banking

As part of the Bank's efforts to constantly develop its services to meet the needs and requirements of its customers, the Golden Banking was revamped in the 3rd quarter of the year adding new features and preferential treatment giving customers priority being served across all branches and banking channels. As a result, the number of Golden Banking staff and service centers inside branches increased to give customers priority and offer a more customized experience.

In the 4th quarter of 2017, the Diamond Banking program was launched, offering exclusive Diamond Banking centers with a new identity and superior banking services and benefits to help manage the funds of this segment with utmost efficiency and professionalism. The first dedicated Diamond Banking center in Riyadh was launched as part of a number of centers that will provide banking services and products provided by a staff of highly qualified relationship managers, with a designated meeting room and a lounge for customer reception and service.

Ladies Banking

The number of ladies' branches reached a total of 80 throughout the Kingdom, offering all its services in line with client expectations. Riyad Bank also continued to provide the most advanced and newest services to its customers, resulting in a significant increase in the number of customers.

Islamic Banking

During the year, Riyad Bank continued its efforts to innovate and design a portfolio of Sharia compliant banking products and solutions approved by the Sharia Committee at the Bank, which extended to daily banking transactions, and financing and investment solutions for all segments of Retail and Corporate Banking.

The Islamic Banking department adopted a specialized training program in Islamic Banking aimed at introducing its employees

80

Branches for Ladies' Banking

Launch of Riyad Pay wallet for the first time in the Kingdom

Improved Hassad Rewards Program

2592

ATMs and 14 foreign exchange ATMs

to Islamic Banking and its products. The management has also made a periodic assessment of the performance of the Bank's Islamic Banking branches by conducting more than 50 follow-up visits to these branches.

The Islamic Banking department also held 12 consultation meetings with the Sharia Committee at the Bank, through which it has completed many of the products and financing solutions provided by the Bank throughout the year. This included products and contracts for Murabaha and Ijarah financing transactions, such as the adoption of Ijarah products, which promise fixed-rate leasing and a product of financing the benefits of services, as well as the adoption of programs and conventions for the Real Estate Development Fund, such as the accreditation of the Advance Payment Guarantee Program and the Subsidized Home Finance. In addition to the adoption of procedures and contracts to grant the Bank's customers a Sharia compliant facility in place of conventional debt facilities and in line with the requirements of the Retail and Corporate Banking and their needs, Islamic Banking has adopted investment solutions provided by Riyad Capital, such as the Sharia Committee's decision on the structure of the Saudi Riyal Sukuk program based on Mudaraba, Murabaha and short sales, in addition to the adoption of the terms and conditions and information notes of Riyad Equity Fund and Riyad Riyal Trading Fund. In addition, Islamic Banking has obtained many fatwas issued by the Sharia Board regarding the services and operations provided by the Bank to its clients.

In line with the Islamic Banking department's approach in supporting and strengthening channels of communication with the different sections and departments of the Bank, it has cooperated with the concerned departments in order to update and issue work flow and procedures for all Islamic Banking services and products. The Islamic Banking department has been involved in updating the Bank's regulations and systems to cover the requirements of Islamic Banking products, in order to support the various departments of the Bank and to provide these products in accordance with the terms and conditions approved by the Sharia Committee.

Digital Banking

The year 2017 witnessed positive and influential changes in the ambitious strategy of the Bank to become the best digital bank in the region. As per the set plan, the year witnessed the completion of building the foundation and fixing the basics phase as required for the Bank's digital banking strategy. The most important achievements of the year include:

- Launching digital banking services for university students: "Riyad Online", "Riyad Mobile" and "Riyad Phone", in addition to "Smart Watch" and "Riyad Token" applications. Students were also offered smart payment methods such as "Smart Wristband" and "Mobile Sticker", in addition to the Virtual card that can be used to shop online.
- Launching 2 new services with an added value to customers: 1- Wazin Auto Saving Program which offers an innovative, smart and easy solution on Riyad Online to help customers achieve their goals through balancing their spending with their saving. 2- Riyad Foreign Currency Exchange ATMs which allow withdrawals of four foreign currencies (US Dollar, Euro, British Sterling, UAE Dirhams) using mada cards issued by other Banks, not only Riyad Bank. Riyad Bank was the first Saudi bank to launch this.
- The ability to apply online for products and offers: Riyad Online users can now request a credit card with one click and have it delivered through a courier service or a customer service representative without visiting a branch. Furthermore, opening an "A Second Account in Seconds" is accessible for Riyad Online and Riyad Mobile users granting them the ability to instantly open a savings account with returns (Sharia compliant). An update to this service also gave customers the ability to instantly open a current or savings account without returns in four currencies. Moreover, the user experience on the Bank's website was also improved to make the application for banking products smoother, contributing to the increase in the number of sales opportunities.
- Launching a program to encourage the usage of the digital banking channels and drive traffic away from branches and call center in coordination with the Customer Relations Management CRM department in Retail Banking. This was achieved by the following activities:
- Launching many campaigns to encourage customers to register and use digital banking channels as their main banking method; furthermore, employees of branches are motivated to direct customers to use digital banking channels after under taking specialized training courses about digital banking for meter/greeter staff at branches.
- Making the most frequently requested banking services from branches and call center available digitally.
- Updating the branch system to make it mandatory when new customers open accounts to register for the digital banking channels, and allowing current customers to register on digital channels, with a dash board that shows every customer's digital status.
- Improving the registration process by making it faster and easier using a single registration for multiple channels, making it available via Riyad Mobile, Riyad Line, Riyad Self Service and branches, in addition to the main channel, Riyad Online.
- Upgrading the system for Riyad Line to help customer service representatives at the call center to resolve problems from their first call, contributing to the overall improvement in performance and customer satisfaction.

This is in addition to doing all that is necessary to achieve digital banking's main objectives, which are:

- Spread the digital strategy and culture: through the implementation and follow-up on the execution of the digital strategy on the Bank as a whole, in addition to employing experts in the field to ensure that best practices are followed.
- Digitization: through focusing on digital innovation and working on providing a unique experience for digital channel users, with the utilization of a smart and modern methodology in the field of solution development and project management.
- Managing the digital channels and working on making most services available digitally to customers in order to reduce the numbers of visits to branches and calls to the call center.

Corporate Banking

Riyad Bank continues to play a major role in the corporate banking sector in financing corporate deals and enterprises and expanding its business relationships with major corporate clients across all industrial sectors. Moreover, the Bank strives to be the premier corporate bank in the region through its role in financing the corporate sector. Riyad Bank pays specific attention to the needs of corporate clients by offering them high-quality products to satisfy their growing expectations within the highly competitive business environment.

Riyad Bank works to offer the best services in Trade Finance. As a part of this obligation, the Bank expanded its Trade Finance offices to carefully chosen primary locations throughout the Kingdom, including Jubail, Yanbu and the Second Industrial City in Riyadh.

During 2017, and in line with the increased non-oil exports from the Kingdom, which is one of the goals set in the 2030 Vision, Riyad Bank increased its focus on serving Saudi exporters and facilitating their non-oil export business from the Kingdom. Our services have also been expanded across regions throughout the Kingdom to cover five regions so that the increasing needs of its business and SMEs (small and medium enterprises) in these regions are met.

Aligning with the Bank's strategy to become the leading digital bank, Corporate Banking launched Mobile Banking services for smart phones. In addition, electronic collection solutions have been improved by introducing "Riyad Collect" (a virtual account solution) for leasing and brokerage companies.

The Bank improved the experience of its corporate customers, making the customer journey more efficient, through redesigning and digitalizing the current operation cycle and introducing a new structure. The portfolio of SMEs has grown in 2017 and the Bank maintained its leading position in the market among other banks that work with "Kafalah" program.

Riyad Bank continued to innovate financing solutions and introduce unique banking products, as it financed about 32% of the total number of enterprises financed during the year, and it has also financed 37% of the enterprises that obtained credit facilities within the fourth quarter of the same year. This was done in cooperation with the "Kafalah" program, which is considered a joint initiative among the Ministry of Finance and Saudi banks. The results of the "Kafalah" program during the quarter contributed to establishing Riyad Bank's leading position in the Kingdom.

Furthermore, the Bank achieved exceptional results in regards to the financing for SMEs under the "Kafalah" program, which reached about one billion riyals during 2017. In collaboration with "Kafalah", the Bank offers a wide range of financing solutions designed to meet the needs and capabilities of these enterprises.

The Bank is keen to enable new sectors in the market, in support of the economic diversity plans of the Kingdom's 2030 Vision. The entertainment sector obtained about 11 % of the support provided from the Bank during the last quarter of the year, in addition to other sectors that received support such as IT, tourism, industry, health and education fields, within a plan that included qualitative and feasibility requirements aimed at enabling a more diversified and stable economy.

In line with the Kingdom's 2030 Vision, Riyad Bank continued to grant credit facilities and corporate services to finance major projects and participate in the arrangement of financing companies with a relation to the Public Investments Fund (PIF), which targets industrial investments. The Bank also offered financial support and expanded consultative services to Saudi Manufacturing Companies in joint ventures with reputed international companies. Moreover, the Bank participated in transportation infrastructure projects in Riyadh.

The Bank was selected to play the role of Agent in refinancing the Industrial Cities Development and Operating Company (ICDOC), which is a leading company developing and operating industrial cities in the Kingdom, including the Jeddah and Dammam industrial cities. Moreover, Riyad Bank was one of the first participants and financers of the Real Estate Development Fund (REDF). This subsidized financing is a Shari'ah compliant and subsidized housing financing program that was implemented with the participation of banks and leasing companies. The Bank was also appointed as the Murabaha Financing Agent of the National Industrialization Company (Tasnee) and participated in refinancing the Ma'aden Aluminum Company (MAC).

Treasury and Investment

The Treasury and Investment Department played an important role in efficiently managing the Bank's liquidity and funding requirements for various banking activities. Treasury continued to play a central role in managing the interest rate and foreign exchange risk exposure within the limits set by the Bank.

In a challenging economic environment, Treasury provided innovative and customized solutions to customers for managing interest rate and foreign exchange risk exposures. In line with the Bank's overall cross-selling strategy, Treasury continued to focus on identifying and capturing cross-selling opportunities in coordination with the Bank's other business divisions. In order to provide better pricing to customers for hedging solutions, Treasury set up a Special Purpose Vehicle (SPV) in the Cayman Islands for executing derivative trades with international counterparties.

Investment portfolios managed by Treasury continued to outperform the benchmarks on a relative and absolute basis. Treasury continues to further build upon investment capabilities within the Bank to manage investment portfolios more efficiently and at a lower cost.

Business Technology

Riyad Bank recently received the Tier iii Gold Certification of Operational Sustainability from the American Up Time Institute, which is specialized in the assessment of global data and information centers. The acquisition of this certification by Riyad Bank's Information Center is an unprecedented achievement in the Middle East and Africa, as no bank in the region has ever received it. The Tier 3 Certification, which is the top award as per the applied global standards for the reliability and performance of data centers in the areas of operation and sustainability of information centers, taking into account the operational sustainability standards of data center owners, managers, operators and the risks of data center operations in achieving the full performance of installed infrastructure, reducing the risk of downtime and avoiding human error.

In 2017, the department succeeded in implementing several projects that serve the Bank's requirements and train its staff. Network and Communications Management, in coordination with Talent Management, developed training centers in Riyadh, Dammam, and Jeddah and provided them with the latest Cisco technologies and distance training facilities to provide access to training that meets the highest international standards.

The department also implemented and operated a warehouse management system, which enables the Procurement Department to track and manage all movements on the private stock of all the Bank's departments. This system helps to deliver purchase orders to all Bank departments in record time without reference to the supplier.

The department launched Riyad Pay Wallet, the first of its kind in the Kingdom, which is one of the digital payment solutions provided by the Bank that allows the customer to pay for purchases using Android smartphones by converting Riyad Bank credit cards to digital credit cards. This empowers customers allowing them to securely manage their credit card transactions.

Business Technology Governance

The Business Technology Governance department continued to strengthen the Bank's business technology environment, allowing it to adopt more security controls to provide better data protection and launch new initiatives to provide immunity from threats and emergencies. The Information Security department contributed to the establishment and review of more than 65 technical designs for Bank's various projects.

The Business Continuity department successfully implemented Business Continuity Automation, which mechanizes the Business Continuity Lifecycle in line with the Enterprise Continuity Policy. Riyad Bank is one of the few banks in Saudi Arabia that has implemented this pioneering business continuity automation system. In parallel, the department conducted a business continuity test for 42 departments, as well as disaster management tests.

In line with the Bank's policies, the Change Management department is working with other departments in the process of settling and launching around 2,150 change requests for 2017 on time. This figure includes basic, technical, emergency and minor changes.

Human Resources

In 2017, the Bank's 2022 strategy was launched; accordingly, the Human Resources department developed a strategy that is in line with the Bank's future direction. It aims at developing human resources policies, procedures, and systems to contribute to enhancing performance in a distinctive and sustainable manner. The Human Resources department, in cooperation with all other departments of the Bank, works on improving the work environment and building an organizational culture based on performance management and teamwork, moving towards a clear and common goal.

The department continued to devote its efforts to enhancing its commitment towards the Bank staff and its customers through the development of staff capabilities, providing 17,000 training opportunities including specialized internal and external programs. It also continued to attract and retain the best talent. The Bank was awarded the best employer in the Kingdom in 2017 by LinkedIn. The Bank still has the highest rate of Saudization in the banking sector with a total of 94%, and the percentage of female employees is 26% out of the total number of Bank employees.

Marketing and Communications

Several marketing activities took place in 2017 for products like Home Finance, Personal Finance, Auto-leasing and Credit Cards through the Bank's media channels with an objective to improve returns from the Bank's current customer base. The deployment of up-to-date desktop and mobile multimedia communication tactics continued to generate positive word of mouth about the Bank and its marketing efforts, and helped in improving results in terms of awareness, reach and response rate from the targeted audiences. The mix of conventional, digital and mobile media, supported by social media, lead to increased levels of effectiveness in terms of leads generated and conversions, and placed the Bank on the list of most persuasive and influential banks in the Kingdom.

In 2017 the brand health index and the internal measurement indicator were launched. The Diamond Banking was also launched as a new segment with a value proposition in the market. In addition to tweaking the branding of the Golden Banking, Private Banking, Riyad Capital and EZ Transfer and updating the brand guidelines.

The Internal Communications department launched several initiatives aimed at enhancing internal communication among all departments in the Bank. It also contributed to a number of important projects, including the VAT project, the authorities update project and the Bank's strategy, as well as working with Compliance, Information Security and Anti-Fraud Management in a number of important areas.

Riyad Bank's strategy for advertising and public relations in 2017 provided the required support to crystallize the Bank’s objectives and vision; in addition to being the mirror which reflected the Bank’s image to the public, while effectively communicating with the target audience and conveying the Bank's message efficiently and professionally.

The financial performance, economic activity and market presence of Riyad Bank have been reflected in its media performance and competitiveness. The Bank topped the list of banks in the number of articles and press releases issued through different media outlets, whether traditional or digital, which led to reaching a large segment of its target audience in various categories, and diverse needs.

Riyad Bank broadcasted about 118 press releases including articles, statements, reports, interviews in the traditional media, topping the list of Saudi banks achieving media coverage with more than 1,000 press releases in various newspapers and websites. Advertising campaigns through these channels totaled about 41 campaigns, reflecting the strong relationship the Bank has with the local media institutes

Moreover, there were around 41 digital and social media campaigns, and the statistics show that the Bank was successful in the effective use of these digital channels, in line with its digital strategy. It is on the list of the most active banks in various communication channels in Saudi Arabia according to the Klout score.

Number of site's visitors increased to reach more than 4 million visitors

The most active bank on social media channels in KSA according to Klout

The degree of interaction and access to the website of the Bank through search engines such as "Google"is also among the main achievements. This contributed to increasing the number of visitors to the site to more than four million, which results in attracting potential customers.

Enriching Customer Experience

The Customer Experience team was created with the objective of reaching a deeper understanding of customer preferences and making sure that the Bank offers innovative products, services, and procedures that meet their needs. These services are also tested prior to launching them to the public. The key achievements during 2017 include the following:

1 - Customer Insight & Analytics:

- Implementation of a consolidated Branch Dashboard to track customer satisfaction and net promoter scores to ensure that frontline staff have access to and can act on customer feedback
- Enhancement of the Branch Mystery Shopping program to instantly highlight any areas where service standards are not being met on the front-line
- Conduct a wide range of qualitative and quantitative research programs

2 - Business Process Management:

- Development of current capabilities across the Bank including the provisions of specific training to senior management employees and distinguished individuals from different departments (more than 40 people received the training).
- Offering a wide range of solutions for the following important processes: Software Development Lifecycle, Mortgage Loans, Personal Finance, ATM Operations, Cash Handling, Credit Cards, Corporate Cash Deposits, POS Merchant Hotlines, and Employees Onboarding

3 - Service Design & Innovation:

- Implementation of an innovation collaboration platform as the main innovation tool for Riyad Bank; an experienced Design & Innovation team provides support by facilitating campaigns to encourage creativity at specific points in the customer journey
- Introduction of a product development lifecycle for enhanced quality and engagement of our customers in the product development process
- Publishing of digital user experience guidelines and updating it throughout the year
- Conducting user experience research to support most Riyad Bank channels and products
- Conducting awareness and education training regarding customer experience and process management for different departments

4 - Customer Testing:

The Bank's Customer Research and Innovation Centre – the first of its kind in the Kingdom– conducted a wide range pf qualitative research meetings with real customers covering many areas.

Community Service

In 2017, the Bank was actively involved in national, humanitarian, cultural, professional, economic and scientific conferences, forums, and events. It has been a distinguished partner of many institutions, associations, humanitarian and charitable organizations, which have benefited from its experience in the field of community service and its reputation acquired over several decades of giving.

Riyad Bank has been involved in supporting and sponsoring a wide range of activities related to community service and social responsibility, including participation in the scientific forum Social Responsibility in the Saudi Private Sector and its Role in Achieving the Kingdom's Vision 2030 in Hail, where the Bank has shown its pioneering social responsibility efforts. This is in addition to the initiatives and programs which the Bank adopts in this regard, contributing to the achievement of sustainable development, the empowerment of society and improvement the lives of people. The Bank's contribution was honored by the Prince of Hail.

In order to encourage innovation in a knowledge-based economy, and in support of the scientific aspirations and development plans of the Kingdom, Riyad Bank sponsored the 2017 International Asbar Forum, an annual development conference that highlights the need for a comprehensive and rapid transformation towards a knowledge-based society and economy in Saudi Arabia. In the framing of innovation and the creation of discussions that produce policies, initiatives, and outputs on which development strategies are built, the event aims at increasing awareness of the importance of activating and employing ICTs to reduce the costs of economic activities in the context of the Fourth Industrial Revolution.

Based on its belief in the importance of small and medium enterprises and their effective role in stimulating the economy and creating job opportunities, Riyad Bank has been a leading supporter of entrepreneurs through participation in conferences and events. Those projects are performed through specialized programs.

The Bank participated in the First Forum of the General Assembly of Small and Medium Enterprises, which was held at the Riyadh International Exhibition and Convention Center. The Bank received special recognition from the Minister of Trade and Investment Majid bin Abdullah bin Othman Al Qasabi at the end of the forum. HRH Prince Mohammed bin Nasser bin Abdulaziz, Governor of Jazan Region, honored Riyad Bank for sponsoring the First Forum for Small and Medium Enterprises - Challenges and

Opportunities, which was launched on 21st November, 2017 at the Jazan Youth Center.

Riyad Bank also sponsored the small and medium enterprises initiative (Al Watan initiative), which was held in King Abdullah Economic City in partnership with the General Authority for Small and Medium-Sized Enterprises and with the participation of the Chamber of Commerce in Jeddah.

The Bank also allocated a substantial share of its community service programs towards supporting Saudi children, improving their capabilities and talents, and teaching and training them by sponsoring various activities such as "the small merchant" in the third year that targets youngsters of both genders, aged 5 to 18 years. These programs covered the fields of finance, marketing, and financial planning.

As for children with special needs, the Bank continued to sponsor annual programs dedicated to caring for this important segment, as well as supporting new programs and initiatives through partnerships with various charitable societies and organizations. In this context, the Bank continued to sponsor the 11th Al-Shabab Summer Club for People with Special Needs, in addition to supporting the summer club at the Association of Disabled Children in Al-Baha.

As part of its efforts towards supporting a healthy society, the Bank has strengthened its partnership with associations and bodies concerned with the provision of healthcare to various segments of Saudi society. Four agreements were concluded in this context with the Friends of the Patients Committee in Riyadh, the Friends of Patients Committee in Abha, the Friends of Patients Committee in Al-Medina Al Monawara, and the Committee of Friends of Patients in Tarif, under which the Bank is committed to providing medical equipment. In addition to this, the Bank supported the Parkinson Society with educational films, treating patients and taking part in sponsoring World Safety Day in Prince Sultan Humanitarian City. The Bank also continued its annual sponsorship and support for a campaign to raise awareness of the importance of early screening for breast cancer and a community awareness campaign on oral and dental health. It also participated in the International Day of Older Persons, supporting the Youth Club for Special Needs Forum, the Birr Association in Sharurah and the Charity Society for Food (It'aam).

The Bank annually abides by sponsoring charity transportation programs. The Bank has offered buses for: Al-Baha Charity Association for the Care of Orphans (Aknaf), Wedad Charity Organization for Orphans, the Friends of Patients in Tarif, Hail and Riyadh, Al Ahsa Cancer Society, Charitable Society for the Care and Rehabilitation of the Disabled in the Eastern Region (Yafea), Maternity and Childhood Society in the Eastern Region and Al Wafa Charity Association in Riyadh.

In the same context, the Bank donated 10 golf club karts to the Association of Friends of the Elderly for the purpose of transporting elderly people to and from Makkah. It also donated buses to Al-Naqaha Hospital to help coma, quadriplegia and paralysis patients. It also provided buses to the home care program of the King Faisal Specialist Hospital and Research Center in Riyadh, and the Down Syndrome Society, the Autism Family Society, and the Healthcare Organization in AlBaha.

As part of its community development initiatives, the Bank continued to support productive families, helping to expand the participation of women, people with special needs and the unemployed. For the third year in a row, Riyad Bank continues to support the Nabatah program, helping them to acquire professional skills that qualify them to enter the labor market and become productive members of society. It also supported the sixth edition of an agricultural training program for people with simple mental disabilities. At the same time, the Bank contributed to supporting the development and financing of the Productive Families Association in Riyadh.

In continuation of its sponsorship of the Wafaa Program for families of employees who are in service, the Bank launched an annual program to continue the distribution of prepaid electronic cards to beneficiary families.

The Bank is also dedicated to serving the community by supporting the cultural movement of the Kingdom, as evidenced by its continued sponsorship and funding of the Book of the Year award by the Riyadh Writing Club. This was an excellent example of the successful partnership between the Bank and the government cultural institutions represented by the club. On the occasion of the tenth anniversary of the Book of the Year Award, a new category of the prize has been created for young authors aged 35 and under.

The contributions of the customers and employees of the Bank concerning the provision of support and donations to charities highlighted the Bank's endeavors towards the values of social solidarity. Hence, it became a steadfast tradition and an integral part of the Bank's annual efforts to serve the community. The contributions in this aspect included a blood donation campaign in which clients and employees participated through the sponsorship of the Bank in cooperation with King Fahad Medical City. This is in addition to the stem cell donation campaign, in cooperation with King Faisal Specialist Hospital and Research Center. This is beside the Bank's contribution to the annual awareness campaign for breast cancer, as well as collecting donations from customers and employees through the Al-Khair program through Riyad Bank's digital channels: Riyad Online - ATM – Riyad Mobile app – Riyad Phone).

The Bank implemented the eighth annual "winter clothing" campaign, targeting needy families in a large number of villages and remote areas, providing them with necessities to help them cope with harsh winter conditions.

Qawafil Al-Khair Al-Kharamat launched its continuous journey for the ninth year in a row at the beginning of the holy month of

The Bank's employees from various branches and management shared the joy of Eid Al Fitr by visiting children in hospitals

The Bank's team of volunteering employees carried out the 8th edition of the Annual Winter Campaign

Ramadan and with the voluntary participation of employees of the Bank. The project was adopted by the Bank to promote volunteerism and translate the values and meanings of the blessed month into practical humanitarian action. During 2017, caravans provided by Riyad Bank carried 33,000 food baskets and tens of thousands of heaters and toys for children and the destitute.

Employees of the Bank volunteered at the various branches and departments of children's hospitals, promoting the joy of Eid Al-Fitr through direct visits to the sick throughout various regions of the Kingdom.

Riyad Capital

Riyad Capital is a Saudi limited liability company wholly owned by Riyad Bank with a paid up capital of SAR 200 million, and is licensed by the Saudi Capital Market Authority for Dealing as Principal, Agent and Underwriter; Arranging; Advising and Custody Services. Riyad Capital's business is managed from its headquarters in Riyadh.

Asset Management

Through its asset management division, Riyad Capital continues to innovate and develop investment products that cater to the needs of its investors. Riyad Capital is committed to increasing the "Riyad REIT" Fund to reach one billion seven hundred million riyals by 2017. "Riyad REIT" was also listed at Tadawul as the 1st real estate investment fund traded in the Kingdom. As for the 'Riyad Taqnia Fund' which is a high risk investment fund, has invested in a range of promising companies in various fields such as financial technology (fintech), e-commerce, cloud computing and logistics. Riyad Capital closed Riyad Hospitality Fund is a private equity fund established to acquire a stake in Boudl Resorts and Hotels. Riyad Money Fund (SAR) maintained its outstanding performance in the market, increasing its volume by 110.8%.

Corporate Investment Banking

Riyad Capital has been keen on attracting experienced manpower to provide specialized financial advisory that span all the investment banking activities such as the management of sukuk issuing and corporate shares in addition to advisory in the field of mergers and acquisitions and structured finance operations. One of the most prominent achievements of 2017 was acting as a financial advisor and the management of the issuance of sukuk for a government body.

Brokerage and Trading Department

The department launched a number of initiatives that support it and enhance its position in the market. In addition to the diversified portfolio of investment services offered by the company. The new Mubasher Pro was launched at the end of 2017 which has a unique feature to trade directly through the channel.

The department also gave access to international trading through smart devices. The department is currently working on the development of technical solutions that will attract new customers through the e-platform without having to visit the branch or RC centers. This will improve customer service and at the same time limit the cost incurred by investment centers.

In terms of international brokerage services, the strong performance of international equity trading services continued, especially with the continuation of the international equity trading campaigns and the addition of numerous services such as research and analysis. This resulted in doubling the number of customers and the net profit generated by these services during 2017.

As for local brokerage services, the Board of Directors approved a margin-financing product, which is expected to help increase profits of the brokerage services, hence improving Riyad Capital's market share. Riyad Capital also continued to promote local equity market products in cooperation with Riyad Bank, which has contributed considerably to enhancing the profits of local trading services.

Custody and Securities Services

During 2017, Custody and Securities Services Department continued to develop its products and services, including the development of an Advanced Storage System (iCustodyPlus).

This is in addition to introducing a new range of products, including:

- Local Market Fund and Trustee Services including and Sub-Custodian services after obtaining the license from Tadawul
- GCC Custody and Fund & Trustee Services after the appointment of a regional custodian, selected after the application of due diligence standards and conditions
- Fund and Trustee Services for real estate
- Payment, management and custody services for sukuk issuing and local bond

As part of its development strategy, Custody and Securities Services Department is currently initiating the launch of Fund & Trustee Services in international markets by selecting and appointing the best international custodians, following the implementation of the necessary standards, including due diligence procedures.

Wealth Management

Asset Management at Riyad Capital in 2017 has continued to promote investment culture among its customers by providing "investment advisory" service, dedicated to affluent customers with utmost privacy and professionalism. Three branches in Riyadh, Al-Khobar and Jeddah have been allocated to assist customers in evaluating their investment options carefully and accurately which in turn expanded Riyad Capital's Asset Management and Trading services. Asset Management continued its program to build and develop the work force to equip them with the professional and technical capabilities to be able to provide better service to major corporate clients.

Brokerage Management launched the new Mubasher Pro service for international trading via smartphones

Number of clients and net profit from international brokerage has doubled in 2017

2017 marked positive changes that were effective on the Bank's ambitious strategy to make it the best digital bank in the region

Economic and Financial Prospects

ECONOMIC AND FINANCIAL PROSPECTS

International Economy

Global economic activity continues to firm up. Global output has grown by 3.7 percent in 2017, which is 0.5 percentage point higher than in 2016. The pickup in growth has been broad based, with notable upside surprises in Europe and Asia. Some 120 economies, accounting for three quarters of world GDP, have seen a pickup in growth in year-on-year terms in 2017, the broadest synchronized global growth upsurge since 2010. The International Monetary Fund (IMF) has revised upward the global growth forecasts for 2018 and 2019 to 3.9 percent. The revision reflects increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes.

The upward revisions to the global outlook result mainly from advanced economies, where growth is now expected to exceed 2 percent in 2018 and 2019. This forecast reflects the expectation that favorable global financial conditions and strong sentiment will help maintain the recent acceleration in demand, especially in investment, with a noticeable impact on growth in economies with large exports. In addition, the U.S. tax reform and associated fiscal stimulus are expected to temporarily raise U.S. growth, with favorable demand spillovers for U.S. trading partners - especially Canada and Mexico - during this period.

The growth forecast for the United States has been stronger than expected in 2017, higher projected external demand, and the expected macroeconomic impact of the tax reform, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investment. The forecast assumes that the decline in tax revenues will not be offset by spending cuts in the near term. The tax reform will stimulate near-term activity in the United States. As a by-product, stronger domestic demand will promote imports and widen the current account deficit. The IMF sees that the policy changes will make the U.S. real GDP 1.2 percent higher by 2020 than in a projection without the tax policy changes. The U.S. economy will grew by 2.7 percent in 2018 and by 2.5 percent in 2019.

Regarding other advanced economies, growth in the euro area will slow down to 2.2 percent in 2018 compared to 2.4 percent in 2018. It will slow further to 2 percent in 2019. This butter and stable growth in Germany, Italy, and the Netherlands, reflecting the stronger momentum in domestic demand and higher external demand. Growth in Spain, which has been well above potential, will slow down in 2018, reflecting the effects of increased political uncertainty on confidence and demand. In UK, growth is expected to slow down after the Brexit. The UK economy is projected to grow by 1.5 percent in 2018 and 2019, after it expanded by 1.7 percent in 2017. For advanced Asian economies, which are especially sensitive to the outlook for global trade and investment. The growth forecast for Japan will be better than expected in 2018 and 2019. The economy may grow by 1.2 percent and 0.9 percent respectively reflecting higher external demand, the supplementary budget for 2018, and carryover from stronger-than-expected recent activity in 2017 when the economy grew by 1.7 percent.

Emerging and developing economies grew by 4.7 percent in 2017; the growth is expected to speed up to 4.9 percent and 5 percent in 2018 and 2019, with significant divergence in growth among different regions. Emerging and developing Asia will grow at around 6.5 percent over 2018–19, broadly the same pace as in 2017. They continue to account for over half of world growth. Growth will moderate gradually in China (from 6.8 percent in 2017 to 6.6 percent and 4.4 percent in 2018 and 2019). In India, growth will increase to 7.4 percent in 2018 and 7.8 percent in 2019 up from 6.7 percent in 2017. In emerging and developing Europe, where growth in 2017 have exceeded 5 percent, activity in 2018 and 2019 is projected to remain strong, lifted by a higher growth forecast for Poland and especially Turkey. This is due to favorable external environment, with easy financial conditions and stronger export demand from the euro area, and, for Turkey, an accommodative policy stance.

In Latin America, the recovery may strengthen, with growth of 1.9 percent in 2018 and 2.6 percent in 2019. The improvement reflects an improved outlook for Mexico, benefiting from stronger U.S. demand, a firmer recovery in Brazil, and favorable effects of stronger commodity prices and easier financing conditions on some commodity-exporting countries. These strong forecasts more than offset the strong deterioration for Venezuela.

Growth in the Middle East and North Africa, is set to pick up in 2018 and 2019, but remains subdued at around 3.5 percent. While stronger oil prices are helping a recovery in domestic demand in oil exporters, including Saudi Arabia. However, fiscal adjustment that have been adopted by the GCC countries will weigh on growth prospects.

An improving global growth outlook, weather events in the United States, the extension of the OPEC+ agreement to limit

US Federal Reserve is expected to continue raising interest in 2018 and 2019

Economic growth in the region was 1.9% in 2018

oil production, and geopolitical tensions in the Middle East have supported crude oil prices. These have risen crude prices to over $60 per barrel. Markets expect prices to gradually decline over the next 4–5 years - as medium-term price futures stood at about $54 per barrel. The increase in fuel prices raised headline inflation in advanced economies, but wage and core-price inflation (that excludes food and energy) remain weak. Regarding the impact of taxes reform package in the United States, the impact is expected to remain weak on domestic demand and prices. This is because of the low sensitivity of price inflation to changes in demand, as many economic resources remained idle during the last period. Additionally, the Federal Reserve Bank is expected to rise interest rates faster than previously expected, while dollar is not expected to witness significant appreciation. Generally, overall inflation and core inflation rates will stay within the targets of the central banks.

The persistence of low core inflation in developed economies is surprising as economic activity continues to improve and unemployment rates continue to decline. This in part reflecting the slowness in absorbing excess capacity in labor markets. A persisted low inflation rates could result in a drop in domestic demand if economic activities believe that central banks are willing to accept below-target inflation rates. This in turn will limit inflation predictions in the medium term, thus lowering interest rates, hence limiting the ability of central banks to reduce interest rates so that real wages become less flexible. As demand plummets, companies are more likely to resort to layoffs to cut costs, slowing economic growth and sometimes recession.

In emerging market economies, headline and core inflation have ticked up slightly by the end of 2017. This was due to the rise in raw material prices, changes in slack in recent years and faster projected pace of U.S. Federal Reserve policy rate hikes, with a modest decompression of term premiums and no sizable U.S. dollar appreciation. Several emerging economies experienced declines in their inflation levels at the beginning of 2017 due to decline in oil prices and the stability of the currencies of these countries or their rise against the US dollar, although some countries (such as Brazil, India, and Russia) adopted quantitative easing policies.

Market expectations of the path of U.S. Federal Reserve policy rates have shifted up during the second half of the year, reflecting the well-anticipated December rate hike, but they continue to price in a gradual increase over 2018 and 2019. The Bank of England raised its policy rate for the first time since 2008 in view of diminishing slack in the economy and above-target inflation driven by the past sterling depreciation. The European Central Bank (ECB) announced that it would taper its net asset purchases starting in January. The ECB intends, however, to maintain policy rates at current historically low levels even after quantitative easing ends. However, should inflation underperform, the ECB plans to extend the asset purchase program in amount and duration. Bond market reaction to these shifts has been muted, with yield curves tending to flatten as short-term rates have risen more than longer-term rates (as in the United States, United Kingdom and Canada), consistent with still-subdued market expectations of sustained upside surprises on inflation. Equity prices in advanced economies continued to rally, buoyed by generally favorable sentiment regarding earnings prospects, expectations of a very gradual normalization path for monetary policy in a weak inflation environment, and low expected volatility in underlying fundamentals. Emerging market equity indices have risen, lifted by the improved near-term outlook for commodity exporters. In some cases, long-term yields have inched up in recent months, but they generally remain low, and interest rate spreads remain compressed.

In terms of exchange rates and capital flows, since the end of 2017, the U.S. dollar and the euro remain close to their 2017 level in real effective terms. The Japanese yen has depreciated by 5 percent on widening interest differentials, while the British Pound has appreciated by 4 percent as the Bank of England raised interest rates in November and as expectations of a Brexit deal rose. For emerging-market currencies, the Chinese Yuan gained nearly 2 percent, while the Malaysian Ringgit has rebounded by 7 percent on the back of improved growth outlook and rising commodity prices. The South African Rand rose by nearly 6 percent based on the perceptions of low political uncertainty. In contrast, the Mexican peso has depreciated by 7 percent owing to renewed uncertainty associated with the ongoing NAFTA negotiations and the Turkish lira by 4.5 percent on higher inflation readings. Capital flows to emerging economies have remained resilient through the third quarter of 2017, with continued strength in non-resident portfolio inflows.

Despite improved economic prospects, risks remain quite possible, on the short and medium term. A significant risk to growth is the tightening of global financing terms compared to current accommodative conditions. The global economy is likely to maintain its current momentum unless there is a correction in the financial markets, which recorded steady upward movement in asset prices and a very low volatility, apparently not affected by policies followed or political uncertainty in the past few months. Indeed, this momentum could lead to an unpredicted rise in the short term if mutual support continues between trust in the prospects of the global economy and soft financial conditions.

The reaction of longer-term bond yields and the U.S. dollar to the change in U.S. tax policy appears to have been limited so far, and markets currently anticipate a more gradual pace of monetary policy tightening than expected before. The correction in the financial markets could be triggered by factors such as signs of rising inflation in the United States, where the boost to demand will exert downward pressure on the already very low unemployment rate. Higher inflation pressure, coincide with faster Fed policy rate tightening could contribute to widening the spread of the yield premium on long-term investments in the United States, a stronger U.S. dollar, and lower equity prices. The tightening of global financial conditions would have implications for global asset prices and capital flows, leaving economies with high gross debt refinancing needs and unhedged dollar liabilities particularly exposed to financial distress.

Improved financial policy in emerging markets' economies helped decrease main inflation

Political tensions cast on global economy's horizon in the medium term

Also on the downside, the response of U.S. investment to tax policy changes could be more modest with attendant repercussions on the strength of external demand for the main U.S. trading partners.

On the medium term, a potential buildup of vulnerabilities if financial conditions remain easy, the possible adoption of more protectionism policies and noneconomic factors pose notable downside risks.

Buildup of financial vulnerabilities if financial conditions remain easy into the medium term, with a protracted period of very low interest rates and low expected volatility in asset prices, vulnerabilities could accumulate as yield-seeking investors increase exposure to lower-rated corporate and sovereign borrowers and less credit-worthy households. The share of companies with low investment-grade ratings in advanced economy bond indices has increased significantly in recent years. Non-financial corporate debt has grown rapidly in some emerging markets, calling for a policy response. Credit risks on these exposures may be hidden while near-term global growth momentum is maintained and refinancing needs remain low. The absence of near-term warning flags, in turn, may reinforce yield-seeking behavior and amplify the buildup of financial vulnerabilities that come to the fore over the medium term.

We are currently witnessing the renegotiation of important trade agreements implemented for a long time, such as NAFTA and the economic arrangements between the United Kingdom and rest of the European Union. An increase in trade barriers and regulatory realignments, in the context of these negotiations or elsewhere, would weigh on global investment and reduce production efficiency, exerting a drag on potential growth in advanced, emerging market, and developing economies. A failure to make growth more inclusive and the widening of external imbalances in some countries, including the United States, could increase pressures for protectionism and inward-looking policies.

There are geopolitical tensions hovering over the medium-term global outlook, notably in East Asia and the Middle East. Political uncertainty also gives rise to reform implementation risks or the possibility of reoriented policy agendas, including in the context of upcoming elections in several countries (such as Brazil, Colombia, Italy, and Mexico). Recent extreme weather developments - hurricanes in the Atlantic, Australia - point to the risk of recurrent, potent climate events that impose devastating humanitarian costs and economic losses on the affected regions. They may also add to migration flows that could further destabilize already fragile recipient countries.

With regard to policies, two common policy objectives bind advanced economies, emerging markets and developing economies. First, the need to raise potential output growth - through structural reforms to lift productivity and, especially in advanced economies with aging populations, enhance labor force

World economy likely to sustain its current momentum

The world is currently renegotiating important trade deals such as NAFTA

participation rates - while making sure that the gains from growth are shared widely. Second, the imperative of promoting resilience, including through proactive financial regulation and, where needed, balance sheet repair and strengthening fiscal buffers. Action is particularly important in a low-interest rate, low-volatility environment with potential for disruptive portfolio adjustments and capital flow reversals. The current cyclical upswing provides a unique opportunity for structural and governance reforms.

The optimal policy mix varies from country to country and depends on periodic considerations and policy space. In advanced economies where the output is close to its potential level, wage and price pressures remain weak, leading to a cautious and data-based approach to the restoration of normal monetary policy. However, accelerating the pace of policy normalization may be necessary where unemployment is low and is predicted to fall further, as in the United States, if inflation rises to above current predictions. It is desirable that concessional monetary policy continues in developed economies that still have gaps in output, and inflation remains below the target level of the central bank. In both cases, fiscal policy should focus on medium-term objectives- including public investments to drive the potential output and initiatives to increase labor force participation where gaps exist- while ensuring that public debt can continue to be dynamic and reduce excessive external imbalances. If fiscal discipline is required, it should be carefully adjusted to avoid any severe impediments to growth, with policy directed towards improving the quality of public health and education services and protecting low-income people, including potential victims of structural transformation.

In emerging market economies, improved monetary policy frameworks have helped lower core inflation, which provides scope for using monetary policy to support demand should activity weaken. Fiscal policy is generally more constrained by the need to gradually-rebuild buffers, especially in commodity-dependent emerging market and developing economies. With the recent respite provided by the cyclical rebound in commodity prices, policymakers should guard against the temptation to defer reforms and budgetary adjustments for later. Exchange rate flexibility can complement domestic policy settings by preventing sustained misalignments in relative prices, facilitating adjustment to shocks, and curtailing the buildup of financial and external imbalances.

Multilateral cooperation efforts remains vital in ensuring that the momentum gained by recent global activity is maintained, medium-term prospects are reinforced, and the benefits of technological progress and global economic integration are shared more widely. Priority areas include the further implementation of the reform agenda in financial regulation, avoidance of competitive races to the bottom taxes, labor and environmental standards, the modernization of rules-based multilateral trading frameworks, the reinforcement of the global financial

Oil prices increased in 2017 to end at its highest levels in nearly 3 years

Estimates indicate possibility of global demand for oil to rise by 1,730 million barrels a day

safety net, the suppression of cross-border money laundering, organized crime and terrorism, and mitigating and adapting to climate change.

Oil Markets

Oil prices rallied in 2017 ending the year at the highest level in nearly three years owing to several of factors affected both, the supply and demand for oil. On the demand side, improved growth prospects in the global economy, combined with weather conditions in the United States; both contributed positively to the demand for crude oil and promoted prices. Oil prices also received significant support from changes in production conditions following the extension of the oil production cut agreement approved by the Organization of Petroleum Exporting Countries (OPEC) and other producers until the end of 2018. The political conditions in the Middle East and the depreciation in the dollar against major currencies have also contributed to maintaining oil prices higher than last year. Despite a year-on-year rise, crude oil prices fluctuated between highs and lows during the year before stabilizing at the end of the year at levels above $60 a barrel for US crude and $66/bbl/d for Brent.

One of the most significant events in the oil markets was OPEC's approval on 25th May, 2017 to extend the production agreement signed on 30th November, 2016 until the end of the first quarter of 2018. Despite the extension of the agreement, and the efforts of high cooperation by oil exporting countries in the production cut agreement, oil prices fell below $44 a barrel at the end of June, the lowest level since November 2016, prior to the announcement of initial reductions in production levels. The decline in prices results primarily from the increase in oil production more than expected in the United States and the stronger-than-expected production recovery in Libya and Nigeria, which were exempt from cut production that time, that kept the global supply of oil rising. Total crude oil supply rose to 97.70 million bbl/d during the second quarter of 2017 compared to 97.14 million bbl/d in the first quarter of 2017, an increase of 56,000 barrels per day, OPEC's share was about 24 thousand barrels per day. It is noteworthy that the November 2016 agreement between the oil producing countries has provided for the reduction of OPEC production by 1.2 million barrels per day from its level in October 2016. Russia and other non-OPEC members have agreed to meet output levels in October 2016, meaning an additional decrease by 0.6 million bbl/d from October's level, bringing the total decline to 1.8 million bbl/d.

A year after the agreement, on 30th November, 2017, in an amendment to the May agreement, twenty-four oil-producing countries within OPEC and non-OPEC producers agreed to extend the production cut-off agreement until the end of 2018 instead of end of March 2018, in an attempt to remove the excess surplus of global stockpiles. OPEC confirmed in Vienna the extension of the agreement, after discussing it with non-OPEC producers namely, Russia. OPEC also added Nigeria and Libya to comply with the cut agreement, and the two countries agreed to the decision. Oil prices rose as the OPEC ministers' meeting began after the group's initial approval to extend oil production cuts until the end of 2018. Brent crude futures for February delivery were trading up 1 percent above $64 a barrel, while US crude futures rose to $57.96 a barrel.

By the end of 2017, the world production of crude oil and other liquids increased to 97.98 million barrels per day, an increase of 770 thousand barrels per day from 2016 levels. OPEC's production of crude oil reached 32.45 million barrels per day, down by 230 thousand barrels per day from the level of production in 2016. Non-OPEC countries produced 58.69 million bbl/d with a 710,000 bbl/d increase. US crude oil production in 2017 was about 9.33 million bbl/d an increase of 470 thousand barrels from the level of production in 2016. Regarding the consumption of crude oil, data indicate the growth of global consumption to 98.5 million bbl/d in 2017, an increase of 1.550 million bbl/d. The share of the Organization for Economic Cooperation and Development (OECD) was about 47.16 million bbl/d, an increase of 420 thousand bbl/d from the level of consumption in these countries in 2016. Consumption in other countries of non-OECD has grown by 1.150 million bbl/d to reach 51.35 million barrels a day in 2017.

Regarding the outlook on the growth of demand and supply for oil in 2018 and 2019, projections show that global oil demand will rise by 1.730 million bbl/d on the back of higher world economic growth expectations, bringing world oil consumption in 2018 to 100.23 million bbl/d. The world consumption of oil will also increase further in 2019 reaching 101.95 million bbl/d.

The growth in demand is mostly coming from non-OECD countries where consumption will rise by 1.280 million barrels per day to 52.63 million bbl/d, and demand from these countries will increase by an additional 1.300 million barrels in 2019. Demand by OECD countries will rise by 430,000 barrels per day to 47.59 million barrels in 2018, and will increase to more than 48.00 million bbl/d in 2019.

On the other side, oil supply from non-OPEC members may surge by 2.35 million bbl/d reaching 61.04 million bb/d in 2018. It is expected to increase further by 1.270 million bbl/d in 2019 to 62.31 million bbl/d. US oil supplies will rise to 10.59 million bbl/d in 2018 and to 11.18 million barrels per day to become the world's largest oil producer by 2019, bypass Russia, which will then produce 11.16 million bbl/d.

From its side, OPEC will keep its oil production levels at around 32.50 million barrels per day until 2019, with production of other liquids increasing to 7.18 million barrels per day in 2019 up from 6.84 million bbl/d in 2017. Overall, global oil supply will continue increasing to 100.43 million bbl/d in 2018 and 102.17 million bbl/d in 2019.

A look at the crude oil price curve in 2017 shows that the market experienced some volatility during the year. US crude prices started the year 2017 at $52.63 a barrel, down by 2.59 percent from the closing of 2016. While Brent crude started the year at $55.05 a barrel, up by 0.16 percent from the close of 2016. Oil prices began to decline after February 2017 as US crude oil prices hit their lowest level on 21st June, 2017 to record $42.48 a barrel as US oil inventories rose dramatically in June 2017 but fell sharply in July and August.

Brent prices fell to $43.98 a barrel on June 20 for the same reason before they began to rise gradually after August. Oil prices fell by 8.1 percent between February and August 2017, despite the announcement by OPEC and other non-OPEC oil producers in May to extend the period of reduction of oil production until the end of the first quarter of 2018.

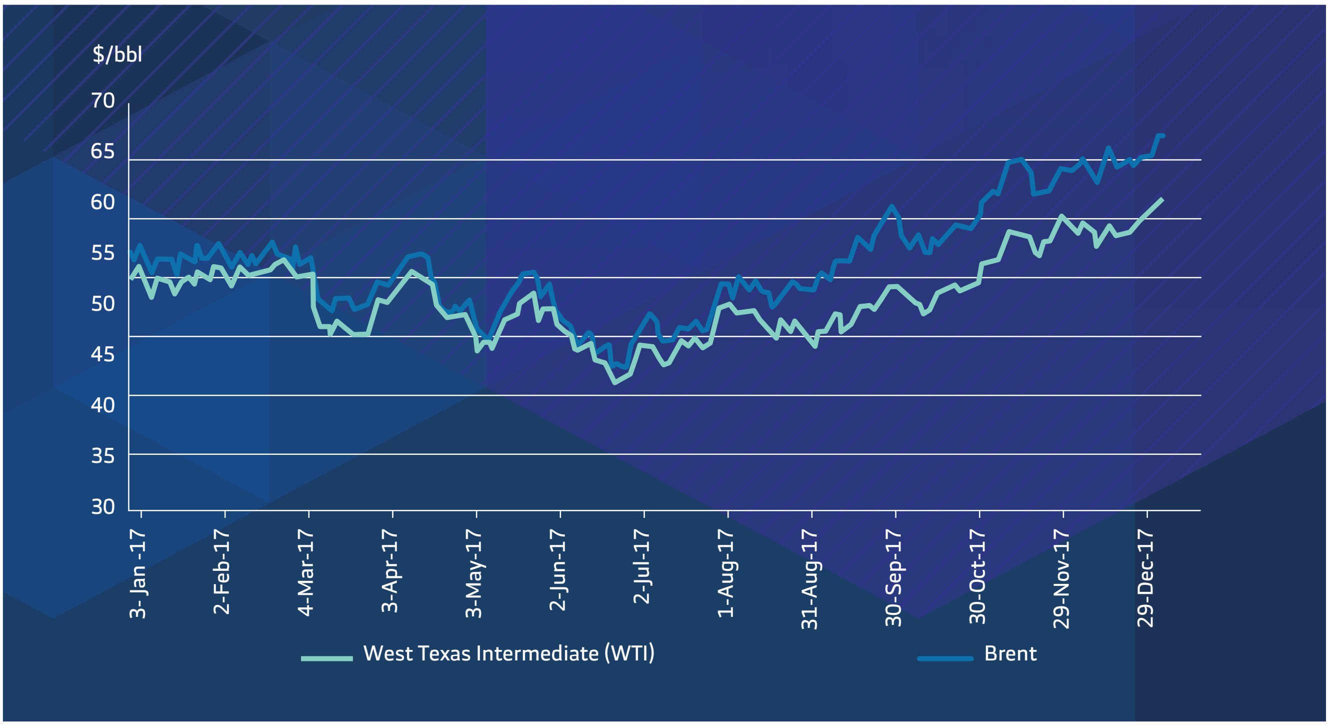
The main reason for the decline in prices was the above than expected increase in US shale oil production coupled with the recovery of production in Libya and Nigeria that also exceeded expectations. By the end of July, oil prices were heading up. Hurricane Harvey affected refineries capacity in the US in late August, prompting a surge in spot gasoline prices. However, crude oil prices and medium-term gasoline futures were relatively unaffected, in part due to the large stockpile of crude oil inventories and a drop in demand for crude oil due to lower refined oil production. US crude prices ended up 12.5 percent higher at $60.46 a barrel, while Brent crude oil prices ended 21.4 percent higher at $66.73 per barrel.

As an average for 2017, the price of US crude reached $50.79 a barrel recording 17.3 percent increase from the $43.31 average in 2016. Brent crude ended 2017 at an average price of $54.17 a barrel, up by 24 percent from its average price of $43.68 a barrel in 2016.

In terms of the price spread of Brent crude compared to US crude, it started 2017 at $1.21 a barrel for Brent crude. It continued to fluctuate around $2 a barrel until August when the margin started to rise for the favor of Brent to $8.18 a barrel on September 27, but ended the year at $6.27 per barrel, averaging $3.78 per barrel for the whole of 2017. Note that this margin has reversed, but by less than $1 margin, for the favor of the US crude on two occasions in 2017, in early March and on the seventh day of June 2017.

Concerning the expectations for oil prices over the next two years, the forecast for Texas Intermediate crude rises to $58.28 per barrel in 2018 and will stabilize at an average of $57.51 per barrel in 2019. Brent is on its way to settle at $62.39 per barrel as an average for 2018, and stabilizes at an average price of $61.51 a barrel in 2019. Future oil contracts indicate prices are set at around $54 a barrel in 2022.

There is still a high degree of uncertainty about oil price forecasts over the coming years. Sudden disruptions and political events, particularly in the Middle East and Latin America, as the United States is imposing additional sanctions on Venezuela, are likely reasons for higher oil prices compared to expectations. Although political developments are likely to disrupt the oil markets, large inventories and US expansion in production via rapid response by shale oil producers, and allowing for drilling in previously prohibited areas will prevent sharp rises in prices in the near future.



Source: U.S. Energy Information Administration

GCC economies

Although the global economy is recovering with strengthening momentum, growth prospects remain relatively weak in the Gulf region. One reason for that is the adjustment measures adopted by the GCC governments to overcome the impact of low oil prices. The other to be blamed for this weakness is the conflicts surrounding the countries of the region. In some Gulf countries, low oil prices and fiscal measures continue to hamper growth in the non-oil sector. Overall growth remains sluggish as well in effect of the OPEC-led cut in oil production. Oil prices continued to be fragile until August of 2017 and began to increase thereafter.

The GCC countries continue to adjust to alleviate the impact of low prices that have weakened growth in 2016 and contributed to significant fiscal and external account deficits, which continued through 2017. Collective economic growth in the GCC economies slowed down to a record of 0.5 percent in 2017, as the governments continued its plan to curb oil production in accordance with the agreement led by OPEC. Similarly, data show mild growth in non-oil sectors by 2.6 percent in 2017 and expected to slow to 2.4 percent in 2018 as the fiscal tightening efforts continues.

Given the expectation of oil prices to remain at current levels (around $60/bbl); the GCC governments are expected to adopt additional fiscal measures that may weaken growth in the medium term. Non-oil sector in the GCC will continue to grow by hardly 3.0 percent over the next two years, with the overall growth rate to be limited at 2.5 percent during 2018 and 2019.

However, GCC countries with ample precautionary reserves, such as Kuwait and the United Arab Emirates, will choose to gradually adjusting their fiscal position, allowing them maintaining the stability in the non-oil growth. Diplomatic problems between Qatar and other GCC countries could harm economic growth severely in the region, although the long-running dispute may reduce the medium-term growth outlook not only for Qatar but also for some other GCC states.

In terms of price levels, inflation rate in the GCC economies has slowed to less than 1 percent in 2017, with a clear variation in inflation rates in each country. While inflation in Saudi Arabia remained negative, figures fell to less than 1 percent in Bahrain and Qatar, while stayed over 2 percent in Kuwait and in the United Arab Emirates, and surpassed 3 percent in Oman. Estimates show that inflation rates will exceed 4 percent as the average for the GCC countries in 2018 due to the application of VAT and the adjustment of energy prices in a number of GCC countries.

In 2017, Kuwait, Qatar, and the UAE recorded a fiscal deficit of less than 5 percent of GDP. Low-deficit countries typically have large fiscal buffer. GCC fiscal adjustment measures covered both expenditures and revenues. On the expenditure side, most countries cut non-wage current expenditures as a share of GDP and induced further reductions in capital expenditures. On the revenue side, governments imposed different taxes and levies inducing the value added taxes, excise taxes and levies on expatriates and increased fees on some services. The combined GCC governments recorded on average, a fiscal deficit of 6 percent of GDP in 2017, down from a deficit of more than 11 percent of GDP in 2016. The deficit will reduce further to 4.6 percent in 2018. It will continue declining in 2019 as the GCC countries continue to adjust fiscal positions and diversify sources of revenue.

For the external sector, the GCC countries suffered a combined current account deficit by $3.5 billion in 2017, or 0.25 percent of the GDP for all the GCC countries down from $45.6 billion, or 3.4 percent of the of the total GDP for the six GCC countries in 2016. Bahrain, Kuwait and Oman all suffered current account deficits in 2017. The deficit will continue in 2018 for these set of countries. On the other hand, Qatar, Saudi Arabia and the United Arab Emirates recorded current account surpluses during 2017 that will continue for this group in 2018 to outweigh deficits in Bahrain, Kuwait and Oman making positive current account balance for all GCC counties in 2018.

In 2017, GCC governments continued to issue government bonds in domestic and international markets as conditions in financial markets remained favorable. Raising the overall debt of the GCC's governments to $379 billion, or 26.2 percent of the GCC's GDP, compared to $313.7 billion and 23.1 percent of GDP in 2016. Although the issuance of bonds internationally prevents competition with the private sector in access to credit, especially in light of the limited capacity of domestic financial markets, the issuance in the domestic markets can contribute to support the development of financial markets gradually. In general, GCC governments takes borrowing and investment decisions in the context of a comprehensive asset and liability management strategy that takes into account macro-financial developments and risks. To help support this approach, debt management offices have been established in Kuwait, Oman and Saudi Arabia. It also strengthened in Abu Dhabi and Dubai. GCC governments will continue to issue debt instruments in domestic and international markets in the future, so that total GCC debt may rise to $443 billion in 2018, or 29 percent of the GCC's GDP.

Financial sectors remain generally resilient in the face of falling oil prices. Banks in the region remain well capitalized, with overall capital adequacy ratios at levels far above regulatory minimums. In addition, the banking sector in the region achieves a good level of profitability. However, there are some arising pressures about continued low profitability of banks in some countries, partly due to the high cost of asset depreciation as in the UAE, and lower interest margins, due to increased competition for deposits, as in Oman. Although the ratio of non-preforming loans has not changed significantly in most of the GCC countries, the risks of asset quality deterioration persist because of the high level of loans to deposits in Oman and restructured loans in the UAE.

Most central banks in the GCC have raised their key domestic interest rates following the US Federal Reserve, leading to higher interest rate and lending rates. However, the increase in oil prices and the monetary policy accommodation adopted by governments have helped ease liquidity pressures in some countries, particularly Saudi Arabia and the UAE, as interest rates spreads over dollar rates have narrowed.

As for the financial markets, the indices of the Gulf markets ended in 2017 with a mixed performance ranging between gains and losses. Qatar Market lead the decline by a drop of 18.3 percent, the worst performance since 2008, on the background of the diplomatic crisis that lead to cutting political relationships and trade relations between Qatar and most of the Gulf countries. Muscat financial market was second worst performing market in the region after declining by 12 percent. Dubai and Abu Dhabi financial markets retreated by 4.6 percent and 3.3 percent respectively. On the other hand, Kuwait Stock Exchange posted the highest gains up by 11.5 percent, followed by the Bahrain market that gained 9 percent and the Saudi market (TADAWUL) that increased modestly by 0.2 percent.

Saudi Economy

The Saudi economy has declined by 0.5 percent in 2017 due to a 4.3 percent decline in oil GDP. The decline in the oil sector resulted primarily from the Kingdom's commitment to cut crude oil production in accordance with the OPEC agreement of November 2016. The deal was extended until the end of 2018. However, the growth in the non-oil GDP was partially mitigated the sharp drop in oil GDP. The non-oil GDP expanded by 1.5 percent in 2017 despite continued fiscal controls that affected private investment and consumption growth. Private investment fell by 6 percent in real terms, while private consumption grew by 2 percent in 2017. The nominal GDP that measured by current prices grew by 6.1 percent in 2017 to SR 2,584 billion, improved oil prices on global markets was the main reason for the nominal growth in the GDP. The oil GDP measured by current prices rose by 20.2 percent. Additionally, the nominal non-oil GDP expanded by 1.4 percent impacted by the remained negative inflation level during the year.

Unemployment among Saudis has stabilized at 12.8 percent at the end of the first nine months of 2017, compared with 12.3 percent at the end of 2016.

For the external sector, the most recent data indicate that total good exports amounted to SR 790 billion, growing by 14.6 percent over their level in 2016 as the value of oil exports surged by 21 percent, while non-oil exports amounted to about SR 184 billion rising by 4 percent over the level in 2016. In terms of imports, it amounted to SR 490 billion which represents a decline by 6.8 percent compared to their levels in 2016. The decline in imports resulted mainly from the decline of imports of consumer goods. Accordingly, the current account of the balance of payments achieved a surplus of SR 65 billion in 2017 or 2.5 percent of GDP. The improvement came primarily from the surplus in the trade balance due to higher oil prices. The secondary income balance, on the other hand, showed a deficit as remittances by foreign workers increased to SR 140 billion.

Monetary Sector

During 2017, SAMA continued to implement a balanced monetary policy that is consistent with domestic economic objectives and international economic developments. SAMA has continued its role in monitoring local banking system to play their financing role in supporting various economic sectors. To keep abreast of international economic developments, SAMA raised the reverse repo rate 75 basis points in 2017 to reach 1.50 percent. SAMA implemented the increase in rates through three hikes of 25 basis points each. The last of which was on 13th December, 2017 after the Fed's decision to raise its key interest rates by 25 basis points. These measures were part of SAMA's efforts to maintain the attractiveness of the riyal as a savings currency. As a result, the three-month interbank offer rate (SAIBOR) ended in 2017 at 1.90 percent, down 14 basis points from the end of 2016 at 2.04 percent. The average for the whole year was 1.81 percent, compared with 2.07 percent as an average for 2016. The 12-month SAIBOR ended the year at 2.285 percent, while the average for the whole year was 2.25 percent, compared to an average of 2.33 percent for 2016. The differences in the rates continued in 2017 to be in favor of deposits in riyals, despite the decline due to abundant liquidity in the economy. The margin between the 3-month SAIBOR and the 3-month LIBOR fell from about 103 basis points at the end of December 2016 to 30 basis points at the end of December 2017. The average margin has also declined from 132 basis points in 2016 to 64 basis points in 2017 on average.

Regarding inflation, the latest data from the General Authority for Statistics indicate that the inflation rate (measured as the annual percentage change in the consumer price index for the base year 2013) fell to minus 0.85 percent in 2017, compared with 2 percent in 2016. This is the first year where inflation has fallen to negative territory since 2001.

For liquidity, SAMA data indicate that the broad definition of money supply (M3) increased to SR 1,791.1 billion by the end of December 2017, showing a neglected rise of 0.21 percent from its level at the end of December 2016. Total deposits rose by 0.13 percent and demand deposits rose by 2.67 percent. Total loans extended by Saudi banks to the private sector stood at SR 1,339.8 billion at the end of December 2017, down 0.86 percent from December 2016. Based on these developments, the loan to deposit ratio stabilized at 80.11

percent at the end of December 2017 compared to 80.86 percent in December 2016.

Banks' loans to the public sector registered a rise of 32.4 percent to SR 301 billion. The increase mainly came from extending the issuance of Government bonds and other debt instruments domestically that exceeded SR 250 billion.

Regarding banks credit to private sector, the total credit extended to economic activities until the end of 2017 amounted to SR 1,386.5 billion, declining 1.0 percent from its level at the end of 2016. This decrease came from the decline in credit granted to construction and manufacturing by 14.9 percent and 8.8 percent, respectively. Consumer loans amounted to SR 339 billion, decreasing 1.4 percent from their 2016's level. Decline in consumer loans resulted from the decline in loans to finance furniture purchases & durables and expenditure on health services. Real estate loans from banks rose to SR 219.8 billion, registering a growth rate by 8.7 percent over 2016. One reason for this growth could be the government subsidies to help borrowers benefit from housing support programs. Real estate loans extended to individuals accounted for 53.5 percent of total mortgages. On the other hand, the real estate lending by finance companies rose by 8 percent to SR 14.4 billion in 2017, of which 82 percent went to households and individuals.

The Saudi stock market (Tadawul) ended the year at a positive note owning to the rise in banks stocks. Stocks for banks that represents a leading sector in Tadawul rocketed during the year. By the end of 2017, the TASI rose to 7,226 points from 7,210 points at the end of 2016, up 16 points, or 0.22 percent. The sectors of "Media", "Retailing" and "Banks" were the best performing sectors during the year. On the other hand, "Pharmaceutical" "Consumer Services" and "Transportation" were the least performers respectively. In terms of volume, "Med Cap" companies performed the worst, losing 5.3 percent at the end of the year, followed by "Small Cap" companies, which fell by 4.54 percent. "Large Cap" companies advanced 3.6 percent, followed by "Micro Cap" companies, which rose 9.7 percent. By the end of the year, the number of shares traded amounted to 44 billion shares, a decline of 35 percent than 2016, with the value of traded shares dropped 27.7 percent to SR 836.3 billion. The market capitalization has stabilized at SR 1,690 billion, an increase of 0.5 percent from the capitalization in 2016. The P/E ratio rose to 16.1 in 2017 from 15.7 in 2016, the turnover ratio fell to 49.5 from 68.79 in 2016.

SAMA continued implementing a balanced fiscal policy in 2017

The Fiscal Sector

The decline in oil prices affected the Kingdom's budget revenues in clear way. This prompted the government to take steps in rationalizing spending and diversifying revenues to make the fiscal indicators and other macroeconomic variables more resilient to future fluctuations in oil prices. In mid-2016, the Government lunched the National Vision 2030, known as Vision 2030. By the same time, the Government also launched the National Transition Program (NTP) and then the Fiscal Balanced Program 2020. The latest aims at supporting the Government fiscal position and bridging the government budget deficit by 2020. Within the 2018 budget, the Government published the preliminary actual performance of the 2017 budget. The fiscal data for 2017 showed significant improvement in performance with marked efficiency in rationalizing public spending, thanks to measures taken by the Government to compact expenditure and diversify sources of income. In 2018, the Ministry of Finance extended the fiscal balanced program to end in 2023 rather than 2020 in an attempt to minimize the negative impacts of such reforms on the Saudi economy.

One of the achievements in 2017 at the level of public finance was that the decline in budget deficit during the year to SR 230 billion, equivalent to 8.9 percent of GDP, down from 12.8 percent of GDP in 2016. This confirms that fiscal policy is on track in the Vision 2030 and its fiscal reform program. However, despite the improvement, the actual deficit in 2017 exceeded the estimated budget deficit of SR 198 billion. One reason for that is the shortage of actual oil revenues compared to the estimated in the budget, due to the Kingdom's commitment to the agreement to balance the global oil market by limiting the supply of crude oil. Another reason for the higher actual deficit compared to the projected, is surpassing actual expenditure the budgeted expenditure for the year. Oil revenues reached SR 440 billion in 2017 relative to SR 480 billion estimated in the budget. Non-oil revenues, on the other hand, amounted to SR 256 billion, with an increase by

21 percent over the budget estimates for 2017. Accordingly, total revenues jumped 34 percent to SR 696 billion.

Expenditures increased by 11.5 percent compared to 2016 to reach SR 926 billion, and exceeded budget estimates by 4 percent. Which led to a rise in the fiscal deficit to SR 230 billion, but the deficit was about 55 percent less than the deficit recorded in 2016. The Ministry of Finance financed this deficit in a balanced manner by diversifying the sources of debt and instruments. The Ministry had issued (Sukuk) and bonds amounting to SR 134 billion, of which a sukuk issues by a value of SR 53.6 billion in the domestic market, and a sukuk by SR 33.7 billion in the global markets. The Kingdom also issued bonds in the global markets by SR 46.8 billion. Besides that, the government has used SR 100 billion from its own reserves, while it amortized government bonds worth SR 8.5 billion and made debt payments by SR 4 billion. Accordingly, total public debt rose SR 438 billion, or 17 percent of GDP, compared to SR 317 billion, or 13.1 percent of GDP in 2016.

The 2018 budget was the largest in the Kingdom's history in terms of expenditure. The budget allocated a total of SR 978 billion in form of expenditures for different categories. This implies an increase by 5.6 percent compared to 2017 actual expenditures. Expenditure on social development projects, education, economic resources and health accounted for 45.3 percent of the total expenditure.

Non-oil revenues in 2018 will witness a record increase of 13.7 percent to SR 291 billion following the application of VAT and the continuation of imposing financial levy on expatriates as well as other reforms. Oil revenues is expected to reach SR 492 billion as the Kingdom will continue to produce close to 10 million barrels per day of crude oil to comply with OPEC's and non-OPEC producers agreement. Accordingly, total revenues will reach SR 783 billion for the year. The deficit will decline to SR 195 billion or 7.9 percent of GDP. The government will finance this deficit through withdrawals from reserves and issuing debt in local and global markets to reduce liquidity pressure.

One of the most important features of the 2018 budget is the focus on investment spending that spur economic growth. The budget allocates SR 205 billion for implementing projects in infrastructure, health, education and economic development. That is in addition to other projects by the Public Investment Fund (PIF) with a total value of SR 83 billion as a start for building the new city of "Neom" and the rehabilitation of the Red Sea coast. There are also additional investment expenditure worth of SR 50 billion from specialized funds, making total expenditure on investment projects SR 338 billion. With this extra expenditure through the PIF and funds, total government expenditure for 2018 will reach SR 1,111 billion.

Objectives of the Fiscal Balance Program 2020

The Program aims at increasing the efficiency and productivity of capital and operational expenditure, with more focus on strategic projects. A major objective of the program is to support the private sector and increase its contribution in the economy, while diversifying the sources of government revenues by increasing the non-oil revenues. For households, works to channel subsidies fairly to those who need it the most. The Government has started adopting many of the procedures listed in the program. The budget data for 2017 clearly reflected the implementation of such actions. Result of implementing the rest of procedures are reflected in the 2018 budget figures and in the estimates of revenues and expenditure in subsequent years.

According to the budget estimates, total revenues will reach SR 783 billion in 2018, advancing 12.6 percent from their value in 2017. Revenues will increase to SR 909 billion in 2020 according to the Ministry of Finance estimates. The tax revenue will reach SR 142 billion in 2018, growing by 46 percent compared to 2017. It will record SR 189 billion in 2020 according to the estimations of the program. The income, profits and capital gains tax will provide the budget SR 15 billion in 2018, increasing 10.4 percent compared to 2017. Revenues from income, profits and capital gains tax will reach SR 18 billion in 2020, taking into account the economic growth rates expected for the coming period. The taxes on goods and services will surge to SR 85 billion, up 82 percent compared to 2017. It will keep rising according to estimates to reach SR 124 billion in 2020. The increase is coming from implementing several economic reforms including imposing value add tax (VAT), excise tax, taxes on international trade and expatriate levies, etc. Estimates show that VAT will yield SR 23 billion as revenues for the government in 2018. The excise tax (tax on selective goods) will result in a revenue of SR 9 billion in 2018. Revenues from expatriate levies will return SR 28 billion for 2018. The taxes on trade and international transactions will generate 25 billion in 2018 exceeding its revenues in 2017 by 17 percent. Estimates show that taxes and fees on international trade and transaction may reach SR 28 billion by 2020 after the implementing several reforms related to customs duties.

Oil revenues including the fiscal impact of the energy price adjustments will reach SR 492 billion according to 2018 budget estimates, exceeding 2017 actual revenues that amounted to SR 440 billion which represent a growth by 11.8 percent. Despite volatility in oil prices in 2017, crude prices continued to rise. The deficit seems to continue shrinking for the fourth year in a row as deficit in 2018 will reach SR 195 billion, or 7.9 percent of GDP. The budget deficit will continue its declining trend until it is fully filled in 2023, as stipulated in the revised fiscal balance program.

The economic outlook for the Saudi economy for 2018

Macroeconomic indicators will improve in 2018 compared to 2017, driven by the budget focus on expansionary investment spending and economic reform programs. The real GDP is expected to grow by 2.7 percent as a result of the rise in non-oil real GDP by 3.7 percent. The private sector will be the major driver of the non-oil sectors growth, with expected growth in private investments reaches 3.3 percent. The public sector will also play an important role in spurring growth in the non-oil sector. The government increased its expenditure package by about 5.6 percent to implement several current and coming reforms. The reforms aims at stimulating investment, business and investor confidence, improve effective capital allocation to vital economic projects and increasing the productivity of labor and capital in different sector, beside many other initiatives that establish the core of the Vision 2030.

Growth will be centered in key sectors that provide high value added to the economy including manufacturing sector, construction sector, as well as mining, financial services, insurance, real estate, business services and telecommunications. Medium-term estimates indicate that in the real GDP will surpass 2.8 percent. The growth in the non-oil sectors will exceed 3.2 percent in real terms by the end of 2020. Growth in current prices will reach 3.2 percent in 2018 and will continue growing at a rate of 3.7 percent until 2020, thanks to the commendable effects of fiscal sustainability policies and fiscal stimulus policies.

Fiscal sustainability policies that include raising spending efficiency and increasing non-oil revenues through the introduction of VAT and energy price adjustments may temporarily deter consumption and increase prices. However, parallel programs of Citizen Account and Private Sector Stimulus Initiatives will contribute to limit such negative impacts. Private sector stimulus program focuses on improving the growth of real non-oil GDP, as the government increased capital expenditure for 2018 by 13.6 percent over the 2017.

Private investment that slowed down significantly in 2017 will expand in 2018 due to large government investment package. Consumption may also improve given the extraordinary allowances to compensate for the negative impact of fiscal adjustments. Given the pivotal role of the private sector in achieving the Vision 2030, private investments will register a growth by 3.3 percent in 2018 to continue growing at a rate of 3.5 percent until 2020. On the other hand, private consumption will grow mildly in 2018 by 0.4 percent, but it will speed up to grow by 2 percent until 2020.

Concerning the labour market, the unemployment rate among Saudis may fall in 2018 compared to the previous year because of the Saudization efforts in many sectors. The unemployment rate among Saudis will fall to 12 percent in 2018 down from 12.8 in 2017. The unemployment rate among Saudis will to continue declining gradually with improved economic growth, an increase in expatriate levy, Saudization programs and other initiatives until it stabilizes at 10.6 percent in 2020. These rates may also fall further in tandem with the continuous implementations of different initiatives aimed at limiting hiring to citizens in a number of sectors and economic activities.

For inflation, the application of VAT, the adjustment of energy prices and the imposing of cash equivalents on expatriate workers may lead inflation to increase to 4 percent. The current account balance will continue to achieve surplus that may not exceed 2 percent of GDP. This depends primarily on oil price forecasts, which will remain above $52 per barrel. The Kingdom's crude oil production will remain around 10 million barrels per day. These estimates assume the efficiency of government capital expenditure and the government's success in supporting and stimulating the private sector.

The 2017 financial results reflected the bank's continued success in prosperity and growth, as it has achieved 18.1% in annual profits compared to the previous year.

Financial Statements

INDEPENDENT AUDITORS' REPORT

For the years ended December 31, 2017 and 2016

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Riyad Bank (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 shareholders' 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 December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as modified by 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 judgment, 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

For the years ended December 31, 2017 and 2016

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances At 31 December 2017, the gross loans and advances of the Group were Saudi Riyals 140.9 billion against which an impairment allowance of Saudi Riyals 2.1 billion was maintained (comprising impairment against specific loans and collective impairment maintained on a portfolio basis). We considered this as a key audit matter as the Group makes complex and subjective judgments with respect to the estimation of the amount and timing of the future cashflows when estimating the impairment allowance. The Group uses the following methods to assess the required impairment allowance: 1. For larger, individually significant loans and advances (mostly corporate customers), impairment is assessed individually on a regular basis; 2. Collective impairment assessment is performed for corporate loans and advances which are not assessed individually or which are not considered to be impaired based on historical deterioration in the borrowers' internal grading and external rating; and 3. Collective impairment assessment for consumer loans is made on a portfolio basis where loans and advances are homogenous in nature. 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 the significant accounting policies note 3.12 to the consolidated financial statements for the significant accounting policy relating to impairment of financial assets, note 2.4(i) which contains the disclosure of significant accounting estimates relating to impairment for credit losses on loans and advances and the impairment assessment methodology used by the Group and note 8 which contains the disclosure of impairment against loans and advances .*	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 Group's Credit Division and senior management; and • Controls over the identification of impaired loans and advances, the data transfer from source systems to the impairment model and model output to the general ledger, and the calculation of the impairment allowance. For collective impairment, we assessed the appropriateness of the qualitative and quantitative changes in the underlying loan portfolio. We also tested, on a sample basis, extraction of data used in the models including grading of corporate loans, movements between various grades of corporate loans and delinquency bandings for the retail portfolio. For loans and advances which are individually assessed for impairment: • We tested a sample of loans and advances (including loans those were not identified by management as potentially impaired) to form our own assessment as to whether impairment events have occurred and to assess whether impairment was identified and recorded in a timely manner, where required. The sample of loans and advances tested by us also included exposures in economic sectors adversely affected by the current economic conditions. • We considered the assumptions underlying the calculation of impairment including forecasted future cash flows, discount rates and estimated recovery from any underlying collateral etc.

INDEPENDENT AUDITORS' REPORT

For the years ended December 31, 2017 and 2016

Building a better working world

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Fees from banking services The Group charges administrative fees upfront to borrowers on loan financing. All such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, all such fees should be considered in making an adjustment to the effective yield and such adjustment should be recognised within Special Commission Income. However, due to the large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and judgments in relation to the recognition of such fees which are recorded within "Fee and Commission Income, net". We considered this as a key audit matter since the use of management assumptions and judgments could result in material over / understatement of the Group's profitability. *Refer to the significant accounting policies note 3.8 (i) to the consolidated financial statements.*	We performed the following procedures: • We evaluated the assumptions and judgments used by management for recognizing the administrative fees charged upfront to borrowers. • We obtained the management's assessment of the impact of the use of assumptions and judgments and: o on a sample basis, traced the historical and current year data used by management in their assessment to the underlying accounting records; and o assessed the impact on the recognition of fee and commission income and special commission income.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Riyad Bank (A Saudi Joint Stock Company) (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 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 investments); and ○ significant unobservable valuation inputs (i.e. level 3 investments) Estimation uncertainty is particularly high for level 3 investments. In the Group's accounting policies, management has described the key sources of estimation involved in determining the valuation of level 2 and level 3 investments and in particular when the fair value is established using valuation techniques due to the complexity of investments or due to the lack of availability of market based data. The valuation of the Group's available for sale investments in level 3 category was considered a key audit matter given the degree of complexity involved in valuing these investments and the significance of the judgments and estimates made by the management. *Refer to the significant accounting policies note 3.10 (ii) to the consolidated financial statements, notes 2.4(ii) and 34 which explain the investment valuation methodology used by the Group and critical judgments and estimates.*	We assessed the design and implementation and tested the operating effectiveness of key controls over management's processes for performing valuation of investments classified as available for sale which are not traded in an active market. We performed an assessment of the methodology and the appropriateness of valuation techniques and inputs used to value available for sale investments. We tested the valuation of a sample of available for sale investments not traded in an active market. As part of these audit procedures, we assessed key inputs used in the valuation such as comparable company data and liquidity discounts by benchmarking them with external data.

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For the years ended December 31, 2017 and 2016

Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Riyad Bank (A Saudi Joint Stock Company) (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 had investments amounting to Saudi Riyals 46.4 billion. These investments comprise equities, government and corporate bonds and mutual funds which are subject to the risk of impairment in value due to either adverse market situations and / or liquidity constraints faced by the issuers. For assessing the impairment of equities, management monitors volatility of share prices and uses the criteria of significant or prolonged decline in their fair values below their costs as the basis for determining impairment. A significant or prolonged decline in fair value of an equity instrument below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the cost of the equity instrument. In assessing whether it is prolonged, the decline is evaluated against the time-period for which the fair value of the equity instrument has been below its cost. For other instruments, including debt instruments such as corporate bonds/sukuk, the management considers them to be impaired when there is an evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows. We considered the impairment of investments as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the consolidated financial statements. *Refer to note 3.12 of the consolidated financial statements for the accounting policy relating to the impairment of investments, note 2.4(iii) for the critical accounting estimates and judgments, and notes 30 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 identifying significant or prolonged decline in the fair value of equities and/or any defaults on corporate bonds/sukuk. For equity investments, on a sample basis, we: • Assessed the appropriateness of management's criteria for determining whether a decline in fair value of an investment below its cost is significant or prolonged; • Evaluated the basis for determining the fair value of investments; • Traced the cost of investments to underlying accounting records and traced the valuation of investments from management's working of the fair valuation of investments (based on either mark to market or mark to model approach); and • Considered the price fluctuation / movement during the holding period to determine if significant or prolonged criteria is met. For corporate bonds/sukuk, on a sample basis, we assessed the creditworthiness of counterparties based on readily available market information and assessed cash flows from the instruments to consider any defaults based on the terms and conditions of these bonds/sukuk.

INDEPENDENT AUDITORS' REPORT

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Zakat	
The Group files its zakat returns with the General Authority of Zakat and Tax ("GAZT") on an annual basis. The GAZT has issued assessment orders for the years 2008 to 2013, which resulted in significant additional zakat exposure amounting to Saudi Riyals 3.5 billion. The significant additional zakat exposure resulted mainly from disallowance of certain long-term investments and the addition of long term financing to the zakat base by the GAZT. The interpretation of the GAZT is being challenged by the Group and the appeal proceedings are underway before the appeallate forums. The assessments for the years 2014 onwards are yet to be raised. However, in line with the assessments finalized by the GAZT for the years 2008 to 2013, 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 accompanying 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 considers a favourable outcome of the appeal process. We considered this as a key audit matter as it involves significant management judgment and the additional exposure could be material to the consolidated financial statements. *Refer to note 3.22 for the accounting policy relating to zakat and note 26 for the related disclosures for zakat.*	In order to assess the status and likely outcome of the matter, we obtained the correspondence between the Group, GAZT and the Group's zakat consultants to determine the amount of additional claims made by the GAZT. We also obtained the related appeal documents to confirm the fact that the matter is contested before the appeallate 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 an update on the zakat matter and the results of their interactions with the relevant appeal committees. We also used our internal specialists to assess the appropriateness of the exposure disclosed for the years assessed by the GAZT, and the appropriateness of management's judgments relating to the zakat matter in light of the facts and circumstances of the Group. We also assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group.

INDEPENDENT AUDITORS' REPORT

For the years ended December 31, 2017 and 2016

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

Other Information included in the Bank's 2017 Annual Report

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

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

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

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

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

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as modified by SAMA for the accounting of zakat and income tax the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal control as the Directors 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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

INDEPENDENT AUDITORS' REPORT

For the years ended December 31, 2017 and 2016

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

For the years ended December 31, 2017 and 2016

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

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

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

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank is not in compliance, in all material respects, 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

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28 Jumada Al-Awal 1439 H
(14 February 2018)

ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS
PROFESSIONAL LICENCE No. 45

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2017 and 2016

SAR'000	Note	2017	2016 (restated)
ASSETS			
Cash and balances with SAMA	4	18,504,255	21,262,177
Due from banks and other financial institutions	5	9,372,200	4,567,155
Positive fair value of derivatives	6	115,890	189,295
Investments, net	7	46,369,903	45,157,381
Loans and advances, net	8	138,837,618	142,909,367
Investment in associates	9	564,769	548,594
Other real estate		235,119	245,017
Property and equipment, net	10	1,752,408	1,862,349
Other assets	11	530,009	877,666
Total assets		216,282,171	217,619,001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	7,056,168	8,836,713
Negative fair value of derivatives	6	77,923	138,638
Customer deposits	13	154,365,549	156,683,538
Debt securities in issue	14	8,016,639	8,018,373
Other liabilities	15, 26	8,142,899	6,968,678
Total liabilities		177,659,178	180,645,940
Shareholders' equity			
Share capital	16	30,000,000	30,000,000
Statutory reserve	17	3,922,592	2,936,093
Other reserves	18	686,865	532,929
Retained earnings		2,873,536	2,604,039
Proposed dividends	26	1,140,000	900,000
Total shareholders' equity		38,622,993	36,973,061
Total liabilities and shareholders' equity		216,282,171	217,619,001

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

CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31, 2017 and 2016

SAR'000	Note	2017	2016
Special commission income	20	7,425,107	7,312,590
Special commission expense	20	1,490,030	2,011,561
Net special commission income		5,935,077	5,301,029
Fee and commission income, net	21	1,510,314	1,503,113
Exchange income, net		290,207	400,628
Trading income, net		21,815	14,398
Dividend income		50,786	48,882
Gains on non-trading investments, net	22	283,137	190,515
Other operating income	23	33,875	243,715
Total operating income, net		8,125,211	7,702,280
Salaries and employee-related expenses	24	1,572,514	1,596,375
Rent and premises-related expenses		320,498	328,095
Depreciation of property and equipment	10	282,180	288,790
Other general and administrative expenses		775,812	756,322
Impairment charge for credit losses, net	8	1,227,488	1,286,397
Impairment charge for investments, net		-	100,000
Other operating expenses		23,833	39,330
Total operating expenses, net		4,202,325	4,395,309
Net operating income		3,922,886	3,306,971
Share in earnings of associates, net		23,110	35,516
Net income for the year		3,945,996	3,342,487
Basic and diluted earnings per share (in SAR)	25	1.32	1.11

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016

SAR'000	2017	2016
Net income for the year	3,945,996	3,342,487
Other comprehensive income:		
Items that are or maybe reclassified back to consolidated statement of income in subsequent periods		
- Available for sale investments		
Net change in fair value (note 18)	422,221	309,784
Net amounts transferred to consolidated statement of income (note 18)	(268,285)	(74,322)
- Impairment of investments	-	100,000
- (Gain) on sale of investments	(268,285)	(174,322)
Items that cannot be reclassified back to consolidated statement of income in subsequent periods	-	-
Other comprehensive income for the year	153,936	235,462
Total comprehensive income for the year	4,099,932	3,577,949

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2017 and 2016

SAR'000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
31 December 2017						
Balance at the beginning of the year-(Restated) (note 26)	30,000,000	2,936,093	532,929	2,604,039	900,000	36,973,061
Total comprehensive income						
Net change in fair value of available for sale investments	-	-	422,221	-	-	422,221
Net amounts relating to available for sale investments transferred to consolidated statement of income	-	-	(268,285)	-	-	(268,285)
Net income	-	-	-	3,945,996	-	3,945,996
Total comprehensive income	-	-	153,936	3,945,996	-	4,099,932
Final dividends - 2016 (note 26)	-	-	-	-	(900,000)	(900,000)
Interim dividend - 2017 (note 26)	-	-	-	(1,050,000)	-	(1,050,000)
Provision for zakat	-	-	-	(500,000)	-	(500,000)
Transfer to statutory reserve (note 17)	-	986,499	-	(986,499)	-	-
Final proposed dividend - 2017 (note 26)	-	-	-	(1,140,000)	1,140,000	-
Balance at the end of the year	30,000,000	3,922,592	686,865	2,873,536	1,140,000	38,622,993

SAR'000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
31 December 2016						
Balance at the beginning of the year as originally stated	30,000,000	2,100,471	297,467	2,847,174	1,300,000	36,545,112
Effect of restatement- Provision for zakat for 2016 (note 26)	-	-	-	-	(250,000)	(250,000)
Balance at the beginning of the year-(Restated) (note 26)	30,000,000	2,100,471	297,467	2,847,174	1,050,000	36,295,112
Total comprehensive income						
Net change in fair value of available for sale investments	-	-	309,784	-	-	309,784
Net amounts relating to available for sale investments transferred to consolidated statement of income	-	-	(74,322)	-	-	(74,322)
Net income	-	-	-	3,342,487	-	3,342,487
Total comprehensive income	-	-	235,462	3,342,487	-	3,577,949
Final dividends - 2015 (note 26)	-	-	-	-	(1,050,000)	(1,050,000)
Interim dividend - 2016 (note 26)	-	-	-	(1,050,000)	-	(1,050,000)
Provision for zakat	-	-	-	(800,000)	-	(800,000)
Transfer to statutory reserve (note 17)	-	835,622	-	(835,622)	-	-
Final proposed dividend - 2016 (note 26)	-	-	-	(900,000)	900,000	-
Balance at the end of the year (Restated) (note 26)	30,000,000	2,936,093	532,929	2,604,039	900,000	36,973,061

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2017 and 2016

SAR'000	Note	2017	2016
OPERATING ACTIVITIES			
Net income for the year		3,945,996	3,342,487
Adjustments to reconcile net income for the year to net cash from (used in) operating activities:			
Accretion of discounts and amortisation of premium, net on non-trading investments, net		(55,606)	(32,541)
Gains on non-trading investments, net		(283,137)	(190,515)
Gains on trading investments, net		(4,232)	-
Depreciation of property and equipment		282,180	288,790
Share in earnings of associates, net		(23,110)	(35,516)
Impairment charge for investments, net		-	100,000
Impairment charge for credit losses, net		1,227,488	1,286,397
		5,089,579	4,759,102
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		221,760	636,006
Due from banks and other financial institutions maturing after three months from date of acquisition		(2,200,000)	(1,585,000)
Positive fair value of derivatives		73,405	8,244
Held for trading investments (FVIS)		(300,000)	-
Loans and advances, net		2,844,261	870,427
Other real estate		9,898	13,394
Other assets		347,657	(108,598)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,780,545)	4,337,020
Negative fair value of derivatives		(60,715)	(48,491)
Customer deposits		(2,317,989)	(11,169,275)
Other liabilities		706,409	(222,025)
Net cash from (used in) operating activities		2,633,720	(2,509,196)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		18,495,446	22,491,578
Purchase of non-trading investments		(18,905,857)	(22,505,924)
Purchase of property and equipment, net		(172,239)	(256,438)
Net cash used in investing activities		(582,650)	(270,784)
FINANCING ACTIVITIES			
Dividend and zakat paid		(1,982,187)	(2,179,112)
Cash used in financing activities		(1,982,187)	(2,179,112)
Net increase (decrease) in cash and cash equivalents		68,883	(4,959,092)
Cash and cash equivalents at beginning of the year		16,082,760	21,041,852
Cash and cash equivalents at end of the year	28	16,151,643	16,082,760
Special commission received during the year		7,327,389	7,134,963
Special commission paid during the year		1,557,748	1,812,369
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated statement of income		153,936	235,462

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

1. GENERAL

Riyad Bank (The "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to November 23, 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to November 18, 1957G) through its 340 branches (2016: 337 branches) in the Kingdom of Saudi Arabia, a branch in London-United Kingdom, an agency in Houston-United States, and a representative office in Singapore. The number of the Group's employees stood at 6,332 as at December 31, 2017 (2016: 6,337). The Bank's Head Office is located at the following address:

Riyad Bank - King Abdulaziz Road – Al-Murabba District, P.O. Box 22622, Riyadh 11416, Kingdom of Saudi Arabia

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

The consolidated financial statements comprise the financial statements of Riyad Bank and its wholly owned subsidiaries,(the Bank and the subsidiaries are collectively referred to as the "Group"), a) Riyad Capital (engaged in investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority), b) Ithra Al-Riyad Real Estate Company (formed with the objective to hold, manage, sell and purchase real estate assets for owners or third parties for financing activities); c) Riyad Company for Insurance Agency (which acts as an agent for selling insurance products owned and managed by another principal insurance company), incorporated in the Kingdom of Saudi Arabia; d) Curzon Street Properties Limited incorporated in the Isle of Man; and e) Riyad Financial Markets incorporated in the Cayman Islands - a netting and bankruptcy jurisdiction country, to execute derivative transactions with international counterparties on behalf of Riyad Bank.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared;

a) 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.

b) in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the By-Laws of the Bank.

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

   Refer note 3.1 (i) for the accounting policy of zakat and income tax and note 26 for the impact of change in the accounting policy resulting from the SAMA Circular.

2.2 Basis of measurement and presentation

These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, available for sale investments and FVIS investments. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

2. BASIS OF PREPARATION (continued)

2.3 Functional and presentation currency

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

2.4 Critical accounting judgements, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires the management to use 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 Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i) Impairment for credit losses on loans and advances

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

ii) Fair value measurement

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

2. BASIS OF PREPARATION (continued)

2.4 Critical accounting judgements, estimates and assumptions (continued)

ii) Fair value measurement (continued)

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

iii) Impairment of available for sale investments

The Group exercises judgement in considering impairment on the available for sale equity investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, the Group considers impairment to be appropriate when there is objective evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

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

iv) Classification of held-to-maturity investments

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

v) Determination of control over investees

Investment funds

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

Special Purpose Entities (SPEs)

The Bank is party to certain SPEs, primarily to facilitate Sharia compliant financing arrangements. The exposures to these entities are included in the Bank's loans and advances portfolio.

vi) Defined benefit scheme

The Group operates an End of service benefit scheme for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit credit method in accordance with the periodic actuarial valuation. For details of assumptions and estimate please refer note 27.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. Except for the change in accounting policies resulting from new and amended IFRS and IFRIC and SAMA guidance, as detailed in note 3.1 below, the accounting policies adopted 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements include the change in accounting policy of Zakat as mentioned below and adoption of an amendment to an existing standard mentioned below, which has had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods:

i) Zakat

Due to the reason set out in note 2.1, the Group amended its accounting policy relating to zakat and have started to accrue zakat on a quarterly basis and charging it to retained earnings. Previously, zakat was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time. Where no dividends were paid, zakat was accounted for on a payment basis. The Group has accounted for this change in the accounting policy relating to zakat retrospectively and the effects of the above change are disclosed in note 26 to the consolidated financial statements.

ii) Amendments to existing standards

Amendment to IAS 7, Statement of cash flows on disclosure initiative: Applicable for annual periods beginning on or after January 1, 2017. This amendment introduces 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. This has no material impact on the consolidated financial statements other than certain additional disclosures.

The Group has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance for the accounting years beginning on or after January 1, 2018 (please refer note 39).

3.2 Basis of consolidation

These annual consolidated financial statements comprise the financial statements of Riyad Bank and its subsidiaries drawn up to 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

Balances between the Bank and its subsidiaries, and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Bank may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Bank can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest (NCI) and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

The Bank is party to certain special purpose entities (SPEs), primarily for the purpose of facilitation of certain Sharia compliant financing arrangements. The Group concluded that these entities cannot be consolidated in its financial statements as it could not establish control over these SPEs.

3.3 Settlement date accounting

All regular way purchases and sales of financial assets are recognised and derecognised on the settlement date, i.e. the date the asset is delivered to the counter party. The Group accounts for any change in fair value between the trade and the settlement date in the same way as it accounts for the acquired assets. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.4 Investment in associates

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associates are accounted for using the equity method of accounting. The equity method is a method of accounting whereby the investment is initially recognised at cost and subsequently adjusted for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee. Distribution received from the investee reduces the carrying amount of the investment.

3.5 Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, special commission rate swaps and currency options (both written and purchased), are initially recognised at fair value on the date on which the derivative contract is entered into, with transaction costs recognised in the consolidated statement of income and, are subsequently re-measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate. The treatment of changes in their fair value depends on their classification into the following categories:

i) Derivatives held for trading

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

ii) Hedge accounting

The Group 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 or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or to a highly probable forecasted transaction that will affect the reported net gain or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 Derivative financial instruments and hedge accounting (continued)

ii) Hedge accounting (continued)

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

a) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the consolidated statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated statement of income. For hedged items measured at amortised cost, where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective yield basis. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect consolidated statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is immediately 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. Where the hedged forecasted transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained 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 comprehensive income is transferred to the consolidated statement of income for the period.

3.6 Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Bank's functional currency. Transactions in foreign currencies are translated into Saudi Arabian Riyals at spot exchange rates prevailing on the transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value is determined. 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.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of the initial transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Foreign currencies (continued)

The assets and liabilities of overseas branch are translated at the spot exchange rate at the reporting date. The income and expenses of overseas branch are translated at the average exchange rates for the year. All exchange differences, if significant, are recognised in other comprehensive income. These differences are transferred to consolidated statement of income at the time of disposal of foreign operations.

3.7 Offsetting financial instruments

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

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

3.8 Revenue recognition

i) Special commission income and expense

Special commission income and expense for all special commission bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), are recognised in the consolidated statement of income using the effective yield basis. The effective yield is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

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 yield applied to the new carrying amount.

The calculation of the effective yield includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

ii) Fee and commission income

Fee and commissions are recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred, together with the related direct cost, and are recognised as an adjustment to the effective yield on the loan. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the service is being provided.

iii) Others

Dividend income is recognised when the Group’s right to receive payment is established. Results arising from trading activities include gains and losses from changes in fair value and related special commission income or expense for financial assets and financial liabilities held for trading.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the years ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership and are measured in accordance with related accounting policies for investments 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 "Customer deposits", as appropriate. The difference between sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement on an effective special commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets.

Amounts paid under these agreements are included in "Cash and balances with SAMA" or "Due from banks and other financial institutions" as appropriate. The difference between purchase and resale prices is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

3.10 Investments

All investment securities are initially recognised at fair value, including incremental direct transaction cost except for investments held as Fair Value through Income Statement (FVIS), where incremental direct transaction cost are charged to consolidated statement of income, and are subsequently accounted for depending on their classification as either held to maturity, FVIS, Available for sale or other investments held at amortised cost. Premiums are amortised and discounts accreted using the effective yield basis and are taken to special commission income.

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. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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

Following recognition, subsequent transfers between the various classes of investments are not ordinarily permissible except in accordance with amendments in IAS 39 (refer note 7). 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 at initial recognition as either investment held for trading or those upon initial recognition designated as FVIS. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term.

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. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments and are instead charged to the consolidated statement of income. Special commission income and dividend income on investment securities held as FVIS are reflected as trading income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Investments (continued)

ii) Available for sale

Available for sale investments are non-derivative financial instruments and include equity and debt securities that are either designated as Available for sale or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through income statement. Available for sale investments are those equity and debt securities intended to be held for an unspecified period of time, which may be sold in response to need for liquidity or changes in special commission rates, exchange rates or equity prices. Investments, which are 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 other comprehensive income, except for impairment, which is recognised in the consolidated statement of income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated statement of income.

iii) Other investments held at amortised cost

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

iv) Held to maturity

Investments having fixed or determinable payments and fixed maturity and that the Group has the positive intention and ability to hold to maturity, 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 an effective yield basis. 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 Group's ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer-term nature of these investments.

3.11 Loans and advances

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

All loans and advances are initially measured at fair value, including directly attributable transaction costs associated with the loans and advances. Loans and advances originated or acquired by the Group that are not quoted in an active market, are stated at amortised cost. For presentation purposes, allowance for credit losses is deducted from loans and advances.

3.12 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 carried at amortised cost 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the years ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

It may also include instances where Group considers that the obligor is unlikely to pay its credit obligations to the Group, in full, without recourse by the Group to actions such as realizing the security, if held.

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

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 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 impairment charge for credit losses.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria, which indicate that payments, 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 charged off when they become 180 days past due except in the case of secured consumer loans. The Group individually assesses consumer mortgage loans for impairment when they become 180 days past due and required provisions are made.

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

i) Impairment of financial assets held at amortised cost

In case of financial instruments held at amortised cost or held to maturity, the Group assesses individually whether there is objective evidence of impairment based on same criteria as explained above.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

ii) Impairment of available for sale financial assets

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

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

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss, recorded against available for sale equity instrument, cannot be reversed through 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 the consolidated statement of income for the year.

3.13 Other real estate

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

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, is charged to the consolidated statement of income. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised as income together with any gain/ loss on disposal.

3.14 Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation. Freehold land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Improvements and decoration of premises	over the lower of the lease period or 5 years
Furniture, fixtures and equipment	5 to 20 years
Computer hardware	5 years
Software programs and automation projects	3 to 5 years
Motor vehicles	4 years

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Financial liabilities

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

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

3.16 Guarantee contracts

In ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in 'impairment charge for credit losses'. The premium received is recognised in the consolidated statement of income in 'Fee and commission income, net' on a straight line basis over the life of the guarantee.

3.17 Provisions

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

3.18 Accounting for leases

Leases entered into by the Group as a lessee, are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

3.19 Cash and cash equivalents

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

3.20 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 receive the cash flows from the financial asset expires or the asset is transferred and the transfer qualifies for de-recognition.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 End of service benefits

Benefits payable to the employees of the Group at the end of their services are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations or other applicable laws in other jurisdictions, and are included in other liabilities in the consolidated statement of financial position.

3.22 Zakat

Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidance on zakat and income tax. Previously, zakat was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time.

3.23 Investment management services

The Group offers investment services to its customers, which include management of certain investment funds. Fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly, are not included in the consolidated financial statements.

3.24 Non-special commission based banking products

In addition to the conventional banking, the Group offers its customers certain non-special commission based banking products, which are approved by its Sharia Board. These products include Murabaha, Tawaruq and Ijara. These banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

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

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

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

3.25 Short term employee benefits

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

4. CASH AND BALANCES WITH SAMA

SAR'000	2017	2016
Cash in hand	5,484,534	4,307,682
Statutory deposit	7,939,812	8,161,572
Reverse repos with SAMA	5,020,000	8,750,000
Other balances	59,909	42,923
Total	18,504,255	21,262,177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

4. CASH AND BALANCES WITH SAMA (continued)

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents (note 28).

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR'000	2017	2016
Current accounts	1,095,749	1,215,027
Money market placements	8,276,451	3,352,128
Total	9,372,200	4,567,155

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies. The table below shows the credit quality by class and is based on Standard & Poor's/ equivalent credit ratings.

SAR'000	2017	2016
Investment grade (credit rating BBB and above)	9,275,083	4,555,982
Non-investment grade (credit rating below BBB)	92,540	1,023
Unrated	4,577	10,150
Total	9,372,200	4,567,155

6. DERIVATIVES

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

a) Swaps

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

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price 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 on daily basis.

c) Options

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

6. DERIVATIVES (continued)

Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, 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 pricing anomalies in different markets and products, with the expectation of profiting from price differentials between markets or products.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange rates and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and if required hedging strategies are used to reduce special commission rate gap within the established limits.

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

Fair value hedges

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

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 rate at a variable rate. The Bank uses special commission rate swaps as cash flow hedges of these special commission rate risks.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

6. DERIVATIVES (continued)

2017 SAR'000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	78,724	(45,809)	9,914,179	1,867,447	2,417,581	5,464,237	164,914	8,514,816
Forward foreign exchange contracts	30,538	(27,886)	19,767,301	15,996,453	2,593,333	1,177,515	-	24,158,787
Currency options	4,228	(4,228)	3,233,155	1,972,983	1,206,946	53,226	-	5,722,547
Held as fair value hedges:								
Special commission rate swaps	2,400	-	187,503	10,742	32,822	143,939	-	187,503
Total	115,890	(77,923)	33,102,138	19,847,625	6,250,682	6,838,917	164,914	38,583,653

2016 SAR'000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	57,693	(26,803)	7,992,359	1,335,992	2,059,682	4,244,384	352,301	8,887,264
Forward foreign exchange contracts	91,894	(71,763)	25,510,910	21,682,845	3,194,425	633,640	-	25,652,138
Currency options	39,708	(39,708)	8,376,319	3,673,681	3,714,959	987,679	-	9,978,783
Held as fair value hedges:								
Special commission rate swaps	-	(364)	75,000	37,500	37,500	-	-	75,000
Total	189,295	(138,638)	41,954,588	26,730,018	9,006,566	5,865,703	352,301	44,593,185

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value as at December 31, 2017 and 2016.

2017 SAR'000 Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate deposits	192,868	195,269	Fair value	Special commission rate swaps	2,400	-

2016 SAR'000 Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate deposits	74,017	73,644	Fair value	Special commission rate swaps	-	(364)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

7. INVESTMENTS, NET

7.1 Investment securities are classified as follows:

i) Held as FVIS

	Domestic		International		Total	
SAR'000	2017	2016	2017	2016	2017	2016
Mutual funds	303,760	-	-	-	303,760	-
Total	303,760	-	-	-	303,760	-

On September 1, 2008, the Group reclassified investments held in trading portfolio reported under its investments at fair value through income statement ("FVIS") category to the available for sale category.

The carrying and fair value of these reclassified investments as at December 31, 2017 was SAR 2,389 million (December 31, 2016: SAR 2,792 million).

Had the reclassification not occurred, the consolidated statement of income, for the year ended December 31, 2017, would have included fair value gain on such reclassified investments amounting to SAR 221.7 million (December 31, 2016: unrealised fair value gain SAR 209.8 million).

ii) Available for sale

	Domestic		International		Total	
SAR'000	2017	2016	2017	2016	2017	2016
Fixed rate securities	-	-	10,435,312	11,880,019	10,435,312	11,880,019
Floating rate securities	-	-	1,788,983	1,709,394	1,788,983	1,709,394
Mutual funds	398,616	381,532	486,284	662,612	884,900	1,044,144
Equities	1,299,441	1,228,023	221,163	152,407	1,520,604	1,380,430
Available for sale, net	1,698,057	1,609,555	12,931,742	14,404,432	14,629,799	16,013,987

International investments above includes investment portfolios of SAR 9.1 billion (2016: SAR 11.2 billion) which are externally managed.

iii) Other investments held at amortised cost

	Domestic		International		Total	
SAR'000	2017	2016	2017	2016	2017	2016
Fixed rate securities	19,201,458	17,388,272	2,323,070	1,731,049	21,524,528	19,119,321
Floating rate securities	9,911,816	10,022,575	-	-	9,911,816	10,022,575
Other investments held at amortised cost	29,113,274	27,410,847	2,323,070	1,731,049	31,436,344	29,141,896

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

7. INVESTMENTS, NET (continued)

7.1 Investment securities are classified as follows: (continued)

iv) Held to maturity

	Domestic		International		Total	
SAR'000	2017	2016	2017	2016	2017	2016
Fixed rate securities	-	1,498	-	-	-	1,498
Floating rate securities	-	-	-	-	-	-
Held to maturity	-	1,498	-	-	-	1,498
Investments, net	31,115,091	29,021,900	15,254,812	16,135,481	46,369,903	45,157,381

7.2 The analysis of the composition of investments is as follows:

	2017			2016		
SAR'000	Quoted	Unquoted*	Total	Quoted	Unquoted*	Total
Fixed rate securities	12,982,228	18,977,612	31,959,840	15,748,605	15,252,233	31,000,838
Floating rate securities	2,945,421	8,755,378	11,700,799	4,187,905	7,544,064	11,731,969
Equities	1,204,692	315,912	1,520,604	1,113,781	266,649	1,380,430
Mutual funds	1,188,660	-	1,188,660	1,044,144	-	1,044,144
Investments, net	18,321,001	28,048,902	46,369,903	22,094,435	23,062,946	45,157,381

*Unquoted securities include Saudi Government Treasury Bills and bonds of SAR 21.6 billion (2016: SAR 19.8 billion)

7.3 The analysis of unrealised gains and losses and the fair values of other investments held at amortised cost, and held to maturity investments, is as follows:

i) Other investments held at amortised cost

	2017				2016			
SAR'000	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	21,524,528	19,447	(260,018)	21,283,957	19,119,321	20,536	(396,884)	18,742,973
Floating rate securities	9,911,816	349,101	-	10,260,917	10,022,575	406,272	(110)	10,428,737
Total	31,436,344	368,548	(260,018)	31,544,874	29,141,896	426,808	(396,994)	29,171,710

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

7. INVESTMENTS, NET (continued)

7.3 The analysis of unrealised gains and losses and the fair values of other investments held at amortised cost, and held to maturity investments, is as follows: (continued)

ii) Held to maturity

SAR'000	2017				2016			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	-	-	-	-	1,498	15	-	1,513
Floating rate securities	-	-	-	-	-	-	-	-
Total	-	-	-	-	1,498	15	-	1,513

7.4 Credit quality of investments

SAR'000	Investment grade		Non- investment grade		Unrated		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Held as FVIS	-	-	-	-	**303,760**	-	**303,760**	-
Available for sale	**9,233,274**	11,256,256	**2,966,218**	2,105,016	**2,430,307**	2,652,715	**14,629,799**	16,013,987
Other investments held at amortised cost	**25,539,829**	23,243,948	**630,845**	416,460	**5,265,670**	5,481,488	**31,436,344**	29,141,896
Held to maturity	-	1,466	-	-	-	32	-	1,498
Total	**34,773,103**	34,501,670	**3,597,063**	2,521,476	**7,999,737**	8,134,235	**46,369,903**	45,157,381

The above classification is based on Standard & Poor's / equivalent credit ratings. The unrated investments category comprise of mutual funds, equities and unrated fixed and floating securities.

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

SAR'000	**2017**	2016
Government and quasi Government	**28,084,559**	26,355,088
Corporate	**10,466,940**	10,073,218
Banks and other financial institutions	**7,818,404**	8,729,075
Total	**46,369,903**	45,157,381

Investments include SAR 78.3 million (2016: SAR 65.7 million), which have been pledged under repurchase agreements with customers (note 19.4). The market value of such investments is SAR 78.5 million (2016: SAR 65.7 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

8. LOANS AND ADVANCES, NET

8.1 Loans and advances held at amortised cost

These comprise the following:

2017 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	6,571,229	733,646	41,611,191	90,329,203	265,118	139,510,387
Non-performing loans and advances	418,781	-	200,318	791,799	1,259	1,412,157
Total loans and advances	6,990,010	733,646	41,811,509	91,121,002	266,377	140,922,544
Allowance for impairment	(284,471)	(16,420)	(386,892)	(1,380,709)	(16,434)	(2,084,926)
Total	6,705,539	717,226	41,424,617	89,740,293	249,943	138,837,618

2016 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	9,256,856	773,471	38,035,114	96,072,934	190,485	144,328,860
Non-performing loans and advances	126,500	-	171,701	855,307	4,514	1,158,022
Total loans and advances	9,383,356	773,471	38,206,815	96,928,241	194,999	145,486,882
Allowance for impairment	(133,504)	(33,161)	(394,212)	(2,010,277)	(6,361)	(2,577,515)
Total	9,249,852	740,310	37,812,603	94,917,964	188,638	142,909,367

Loans and advances, net, include Islamic products of SAR 75,868 million (2016: SAR 73,734 million).

8.2 Movements in allowance for impairment are as follows:

	Allowance for impairment					
2017 SAR'000	Credit cards	Consumer loans*	Commercial loans **	Total	Portfolio provision	Total
Balance at beginning of the year	-	42,060	1,463,106	1,505,166	1,072,349	2,577,515
Provided during the year	56,540	421,382	1,644,538	2,122,460	-	2,122,460
Bad debts written off	(56,540)	(357,677)	(1,909,424)	(2,323,641)	-	(2,323,641)
Recoveries/ reversals of previously provided amounts	-	-	(263,822)	(263,822)	-	(263,822)
***Other movements	-	-	(27,586)	(27,586)	-	(27,586)
Balance at end of the year	-	105,765	906,812	1,012,577	1,072,349	2,084,926

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

8. LOANS AND ADVANCES, NET (continued)

8.2 Movements in allowance for impairment are as follows: (continued)

2016 SAR'000	Allowance for impairment					
	Credit cards	Consumer loans*	Commercial loans **	Total	Portfolio provision	Total
Balance at beginning of the year	-	27,264	799,134	826,398	1,072,349	1,898,747
Provided during the year	67,564	559,179	1,305,837	1,932,580	-	1,932,580
Bad debts written off	(67,564)	(544,383)	(562,866)	(1,174,813)	-	(1,174,813)
Recoveries/ reversals of previously provided amounts	-	-	(50,850)	(50,850)	-	(50,850)
***Other movements	-	-	(28,149)	(28,149)	-	(28,149)
Balance at end of the year	-	42,060	1,463,106	1,505,166	1,072,349	2,577,515

During the year, the net charge to the consolidated statement of income on account of impairment charge for credit losses, net is SAR 1,227 million (2016: SAR 1,286 million). This represents, net of

a) amounts provided during the year of SAR 1,859 million (2016: SAR 1,882 million), comprising of
- provided during the year of SAR 2,123 million (2016: SAR 1,933 million) and
- recoveries/ reversals of previously provided amounts SAR 264 million(2016: SAR 51 million), shown above and

b) recoveries from amounts previously written off of SAR 632 million (2016: SAR 596 million).

* Includes consumer mortgage loans

** Includes overdrafts and other loans

*** Represents unwinding of accrued special commission income on impaired financial assets

8.3 Credit quality of loans and advances

i) Neither past due nor impaired

2017 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Standard category	642,698	37,032,202	94,294,613	131,969,513
Special mention category	-	-	1,046,472	1,046,472
Total	642,698	37,032,202	95,341,085	133,015,985

2016 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Standard category	660,809	35,219,994	104,376,898	140,257,701
Special mention category	-	-	694,963	694,963
Total	660,809	35,219,994	105,071,861	140,952,664

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

8. LOANS AND ADVANCES, NET (continued)

8.3 Credit quality of loans and advances (continued)

i) Neither past due nor impaired (continued)

The Group uses an internal classification system based on risk ratings for its credit customers. The risk rating system, which is managed by an independent unit, provides a rating at the obligor level. The risk rating system includes twenty three grades, of which twenty grades relate to the performing portfolio and the rest to non-performing portfolio.

Standard category

A credit with very strong to satisfactory credit quality and repayment ability, where regular monitoring is carried out.

Special Mention category

A credit that requires close monitoring by management due to deterioration in the borrowers' financial condition.

Above Commercial loans** Standard Category, as at Dec 31, 2017 comprises the following

- Very Strong Quality SAR 34,431 million (2016: SAR 19,511 million),
- Good Quality SAR 50,342 million (2016: SAR 72,219 million) and
- Satisfactory Quality SAR 9,522 million (2016: SAR 12,647 million).

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

2017 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Up to 30 days	48,437	3,419,172	167,015	3,634,624
From 31 - 90 days	22,983	826,908	44,164	894,055
From 91 - 180 days	19,528	332,909	283,943	636,380
More than 180 days	-	-	1,329,343	1,329,343
Total	90,948	4,578,989	1,824,465	6,494,402

2016 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Up to 30 days	51,230	1,977,870	6,316	2,035,416
From 31 - 90 days	33,466	538,035	5,841	577,342
From 91 - 180 days	27,966	299,215	167,026	494,207
More than 180 days	-	-	269,231	269,231
Total	112,662	2,815,120	448,414	3,376,196

* Includes consumer mortgage loans

** Includes overdrafts and other loans

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

8. LOANS AND ADVANCES, NET (continued)

8.4 Economic sector risk concentration for the loans and advances and allowance for impairment are as follows

SAR'000	2017				2016			
	Performing	Non performing	Allowance for impairment	Loans and advances, net	Performing	Non performing	Allowance for impairment	Loans and advances, net
Banks and other financial institutions	5,237,705	-	-	5,237,705	5,035,994	-	-	5,035,994
Agriculture and fishing	1,474,026	-	-	1,474,026	1,288,041	1,400	(553)	1,288,888
Manufacturing	23,680,064	498,759	(243,902)	23,934,921	25,671,245	268,591	(58,897)	25,880,939
Mining and quarrying	9,829,363	-	-	9,829,363	10,479,167	-	-	10,479,167
Electricity, water, gas and health services	2,266,851	-	-	2,266,851	2,569,707	3,064	(129)	2,572,642
Building and construction	13,314,188	214,280	(517,107)	13,011,361	15,263,298	91,556	(957,025)	14,397,829
Commerce	32,203,674	496,511	(141,974)	32,558,211	34,208,471	618,304	(444,644)	34,382,131
Transportation and communication	4,548,932	-	-	4,548,932	4,380,754	-	-	4,380,754
Services	4,590,247	2,289	(3,829)	4,588,707	6,452,622	3,406	(1,858)	6,454,170
Consumer loans and credit cards	42,344,837	200,318	(105,765)	42,439,390	38,808,585	171,701	(42,060)	38,938,226
Others	20,500	-	-	20,500	170,976	-	-	170,976
Total	139,510,387	1,412,157	(1,012,577)	139,909,967	144,328,860	1,158,022	(1,505,166)	143,981,716
Portfolio provision				(1,072,349)				(1,072,349)
Loans and advances, net				138,837,618				142,909,367

8.5 Collateral

The Group in the ordinary course of lending activities holds collateral as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realisable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary. Fair value of collateral held by Group against financing and advances by each category are as follows:

SAR'000	2017	2016
Neither past due nor impaired	38,713,823	41,872,710
Past due but not impaired	5,645,833	2,206,810
Impaired	1,482,969	817,093
Total	45,842,625	44,896,613

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

9. INVESTMENT IN ASSOCIATES

Investment in associates represents the Bank's share of investment in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting. Investment in associates represents 35% (2016: 35%) share ownership in Ajil Financial Services Company incorporated in Kingdom of Saudi Arabia, 21.4 % (2016: 21.4%) share in ownership in Royal and Sun Alliance Insurance (Middle East) Limited E.C., incorporated in Bahrain and 30.6% (2016: 30.6%) share ownership, (including indirect) and Board representation in Al-Alamiya for Cooperative Insurance Company incorporated in Kingdom of Saudi Arabia.

10. PROPERTY AND EQUIPMENT, NET

SAR'000	Land and buildings	Improvements and decoration of premises	Furniture, fixtures and equipment	Computer hardware, software programs and automation projects	Motor vehicles	Total
Cost						
Balance as at January 1, 2016	1,460,500	821,727	441,689	2,639,525	1,052	5,364,493
Additions	12,875	56,098	18,883	217,554	-	305,410
Disposals	(20,782)	-	(269)	(142,484)	(60)	(163,595)
Balance as at December 31, 2016	1,452,593	877,825	460,303	2,714,595	992	5,506,308
Additions	-	38,602	19,794	148,583	-	206,979
Disposals	(4,365)	(2,229)	(2,544)	(79,321)	-	(88,459)
Balance at December 31, 2017	**1,448,228**	**914,198**	**477,553**	**2,783,857**	**992**	**5,624,828**
Accumulated depreciation and amortisation						
Balance as at January 1, 2016	506,925	710,383	364,149	1,887,519	816	3,469,792
Charge for the year	21,941	40,912	23,944	201,922	71	288,790
Disposals	(16,293)	-	(269)	(98,001)	(60)	(114,623)
Balance as at December 31, 2016	512,573	751,295	387,824	1,991,440	827	3,643,959
Charge for the year	21,396	43,786	26,533	190,392	73	282,180
Disposals	(982)	(1,909)	(2,506)	(48,322)	-	(53,719)
Balance at December 31, 2017	**532,987**	**793,172**	**411,851**	**2,133,510**	**900**	**3,872,420**
Net book value						
As at January 1, 2016	953,575	111,344	77,540	752,006	236	1,894,701
As at December 31, 2016	940,020	126,530	72,479	723,155	165	1,862,349
As at December 31, 2017	**915,241**	**121,026**	**65,702**	**650,347**	**92**	**1,752,408**

Improvements and decoration of premises include work in progress amounting to SAR 0.3 million as at December 31, 2017 (2016: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

11. OTHER ASSETS

SAR'000	2017	2016
Accounts receivable	150,718	293,437
Others*	379,291	584,229
Total	530,009	877,666

* Mainly include prepayments amounting to SAR 92 million (2016: SAR 130 million), Accrued income, Sundry debtors and settlement accounts of SAR 146 million (2016: SAR 116 million) and items in transit which are cleared in the normal course of business.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR'000	2017	2016
Current accounts	1,058,894	1,038,289
Money market deposits	5,997,274	7,798,424
Total	7,056,168	8,836,713

Money market deposits include deposits against sales of fixed rate bonds of SAR 36 million (2016: nil) with agreement to repurchase the same at fixed future dates

13. CUSTOMER DEPOSITS

SAR'000	2017	2016
Demand	81,011,365	77,846,981
Saving	366,380	324,982
Time	61,430,076	67,811,458
Others	11,557,728	10,700,117
Total	154,365,549	156,683,538

Time deposits include deposits against sale of bonds of SAR 43 million (2016: SAR 66 million) with agreement to repurchase the same at fixed future dates. Time deposits also include non-special commission based deposits of SAR 25,035 million (2016: SAR 31,970 million). Other customers' deposits include SAR 2,642 million (2016: SAR 2,539 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

SAR'000	2017	2016
Demand	3,990,803	4,014,306
Saving	9,757	10,216
Time	15,072,603	13,953,808
Other	449,191	317,907
Total	19,522,354	18,296,237

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

14. DEBT SECURITIES IN ISSUE

During June 2015, the Bank issued SAR 4,000 million Subordinated debt (Sukuk). These are SAR denominated and have maturity date of June 24, 2025 and are callable after 5 years, subject to the terms and conditions of the agreement. The notes carry a special commission rate of 6 month SAIBOR plus 115 basis points.

During November 2013, the Bank issued SAR 4,000 million Senior debt (Sukuk). These SAR denominated sukuks carry a 3 month SAIBOR plus 68 basis points, have maturity date of November 11, 2020 and are callable after 5 years, subject to the terms and conditions of the agreement.

15. OTHER LIABILITIES

SAR'000	2017	2016
		(Restated)
Accounts payable	845,585	1,149,939
Others*	7,297,314	5,818,739
Total	8,142,899	6,968,678

Mainly include provision for zakat and tax of SAR 1,842 million (2016: SAR 1,373 million), end of service benefits of SAR 699 million (2016 : SAR 708 million) based on actuarial calculations(note 27.2), insurance payable, accrued expenses, income received in advance and items in transit which are cleared in the normal course of business.

16. SHARE CAPITAL

The authorised, issued and fully-paid share capital of the Bank consist of 3,000 million shares of SAR 10 each (2016: 3,000 million shares of SAR 10 each).

17. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the Bank's By-Laws, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals to the paid up capital of the Bank. Accordingly, SAR 986.5 million has been transferred from 2017 net income (2016: SAR 835.6 million). The statutory reserve is not currently available for distribution.

18. OTHER RESERVES

SAR'000	2017	2016
Balance at beginning of the year	532,929	297,467
Net change in fair value of available for sale investments	422,221	309,784
Net amounts relating to available for sale investments transferred to consolidated statement of income	(268,285)	(74,322)
Net movement during the year	153,936	235,462
Balance at end of the year	686,865	532,929

19. COMMITMENTS AND CONTINGENCIES

19.1 Legal proceedings

As at December 31, 2017, there were legal proceedings of a routine nature outstanding against the Group. No provision has been made as management and in-house legal adviser believes that it is unlikely that any significant loss will arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

19. COMMITMENTS AND CONTINGENCIES (continued)

19.2 Capital commitments

As at December 31, 2017 the Group had capital commitments of SAR 88.5 million (2016: SAR 132.1 million). This includes computer hardware, software, automation projects, construction and equipment purchases.

19.3 Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally 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 Bank expects most acceptances to be presented before being reimbursed by the customers.

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

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

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	3,981,126	4,172,440	174,548	-	8,328,114
Letters of guarantee	16,331,813	33,356,176	14,252,131	648,070	64,588,190
Acceptances	1,401,222	585,123	40,229	-	2,026,574
Irrevocable commitments to extend credit	1,462,052	1,424,911	5,347,977	1,654,596	9,889,536
Total	23,176,213	39,538,650	19,814,885	2,302,666	84,832,414

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,688,227	4,430,357	502,214	-	7,620,798
Letters of guarantee	28,023,943	20,542,649	21,955,521	1,327,225	71,849,338
Acceptances	663,672	1,443,717	12,346	106	2,119,841
Irrevocable commitments to extend credit	1,935,160	1,962,625	4,703,714	3,539,233	12,140,732
Total	33,311,002	28,379,348	27,173,795	4,866,564	93,730,709

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

19. COMMITMENTS AND CONTINGENCIES (continued)

19.3 Credit related commitments and contingencies (continued)

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

The outstanding unused portion of non-firm commitments as at December 31,2017 which can be revoked unilaterally at any time by the Bank, amounts to SAR 89,554 million (2016: SAR 90,669 million).

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

SAR'000	2017	2016
Government and quasi government	-	-
Corporate	63,946,804	70,081,548
Banks and other financial institutions	20,885,610	23,649,161
Total	84,832,414	93,730,709

19.4 Assets pledged

Assets pledged as collateral with customers are as follows:

SAR'000	2017		2016	
	Assets	Related liabilities	Assets	Related liabilities
Other investments held at amortised cost (note 7.1 iii),12 and 13)	78,274	79,371	65,747	65,941

These transactions are conducted under the terms that are usual and customary to standard lending and securities borrowing and lending activities.

19.5 Operating lease commitments

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

SAR'000	2017	2016
Less than 1 year	31,813	35,862
1 to 5 years	65,232	78,258
Over 5 years	6,206	11,465
Total	103,251	125,585

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

20. SPECIAL COMMISSION INCOME AND EXPENSE

SAR'000	2017	2016
Special commission income on:		
Investments - Available for sale	425,591	411,240
- Other investments held at amortised cost	661,233	562,903
- Held to maturity	-	711
	1,086,824	974,854
Due from banks and other financial institutions	148,484	73,750
Loans and advances	6,189,799	6,263,986
Total	7,425,107	7,312,590

SAR'000	2017	2016
Special commission expense on:		
Due to banks and other financial institutions	112,074	68,884
Customer deposits	1,141,859	1,710,081
Debt securities in issue	236,097	232,596
Total	1,490,030	2,011,561

21. FEE AND COMMISSION INCOME, NET

SAR'000	2017	2016
Fee and commission income on:		
- Share brokerage and fund management	269,288	259,470
- Trade finance	562,917	493,289
- Credit facilities and advisory	577,385	607,479
- Card products	631,359	605,504
- Other banking services	115,694	114,897
Total fee and commission income	2,156,643	2,080,639
Fee and commission expense on:		
- Banking cards	469,534	431,314
- Share brokerage	46,761	39,541
- Other banking services	130,034	106,671
Total fee and commission expense	646,329	577,526
Fee and commission income, net	1,510,314	1,503,113

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

22. GAINS ON NON-TRADING INVESTMENTS, NET

SAR'000	2017	2016
Available for sale	282,837	179,904
Other investments held at amortised costs	300	10,611
Total	283,137	190,515

23. OTHER OPERATING INCOME

Other operating income for 2016, includes gain on sale of lands initially acquired in settlement of certain loans and advances amounting to SAR 201 million.

24. SALARIES AND EMPLOYEE-RELATED EXPENSES

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

Categories SAR'000	Number of employees		Fixed compensation		Variable compensation		Total compensation	
	2017	2016	2017	2016	2017	2016	2017	2016
Senior executives requiring SAMA no objection	37	37	40,891	41,895	9,004	12,226	49,895	54,121
Employees engaged in risk taking activities	322	338	89,133	94,636	18,943	21,394	108,076	116,030
Employees engaged in control functions	469	466	100,159	98,234	10,992	13,019	111,151	111,253
Outsourced employees	441	300	23,614	30,692	-	-	23,614	30,692
Others	5,063	5,196	748,091	746,518	90,696	91,347	838,787	837,865
Total	6,332	6,337	1,001,888	1,011,975	129,635	137,986	1,131,523	1,149,961
Variable compensation accrued during the year and other employee related benefits*			570,626	584,400				
Total salaries and employee-related expenses as per consolidated statement of income			1,572,514	1,596,375				

*Other employee benefits include; insurance, pension, relocation expenses, recruitment expenses, training and development and other employee benefits.

Compensation policy is based on the job profile requirements, market practices, nature and level of involvement in risk taking process. It applies to the Group's executive management and all employees and aims to link individual performance to the Group's overall achievements and soundness. Compensation includes fixed and variable components. Salary revision, performance bonus and other performance linked incentives are decided based on the performance evaluation process outcome as well as the Group's financial performance and strategic goals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

24. SALARIES AND EMPLOYEE-RELATED EXPENSES (continued)

The Board of Directors has the responsibility to approve and oversee the Group's compensation and incentives policy. The Nomination and Compensation Committee, made up of five non-executive Directors (comprising of three Board and two external members), is in charge of overseeing the compensation system design and effectiveness on behalf of the Board of Directors as well as preparing the Bank's compensation and incentives policy and undertaking its periodic assessment and update to ensure achievement of the system objectives and reinforce the Bank's risk management framework. Fixed compensation comprises salaries and wages and other benefits and allowances. The variable compensation includes sales incentives, product related rewards and performance related payments.

The Group has adopted fixed as well as variable compensation schemes. The variable component is vested over a period of 3 years and is aligned with the level of responsibility, the overall performance of the Group and the individual, and risk involved in the relevant job function and is based on the annual review conducted by the Nomination and Compensation Committee. The Group consistently evaluates its compensation policies against the industry and makes necessary revisions as and when required.

25. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2017 and 2016 are calculated by dividing the net income for the year by 3,000 million shares.

26. PROPOSED GROSS DIVIDENDS AND ZAKAT

The net cash dividend after deduction of zakat amounted to SAR 2,190 million (2016: SAR 1,950 million), resulting in a net dividend to the shareholders of SAR 0.73 per share (2016: SAR 0.65 per share). The gross dividends for 2017 include interim dividends of SAR 1,050 million paid for the first half of 2017 (2016: SAR 1,050 million). Final gross dividends of SAR 1,640 million (2016: SAR 1,700 million) have been proposed for 2017, comprising SAR 1,140 million of final proposed dividends (2016: SAR 900 million) and zakat accrual of SAR 500 million (2016: SAR800 million).

The Group has filed its Zakat and Income Tax returns with the General Authority for Zakat and Tax ("GAZT") and paid Zakat and Income Taxes for financial years up to and including the year 2016 and has received the assessments for the years up to 2013, in which the GAZT raised additional demands aggregating to SAR 3,543 million for the years 2008 to 2013 mainly on account of "disallowance of certain 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 Group at various levels. Management expects a favourable outcome on the aforementioned appeals and believes appropriate provisions are held there against.

The assessments for the years 2014 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 Group which remains an industry wide issue and disclosure of which might affect the Group's position in this matter.

The change in the accounting policy for zakat (as explained in note 3.1 i), has the following impacts on the line items of statements of financial position and changes in shareholders' equity:

As at 31 December 2016 SAR'000	Balance as previously reported as at 31 December 2016	Effect of restatement	Other reclassification*	Balance as restated at 31 December 2016
Other Liabilities	6,168,867	800,000	(189)	6,968,678
Proposed dividends (Equity)	1,700,000	(800,000)		900,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

26. PROPOSED GROSS DIVIDENDS AND ZAKAT (continued)

As at 1 January, 2016 SAR'000	Balance as previously reported as at As at 1 January, 2016	Effect of restatement	Other reclassification*	Balance as restated at As at 1 January, 2016
Other Liabilities	6,220,495	250,000	(680)	6,469,815
Proposed dividends (Equity)	1,300,000	(250,000)	-	1,050,000

* Represents certain accounts reclassified from other liabilities to customer deposits as shown in the consolidated statement of financial position, to conform to the current year presentation.

27. DEFINED BENEFIT PLAN

27.1 General description

The Group operates an End of Service Benefit Scheme for its employees based on the prevailing Saudi Labor Laws. The liability in respect of the scheme is estimated by a qualified external actuary in accordance with International Accounting Standard 19 - Employee Benefits, and using "Projected Unit Credit Method".

27.2 The movement in the obligation during the year based on its present value are as follows:

SAR'000	2017
Defined benefit obligation at the beginning of the year	708,144
Current service cost	62,101
Interest cost	40,308
Benefits paid	(79,789)
Actuarial gain	(31,439)
Defined benefit obligation at the end of the year	699,325

The liability recognised in the consolidated statement of financial position in respect of the scheme is the present value of the defined benefit obligation at the end of the reporting period. The actuarial gains/losses for the year ended 31 December 2017, are not material to the consolidated financial statements taken as a whole. The end of service liability is disclosed within "other liabilities" in the consolidated statement of financial position.

27.3 The valuation of the defined benefit obligation and assumptions

Liability under the scheme is based on various assumptions ("actuarial assumptions") including the estimation of the discount rate, inflation rate, expected rate of salary increase and normal retirement ages. Based on the assumptions, cash outflows are estimated for the Group's employees as a whole giving the total payments expected over the future years, which are discounted to arrive at the obligation at the reporting date. Any changes in actuarial assumptions from one period to another may effect the determination of the estimated obligation at the reporting date, which is accounted for as an actuarial gain or loss for the period.

The principal actuarial assumptions (in respect of the employee benefit scheme) used for the valuation as at December 31, 2017 are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

27. DEFINED BENEFIT PLAN (continued)

27.3 The valuation of the defined benefit obligation and assumptions (continued)

SAR'000	2017
Discount rate p.a.	4.5%
Expected rate of salary increase p.a.	4.0%
Normal retirement age	60

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

28. CASH AND CASH EQUIVALENTS

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

SAR'000	2017	2016
Cash and balances with SAMA excluding statutory deposit (note 4)	10,564,443	13,100,605
Due from banks and other financial institutions maturing within three months from the date of acquisition	5,587,200	2,982,155
Total	16,151,643	16,082,760

29. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The transactions between the Group's operating segments are recorded as per the Group's transfer pricing system. The Group's primary business is conducted in Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group's overall consolidated financial statements and as a result have not been separately disclosed.

The Group's reportable segments under IFRS 8 are as follows:

Retail	Deposit, credit and investment products for individuals and small to medium sized businesses.
Investment banking and brokerage	Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.
Corporate	Principally handling corporate customers' current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative products.
Treasury and investments	Principally providing money market, trading and treasury services as well as the management of the Bank's investment portfolios.
Other	Includes income on capital and unallocated costs pertaining to Head Office, Finance Division, Human Resources, Technology Services and other support departments and unallocated assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

29. OPERATING SEGMENTS (continued)

29.1 The Group's total assets and liabilities as at December 31, its total operating income and expense and its net income, for the years then ended by operating segments, are as follows:

2017 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investments	Other	Total
Total assets	49,248,483	914,103	95,886,608	59,050,636	11,182,341	216,282,171
Total liabilities	66,096,309	63,806	87,351,530	5,681,009	18,466,524	177,659,178
Total operating income, net including	2,619,606	304,511	3,481,054	1,368,161	351,879	8,125,211
- Inter segment income (expenses)	343,851	90,032	(583,209)	(381,136)	530,462	-
- Net special commission income	2,306,242	91,233	2,505,470	741,013	291,119	5,935,077
- Fee and commission income, net	315,744	207,330	968,195	11,792	7,253	1,510,314
Total operating expenses, net including	991,909	139,926	1,671,619	54,509	1,344,362	4,202,325
- Depreciation of property and equipment	106,851	141	11,323	7,635	156,230	282,180
- Impairment charge for credit losses, net	(76,072)	-	1,303,560	-	-	1,227,488
- Impairment charge for investments, net	-	-	-	-	-	-
Share in earnings of associates, net	-	-	-	-	23,110	23,110
Net income (loss)	1,627,697	164,585	1,809,435	1,313,652	(969,373)	3,945,996

2016 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investments	Other	Total
Total assets	44,895,922	827,059	103,624,050	56,880,671	11,391,299	217,619,001
Total liabilities	61,273,889	60,603	94,541,329	7,342,895	17,427,224	180,645,940
Total operating income, net including	2,321,852	282,599	2,863,271	1,235,356	999,202	7,702,280
- Inter segment income (expenses)	(29,377)	54,493	(645,398)	(349,058)	969,340	-
- Net special commission income	1,975,755	62,786	1,908,932	612,454	741,102	5,301,029
- Fee and commission income, net	335,167	217,609	945,753	(1,740)	6,324	1,503,113
Total operating expenses, net including	1,197,759	154,553	1,525,416	43,609	1,473,972	4,395,309
- Depreciation of property and equipment	100,590	72	9,339	8,623	170,166	288,790
- Impairment charge for credit losses, net	125,231	-	1,161,166	-	-	1,286,397
- Impairment charge for investments, net	-	-	-	100,000	-	100,000
Share in earnings of associates, net	-	-	-	-	35,516	35,516
Net income (loss)	1,124,093	128,046	1,337,855	1,191,747	(439,254)	3,342,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

29. OPERATING SEGMENTS (continued)

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

2017 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investments	Other	Total
Consolidated statement of financial position assets	49,059,497	424,508	96,095,722	58,114,358	9,587,535	213,281,620
Commitments and contingencies	-	-	56,184,996	-	-	56,184,996
Derivatives	-	-	-	813,304	-	813,304

2016 SAR'000	Retail	Investment banking and brokerage	Corporate	Treasury and investments	Other	Total
Consolidated statement of financial position assets	44,445,512	403,573	104,080,973	55,306,106	10,418,796	214,654,960
Commitments and contingencies			61,221,783	-	-	61,221,783
Derivatives			-	1,042,067	-	1,042,067

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding equity investments, investment in associates, property and equipment, other real estate. The credit equivalent value of commitments, contingencies and derivatives, according to SAMA's prescribed methodology are included in credit exposure.

30. CREDIT RISK

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Bank uses internal credit rating tools to assess credit standing of its counterparties and assigns credit ratings accordingly. Also the Bank uses the external ratings, of the major rating agency, where applicable. A potential credit loss might arise due to lack of proper credit analysis of the borrower's credit worthiness, inability to service the debt, lack of appropriate documentation, etc..

The Bank attempts to control credit risk by appropriate credit structuring, credit review process, post-disbursal monitoring of 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 or assign them to other counterparties 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, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Concentration Risk refers to the risk from an uneven distribution of counterparties in credit or in other business relationship or from concentration in business sectors or geographical regions. Accordingly, Concentration risk in the credit portfolios comes into existence through a skewed distribution of financing to (a) individual borrower (name concentration) (b) industry /service sector (sector concentration) and (c) geographical regions (regional concentration). Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting any particular category of concentration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

30. CREDIT RISK (continued)

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 business. 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 recurrently, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The credit ratings of the Group's due from banks and other financial institutions is disclosed in note 5. The debt securities included in the investment portfolio are mostly sovereign risk. Analysis of investments by counterparty is provided in note 7. For details of the composition of loans and advances refer to note 8. Information on credit risk relating to derivative instruments is provided in note 6 and for commitments and contingencies in note 19. The Bank's maximum credit exposure, which best represents its maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements, is not materially different than the credit exposure by business segment given in note 29.2. The Group's consolidated Risk Weighted Assets (RWA) calculated under the Basel III framework is also provided in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

31. GEOGRAPHICAL CONCENTRATION

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

2017 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	18,504,249	-	6	-	-	-	-	18,504,255
Cash in hand	5,484,528	-	6	-	-	-	-	5,484,534
Balances with SAMA	13,019,721	-	-	-	-	-	-	13,019,721
Due from banks and other financial institutions	4,678,367	971,130	2,485,524	587,867	-	312,522	336,790	9,372,200
Current accounts	1,000,267	14,836	2,376	30,595	-	31,883	15,792	1,095,749
Money market placements	3,678,100	956,294	2,483,148	557,272	-	280,639	320,998	8,276,451
Positive fair value of derivatives	96,957	11,061	7,872	-	-	-	-	115,890
Investments, net	31,115,091	1,915,046	2,847,490	9,200,045	790	371,939	919,502	46,369,903
FVIS	303,760	-	-	-	-	-	-	303,760
Available for sale	1,698,057	8,427	2,847,490	9,200,045	790	371,939	503,051	14,629,799
Other investments held at amortised cost	29,113,274	1,906,619	-	-	-	-	416,451	31,436,344
Held to maturity	-	-	-	-	-	-	-	-
Investment in associates	400,320	164,449	-	-	-	-	-	564,769
Loans and advances, net	135,875,408	2,287,992	251	673,967	-	-	-	138,837,618
Overdraft	6,705,539	-	-	-	-	-	-	6,705,539
Credit cards	717,226	-	-	-	-	-	-	717,226
Consumer loans	41,424,617	-	-	-	-	-	-	41,424,617
Commercial loans	86,778,083	2,287,992	251	673,967	-	-	-	89,740,293
Others	249,943	-	-	-	-	-	-	249,943
Other assets	530,009	-	-	-	-	-	-	530,009
Accounts receivable and others	530,009	-	-	-	-	-	-	530,009
Total	191,200,401	5,349,678	5,341,143	10,461,879	790	684,461	1,256,292	214,294,644

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

31. GEOGRAPHICAL CONCENTRATION (continued)

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

2017 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Liabilities								
Due to banks and other financial institutions	3,645,140	2,243,114	734,965	381,574	-	8,060	43,315	7,056,168
Current accounts	19,763	302,090	578,219	107,449	-	8,060	43,313	1,058,894
Money market deposits	3,625,377	1,941,024	156,746	274,125	-	-	2	5,997,274
Negative fair value of derivatives	36,670	9,226	32,027	-	-	-	-	77,923
Customer deposits	149,290,345	2,381,084	1,283,696	155,739	6,464	114,524	1,133,697	154,365,549
Demand	77,607,541	2,055,152	114,953	96,131	6,464	113,038	1,018,086	81,011,365
Saving	359,562	1,850	228	-	-	462	4,278	366,380
Time	59,765,514	324,082	1,168,515	59,608	-	1,024	111,333	61,430,076
Other	11,557,728	-	-	-	-	-	-	11,557,728
Debt securities in issue	8,016,639	-	-	-	-	-	-	8,016,639
Other liabilities	8,124,858	-	8,215	9,228	-	598	-	8,142,899
Accounts payable and others	8,124,858	-	8,215	9,228	-	598	-	8,142,899
Total	169,113,652	4,633,424	2,058,903	546,541	6,464	123,182	1,177,012	177,659,178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

31. GEOGRAPHICAL CONCENTRATION (continued)

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

2017 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Commitments and contingencies	56,203,197	637,465	12,676,028	9,042,524	-	4,924,239	1,348,961	84,832,414
Letters of credit	8,066,060	167,524	2,144	-	-	81,841	10,545	8,328,114
Letters of guarantee	39,572,420	282,545	12,480,004	6,168,435	-	4,831,508	1,253,278	64,588,190
Acceptances	1,920,394	9,557	595	-	-	10,890	85,138	2,026,574
Irrevocable commitments to extend credit	6,644,323	177,839	193,285	2,874,089	-	-	-	9,889,536
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	454,899	296,560	61,845	-	-	-	-	813,304
Held for trading	449,274	296,560	61,845	-	-	-	-	807,679
Held as fair value hedges	5,625	-	-	-	-	-	-	5,625
Held as cash flow hedges	-	-	-	-	-	-	-	-
Commitments and contingencies	36,799,414	374,761	8,859,452	5,738,773	-	3,442,415	970,181	56,184,996
Letters of credit	3,838,427	79,720	1,020	-	-	38,946	5,018	3,963,131
Letters of guarantee	27,786,888	198,397	8,763,186	4,331,340	-	3,392,579	880,025	45,352,415
Acceptances	1,920,394	9,557	595	-	-	10,890	85,138	2,026,574
Irrevocable commitments to extend credit	3,253,705	87,087	94,651	1,407,433	-	-	-	4,842,876

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

31. GEOGRAPHICAL CONCENTRATION (continued)

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

2016 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	21,262,171	-	6	-	-	-	-	21,262,177
Cash in hand	4,307,676	-	6	-	-	-	-	4,307,682
Balances with SAMA	16,954,495	-	-	-	-	-	-	16,954,495
Due from banks and other financial institutions	3,049,810	459,069	546,193	377,999	-	96,735	37,349	4,567,155
Current accounts	566,792	18,679	487,970	99,415	-	22,645	19,526	1,215,027
Money market placements	2,483,018	440,390	58,223	278,584	-	74,090	17,823	3,352,128
Positive fair value of derivatives	106,801	28,307	54,187	-	-	-	-	189,295
Investments, net	29,021,900	1,386,254	3,598,313	9,550,850	2,736	739,960	857,368	45,157,381
Available for sale	1,609,555	13,241	3,561,970	9,550,850	2,736	739,960	535,675	16,013,987
Other investments held at amortised cost	27,410,847	1,373,013	36,343	-	-	-	321,693	29,141,896
Held to maturity	1,498	-	-	-	-	-	-	1,498
Investment in associates	404,827	143,767	-	-	-	-	-	548,594
Loans and advances, net	139,831,595	2,003,257	57,967	243,803	-	63,929	708,816	142,909,367
Overdraft	9,247,056	2,049	-	-	-	70	677	9,249,852
Credit cards	740,310	-	-	-	-	-	-	740,310
Consumer loans	37,812,603	-	-	-	-	-	-	37,812,603
Commercial loans	91,842,988	2,001,208	57,967	243,803	-	63,859	708,139	94,917,964
Others	188,638	-	-	-	-	-	-	188,638
Other assets	566,638	-	-	311,028	-	-	-	877,666
Accounts receivable and others	566,638	-	-	311,028	-	-	-	877,666
Total	194,243,742	4,020,654	4,256,666	10,483,680	2,736	900,624	1,603,533	215,511,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

31. GEOGRAPHICAL CONCENTRATION (continued)

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

2016 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Liabilities								
Due to banks and other financial institutions	4,493,899	2,856,185	889,231	261,539	-	21,440	314,419	8,836,713
Current accounts	24,557	562,865	281,198	115,173	-	21,440	33,056	1,038,289
Money market deposits	4,469,342	2,293,320	608,033	146,366	-	-	281,363	7,798,424
Negative fair value of derivatives	61,771	25,395	51,472	-	-	-	-	138,638
Customer deposits	153,028,930	2,421,271	916,054	198,811	-	2,375	116,097	156,683,538
Demand	77,821,831	208	22,721	-	-	-	2,221	77,846,981
Saving	314,672	3,145	372	701	-	1,011	5,081	324,982
Time	64,192,310	2,417,918	892,961	198,110	-	1,364	108,795	67,811,458
Other	10,700,117	-	-	-	-	-	-	10,700,117
Debt securities in issue	8,018,373	-	-	-	-	-	-	8,018,373
Other liabilities	6,938,072	-	22,831	7,218	-	557	-	6,968,678
Accounts payable and others	6,938,072	-	22,831	7,218	-	557	-	6,968,678
Total	**172,541,045**	**5,302,851**	**1,879,588**	**467,568**	-	**24,372**	**430,516**	**180,645,940**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

31. GEOGRAPHICAL CONCENTRATION (continued)

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

2016 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Commitments and contingencies	56,862,686	1,717,620	14,586,517	11,581,841	-	4,386,510	4,595,535	93,730,709
Letters of credit	6,389,258	936,588	204,472	142	-	29,106	61,232	7,620,798
Letters of guarantee	39,459,061	483,351	14,209,998	8,848,662	-	4,357,404	4,490,862	71,849,338
Acceptances	2,069,750	5,016	1,634		-	-	43,441	2,119,841
Irrevocable commitments to extend credit	8,944,617	292,665	170,413	2,733,037	-	-	-	12,140,732
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	742,285	138,664	161,118	-	-	-	-	1,042,067
Held for trading	741,910	138,664	161,118	-	-	-	-	1,041,692
Held as fair value hedges	375	-	-	-	-	-	-	375
Commitments and contingencies	36,709,101	994,665	10,044,154	7,241,167	-	3,039,145	3,193,551	61,221,783
Letters of credit	3,658,088	536,232	117,068	81	-	16,664	35,057	4,363,190
Letters of guarantee	27,370,482	335,273	9,856,659	6,137,808	-	3,022,481	3,115,053	49,837,756
Acceptances	2,069,750	5,016	1,634	-	-	-	43,441	2,119,841
Irrevocable commitments to extend credit	3,610,781	118,144	68,793	1,103,278	-	-	-	4,900,996

31.2 The distribution by geographical concentration of non-performing loans and advances and provision for credit losses are as follows:

SAR'000	Non-performing loans and advances, net 2017	Non-performing loans and advances, net 2016	Allowance for credit losses 2017	Allowance for credit losses 2016
Kingdom of Saudi Arabia				
Commercial Loans*	**1,211,839**	986,321	**(906,812)**	(1,463,106)
Consumer Loans**	**200,318**	171,701	**(105,765)**	(42,060)
Total	**1,412,157**	1,158,022	**(1,012,577)**	(1,505,166)

*Includes overdrafts and other loans

** includes mortgage loans

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

32. MARKET RISK

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, commodity and equity prices. The Group classifies exposures to market risk into either trading or non-trading/ banking-book. The market risk for the trading book is managed and monitored using a VaR methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

32.1 Market Risk - Trading Book

The Group has set limits (both VaR and exposure based limits) for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Group applies a VaR methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses variance-covariance approach for calculating VaR for trading book based on historical data (of 1 year). 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 Bank calculates VaR on the basis of the following:

1. 10 days holding period at 99% confidence interval for regulatory capital computation (under IMA approach of Basel II Accord that the Group plans to adopt in the future)

2. 1 day holding period at 99% confidence interval for internal reporting and for disclosure purposes.

This means that the VaR that the Group 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 1 or 10 days. The use of 99% confidence level depicts that within a 1-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.

To overcome the VaR limitations mentioned above, the Group also carries out stress tests of both non-trading and trading portfolios to simulate conditions outside normal confidence intervals using six stress scenarios for the entire Group. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset Liability Committee (ALCO) for their review.

The Group's VaR related information for the year ended December 31, 2017 and 2016 using a 1 day holding period at 99% confidence interval is set out below. All the figures are in SAR million:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

32. MARKET RISK (continued)

32.1 Market Risk - Trading Book (continued)

2017	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2017	1.96	0.42	4.97	7.12
Average VaR for 2017	8.59	0.58	5.03	13.87
Maximum VaR for 2017	20.28	1.15	5.11	25.36
Minimum VaR for 2017	0.45	0.18	4.90	5.52

2016	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2016	3.64	0.19	0.00	3.62
Average VaR for 2016	4.79	0.79	0.00	4.97
Maximum VaR for 2016	35.14	6.34	0.00	35.10
Minimum VaR for 2016	0.20	0.08	0.00	0.22

32.2 Market Risk - Non-trading or Banking Book

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Group has established Net special commission Income at Risk and Market Value at Risk (MVaR) limits that are monitored by ALCO. There are gap limits to accommodate Forward FX and Money Market for USD, SAR and other major currencies. The Group 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 reasonable possible change in special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity.

The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, on the non-trading financial assets and financial liabilities held as at December 31, 2017 and 2016, 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 December 31, 2017 and 2016 for the effect of assumed changes in special commission rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in SAR million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book (continued)

2017 Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				
			6 months or less	1 year or less	1-5 years	Over 5 years	Total
SAR	+ 100	243.73	-	-	-	-	-
USD	+ 100	(50.00)	(0.83)	(0.63)	(39.36)	(301.11)	(341.93)
EUR	+ 100	0.87	(0.01)	-	-	-	(0.01)
GBP	+ 100	(1.39)	-	-	-	-	-
JPY	+ 100	2.15	-	-	-	-	-
Others	+ 100	(0.74)	-	-	-	-	-

2017 Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				
			6 months or less	1 year or less	1-5 years	Over 5 years	Total
SAR	- 100	(243.73)	-	-	-	-	-
USD	- 100	51.00	0.83	0.63	39.36	301.11	341.93
EUR	- 100	(1.56)	0.01	-	-	-	0.01
GBP	- 100	-	-	-	-	-	-
JPY	- 100	(2.15)	-	-	-	-	-
Others	- 100	0.74	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk (continued)

2016 Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	187.2	-	-	-	-	-
USD	+ 100	(48.3)	(1.19)	(1.68)	(52.09)	(276.59)	(331.55)
EUR	+ 100	(7.5)	(0.42)	(0.12)	(5.40)	(4.45)	(10.39)
GBP	+ 100	(5.5)	(0.16)	(0.74)	(2.13)	(1.35)	(4.38)
JPY	+ 100	2.3	(0.04)	-	(0.08)	-	(0.12)
Others	+ 100	(0.4)	(0.06)	(0.06)	(1.09)	(0.06)	(1.27)

2016 Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(187.4)	-	-	-	-	-
USD	- 100	48.3	1.19	1.68	52.09	276.59	331.55
EUR	- 100	-	0.42	0.12	5.40	4.45	10.39
GBP	- 100	4.1	0.16	0.74	2.13	1.35	4.38
JPY	- 100	(2.2)	0.04	-	0.08	-	0.12
Others	- 100	0.5	0.06	0.06	1.09	0.06	1.27

Special commission sensitivity of assets, liabilities and off statement of financial position items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

The table below summarises the Group's exposure to special commission rate risks. Included in the table are the Group's assets, liabilities and shareholders' equity at carrying amounts, categorised by the earlier of contractual re-pricing or the maturity dates.

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	5,099,960	-	-	-	13,404,295	18,504,255
Cash in hand	-	-	-	-	5,484,534	5,484,534
Balances with SAMA	5,099,960	-	-	-	7,919,761	13,019,721
Due from banks and other financial institutions	8,575,262	635,000	-	-	161,938	9,372,200
Current accounts	933,811	-	-	-	161,938	1,095,749
Money market placements	7,641,451	635,000	-	-	-	8,276,451
Positive fair value of derivatives	8,687	6,512	73,614	27,077	-	115,890
Investments, net	10,935,725	7,707,473	15,703,533	9,313,908	2,709,264	46,369,903
Trading portfolio	-	-	-	-	303,760	303,760
Available for sale	1,510,062	116,607	4,789,866	5,807,760	2,405,504	14,629,799
Other investments held at amortised cost	9,425,663	7,590,866	10,913,667	3,506,148	-	31,436,344
Investment in associates	-	-	-	-	564,769	564,769
Loans and advances, net	61,095,782	28,858,580	28,200,270	20,682,986	-	138,837,618
Overdraft	6,705,539	-	-	-	-	6,705,539
Credit cards	717,226	-	-	-	-	717,226
Consumer loans	153,621	433,720	20,962,566	19,874,710	-	41,424,617
Commercial loans	53,269,453	28,424,860	7,237,704	808,276	-	89,740,293
Others	249,943	-	-	-	-	249,943
Other real estate	-	-	-	-	235,119	235,119
Property and equipment, net	-	-	-	-	1,752,408	1,752,408
Other assets	150,718	-	-	-	379,291	530,009
Accounts receivable and others	150,718	-	-	-	379,291	530,009
Total assets	85,866,134	37,207,565	43,977,417	30,023,971	19,207,084	216,282,171

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	5,941,023	56,251	-	-	1,058,894	7,056,168
Current accounts	-	-	-	-	1,058,894	1,058,894
Money market deposits	5,941,023	56,251	-	-	-	5,997,274
Negative fair value of derivatives	14,468	7,195	30,802	25,458	-	77,923
Customer deposits	57,029,002	5,091,423	720,374	-	91,524,750	154,365,549
Demand	1,044,343	-	-	-	79,967,022	81,011,365
Saving	366,380	-	-	-	-	366,380
Time	55,618,279	5,091,423	720,374	-	-	61,430,076
Other	-	-	-	-	11,557,728	11,557,728
Debt securities in issue	4,011,562	4,005,077	-	-	-	8,016,639
Other liabilities	-	-	-	-	8,142,899	8,142,899
Accounts payable and others	-	-	-	-	8,142,899	8,142,899
Shareholders' equity	-	-	-	-	38,622,993	38,622,993
Total liabilities and shareholders' equity	66,996,055	9,159,946	751,176	25,458	139,349,536	216,282,171
Special commission rate sensitivity -On statement of financial position gap	18,870,079	28,047,619	43,226,241	29,998,513	(120,142,452)	-
Special commission rate sensitivity -Off statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	18,870,079	28,047,619	43,226,241	29,998,513	(120,142,452)	
Cumulative special commission rate sensitivity gap	18,870,079	46,917,698	90,143,939	120,142,452	-	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

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	8,750,000	-	-	-	12,512,177	21,262,177
Cash in hand	-	-	-	-	4,307,682	4,307,682
Balances with SAMA	8,750,000	-	-	-	8,204,495	16,954,495
Due from banks and other financial institutions	3,523,483	385,000	-	-	658,672	4,567,155
Current accounts	556,355	-	-	-	658,672	1,215,027
Money market placements	2,967,128	385,000	-	-	-	3,352,128
Positive fair value of derivatives	113,257	16,958	39,299	19,781	-	189,295
Investments, net	16,764,616	6,199,724	10,973,382	8,795,085	2,424,574	45,157,381
Available for sale	2,153,633	1,105,243	5,659,149	4,671,388	2,424,574	16,013,987
Other investments held at amortised cost	14,610,951	5,093,015	5,314,233	4,123,697	-	29,141,896
Held to maturity	32	1,466	-	-	-	1,498
Investment in associates	-	-	-	-	548,594	548,594
Loans and advances, net	58,371,418	39,257,249	28,149,567	17,131,133	-	142,909,367
Overdraft	9,249,852	-	-	-	-	9,249,852
Credit cards	740,310	-	-	-	-	740,310
Consumer loans	178,184	524,858	20,459,177	16,650,384	-	37,812,603
Commercial loans	48,014,434	38,732,391	7,690,390	480,749	-	94,917,964
Others	188,638	-	-	-	-	188,638
Other real estate	-	-	-	-	245,017	245,017
Property and equipment, net	-	-	-	-	1,862,349	1,862,349
Other assets	293,437	-	-	-	584,229	877,666
Accounts receivable and others	293,437	-	-	-	584,229	877,666
Total assets	87,816,211	45,858,931	39,162,248	25,945,999	18,835,612	217,619,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,491,499	306,925	-	-	1,038,289	8,836,713
Current accounts	-	-	-	-	1,038,289	1,038,289
Money market deposits	7,491,499	306,925	-	-	-	7,798,424
Negative fair value of derivatives	93,081	17,134	11,580	16,843	-	138,638
Customer deposits	54,853,528	13,932,938	43,930	-	87,853,142	156,683,538
Demand	693,956	-	-	-	77,153,025	77,846,981
Saving	324,982	-	-	-	-	324,982
Time	53,834,590	13,932,938	43,930	-	-	67,811,458
Other	-	-	-	-	10,700,117	10,700,117
Debt securities in issue	4,015,672	4,002,701	-	-	-	8,018,373
Other liabilities	-	-	-	-	6,968,678	6,968,678
Accounts payable and others	-	-	-	-	6,968,678	6,968,678
Shareholders' equity					36,973,061	36,973,061
Total liabilities and shareholders' equity	66,453,780	18,259,698	55,510	16,843	132,833,170	217,619,001
Special commission rate sensitivity -On statement of financial position gap	21,362,431	27,599,233	39,106,738	25,929,156	(113,997,558)	-
Special commission rate sensitivity -Off statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	21,362,431	27,599,233	39,106,738	25,929,156	(113,997,558)	
Cumulative special commission rate sensitivity gap	21,362,431	48,961,664	88,068,402	113,997,558	-	

iii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Group has a significant exposure as at December 31, 2017 and 2016 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income(due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in consolidated statement of income or equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book (continued)

iii) Currency risk (continued)

Currency Exposures As at December 31, 2017 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	± 5.19
EUR	± 1	± 0.59
GBP	± 1	± 0.09
JPY	± 1	± 0.13
Others	± 1	± (0.02)

Currency Exposures As at December 31, 2016 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	± 5.94
EUR	± 1	± 0.32
GBP	± 1	± 0.02
JPY	± 1	± 0.14
Others	± 1	± 0.01

iv) Foreign currency risk

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

	2017 Long (short) SAR'000	2016 Long (short) SAR'000
US Dollar	618,153	607,562
Japanese Yen	16	467
Euro	(3,914)	(160)
Pound Sterling	(1,864)	41
Others	41,124	41,176

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

32. MARKET RISK (continued)

32.2 Market Risk - Non-trading or Banking Book (continued)

v) Banking Book - Equity Price risk

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

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

	December 31, 2017		December 31, 2016	
Market Index	Change in equity index %	Effect in SAR millions	Change in equity index %	Effect in SAR millions
Tadawul	+5	47.32	+5	46.46
	+10	94.64	+10	92.93
	-5	(47.32)	-5	(46.46)
	-10	(94.64)	-10	(92.93)

33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2016: 7%) of total demand deposits and 4% (2016: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Development Bonds, Treasury bills 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 with SAMA, from 85% to 100% of the nominal value of bonds/ bills held by the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

33.1 The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2017 and 2016 based on contractual undiscounted repayment obligations.

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

33. LIQUIDITY RISK

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	7,005,616	56,268	-	-	7,061,884
Current accounts	1,058,894	-	-	-	1,058,894
Money market deposits	5,946,722	56,268	-	-	6,002,990
Customer deposits	148,665,201	5,105,170	720,649	-	154,491,020
Demand	81,011,365	-	-	-	81,011,365
Saving	366,382	-	-	-	366,382
Time	55,729,726	5,105,170	720,649	-	61,555,545
Other	11,557,728	-	-	-	11,557,728
Debt securities in issue	56,600	169,800	4,693,463	4,350,782	9,270,645
Derivative financial instruments (gross contractual amounts payable)	52,299	143,122	367,173	15,708	578,302
Held for trading	51,836	141,707	360,967	15,708	570,218
Held as fair value hedges	463	1,415	6,206	-	8,084
Total undiscounted financial liabilities	155,779,716	5,474,360	5,781,285	4,366,490	171,401,851

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	8,531,067	307,212	-	-	8,838,279
Current accounts	1,038,289	-	-	-	1,038,289
Money market deposits	7,492,778	307,212	-	-	7,799,990
Customer deposits	142,928,566	13,989,411	45,051	-	156,963,028
Demand	77,846,981	-	-	-	77,846,981
Saving	324,984	-	-	-	324,984
Time	54,056,484	13,989,411	45,051	-	68,090,946
Other	10,700,117	-	-	-	10,700,117
Debt securities in issue	63,647	190,942	4,953,404	4,458,786	9,666,779
Derivative financial instruments (gross contractual amounts payable)	37,005	106,745	339,740	43,826	527,316
Held for trading	36,623	106,363	339,740	43,826	526,552
Held as fair value hedges	382	382	-	-	764
Total undiscounted financial liabilities	151,560,285	14,594,310	5,338,195	4,502,612	175,995,402

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

33. LIQUIDITY RISK (continued)

33.2 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	10,584,494	-	-	-	7,919,761	18,504,255
Cash in hand	5,484,534	-	-	-	-	5,484,534
Balances with SAMA	5,099,960	-	-	-	7,919,761	13,019,721
Due from banks and other financial institutions	8,737,200	635,000	-	-	-	9,372,200
Current accounts	1,095,749	-	-	-	-	1,095,749
Money market placements	7,641,451	635,000	-	-	-	8,276,451
Positive fair value of derivatives	8,687	6,512	73,614	27,077	-	115,890
Investments, net	3,416,420	4,642,727	17,675,388	17,926,104	2,709,264	46,369,903
Trading portfolio	-	-	-	-	303,760	303,760
Available for sale	356,220	397,681	5,008,498	6,461,896	2,405,504	14,629,799
Other investments held at amortised cost	3,060,200	4,245,046	12,666,890	11,464,208	-	31,436,344
Investment in associates	-	-	-	-	564,769	564,769
Loans and advances, net	40,731,476	18,668,451	36,917,876	42,519,815	-	138,837,618
Overdraft	6,705,539	-	-	-	-	6,705,539
Credit cards	717,226	-	-	-	-	717,226
Consumer loans	153,621	433,720	20,962,566	19,874,710	-	41,424,617
Commercial loans	32,905,147	18,234,731	15,955,310	22,645,105	-	89,740,293
Others	249,943	-	-	-	-	249,943
Other real estate	-	-	-	-	235,119	235,119
Property and equipment, net	-	-	-	-	1,752,408	1,752,408
Other assets	150,718	-	-	-	379,291	530,009
Accounts receivable and others	150,718	-	-	-	379,291	530,009
Total assets	63,628,995	23,952,690	54,666,878	60,472,996	13,560,612	216,282,171

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

33. LIQUIDITY RISK (continued)

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

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,999,917	56,251	-	-	-	7,056,168
Current accounts	1,058,894	-	-	-	-	1,058,894
Money market deposits	5,941,023	56,251	-	-	-	5,997,274
Negative fair value of derivatives	14,468	7,195	30,802	25,458	-	77,923
Customer deposits	148,553,752	5,091,423	720,374	-	-	154,365,549
Demand	81,011,365	-	-	-	-	81,011,365
Saving	366,380	-	-	-	-	366,380
Time	55,618,279	5,091,423	720,374	-	-	61,430,076
Other	11,557,728	-	-	-	-	11,557,728
Debt securities in issue	-	-	4,011,562	4,005,077	-	8,016,639
Other liabilities	-	-	-	-	8,142,899	8,142,899
Accounts payable and others	-	-	-	-	8,142,899	8,142,899
Shareholders' equity	-	-	-	-	38,622,993	38,622,993
Total liabilities and shareholders' equity	155,568,137	5,154,869	4,762,738	4,030,535	46,765,892	216,282,171

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

33. LIQUIDITY RISK (continued)

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

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	13,057,682	-	-	-	8,204,495	21,262,177
Cash in hand	4,307,682	-	-	-	-	4,307,682
Balances with SAMA	8,750,000	-	-	-	8,204,495	16,954,495
Due from banks and other financial institutions	4,182,155	385,000	-	-	-	4,567,155
Current accounts	1,215,027	-	-	-	-	1,215,027
Money market placements	2,967,128	385,000	-	-	-	3,352,128
Positive fair value of derivatives	113,257	16,958	39,299	19,781	-	189,295
Investments, net	8,466,578	3,167,390	13,475,462	17,623,377	2,424,574	45,157,381
Available for sale	689,234	1,031,499	6,258,314	5,610,366	2,424,574	16,013,987
Held to maturity	32	1,466	-	-	-	1,498
Other investments held at amortised cost	7,777,312	2,134,425	7,217,148	12,013,011	-	29,141,896
Investment in associates	-	-	-	-	548,594	548,594
Loans and advances, net	41,232,437	23,694,432	40,561,793	37,420,705	-	142,909,367
Overdraft	9,249,852	-	-	-	-	9,249,852
Credit cards	740,310	-	-	-	-	740,310
Consumer loans	178,184	524,858	20,459,177	16,650,384	-	37,812,603
Commercial loans	30,916,135	23,135,545	20,095,963	20,770,321	-	94,917,964
Others	147,956	34,029	6,653	-	-	188,638
Other real estate	-	-	-	-	245,017	245,017
Property and equipment, net	-	-	-	-	1,862,349	1,862,349
Other assets	293,437	-	-	-	584,229	877,666
Accounts receivable and others	293,437	-	-	-	584,229	877,666
Total assets	67,345,546	27,263,780	54,076,554	55,063,863	13,869,258	217,619,001

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

33. LIQUIDITY RISK (continued)

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

2016 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Liabilities and shareholders' equity						
Due to banks and other financial institutions	8,529,788	306,925	-	-	-	8,836,713
Current accounts	1,038,289	-	-	-	-	1,038,289
Money market deposits	7,491,499	306,925	-	-	-	7,798,424
Negative fair value of derivatives	93,081	17,134	11,580	16,843	-	138,638
Customer deposits	142,706,670	13,932,938	43,930	-	-	156,683,538
Demand	77,846,981	-	-	-	-	77,846,981
Saving	324,982	-	-	-	-	324,982
Time	53,834,590	13,932,938	43,930	-	-	67,811,458
Other	10,700,117	-	-	-	-	10,700,117
Debt securities in issue	-	-	4,015,672	4,002,701	-	8,018,373
Other liabilities	-	-	-	-	6,968,678	6,968,678
Accounts payable and others	-	-	-	-	6,968,678	6,968,678
Shareholders' equity	-	-	-	-	36,973,061	36,973,061
Total liabilities and shareholders' equity	151,329,539	14,256,997	4,071,182	4,019,544	43,941,739	217,619,001

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 cumulative maturities of commitments and contingencies is given in note 19.3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

34. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

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.

Fair value and fair value hierarchy

2017 SAR'000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Held as FVIS	303,760			303,760
Available for sale investments	14,313,044	843	315,912	14,629,799
Positive fair value derivatives	-	115,890	-	115,890
Financial assets not measured at fair value				
Due from banks and other financial institutions	-	9,372,200	-	9,372,200
Other investments at amortised cost	-	31,544,874	-	31,544,874
Loans and advances	-	143,052,427	-	143,052,427
Financial liabilities measured at fair value				
Negative fair value derivatives	-	77,923	-	77,923
Financial liabilities not measured at fair value				
Due to banks and other financial institutions	-	7,056,168	-	7,056,168
Customer deposits	-	154,365,549*	-	154,365,549
Debt securities in issue	-	8,016,639		8,016,639

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

34. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value and fair value hierarchy (continued)

2016 SAR'000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Available for sale investments	15,478,675	268,663	266,649	16,013,987
Positive fair value derivatives	-	189,295	-	189,295
Financial assets not measured at fair value				
Due from banks and other financial institutions	-	4,567,155	-	4,567,155
Other investments at amortised cost	-	29,171,710	-	29,171,710
Held to maturity investments	-	1,513	-	1,513
Loans and advances	-	146,736,813*	-	146,736,813
Financial liabilities measured at fair value				
Negative fair value derivatives	-	138,638	-	138,638
Financial liabilities not measured at fair value				
Due to banks and other financial institutions	-	8,836,713	-	8,836,713
Customer deposits	-	156,683,538	-	156,683,538
Debt securities in issue	-	8,018,373	-	8,018,373

*The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. Cash and balances with SAMA, due from banks with maturity of less than 90 days and other short term receivables, other assets and other liabilities are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature.

There were no transfers between the fair value hierarchy levels.

Although the Group believes that its estimates of fair value of Level 3 securities are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Level 3 consists of local and international unquoted equity securities. The Group uses net assets valuation and price to book value method based on most recent available audited financial statements to fair value these investments. Other methodology that could be used to value the securities is discounted cash flow model based on expected dividend yield for which no data is available. Therefore potential impact of using reasonably possible alternative assumptions for the valuation techniques is not quantified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

34. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

SAR'000	2017	2016
Reconciliation of movement in Level 3		
Opening balance	266,649	253,006
Total gains or losses		
- recognised in consolidated statement of income	2,145	(252)
- recognised in other comprehensive income	47,118	13,293
Redemptions	-	-
Purchases	-	602
Closing balance	315,912	266,649

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:

a) In the principal market for the asset or liability, or

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

35. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. Related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA. The balances at December 31 resulting from such transactions are as follows:

a) Directors, key management personnel, other shareholders' and their affiliates:

SAR'000	2017	2016
Loan and advances	3,428,410	3,549,989
Customer deposits	26,136,098	24,022,996
Derivatives asset (at fair value)	2,972	779
Commitments and contingencies (irrevocable)	2,099,008	2,603,124
Executive end of services	52,518	53,244

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

b) Bank's mutual funds:

Customer deposits	135,000	179,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

35. RELATED PARTY TRANSACTIONS (continued)

Income and expenses pertaining to transactions with related parties included in these consolidated financial statements are as follows:

SAR'000	2017	2016
Special commission income	119,614	115,050
Special commission expense	420,291	670,110
Fees from banking services, net	112,150	107,452
Directors and committees remuneration and expenses	5,744	6,240
Executive remuneration and bonus	64,375	53,870
Executive end of service	4,681	6,701
Other expenses	23,713	23,744

36. CAPITAL ADEQUACY

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

The Group monitors the adequacy of its capital using the methodologies and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA, with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA.

The Group management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers the Group's business plans along with economic conditions which directly and indirectly affects its business environment. SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from 1st January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

36. CAPITAL ADEQUACY (continued)

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

	2017		2016	
SAR'000	Capital	Ratio%	Capital	Ratio%
Top consolidated level				
Tier 1 capital	38,622,993	17.3%	36,973,061	16.3%
Tier 2 capital	5,072,349		5,072,349	
Total regulatory capital (Tier 1 + Tier 2)	43,695,342	19.6%	42,045,410	18.6%

SAR'000	2017	2016
Risk weighted assets		
Credit risk weighted assets	207,783,403	211,833,031
Operational risk weighted assets	14,035,238	13,889,563
Market risk weighted assets	1,250,963	495,050
Total Pillar 1 Risk Weighted Assets	223,069,604	226,217,644

37. STAFF INVESTMENT SAVINGS PLANS

The Group operates a Staff Savings Investment Plan. Under the terms of the Staff Savings Investment Plan, participating employees of the Group make monthly contributions by way of a deduction from their salary subject to a maximum of 15% of their basic salaries. The Group also contributes on a monthly basis a pre-determined percentage (subject to a maximum of 6%) of the basic salary of an employee based on the varying service periods. The proceeds are invested in the Group's existing range of mutual funds for the benefit of the employees.

The cost of the above plan is charged to the consolidated statement of income over the term of the plan.

38. INVESTMENT MANAGEMENT SERVICES

The Group offers investment management services to its customers, which include management of certain investment funds with assets totaling SAR 24.4 billion (2016: SAR 17.0 billion).

The Group's assets under management include non-interest based funds amounting to SAR 8.1 billion (2016: SAR 5.8 billion).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

39. ISSUED IFRS BUT NOT YET EFFECTIVE

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

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

- Amendments to IFRS 2 -- "Share-based Payment", applicable for the period beginning on or after 1st 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 1st 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.

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 1st January, 2018, with early adoption permitted. The Group considers implementing IFRS 9 as a significant project and therefore has set up a multidisciplinary implementation team with members from its Credit risk and Modeling, Finance, IT, Operations and other respective businesses to achieve a successful and robust implementation. The project is managed by the Chief Financial Officer and the Chief Risk Officer.

Classification and measurement

The classification and measurement of financial assets (except equity instruments and derivatives) will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through income statement ("FVIS'). For equity instruments that are not held for trading, the Group 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 Group's debt instruments that are currently classified as available for sale (AFS) will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change in the accounting for these assets except for new impairment requirements. Equity investments currently measured at FVIS will continue to be measured on the same basis under IFRS 9.

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. Instruments that are classified as AFS under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVIS, depending on particular circumstances.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

39. ISSUED IFRS BUT NOT YET EFFECTIVE (continued)

Implementation and Impact Analysis of IFRS-9 (continued)

Impairment

The Group will recognize impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured via FVIS. These 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:

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 Group will categorize 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 considering a number of qualitative and quantitative factors. The impairment allowance will be recorded based on lifetime ECL.

Stage 3: Impaired assets: For Financial asset that are impaired, the Group will recognise the impairment allowance based on lifetime ECL.

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

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

To evaluate a range of possible outcomes, the Group intends to formulate various scenarios. For each scenario, the Group will derive an ECL and apply a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements. The Group 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 Group expects to exercise the accounting policy choice to continue IAS 39 hedge accounting requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2017 and 2016

39. ISSUED IFRS BUT NOT YET EFFECTIVE (continued)

Implementation and Impact Analysis of IFRS-9 (continued)

Overall expected impact

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

According to transitional provisions for initial application of IFRS 9, the Group 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 shareholders' equity is estimated to be 3.6% to 4.1%, while the impact on the aggregated carrying value of relevant financial assets is estimated to be 0.7% to 0.8%, 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 Group's Tier 1 ratio will be impacted primarily from potential increase in credit impairment provisions.

Based on the balances as at 31st December, 2017, the day 1 impact of IFRS 9 (applicable from 1st January, 2018) would be an estimated reduction of less than 50 basis points in the Total regulatory capital ratio.

- Certain investments, amounting to SR 859.3 million that do not meet the criteria to be classified either as at FVOCI or at amortized cost will have to be reclassified to financial assets at FVIS. Related fair value gains of SR 24.3 million will have to be transferred from available for sale (AFS) financial assets reserve to retained earnings on 1st January, 2018.

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

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

Caveat:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
For the years ended December 31, 2017 and 2016

40. COMPARATIVE FIGURES

Apart from the impact as stated in note 26, certain other comparative amounts have been reclassified to conform to the current year presentation.

41. BOARD OF DIRECTORS' APPROVAL

These consolidated financial statements were approved by the Board of Directors on 26 Jumada I 1439H (corresponding to 12th February, 2018).

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