ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED)
FOR THE YEAR ENDED
DECEMBER 31, 2017

KPMG Al Fozan & Partners
Certified Public Accountants

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

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Alinma Bank and its subsidiaries (collectively referred to as the "Bank"), which comprise the consolidated statement of financial position as at December 31, 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 summary of significant accounting policies and other explanatory notes from 1 to 38.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank 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 ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank 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.

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment of financing At December 31, 2017, the gross financing was Saudi Riyals 80,566 million against which impairment provision of Saudi Riyals 1,503 million was maintained. This comprises impairment against specific financing, and collective impairment recorded on a portfolio basis through use of models. We considered this as a key audit matter as the Bank makes complex and subjective judgments and makes assumptions to determine the impairment and the timing of recognition of such impairment. In particular the determination of impairment against financing includes: o The identification of impairment events and judgments used to calculate the impairment against specific financing; o The use of assumptions underlying the calculation of collective impairment for portfolios of financing, and the use of the models to make those calculations; and o An assessment of the Bank's exposure to certain economic sectors affected by economic conditions. Refer to the significant accounting policies notes 3(g) and 3(h) to the financial statements, which contain the disclosure of significant accounting estimates and assessment methodology used by the Bank relating to impairment against financing and note 7 which contains the disclosure of impairment against financing.	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. We tested a sample of financing (including financing that had not been identified by management as potentially impaired) to form our own assessment as to whether impairment events had occurred and to assess whether impairment had been identified and recorded in a timely manner. Where impairment was individually calculated, we tested the assumptions underlying the impairment identification including forecasted future cash flows, discount rates and estimated recovery from any underlying collateral, etc. For the collective impairment models used by the Bank, among other procedures, we tested: o On a sample basis the extracts of historical data from underlying systems; o the assumptions used by management including probability of default, loss given default and delinquency days analysis etc. used in the models; and o the calculations within the models on a sample basis. For individually assessed financing, we also selected a sample of financing for certain economic sectors adversely affected by the economic conditions to evaluate management's impairment assessment for such financing.

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Key audit matter	How our audit addressed the key audit matter
Zakat The Bank has received the Assessment Orders and additional demands from the General Authority of Zakat and Tax (GAZT) for the years 2009 to2015 aggregating to Saudi Riyals 1,656 million. The additional demand arose, as GAZT considered certain long term assets, including Ijarah assets owned by the Bank, as non-deductible for the purpose of computation of Zakat base which has consequently increased the zakat liability. The Bank has filed an appeal against the assessments for the years 2009 to 2011. The assessment for the year 2016 is yet to be finalized by the GAZT. However, if the disallowances are made by the GAZT in line with the earlier years, additional zakat exposure may emerge which remains an industry issue and its disclosure in the financial statements may affect the Bank's interests. Consequently, the management makes judgments about the incidence and magnitude of zakat liabilities which are subject to the future outcome of assessments by the GAZT and based on such assessment, the management is confident of a favourable outcome of the appeal process. We considered this as a key audit matter as this matter is subjective and the amounts involved are material. Refer to note 3(t) for the accounting policy relating to zakat and note 21 for the related disclosures.	We reviewed the correspondences between the Bank and the GAZT and the Bank's tax advisors. We examined the matters in dispute, used our knowledge of zakat regulations and assessed available evidence and considered whether additional provision is required. We held meetings with those charged with governance and executive management of the Bank to obtain update on the zakat matter and the results of their interactions with the relevant authorities. We also assessed the appropriateness of the disclosures, in light of the facts and circumstances of the Bank.
Fees from banking services The Bank charges certain fees upfront to customers on corporate financing. Generally, such fees are an integral part of generating an involvement with the resulting financial instrument, and therefore, should be recognized as an adjustment to effective yield within income from investments and financing. However, due to large volume of transactions with	We assessed the design and implementation and tested the operating effectiveness of the key controls over the consistent application of the assumptions and thresholds by management. We evaluated the assumptions used and threshholds established by the Bank for

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

Key audit matter	How our audit addressed the key audit matter
mostly insignificant fee amounts, adjustments to effective yield is made by the management based on certain threshholds and assumptions. We considered this as a key audit matter since the use of threshholds and significant judgements could result in material over / under statement of fee from banking services and income from investments and financing. Refer to note 3(e) for the accounting policy relating to fees from banking services and note 18 for breakdown of fee from banking services.	making the adjustments to the effective yield of financing. We obtained the management's assessment of the impact of the use of thresholds and assumptions on fees from banking services and: o traced the data used by the management to the source documents on a sample basis; o assessed the management's estimation of the impact of the use of thresholds and assumptions on the recognition of fee from banking services.
Valuation of investments held as available for sale Investments available for sale comprise a portfolio of sukuk, mutual funds and equity investments. These instruments are measured at fair value with the corresponding fair value change recognized under 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 the 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 are applied using: o significant observable valuation inputs (i.e. level 2 investments) and o significant unobservable valuation inputs (i.e. level 3 instruments) Estimation uncertainty is particularly high for level 3 instruments. In the Bank's accounting policies, the management has described the key sources of estimation involved in determining the valuation of level 2 and level 3 financial instruments and in particular when the fair	We assessed the design and implementation and tested the operating effectiveness of the 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 the valuation models 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 the expected cash flows, risk free rates and credit spreads by benchmarking them with external data.

Key audit matter	How our audit addressed the key audit matter
value is established using a valuation technique due to lack of availability of the market based data for that particular instrument. The valuation of the Bank's available for sale investments in level 2 and 3 categories was considered as a key audit matter given the significance of the judgment and estimates made by the management. Refer to the significant accounting policies note 3(f) to the financial statements which explains the investment valuation methodology used by the Bank and note 2(d) which explains critical judgments and estimates.	
Impairment of available for sale investments As at December 31, 2017, the Bank had available for sale investments of SR 13.2 billion. These investments comprise sukuks, mutual funds and equities, which are subject to the risk of impairment in value due to either adverse market condition and / or liquidity constraints faced by the issuers. For assessing the impairment of equities, the 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 below its cost represents objective evidence of impairment. The determination of what is significant and prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the equity instrument at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the equity instrument has been below its original cost at initial recognition. For sukuk and others, management considers them to be impaired when there is evidence of a deterioration in the financial health of the investee,	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 listed equities and/or any defaults on corporate bonds/sukuk. For equity investments, on a sample basis, we: o Assessed the appropriateness of management criteria for determining the significant or prolonged decline in the value of investments; o Evaluated the basis for determining the costs and fair value of investments; o Verified the costs and valuations; and o Considered the price fluctuation / movement during the holding period to determine if the investment meets the significant or prolong criteria. For sukuk and others, on a sample basis, we assessed the creditworthiness of counter parties and cash flows from the instruments to consider any defaults based on the terms and conditions of the issuance of these investments.

Key audit matter	How our audit addressed the key audit matter
industry or sector performance and operational and financing cash flows. We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the consolidated financial statements. Refer to note 3(h) to the financial statements for the accounting policy relating to the impairment of non-trading investments, note 2(d) for the critical accounting estimates and judgments, and notes 25 and 26 for the disclosures of credit and market risks, respectively.	

Other Information included in the Bank's 2017 Annual Report

The Board of Directors of the Bank (the "Directors") is responsible for the Bank's annual report. 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.

Responsibilities of 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 IFRS 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank'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 that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank'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 Bank 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 Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We remain jointly responsible for our audit opinion.

KPMG Al Fozan & Partners
Certified Public Accountants

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

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

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

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

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

Report on other legal and regulatory requirements

Further, in accordance 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, we report that, based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements have not been prepared and presented, in all material respects, in accordance 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.

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Riyadh
20 Jumada I, 1439 H
(February 06, 2018)

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محاسبون ومراجعون قانونيون
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KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

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

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31

	Notes	2017 SAR'000	2016 SAR'000
ASSETS			
Cash and balances with Saudi Arabian Monetary Authority	4	7,299,371	7,105,665
Due from banks and other financial institutions	5	9,788,857	17,641,780
Investments, net	6	15,319,590	6,157,341
Financing, net	7	79,062,597	70,311,948
Property and equipment, net	8	1,876,423	1,737,818
Other assets	9	1,658,229	1,775,308
TOTAL ASSETS		115,005,067	104,729,860
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	1,352,887	2,431,804
Customers' deposits	11	89,064,751	80,612,226
Other liabilities	12	3,990,276	2,507,370
TOTAL LIABILITIES		94,407,914	85,551,400
SHAREHOLDERS' EQUITY			
Share capital	13	15,000,000	15,000,000
Statutory reserve	14	2,259,457	1,756,618
Fair value reserve for available for sale investments		340,155	68,141
Other reserves		16,484	11,592
Retained earnings		1,896,529	1,666,469
Proposed dividend	21	1,191,964	787,048
Treasury shares	15	(107,436)	(111,408)
TOTAL SHAREHOLDERS' EQUITY		20,597,153	19,178,460
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		115,005,067	104,729,860

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31

	Notes	2017 SAR'000	2016 SAR'000
Income from investments and financing	17	4,254,739	3,485,894
Return on time investments	17	(761,715)	(833,797)
Income from investments and financing, net	17	3,493,024	2,652,097
Fees from banking services, net	18	676,436	514,461
Exchange income, net		152,857	120,560
Gain/ (loss) from FVSI financial instruments, net		4,553	(1,243)
Gain on sale of available for sale investments, net		20,241	20,945
Dividend income		22,426	19,737
Other operating income		3,419	1,244
Total operating income		4,372,956	3,327,801
Salaries and employee related expenses	19	876,009	755,347
Rent and premises related expenses		148,563	144,621
Depreciation and amortization	8	199,601	163,920
Other general and administrative expenses		520,560	435,910
Charge for impairment of financing	7.1	558,482	195,154
Charge for impairment of other financial assets		52,918	117,657
Total operating expenses		2,356,133	1,812,609
Net operating income		2,016,823	1,515,192
Share of loss from associate and joint venture	6.3, 6.4	(5,466)	(12,921)
Net income for the year		2,011,357	1,502,271
Basic and diluted earnings per share (SAR)	20	1.35	1.01

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31

	2017	2016
	SAR'000	SAR'000
Net income for the year	**2,011,357**	1,502,271
Other comprehensive income that cannot be reclassified to consolidated statement of income:		
Actuarial loss on re-measurement of employees benefit obligations	**(9,381)**	-
Other comprehensive income to be reclassified to consolidated statement of income in subsequent years:		
Available for sale financial assets:		
Net change in fair value	**263,758**	(18,095)
Net amount transferred to consolidated statements of income	**8,256**	96,713
Total comprehensive income for the year	**2,273,990**	1,580,889

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31

2017 (SAR '000)	Notes	Share capital	Statutory reserve	Fair value reserve for available for sale investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the year		**15,000,000**	**1,756,618**	**68,141**	**11,592**	**1,666,469**	**787,048**	**(111,408)**	**19,178,460**
Net income for the year		-	-	-	-	2,011,357	-	-	2,011,357
Net change in fair value of available for sale investments		-	-	263,758	-	-	-	-	263,758
Net amount realized on available for sale investments		-	-	8,256	-	-	-	-	8,256
Actuarial loss on re-measurement of employees benefit obligations		-	-	-	-	(9,381)	-	-	(9,381)
Total comprehensive income		-	-	272,014	-	2,001,976	-	-	2,273,990
Transfer to statutory reserve	14	-	502,839	-	-	(502,839)	-	-	-
Zakat for current year		-	-	-	-	(62,090)	-	-	(62,090)
Zakat for prior year		-	-	-	-		(42,070)	-	(42,070)
Proposed dividend	21	-	-	-	-	(1,191,964)	1,191,964	-	-
Final dividend paid for 2016		-	-	-	-	-	(744,978)	-	(744,978)
Employee share based plans reserve and others	15	-	-	-	4,892	(15,023)	-	-	(10,131)
Net change in treasury shares	15	-	-	-	-	-	-	3,972	3,972
Balance at the end of the year		**15,000,000**	**2,259,457**	**340,155**	**16,484**	**1,896,529**	**1,191,964**	**(107,436)**	**20,597,153**

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31

2016 (SAR '000)	Notes	Share capital	Statutory reserve	Fair value reserve for available for sale investments	Other reserves	Retained earnings	Proposed dividend	Treasury shares	Total
Balance at the beginning of the year		15,000,000	1,381,050	(10,477)	36,450	1,312,702	787,057	(154,621)	18,352,161
Net income for the year		-	-	-	-	1,502,271	-	-	1,502,271
Net change in fair value of available for sale investments		-	-	(18,095)	-	-	-	-	(18,095)
Net amount realized on available for sale investments		-	-	96,713	-	-		-	96,713
Total comprehensive income				78,618		1,502,271	-	-	1,580,889
Transfer to statutory reserve	14		375,568	-	-	(375,568)	-	-	-
Proposed dividend	21	-	-	-	-	(787,048)	787,048	-	-
Final dividend paid for 2015		-	-	-		-	(787,057)	-	(787,057)
Employee share based plans reserve		-	-	-	(24,858)	14,112		-	(10,746)
Net change in treasury shares	15	-	-	-		-	-	43,213	43,213
Balance at the end of the year		15,000,000	1,756,618	68,141	11,592	1,666,469	787,048	(111,408)	19,178,460

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

ALINMA BANK
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31

	Notes	2017 SAR' 000	2016 SAR' 000
OPERATING ACTIVITIES			
Net income for the year		**2,011,357**	1,502,271
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	**8**	**199,601**	163,920
Loss on disposal of property and equipment, net		**228**	940
Unrealised loss from FVSI financial instruments, net		**6,223**	11,873
Dividend income		**(22,426)**	(19,737)
Charge for impairment of financing, net	**7.1**	**558,482**	195,154
Charge for impairment of other financial assets		**52,918**	117,657
Employees share based plans reserve	**32**	**1,444**	3,711
Share of loss from associate and joint ventures	**6.3,6.4**	**5,466**	12,921
		2,813,293	1,988,710
Net (increase)/decrease in operating assets:			
Statutory deposit with SAMA		**(522,776)**	(1,038,768)
Due from banks and other financial institutions with original maturity of more than three months		**3,516,130**	2,776,711
Investments		**(8,930,422)**	252,192
Financing		**(9,309,133)**	(13,501,525)
Other assets		**91,133**	(382,070)
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**(1,078,917)**	167,716
Customers' deposits		**8,452,525**	14,917,702
Other liabilities		**1,403,833**	93,613
Net cash (used in)/ from operating activities		**(3,564,334)**	5,274,281
INVESTING ACTIVITIES			
Purchase of property and equipment	**8**	**(338,434)**	(273,729)
Proceeds from disposal of property and equipment		**-**	55
Dividends received		**23,953**	18,210
Net cash used in investing activities		**(314,481)**	(255,464)
FINANCING ACTIVITIES			
Proceeds from employee share scheme		**-**	28,756
Dividend and zakat paid		**(787,048)**	(787,057)
Net cash used in financing activities		**(787,048)**	(758,301)
Net (decrease) / increase in cash and cash equivalents		**(4,665,863)**	4,260,516
Cash and cash equivalents at beginning of the year		**15,368,063**	11,107,547
Cash and cash equivalents at end of the year	**22**	**10,702,200**	15,368,063
Income received from investments and financing		**3,995,808**	3,140,466
Return paid on time investments		**905,022**	680,654
Supplemental non-cash information:			
Net changes in fair value of available for sale investments		**263,758**	(18,095)

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

1. General

a) Incorporation

Alinma Bank, a Saudi Joint Stock Company, was formed and licensed pursuant to Royal Decree No. M/15 dated 28 Safar 1427H (corresponding to March 28, 2006), in accordance with the Council of Ministers' Resolution No. 42 dated 27 Safar 1427H (corresponding to March 27, 2006). It operates under Ministerial Resolution No.173 and Commercial Registration No.1010250808 both dated 21 Jumada I, 1429 (corresponding to May 26, 2008) and provides banking services through 85 branches (2016: 76) in the Kingdom of Saudi Arabia. The address of the Bank's head office is as follows:

Alinma Bank
Head Office
King Fahad Road
P.O. Box 66674
Riyadh 11586
Kingdom of Saudi Arabia

The consolidated financial statements comprise the financial statements of Alinma Bank and its following subsidiaries (the Bank) which are registered in KSA:

Subsidiary	Bank ownership	Establishment date	Main Activities
Alinma Investment Company	100%	7 Jumada II 1430H (corresponding to May 31, 2009)	Asset management, custodianship, advisory, underwriting and brokerage services
Al-Tanweer Real Estate Company	100%	24 Sha'aban 1430H (corresponding to August 15, 2009)	Formed principally to hold legal title of properties financed by the Bank.
Alinma Cooperative Insurance Agency	100%	29 Rabi Al Awaal 1435H (corresponding to January 30, 2014)	Insurance agent for Alinma Tokio Marine Company (an associate company)

The Bank provides a full range of banking and investment services through products and instruments that are in accordance with Shariah, it's Articles of Association and within the provisions of laws and regulations applicable to banks in the Kingdom of Saudi Arabia.

b) Shariah Board

The Bank has established a Shariah Board in accordance with its commitment to comply with Islamic Shariah Laws. Shariah Board ascertains that all the Bank's activities are subject to its review and approval.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Bank have been prepared;

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

ii) in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia, 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.

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of the financial instruments held at fair value through statement of income ("FVSI"), available for sale (AFS) investments and employees share based plans.

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

c) Functional and presentation currency

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

d) Critical accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Such judgments, 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 judgments are valuation of investments (3f), impairment of financial assets (3h), employee end of service benefits (3s), assessment of control over investees (3v) and zakat (3t).

e) Going concern

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

3. Summary of significant accounting policies

The accounting policies adopted are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2016, except for change in accounting policies as explained in 3(i) and 3(ii) below:

i) Zakat

The Bank amended its accounting policy and has started to accrue zakat on a quarterly basis through a charge to retained earnings in accordance with SAMA guidance on zakat and income tax issued during the year. Previously, zakat was being deducted from dividend payment to the shareholders. The above change in accounting policy did not have material impact on the consolidated financial statements for any of the year presented, and therefore, comparative figures have not been restated.

ii) Amendments to existing standards

Standards and amendments	Effective date	Brief description of changes
Amendments to IAS 7, Statement of cash flows in disclosure 2017 initiative	1 January 2017	These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The above amendments had no material impact on the consolidated financial statements other than certain additional disclosures.

The Bank has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance by banks for the accounting years beginning on or after January 1, 2018 (note 36).

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

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Alinma Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of Alinma Bank.

Subsidiaries are the entities that are controlled by Alinma Bank. Alinma Bank controls an entity when, it has power over the investee entity, it is exposed, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity.

When the Bank has less than a majority of the voting or similar rights of an investee entity, it considers relevant facts and circumstances in assessing whether it has power over the entity, including:

- The contractual arrangement with the other voters of the investee entity
- Rights arising from other contractual arrangements
- Bank's current and potential voting rights granted by equity instruments such as shares

The Bank re-assesses whether or not it controls an investee entity if facts and circumstances indicate that there are changes to one or more elements of control.

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

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies adopted by the subsidiaries are consistent with that of Bank's accounting policies. Adjustments, if any, are made to the financial statements of the subsidiaries to align with the Bank's financial statements.

Since the subsidiaries are fully owned by the Bank, there is no non-controlling interest to be disclosed. The functional currency of all subsidiaries is Saudi Arabian Riyal ("SAR").

Inter-group balances and any income and expenses arising from inter-group transactions, are eliminated in preparing these consolidated financial statements.

b) Trade date accounting

All regular way purchases and sales of financial assets are initially recognized and derecognized on the trade date (i.e. the date on which the Bank becomes a party to the contractual provision of the instrument). Regular way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place.

All other financial assets and liabilities are also initially recognized on the trade date at which the Bank becomes a party to the contractual provision of the instrument.

c) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Realized and unrealized gains or losses on exchange are recognized in the consolidated statement of income.

d) Offsetting

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

Income and expenses are not offset in the consolidated statement of income unless required by any accounting standard.

e) Revenue / expenses recognition

Income from investments and financing

Revenue and expenses related to profit bearing financial instruments are recognized in the consolidated statement of income using effective yield. The effective yield is the rate that exactly discounts the estimated future cash flows through the expected life (or where appropriate, a short period) of the financial asset or liability to its carrying amount. When calculating the effective yield the Bank estimates future cash flows considering all contractual terms including all fees, transaction costs, discounts that are an integral part of the effective yield but does not include the future financing losses. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial asset or liability.

The carrying amount of the financial asset or liability is adjusted if the Bank revises its estimates of payments or receipts. The change in carrying amount is recorded as income/expense.

Exchange income/loss

Exchange income/loss is recognized when earned/incurred.

Fees from banking services, net

Fees from banking services that are not an integral part of the effective yield calculation on the financial assets are recognized when the related service is provided. In all other cases, the fee is recognized as part of the effective yield on financial assets. Commitment fee is recognized over the commitment period..

Fees and commission expense relate mainly to transaction and service fees, and are expensed as the transaction is completed or the services are received.

Dividend income

Dividend income is recognized when the right to receive income is established. Dividends from FVSI investments are reflected as a component of income from FVSI financial instruments, net.

Income / (loss) from FVSI financial instruments, net

Net income / (loss) from FVSI financial instruments relates to financial assets designated as FVSI and include all realized and unrealized fair value changes, profit, dividends and foreign exchange differences.

f) Investments

All investment securities are initially recognized at fair value and are subsequently accounted for depending on their classification as either held as FVSI, Held to maturity, Available for sale or other investments held at amortized cost.

Except for investments held as FVSI, incremental direct transaction cost is also added to the fair value of investment upon initial recognition. Premiums are amortized and discounts accreted using the effective yield basis and charged to consolidated statement of income.

For securities traded in organized 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. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

Held as FVSI

Investments in this category are classified as either investment held for trading or those designated as FVSI on initial recognition. Investments classified as trading are acquired principally for the purpose of selling in short term.

Investments at FVSI are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are recognized in the consolidated statement of income for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVSI investments and are expensed through consolidated statement of income. Dividend income on financial assets held as FVSI is reflected as "Income from FVSI financial instruments, net" in the consolidated statement of income.

Available for sale

These are investments neither classified as held to maturity nor designated as FVSI and are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity, changes in profit rates or changes in equity prices. Available for sale investments are subsequently measured at fair value. Unrealized gain or loss arising from a change in its fair value is recognized in other comprehensive income (OCI). On de-recognition, any cumulative gain or loss previously recognized in OCI is charged to income in the consolidated statement of income.

Investments held at amortized cost

These are commodity Murabahas held at amortized cost. These are initially recognized at cost, including associated acquisition charges representing the fair value of amounts paid. Subsequently, these are measured at amortized cost net of impairment, if any.

Held to Maturity

Investments having fixed or determinable payments and fixed maturity and the Bank has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. On de-recognition, any gain or loss is charged to income in the consolidated statement of income.

Investments in associates and Joint ventures

An associate is an entity where the Bank has significant influence (but not control) over its financial and operating policies and which is neither a subsidiary nor a joint venture. Investments in associates are accounted for under the equity method whereby investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Bank's share of net assets in the associate, less impairment in the value of investments if any.

The Bank's share of its associate's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of movements in other comprehensive income is recognized in reserves.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables (if applicable), the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

A joint venture is a joint arrangement whereby the Bank has a joint control and therefore, rights to the net assets of the entity. Investment in joint ventures is accounted for under equity method.

g) Financing

Financing assets are originated or acquired by the Bank with fixed or determinable payments. These are recognized upon actual disbursements. Financing assets are derecognized upon repayment, or when sold or written off, or upon transfer of substantially all risk and rewards of ownership.

All financing assets are initially measured at fair value including any incremental associated acquisition charges. Subsequently these are measured at amortized cost less impairment (if any).

Financing primarily includes Murabaha, Ijarah, Musharaka and Bei Ajel products. A brief description of these products is as follows:

Murabaha: is an agreement whereby the Bank sells to a customer certain commodity or an asset, which the Bank has initially purchased. The selling price comprises of cost plus an agreed profit margin.

Ijarah: is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset according to the customer (lessee) request, based on his promise to lease the asset for an agreed rent over a specific period.

Ijarah could conclude either by transferring the ownership of the leased asset to the lessee at an agreed amount or by termination of lease and re-possession of underlying asset.

Musharaka: is an agreement between the Bank and the customer to contribute to a project, investment enterprise or property and concludes by transferring the full ownership of the underlying investment to the customer. The profit or loss is shared as per the terms of the agreement.

Bei Ajel: is an agreement whereby the Bank sells on a deferred payment basis, to a customer certain commodity or an asset on a negotiated price.

h) Impairment of financial assets

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

Impairment of financial assets held at amortized cost

A specific provision for losses due to impairment of a financing or any other financial asset held at amortized cost is recognized if there is objective evidence that the Bank will not be able to collect all amounts as they fall 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 future cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate.

In addition to a specific provision for losses, an additional portfolio provision for collective impairment is made on a portfolio basis for losses where there is objective evidence that unidentified losses exist at the reporting date. The provision is estimated based on various factors including obligor's credit rating, probability of default, loss given default, structural weaknesses and /or deterioration in cash flows.

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

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

Impairment of available for sale financial assets

For equity investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. If such evidence exists, an impairment loss is recorded in consolidated statement of income. The impairment loss cannot be reversed through consolidated statement of income as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in equity. On de-recognition, any gain or loss previously recognized in equity is transferred to consolidated statement of income for the year.

For sukuk and like instruments having fixed or determinable maturities, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

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

i) Property and equipment

Property and equipment are measured at cost and presented net of accumulated depreciation / amortization and impairment loss, if any. Land is not depreciated. The cost of other property and equipment is depreciated and amortized on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Furniture, equipment (including intangibles)	5-10 years
Leasehold improvements	the shorter of lease period or 10 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Depreciation is charged from the month of addition and up till the month preceding disposal.

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

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

j) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate properties in settlement of due financing. Such properties are considered as assets held for sale and are initially stated at the lower of net realizable value of due financing and the current fair value of the related properties, less any costs to sell. No depreciation is charged on such properties.

Subsequent to initial recognition, any write down to fair value, less costs to sell, is charged to the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized in the consolidated statement of income. Gains or losses on disposal are recognized in the consolidated statement of income.

k) Financial liabilities

All customer deposits and amounts due to banks and other financial institutions are initially recognized at fair value.

Subsequently, all profit-bearing financial liabilities are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and charged to consolidated statement of income.

l) Financial guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of letter of credit, guarantees, standby letter of credits and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is recognized as "charge for impairment of financing", in the consolidated statement of income.

The premium received is recognised in the consolidated statement of income under "Fees from banking services, net" on a straight line basis over the life of the guarantee.

m) Provisions

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

n) Accounting for Ijarah (leases)

Where the Bank is the lessor

When assets are leased under Ijarah, the present value of the lease payments is recognized as a receivable and disclosed under "Financing". Lease income is recognized over the term of the lease on net investment basis, using the effective yield method, which reflects a constant periodic rate of return.

Where the Bank is the lessee

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 additional payment required to be made is recognized as an expense in the period in which termination takes place.

o) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" are defined as amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with an original maturity of ninety days or less from the date of acquisition.

p) De-recognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when contractual rights to receive the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition.

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

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

q) Short term employee benefits

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

r) Share based payments

The Bank offers its eligible employees following share based plan (the "Plan"). Brief description of the Plan as approved by SAMA is as follows:

Employee Share Grant Scheme (ESGS)
Under the terms of ESGS, eligible employees are granted shares with a vesting period of 3 to 5 years. At the maturity of the vesting period, the Bank delivers the underlying allotted shares to the employee.

The service cost is measured by reference to the fair value of the shares in the scheme at the grant date. The management is of the view that the fair value of the shares at grant date approximates its market value.

The cost of the schemes is recognized over the period during which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date'). The cumulative expense recognized for the schemes at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a reporting period represents the movement in cumulative expense recognized as at the beginning and end of that period.

s) End of service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation in accordance with Saudi Arabian Labor laws. These are included in other liabilities in the consolidated statement of financial position.

t) Zakat

Zakat is calculated in accordance with the Zakat rules and regulations applicable in the Kingdom of Saudi Arabia. Due accruals are made on a quarterly basis through a charge to retained earnings. The Bank, being a Saudi Company, is subject to zakat only.

u) Treasury Shares

These are recorded at cost and presented as a deduction from the equity as adjusted for any transaction cost, dividends and gains or losses on sale of such shares. Subsequent to their acquisition, these are carried at the amount equal to consideration paid.

v) Investment management services

The Bank provides investment management services to its customers, through its subsidiary which includes management of certain mutual funds. Determining whether the Bank controls such a mutual fund usually depends on the assessment of the aggregate economic interests of the Bank in the fund (comprising its investments, any carried profit and expected management fees) and the investor’s rights to remove the Fund Manager.

As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. Fee earned are disclosed in consolidated statement of income. The Bank’s share of investments is included under available for sale investments in the consolidated statement of financial position.

4. Cash and balances with Saudi Arabian Monetary Authority

	2017 SAR'000	2016 SAR'000
Cash in hand	**1,902,511**	1,933,052
Statutory deposit	**4,945,767**	4,422,991
Cash management account with SAMA	**371,000**	643,000
Current accounts	**249**	1,969
Others	**79,844**	104,653
Total	**7,299,371**	7,105,665

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 customers' deposits as calculated at the end of each month. The statutory deposit is not available to finance the Bank's day to day operations and therefore does not form part of cash and cash equivalents.

5. Due from banks and other financial institutions

	Notes	2017 SAR'000	2016 SAR'000
Current accounts		**288,368**	372,459
Murabaha and Wakala with banks	**5.1**	**9,500,489**	17,269,321
Total		**9,788,857**	17,641,780

5.1 These are investment grade exposures in the range of "substantially credit risk free to very good credit risk quality" based on external credit ratings.

6. Investments, net

	Notes	2017 SAR'000	2016 SAR'000
Murabahas with SAMA (at amortized cost)		**1,906,817**	2,906,726
Available for sale investments	**6.1**	**13,243,386**	3,084,561
Held as FVSI investments	**6.2**	**77,045**	68,246
Investment in an associate	**6.3**	**78,429**	81,029
Investment in a joint venture	**6.4**	**13,913**	16,779
Total		**15,319,590**	6,157,341

6.1 Available for sale investments

	2017 SAR'000	2016 SAR'000
Sukuk	**11,234,219**	2,204,475
Equities	**112,095**	168,337
Others	**1,897,072**	711,749
Total	**13,243,386**	3,084,561

The above investments are mainly in quoted securities and include investment amounting to SAR 716 million (2016: SAR 226 million) in funds operating outside the Kingdom of Saudi Arabia. During the year, the Bank recorded an impairment of SAR 28.5 million (2016: SAR 118 million) against certain equity investments under "charge for impairment of other financial assets".

6.2 Held as FVSI investment

These are held for trading investments mainly in quoted equities of domestic market.

6.3 Investment in an associate

Investment in an associate represents the Bank's share of investment of 28.75%, (2016 : 28.75%) in Alinma Tokio Marine Company (a cooperative insurance company). The company has a paid up share capital of SAR 300 million (2016: 450 million). It has been established under Commercial Registration No.1010342537 dated 28 Rajab 1433H (corresponding to June 18, 2012).

	2017 SAR'000	2016 SAR'000
Opening balance	**81,029**	87,629
Share of loss for the year	**(2,600)**	(6,600)
	78,429	81,029

The fair value of the above investment based on quoted value as at December 31, 2017 is SAR 188 million (2016: SAR 244 million).

The table below provides summarized financial information for the associate based on their latest available financial statements.

	2017 SAR 000' (un-audited)	2016 SAR 000' (Audited)
Current assets	**668,812**	644,545
Total assets	**719,839**	696,135
Current liabilities	**436,490**	401,698
Total liabilities	**440,702**	404,481
Total equity	**279,137**	291,654
Total income	**120,675**	145,290
Total expenses	**133,192**	166,562

6.4 Investment in a joint venture

The Bank had invested SAR 25 million (50%) in ERSAL Financial Remittance Company (a joint venture between Alinma Bank and Saudi Post). The company was established under Commercial Registration No.1010431244 dated 21 Jumada I 1436H (corresponding to March 12, 2015) with a paid-up capital of SAR 50 million. The Bank's share of loss for the year is SAR 2.9 million (2016: SAR 6.3 million).

6.5 Analysis of investments by type

	2017 SAR'000	2016 SAR'000
Fixed-rate investments	**9,174,083**	2,906,726
Floating-rate investments	**3,966,953**	2,204,475
Equities	**183,786**	229,428
Others	**1,994,768**	816,712
Total	**15,319,590**	6,157,341

6.6 Analysis of investments by counter-parties

	2017 SAR'000	2016 SAR'000
Government and quasi government	**10,038,117**	2,906,726
Banks and Other financial institutions	**531,315**	43,909
Corporate	**4,750,158**	3,206,706
Total	**15,319,590**	6,157,341

6.7 Analysis of investments by credit quality

	2017 SAR'000	2016 SAR'000
Government and quasi government	**10,038,117**	2,906,726
Investment grade	**3,102,919**	2,204,475
Equities and others	**2,178,554**	1,046,140
Total	**15,319,590**	6,157,341

Investment grade includes exposures in the range of "substantially credit risk free to very good credit risk quality".

7. Financing, net (at amortized cost)

SAR'000

2017	**Performing**	**Non-performing**	**Total**	**Allowance for impairment**	**Net**
Retail	**14,601,023**	**398,095**	**14,999,118**	**(310,209)**	**14,688,909**
Corporate	**65,150,897**	**415,912**	**65,566,809**	**(308,914)**	**65,257,895**
Total	**79,751,920**	**814,007**	**80,565,927**	**(619,123)**	**79,946,804**
Collective provision					**(884,207)**
Financing, net					**79,062,597**

SAR'000

2016	**Performing**	**Non-performing**	**Total**	**Allowance for impairment**	**Net**
Retail	14,136,673	450,937	14,587,610	(277,067)	14,310,543
Corporate	56,575,205	94,698	56,669,903	(94,698)	56,575,205
Total	70,711,878	545,635	71,257,513	(371,765)	70,885,748
Collective provision					(573,800)
Financing, net					70,311,948

7.1 Movement in allowance for impairment of financing:

2017	Retail	Corporate	Total
			SAR'000
Balance at the beginning of the year	**277,067**	**94,698**	**371,767**
Provided during the year	**72,713**	**214,216**	**286,929**
Bad debts written off	**(717)**	**-**	**(717)**
Reversals/recoveries of amounts previously provided	**(38,854)**	**-**	**(38,854)**
Balance at the end of the year	**310,209**	**308,914**	**619,123**
Collective provision	**55,000**	**829,207**	**884,207**
Total	**365,209**	**1,138,121**	**1,503,330**

2016	Retail	Corporate	Total
			SAR'000
Balance at the beginning of the year	221,077	47,349	268,426
Provided during the year	74,226	47,349	121,575
Bad debts written off	(191)	-	(191)
Reversals/recoveries of amounts previously provided	(18,045)	-	(18,045)
Balance at the end of the year	277,067	94,698	371,765
Collective provision	51,863	521,937	573,800
Total	328,930	616,635	945,565

7.2 Credit quality of financing portfolio:

The Bank follows a robust credit evaluation process anchored on strong credit policies, extensive due diligence and credit review/approval process combined with stringent credit administration and limit monitoring.

For the purpose of the internal risk rating, the Bank has implemented the Moody's Risk Analyst Tool (MRA). The MRA Tool, which is also being used by several leading banks globally and in the Kingdom, enables the Bank to assign internal risk ratings to individual obligors. The internal risk rating indicates the one year probability of credit default (PDs).

The Credit Risk Policy defines a 10 point rating scale with 1 (best) through 10 (worst). As part of the Bank's financing policy, only obligors with risk rating of 1 to 6 are considered as eligible for financing. The Bank has reviewed and validated the MRA rating system; and as an outcome, calibrated the score range with rating grades and associated PDs.

Credit risks of the retail portfolio is estimated based on personal credit worthiness scores, derived from an automated credit scoring platform and is not subject to the MRA tool rating.

7.2.1 Neither past due nor impaired:

Bank's internal risk rating scale	Credit risk quality rating definition	**2017 SAR'000**	2016 SAR'000
1 - 4	Investment Grade	**22,116,699**	20,794,296
5 - 6	Below Investment Grade	**33,173,223**	30,834,940
7	Watch list	**376,348**	123,104
		55,666,270	51,752,340
	Unrated exposure (Retail)	**13,396,234**	12,933,369
Total		**69,062,504**	64,685,709

Rating Scale (1 – 4) represents:	Substantially credit risk free, Exceptionally strong credit quality, Excellent credit risk quality, Very good credit risk quality.
Rating Scale (5 – 6) represents:	Good to Satisfactory credit quality.
Rating Scale (7) represents:	Watch list category.

7.2.2 Aging of financing (Past due but not impaired):

			SAR'000
2017	**Retail**	**Corporate**	**Total**
From 1 day to 30 days	**936,823**	**7,834,412**	**8,771,235**
From 31 days to 90 days	**267,966**	**1,083,295**	**1,351,261**
From 91 days to 180 days	**-**	**191,609**	**191,609**
More than 180 days	**-**	**375,311**	**375,311**
Total	**1,204,789**	**9,484,627**	**10,689,416**

			SAR'000
2016	**Retail**	**Corporate**	**Total**
From 1 day to 30 days	1,049,125	4,536,786	5,585,911
From 31 days to 90 days	154,179	135,089	289,268
From 91 days to 180 days	-	-	-
More than 180 days	-	150,990	150,990
Total	1,203,304	4,822,865	6,026,169

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7.3 Economic sectors risk concentration for financing and allowance for impairment are as follows:

SAR'000

2017	Performing	Non-performing	Allowance for impairment	Financing, net
Government and quasi government	**6,265,258**	**-**	**-**	**6,265,258**
Manufacturing	**8,998,871**	**-**	**-**	**8,998,871**
Electricity, water, gas & health services	**1,301,411**	**-**	**-**	**1,301,411**
Building, construction and real estate	**19,815,539**	**94,698**	**(94,698)**	**19,815,539**
Services	**7,534,505**	**54,177**	**(8,745)**	**7,579,937**
Mining	**490,945**	**-**	**-**	**490,945**
Agriculture	**2,147,890**	**-**	**-**	**2,147,890**
Consumer financing	**14,601,024**	**398,095**	**(310,209)**	**14,688,910**
Transportation and communication	**4,597,817**	**-**	**-**	**4,597,817**
Commerce	**9,998,331**	**267,037**	**(205,471)**	**10,059,897**
Others	**4,000,329**	**-**	**-**	**4,000,329**
	79,751,920	**814,007**	**(619,123)**	**79,946,804**
Collective provision				**(884,207)**
Financing, net				**79,062,597**

SAR'000

2016	Performing	Non-performing	Allowance for impairment	Financing, net
Government and quasi government	6,606,033	-	-	6,606,033
Manufacturing	9,649,731	-	-	9,649,731
Electricity, water, gas & health services	836,591	-	-	836,591
Building, construction and real estate	15,561,844	94,698	(94,698)	15,561,844
Services	5,288,365	-	-	5,288,365
Mining	491,094	-	-	491,094
Agriculture	1,301,246	-	-	1,301,246
Consumer financing	14,136,673	450,937	(277,067)	14,310,543
Transportation and communication	1,637,211			1,637,211
Commerce	11,032,325	-	-	11,032,325
Others	4,170,765	-	-	4,170,765
	70,711,878	545,635	(371,765)	70,885,748
Collective provision				(573,800)
Financing, net				70,311,948

7.4 Collateral

The Bank, in the ordinary course of business holds collaterals as security to mitigate credit risk. These collaterals mostly include customers' deposits, financial guarantees, equities, real estate and other fixed assets. The Bank held collaterals of SAR 126,766 million (2016: SAR 99,314 million) against its secured financing.

7.5 Financing includes Ijarah as follows:

	2017 SAR'000	2016 SAR'000
Less than 1 year	**2,736,786**	1,493,611
1 to 5 years	**16,469,588**	12,469,605
Over 5 years	**22,886,112**	18,789,715
Gross receivables from Ijarah	**42,092,486**	32,752,931
Unearned future finance income on Ijarah	**(11,385,052)**	(8,567,287)
Specific provision	**(33,784)**	(24,041)
Net receivables from Ijarah	**30,673,650**	24,161,603

8. Property and equipment, net

				SAR'000	
	Land and buildings	**Leasehold improvements**	**Furniture and equipment**	**Total 2017**	Total 2016
Cost:					
Balance at beginning of the year	1,062,340	380,733	1,336,502	2,779,575	2,509,877
Additions	172,152	20,051	146,231	338,434	273,729
Disposals	-	(13,303)	(1,158)	(14,461)	(4,031)
Balance at end of the year	**1,234,492**	**387,481**	**1,481,575**	**3,103,548**	2,779,575
Accumulated depreciation:					
Balance at beginning of the year	54,757	176,129	810,871	1,041,757	880,873
Charge for the year	14,446	38,649	146,506	199,601	163,920
Disposals	-	(13,142)	(1,091)	(14,233)	(3,036)
Balance at end of the year	**69,203**	**201,636**	**956,286**	**1,227,125**	1,041,757
Net book value-as at December 31, 2017	**1,165,289**	**185,845**	**525,289**	**1,876,423**	
Net book value-as at December 31, 2016	1,007,583	204,604	525,631		1,737,818

Property and equipment includes work in progress as at December 31, 2017 amounting to SAR 216 million (2016: SAR 178 million).

Furniture and equipment includes information technology-related assets as follows:

Information technology related assets:	**Tangible**	**Intangible SAR'000**	**Total**
Cost	587,104	740,934	1,328,038
Accumulated depreciation/amortization	(344,869)	(472,155)	(817,024)
Net book value-as at December 31, 2017	**242,235**	**268,779**	**511,014**
Net book value-as at December 31, 2016	214,259	280,899	495,158

9. Other assets

	Note	2017 SAR'000	2016 SAR'000
Prepaid rental		**40,196**	40,584
Advances to suppliers		**9,503**	8,827
Other real estate	**9.1**	**436,780**	389,229
Other prepayments		**51,855**	49,105
Others		**1,119,895**	1,287,563
Total		**1,658,229**	1,775,308

9.1 This represents the properties held for sale which were acquired in settlement of financing due from customers.

10. Due to banks and other financial institutions

	Note	2017 SAR'000	2016 SAR'000
Time investments from banks and other financial institutions	**10.1**	**1,269,734**	2,364,079
Others		**83,153**	67,725
Total		**1,352,887**	2,431,804

10.1 It represents Murabaha, Mudaraba and Wakala with banks.

11. Customers' deposits

i) Customers' deposits include the following:

	Note	2017 SAR'000	2016 SAR'000
Demand		**45,316,467**	43,560,127
Customers' time investments	**11.1**	**42,987,385**	36,434,224
Others	**11.2**	**760,899**	617,875
Total		**89,064,751**	80,612,226

11.1 It represents Murabaha and Mudaraba with customers.

11.2 Others represent cash margins for letters of credit and guarantees.

ii) The above includes foreign currency deposits as follows:

	2017 SAR'000	2016 SAR'000
Demand	**1,057,621**	2,971,917
Customers' time investments	**4,222,959**	271,864
Others	**17,369**	46,528
Total	**5,297,949**	3,290,309

12. Other liabilities

	2017 SAR'000	2016 SAR'000
Accrued expenses	**224,485**	162,321
Outward drafts payable	**1,888,222**	923,305
Accounts payable	**385,210**	167,551
Advance rentals	**882,038**	813,344
Employees End of Service liability	**219,553**	123,906
Others	**390,768**	316,943
Total	**3,990,276**	2,507,370

13. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares (2016: 1,500 million shares) of SAR 10 each.

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

	2017	2016
	Percentage	
Public Pension Agency ("PPA")	10.89	10.81
Public Investment Fund ("PIF")	10.00	10.00
General Organization for Social Insurance ("GOSI")	5.10	5.10
General public and others	74.01	74.09
Total	100.00	100.00

14. Statutory reserve

In accordance with the Banking Control Law in the Kingdom of Saudi Arabia, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 502.9 million (2016: SAR 375.6 million) has been transferred from the net income for the year to statutory reserve. The statutory reserve is not available for distribution.

15. Treasury shares and other reserves

Treasury shares have been acquired, after due approvals, for discharging the obligations of employees share based plans.

During the year an amount of SAR 15 million (2016: Nil) was appropriated from retained earnings to other reserves as per approval of the General Assembly held on April 06, 2017. Such reserves will be utilized towards discharging the Bank's corporate social responsibilities.

16. Commitments and contingencies

a) Legal proceedings

As at December 31, 2017 and 2016, there were no significant legal proceedings outstanding against the Bank.

b) Capital commitments

As at December 31, 2017, the Bank had capital commitments of SAR 145.1 million (2016: SAR 135.6 million) relating to acquisition of property and equipment.

c) Credit related commitments and contingencies

Credit related commitments and contingencies comprise letters of guarantee, letters of credit, acceptances and unused irrevocable commitments to extend financing facilities. The primary purpose of these instruments is to ensure that funds are available to customers as required. Letters of 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 investments and financing. 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 invoke such commitments.

Documentary letters of credit are generally collaterised by the underlying assets to which they relate, and therefore have significantly lower 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 approved credit, principally in the form of financing, guarantees and letters of credit. With respect to these commitments, the Bank is exposed to an insignificant potential credit risk 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 of the Bank's commitments and contingencies is as follows:

					SAR'000
2017	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**1,730,135**	**802,337**	**490,385**	**223**	**3,023,080**
Letters of guarantee	**2,781,836**	**2,152,009**	**2,545,021**	**68,986**	**7,547,852**
Acceptances	**159,762**	**13,910**	**-**	**-**	**173,672**
Irrevocable commitments to extend credit	**-**	**488,627**	**-**	**-**	**488,627**
Total	**4,671,733**	**3,456,883**	**3,035,406**	**69,209**	**11,233,231**

2016	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
					SAR'000
Letters of credit	867,679	1,044,056	218,547	-	2,130,282
Letters of guarantee	568,489	1,783,492	5,280,948	53,257	7,686,186
Acceptances	193,654	23,460	-	-	217,114
Irrevocable commitments to extend credit	-	746,037	-	-	746,037
Total	1,629,822	3,597,045	5,499,495	53,257	10,779,619

ii) The analysis of commitments and contingencies by counter-party is as follows:

	2017 SAR'000	2016 SAR'000
Government and quasi government	**720**	9,746
Corporate	**9,590,562**	9,508,041
Banks and other financial institutions	**1,641,949**	1,261,832
Total	**11,233,231**	10,779,619

iii) The outstanding unused portion of commitments as at December 31, 2017, which can be revoked unilaterally at any time by the Bank, amounts to SAR 26,717 million (2016: SAR 32,431 million).

d) Operating lease commitments

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

	2017 SAR'000	2016 SAR'000
Less than one year	**5,437**	6,005
One year to five years	**35,263**	128,658
Over five years	**186,847**	250,566
Total	**227,547**	385,229

17. Income from investments and financing, net

	2017 SAR'000	2016 SAR'000
Income from investments and financing:		
Investments (Murabaha with SAMA)	**41,099**	40,446
Investments in Sukuk	**177,011**	58,848
Murabaha with banks and other financial institutions	**183,325**	268,226
Financing	**3,853,304**	3,118,374
Total	**4,254,739**	3,485,894
Return on time investments:		
Customers' time investments	**(729,791)**	(803,188)
Time investments from banks and other financial institutions	**(31,924)**	(30,609)
Total	**(761,715)**	(833,797)
	3,493,024	2,652,097

18. Fees from banking services, net

	2017 SAR'000	2016 SAR'000
Income on:		
Trade finance services	**94,517**	97,934
Card services	**385,729**	311,715
Fund management and other banking services	**395,381**	261,081
	875,627	670,730
Expense on:		
Card services	**(192,891)**	(145,569)
Other fees	**(6,300)**	(10,700)
	676,436	514,461

19. Salaries and employee related expenses

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices.

SAR'000

Categories of employees	Number of employees		Fixed compensation		Variable Compensation paid					
					Cash		Shares		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Senior executives requiring SAMA no objections	**15**	16	**31,060**	31,113	**11,076**	11,453	**1,662**	9,649	**12,738**	21,102
Employees engaged in risk taking activities	**552**	517	**191,913**	171,922	**36,233**	31,074	**871**	13,665	**37,104**	44,739
Employees engaged in control functions	**149**	145	**58,249**	52,299	**9,756**	8,473	**470**	4,446	**10,226**	12,919
Other employees	**1,542**	1,478	**326,043**	304,755	**47,630**	41,517	**1,028**	14,346	**48,658**	55,863
Outsourcing employees (engaged in risk taking activities)	**-**	-	**-**	-	**-**	-				-
	2,258	2,156	**607,265**	560,089	**104,695**	92,517	**4,031**	42,106	**108,726**	134,623
Variable compensation accrued			**134,854**	103,657						
Other employee related benefits			**133,890**	91,601						
Total	**2,258**	2,156	**876,009**	755,347	**104,695**	92,517	**4,031**	42,106	**108,726**	134,623

19.1 Salient features of Compensation Policy

As an integral part of the compensation governance, the Bank follows appropriate compensation practices in line with the SAMA guidelines and Financial Stability Board (FSB) Principles/Standards. The Bank has implemented a "Compensation & Allowances" policy approved by the Board of Directors (the "Board").

The Bank has also established a Nomination and Compensation Committee. It has been mandated by the Board to review and recommend sound compensation policies for adoption by the Bank.

While developing and implementing such policies, the Bank has sought to align the same with the risks related to capital, liquidity and sustainability as well as timing of revenue streams.

The Bank has adopted fixed as well as variable compensation schemes. The variable component is aligned not only with the aforesaid risks but also with the overall performance of the Bank and the individual, and risk involved in the relevant job function. The Bank consistently evaluates its compensation policies against the industry and makes necessary revisions as and when required.

20. **Earnings per share**

Basic and diluted earnings per share are calculated by dividing the net income by the weighted average number of outstanding shares which were (Basic and diluted): 1,490 million shares at the end of the year, after accounting for treasury shares.

21. **Proposed dividend and zakat**

	2017 SAR'000	2016 SAR'000	**2017**	2016
			SAR per share	
Proposed dividend	**1,191,964**	744,978	**0.80**	0.50

The Bank has filed its Zakat returns for the years up to and including the financial year 2016 with the General Authority of Zakat and Tax ("GAZT"). The Bank has received Zakat assessment for the years 2009 to 2015 raising additional demands of SAR 1,656 million. The additional exposure is mainly on account of disallowances of certain long-term financing and leased assets owned by the Bank. The Bank has filed an appeal against the assessments for the years 2009-2011 and intends to file similar appeals for the remaining years 2012-2015in due course.

The assessment for the year 2016 is yet to be received. However, if in line with the earlier assessed years, similar disallowances are made for 2016, an additional exposure may arise, disclosure of which might affect the Bank's interests.

The estimated zakat for the year ended December 31, 2017 amounted to SAR 62 million (2016: SAR 42 million) which has been charged to retained earnings.

22. **Cash and cash equivalents**

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

	2017 SAR'000	2016 SAR'000
Cash in hand	**1,902,511**	1,933,052
Balances with SAMA excluding statutory deposit	**451,093**	749,622
Due from banks and other financial institutions maturing within three months of acquisition	**8,348,596**	12,685,389
Total	**10,702,200**	15,368,063

23. **Employee benefit obligations**

23.1 **General description**

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

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

	2017 SAR'000	2016 SAR'000
Defined benefit obligation at the beginning of the year	**129,977**	90,257
Current service cost	**81,766**	40,671
Interest cost	**7,148**	5,415
Benefits paid	**(8,719)**	(6,366)
Unrecognized actuarial loss / (gain)	**9,381**	-
Defined benefit obligation at the end of the year	**219,553**	129,977

The current service cost for the year was SAR 50.9 million (2016: 46.1 million).

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

	2017	2016
Discount rate	**5.00% p.a.**	5.50% p.a.
Expected rate of salary increase	**5.00% p.a.**	5.00% p.a.
Normal retirement age	**60 years**	60 years

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

23.4 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2017 to the discount rate (5.00%) and salary escalation rate (5.00%).

2017	**SAR 000'**		
	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	**1%**	**(25,749)**	**31,114**
Expected rate of salary increase	**1%**	**30,791**	**(25,974)**

2016	**SAR 000'**		
	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(14,338)	17,226
Expected rate of salary increase	1%	17,137	14,526

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

23.5 Expected maturity

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

December 31, 2017

Less than a year	1-2 years	2-5 years	Over 5 years	Total
18,502	**16,576**	**61,183**	**1,299,419**	**1,395,680**

December 31, 2016

Less than a year	1-2 years	2-5 years	Over 5 years	Total
12,159	13,410	58,000	1,281,795	1,365,364

The weighted average duration of the defined benefit obligation is 15.6 years.

24. Operating segments

Operating segments are identified on the basis of internal reports about activities of the Bank that are regularly reviewed by the key decision makers including CEO and the Assets and Liabilities Committee (ALCO), in order to allocate resources to the segments and to assess their performance.

The Bank's primary business is conducted in Saudi Arabia. Transactions between the operating segments are on terms as approved by the management. Majority of the segment assets and liabilities comprise operating assets and liabilities.

The Bank's reportable segments are as follows:

a) Retail banking

Financing, deposit and other products/services for individuals.

b) Corporate banking

Financing, deposit and other products and services for corporate, SME and institutional customers.

c) Treasury

Murabahas with banks, investments and treasury services.

d) Investment and brokerage

Asset Management, custodianship, advisory, underwriting and brokerage services.

Profit is charged or credited to operating segments using internally developed Fund Transfer Pricing (FTP) rates which approximate the marginal cost of funds.

Following is an analysis of the Bank's assets, liabilities, income and results by operating segments:

2017	SAR '000				
	Retail	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
Total assets	**17,703,057**	**65,936,266**	**30,638,468**	**727,276**	**115,005,067**
Total liabilities	**59,482,498**	**9,165,695**	**25,688,531**	**71,190**	**94,407,914**
Income from investments and financing	**1,556,501**	**1,696,162**	**995,373**	**6,703**	**4,254,739**
Return on time investments	**(202,166)**	**(126,505)**	**(433,044)**	**-**	**(761,715)**
Income from investments and financing, net	**1,354,335**	**1,569,657**	**562,329**	**6,703**	**3,493,024**
Fees from banking services and other income	**267,545**	**130,340**	**154,480**	**327,567**	**879,932**
Total operating income	**1,621,880**	**1,699,997**	**716,809**	**334,270**	**4,372,956**
Charge for impairment of financing	**36,997**	**521,485**	**-**	**-**	**558,482**
Charge for impairment of other financial assets	**-**	**24,420**	**28,498**	**-**	**52,918**
Depreciation and amortization	**88,855**	**73,680**	**34,304**	**2,762**	**199,601**
Other operating expenses	**874,660**	**408,847**	**182,266**	**79,359**	**1,545,132**
Total operating expenses	**1,000,512**	**1,028,432**	**245,068**	**82,121**	**2,356,133**
Net operating income	**621,368**	**671,565**	**471,741**	**252,149**	**2,016,823**
Share of loss from associate and joint venture	**-**	**-**	**(5,466)**		**(5,466)**
Net income	**621,368**	**671,565**	**466,275**	**252,149**	**2,011,357**

2016	SAR '000				
	Retail	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
Total assets	17,590,090	57,566,502	29,124,646	448,622	104,729,860
Total liabilities	50,956,498	8,181,961	26,365,168	47,773	85,551,400
Income from investments and financing	1,134,751	1,331,657	1,014,004	5,482	3,485,894
Return on time investments	(222,464)	(33,090)	(578,243)	-	(833,797)
Income from investments and financing, net	912,287	1,298,567	435,761	5,482	2,652,097
Fees from banking services and other income	223,385	142,018	130,045	180,256	675,704
Total operating income	1,135,672	1,440,585	565,806	185,738	3,327,801
Charge for impairment of financing	66,180	128,974	-	-	195,154
Charge for impairment of other financial assets	-	-	117,657	-	117,657
Depreciation and amortization	80,348	54,825	27,841	906	163,920
Other operating expenses	728,393	356,547	173,974	76,964	1,335,878
Total operating expenses	874,921	540,346	319,472	77,870	1,812,609
Net operating income	260,751	900,239	246,334	107,868	1,515,192
Share of loss from associate and joint venture	-	-	(12,921)	-	(12,921)
Net income	260,751	900,239	233,413	107,868	1,502,271

SAR '000	**December 31, 2017**				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Income from:					
-External	**869,471**	**3,047,191**	**122,024**	**334,270**	**4,372,956**
-Inter-segment	**752,409**	**(1,347,194)**	**594,785**	**-**	**-**
Total operating income	**1,621,880**	**1,699,997**	**716,809**	**334,270**	**4,372,956**

SAR '000	**December 31, 2016**				
Other information:	**Retail**	**Corporate**	**Treasury**	**Investment and brokerage**	**Total**
Income from:					
-External	757,935	2,466,825	(82,697)	185,738	3,327,801
-Inter-segment	377,737	(1,026,240)	648,503	-	-
Total operating income	1,135,672	1,440,585	565,806	185,738	3,327,801

The Bank's credit exposure by operating segments is as follows:

2017	**SAR '000**				
	Retail	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
On balance sheet assets	**14,581,166**	**64,417,318**	**29,934,216**	**717,673**	**109,650,373**
Commitments and contingencies	**-**	**11,233,231**	**-**	**-**	**11,233,231**
Total	**14,581,166**	**75,650,549**	**29,934,216**	**717,673**	**120,883,604**

2016	**SAR '000**				
	Retail	**Corporate**	**Treasury**	**Investment & brokerage**	**Total**
On balance sheet assets	14,543,457	57,074,314	28,893,691	448,621	100,960,083
Commitments and contingencies	-	10,779,619	-	-	10,779,619
Total	14,543,457	67,853,933	28,893,691	448,621	111,739,702

Credit exposure comprises the carrying value of balance sheet assets, excluding cash, property and equipment, equity investments and other assets. The credit equivalent value of commitments and contingencies are included in credit exposure.

25. Credit risk

Credit risk is the most significant risk for the Bank's business. It is defined as the risk that a counterparty may fail to meet its obligations to the Bank and, therefore, could result in a financial loss for the Bank. While credit exposures arise principally from financing and investment, there is also credit risk in off-balance sheet financial instruments, such as letters of credit/acceptances, letters of guarantee, and other forms of financial commitments.

The Bank actively manages its credit risk exposure through the establishment of Credit Risk Policies and Procedures which provide guidance, among others, on target market, risk acceptance criteria, minimum disclosure from customers, standard due diligence process, review and approval process, documentation, concentration limits, and day to day account management and problem recognition/remedial action. The Bank has a robust Credit Risk Stress Testing process, used to evaluate the potential impact of negative factors on asset quality, risk ratings, profitability and capital allocations.

To ensure proper check and balance of generating business and taking on credit risks, the Bank has an independent Risk Management Group (RMG) led by a Chief Risk Officer (CRO), tasked with the responsibility of implementing, reviewing and safeguarding the Credit and other Risk Policies.

Analysis of investments is provided in note (6). For details of the composition of financing refer note (7). For commitments and contingencies, refer note (16).

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25.1 Geographical concentration of financial assets, financial liabilities, commitments and contingencies are as follows:

2017	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
	SAR'000				
Financial assets					
Cash and balances with SAMA	7,299,371	-	-	-	7,299,371
Due from banks and other financial institutions					
Current accounts	-	11,917	179,165	97,286	288,368
Murabaha and Wakala with banks	7,016,127	1,788,115	696,247	-	9,500,489
Investments, net					
Available for sale	12,433,459	94,076	14	715,837	13,243,386
Held as FVSI	77,045	-	-	-	77,045
Other	1,999,158	-	-	-	1,999,158
Financing, net					
Retail	14,633,909	-	-	-	14,633,909
Corporate	61,977,626	-	-	2,451,062	64,428,688
Other assets	1,556,674	-	-	-	1,556,674
Total financial assets	106,993,369	1,894,108	875,426	3,264,185	113,027,088
Financial liabilities					
Due to banks and other financial institutions					
Demand	77,344	2,568	-	3,241	83,153
Time investments	977,329	25,110	-	267,295	1,269,734
Customers' deposits					
Demand	46,077,366	-	-	-	46,077,366
Customer's Time investments	42,987,385	-	-	-	42,987,385
Other liabilities	3,108,240	-	-	-	3,108,240
Total financial liabilities	93,227,664	27,678	-	270,536	93,525,878
Commitments and contingencies:					
Letters of credit	3,023,080	-	-	-	3,023,080
Letters of guarantee	7,547,852	-	-	-	7,547,852
Acceptances	173,672	-	-	-	173,672
Irrevocable commitments to extend credit	488,627	-	-	-	488,627
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	6,562,400				6,562,400

2016	SAR'000 Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	Other countries	Total
Financial assets					
Cash and balances with SAMA	7,105,665	-	-	-	7,105,665
Due from banks and other financial institutions					
Current accounts	51	18,870	81,256	272,282	372,459
Murabaha and Wakala with banks	8,018,867	8,589,854	660,600	-	17,269,321
Investments, net					
Available for sale	3,045,732	-	13,258	25,571	3,084,561
Held as FVSI	68,246	-	-	-	68,246
Held to maturity	-	-	-	-	-
Others	3,004,534	-	-	-	3,004,534
Financing, net					
Retail	14,258,680	-	-	-	14,258,680
Corporate	56,053,268	-	-	-	56,053,268
Other assets	1,676,792	-	-	-	1,676,792
Total financial assets	93,231,835	8,608,724	755,114	297,853	102,893,526
Financial liabilities					
Due to banks and other financial institutions					
Demand	29,942	36,947	-	836	67,725
Time investments	2,153,777	210,302	-	-	2,364,079
Customers' deposits					
Demand	44,178,002				44,178,002
Customer's Time investments	36,434,224	-	-	-	36,434,224
Other liabilities	1,694,026	-	-	-	1,694,026
Total financial liabilities	84,489,971	247,249	-	836	84,738,056
Commitments and contingencies					
Letters of credit	2,130,282	-	-	-	2,130,282
Letters of guarantee	7,686,186	-	-	-	7,686,186
Acceptances	217,114	-	-	-	217,114
Irrevocable commitments to extend credit	746,037	-	-	-	746,037
Maximum credit exposure (stated at credit equivalent amounts) of commitments and contingencies	6,788,482	-	-	-	6,788,482

25.2 The distribution by geographical concentration of non performing financing and allowances for impairment on financing is as follows:

2017	**SAR'000** **Kingdom of Saudi Arabia**	**Other GCC and Middle East countries**	**Europe**	**Other countries**	**Total**
Non performing financing, net	**814,007**	**-**	**-**	**-**	**814,007**
Allowances for impairment on financing	**1,503,330**	**-**	**-**	**-**	**1,503,330**

2016	Kingdom of Saudi Arabia	Other GCC and Middle East countries	Europe	Other countries	Total
	SAR'000				
Non performing financing, net	545,635	-	-	-	545,635
Allowances for impairment on financing	945,565	-	-	-	945,565

26. Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market variables such as equity prices, profit rates, foreign exchange rates, and commodity prices. The Bank classifies exposures to market risks into either trading or non-trading (or banking book).

i. Market risk – trading book

The Bank is exposed to an insignificant market risk on its trading book position of equities in local currency which is regularly marked to market and losses or gains on equity prices are taken directly into consolidated statement of income.

ii. Market risk – non trading book

Market risks on non-trading book mainly arise from profit rate movements and, to a minor extent, from currency fluctuations. The Bank also faces price risks on securities held as "available for sale".

a) Profit rate risk

It arises from changes in profit rates which will affect either the fair values or the future cash flows of the financial instruments. The Board has established profit rate gap limits which are regularly monitored by ALCO. Treasury imputes the funding costs based on the yield curve and the margins are also adjusted to account for liquidity premium based on the duration of the financing.

Following table depicts the sensitivity on the Bank's consolidated statement of income or equity due to reasonably possible changes in profit rates, with other variables held constant. The sensitivity is the effect of the assumed changes in profit rates on the net income or equity, based on profit bearing non-trading financial assets and financial liabilities as of the reporting date after taking in to account their respective maturities and re-pricing structure. Due to insignificant foreign currency exposures of profit bearing financial assets and liabilities in banking book, all the banking book exposures are monitored only in reporting currency.

2017			**Sensitivity of equity (SAR '000)**				
	Increase/decrease in basis points	**Sensitivity of net income**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	+10	**9,857**	**(195)**	**(14,154)**	**(72,549)**	**(42,310)**	**(129,208)**
	-10	**(9,857)**	**195**	**14,154**	**72,549**	**42,310**	**129208**

2016			**Sensitivity of equity (SAR '000)**				
	Increase/decrease in basis points	**Sensitivity of net income**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	+10	16,165	(855)	(16,723)	(56,265)	(7,731)	(81,574)
	-10	(16,165)	855	16,723	56,265	7,731	81,574

Yield sensitivity of assets, liabilities and off balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The Bank uses the SAIBOR for SAR and the LIBOR for USD lending as a benchmark rate for different maturities. At times when these benchmark rates are not representative of the actual transactions in the market, marginal cost of fund is provided by Treasury. The Bank charges profit rates based on the maturity of loans (longer term loans usually require a higher profit rate) based on marginal costs of funds.

The table below summarizes the Bank's exposure to profit rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

2017	**SAR'000**					
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and balances with SAMA	-	-	-	-	7,299,371	7,299,371
Due from banks and other financial institutions:						
Current accounts	-	-	-	-	288,368	288,368
Murabaha and Wakala with banks	8,060,229	391,888	1,048,372	-	-	9,500,489
Investments, net						
Available for sale	647,065	1,425,140	3,633,126	5,528,888	2,009,167	13,243,386
Held as FVSI	-	-	-	-	77,045	77,045
Others	901,650	-	1,005,167	-	92,342	1,999,159
Financing, net						
Retail	891,146	3,670,787	8,603,838	1,468,138	-	14,633,909
Corporate	22,203,499	30,782,632	9,977,669	1,464,888	-	64,428,688
Property and equipment, net	-	-	-	-	1,876,423	1,876,423
Other assets					1,658,229	1,658,229
Total assets	32,703,589	36,270,447	24,268,172	8,461,914	13,300,945	115,005,067
Liabilities & shareholders' equity						
Due to banks and other financial institutions						
Demand	-	-	-	-	83,153	83,153
Time investments	769,508	500,226	-	-	-	1,269,734
Customer deposits						
Demand	595,822	-	-	-	45,481,544	46,077,366
Customer's Time investments	29,778,887	13,123,315	85,183	-	-	42,987,385
Other liabilities	-	-	-	-	3,990,276	3,990,276
Shareholders' equity	-	-	-	-	20,597,153	20,597,153
Total liabilities & shareholders' equity	31,144,217	13,623,541	85,183	-	70,152,126	115,005,067
Yield sensitivity - On statement of financial position	1,559,372	22,646,906	24,182,989	8,461,914	(56,892,181)	
Yield sensitivity - Off statement of financial position	4,671,734	3,456,883	3,035,405	69,209	-	11,233,231
Total yield sensitivity gap	6,272,106	26,103,789	27,218,394	8,631,123		
Cumulative yield sensitivity gap	6,272,106	32,375,895	59,594,289	68,225,412		

2016	SAR'000					
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-profit bearing**	**Total**
Assets						
Cash and balances with SAMA	-	-	-	-	7,105,665	7,105,665
Due from banks and other financial institutions:						
Current accounts	-	-	-	-	372,459	372,459
Murabaha and Wakala with banks	14,461,217	1,383,855	1,424,249	-	-	17,269,321
Investments, net						
Available for sale	-	2,204,475			880,086	3,084,561
Held as FVSI	-	-	-	-	68,246	68,246
Held to maturity	-	-	-	-	-	-
Others	1,901,503	-	1,005,223	-	97,808	3,004,534
Financing, net						
Retail	1,526,358	3,204,431	8,258,436	1,269,455	-	14,258,680
Corporate	17,341,361	26,416,049	12,019,098	276,760	-	56,053,268
Property and equipment, net	-	-	-	-	1,737,818	1,737,818
Other assets	-	-	-	-	1,775,308	1,775,308
Total assets	35,230,439	33,208,810	22,707,006	1,546,215	12,037,390	104,729,860
Liabilities & shareholders' equity						
Due to banks and other financial institutions						
Demand	-	-	-	-	67,725	67,725
Time investments	1,378,160	985,919	-	-	-	2,364,079
Customer deposits						
Demand	-	-	-	-	44,178,002	44,178,002
Customer's Time investments	27,016,278	5,466,032	3,951,914	-	-	36,434,224
Other liabilities	-	-	-	-	2,507,370	2,507,370
Shareholders' equity	-	-	-	-	19,178,460	19,178,460
Total liabilities & shareholders' equity	28,394,438	6,451,951	3,951,914	-	65,931,557	104,729,860
Yield sensitivity - On statement of financial position	6,836,001	26,756,859	18,755,092	1,546,215	(53,894,167)	
Yield sensitivity - Off statement of financial position	1,629,822	3,597,045	5,499,495	53,257		10,779,619
Total yield sensitivity gap	8,465,823	30,353,904	24,254,587	1,599,472		
Cumulative yield sensitivity gap	8,465,823	38,819,727	63,074,314	64,673,786		

b) Currency risk

Represents the risks of change of value of financial instruments due to changes in foreign exchange rates. The Risk Appetite Framework and policies contain limits for positions by currencies. However, the Bank has negligible exposure in foreign currencies because its assets and liabilities are mainly denominated in Saudi Riyals and to a smaller extent in United States Dollars (USD) or in USD pegged currencies.

The Bank has the following summarized exposure to foreign currency exchange rate risk as at December 31:

	2017 SAR'000	2016 SAR'000
Assets		
Cash & balances with SAMA	**106,703**	166,532
Due from banks and other financial institutions	**3,026,013**	3,936,618
Investments, net	**809,606**	263,947
Financing, net	**2,604,553**	164,268
Other assets	**38,581**	45,990
Total currency risk on assets	**6,585,456**	4,577,355
Liabilities		
Due to banks and other financial institutions	**288,610**	227,239
Customers' deposits	**5,297,949**	3,290,309
Other liabilities	**367,106**	602,160
Total currency risk on liabilities	**5,953,665**	4,119,708

The table below shows the currencies to which the Bank has a significant exposure as at December 31:

	2017 SAR'000	2016 SAR'000
USD	**622,712**	424,835
Euro	**(4,530)**	(503)
UAE Dirham	**9,645**	14,485
BHD	**(14)**	1,629
QAR	**692**	1,377
Others	**3,286**	15,824
Total	**631,791**	457,647

Equity price risk

Equity price risk refers to the risk of decrease in fair values of equities as a result of changes in the levels of equity index and the value of individual stocks.

The effect on the Bank's equity investment held as available for sale due to reasonable possible change in equity index, with all other variables held constant is as follows:

	2017			2016	
	SAR'000			**SAR'000**	
Market index-(Tadawul)	**Increase / decrease in market prices%**	**Effect on equity**		**Increase / decrease in market prices%**	**Effect on equity**
Impact of change in market prices	**±10%**	**± 10,359**		**±10%**	**± 16,834**

27. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, the Bank has diversified funding sources and assets are managed taking liquidity into consideration, maintaining an adequate balance of cash and cash equivalents. The Bank has a Market Risk Management team under the Risk Management Group that regularly monitors the liquidity risk of the Bank.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time investments.

In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

a) Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2017 and 2016 based on contractual undiscounted repayment obligations whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

As profit payments up to contractual maturity are included in the table, totals do not match with the figures as appearing in the consolidated statement of financial position.

2017	**SAR'000**					
	Within 3 months	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Liabilities						
Due to banks and other financial institutions						
Demand	**83,153**	**-**	**-**	**-**	**-**	**83,153**
Time investments	**769,710**	**510,290**	**-**	**-**	**-**	**1,280,000**
Customers' deposits						
Demand	**46,077,366**	**-**	**-**	**-**	**-**	**46,077,366**
Customer's time investments	**29,835,815**	**13,272,277**	**88,848**	**-**	**-**	**43,196,940**
Other liabilities	**-**				**3,990,276**	**3,990,276**
Total liabilities	**76,766,044**	**13,782,567**	**88,848**	**-**	**3,990,276**	**94,627,735**

2016	**SAR'000**					
	Within 3 months	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Liabilities						
Due to banks and other financial institutions						
Demand	67,725	-	-	-	-	67,725
Time investments	1,381,314	1,005,481	-	-	-	2,386,795
Demand	44,178,002	-	-	-	-	44,178,002
Customer's time investments	27,071,571	5,551,656	4,131,994	-	-	36,755,221
Other liabilities	-	-	-	-	2,507,370	2,507,370
Total liabilities	72,698,612	6,557,137	4,131,994	-	2,507,370	85,895,113

b) The tables below show the maturity profile of the assets and liabilities:

The maturities of assets and liabilities have been determined on the basis of the remaining period at reporting date and does not reflects the effective maturities as indicated by the historical experience.

2017	SAR'000					
	Within 3 months	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	**7,299,371**	**-**	**-**	**-**	**-**	**7,299,371**
Due from banks and other financial institutions:						
Current accounts	**288,368**	**-**	**-**	**-**	**-**	**288,368**
Murabaha and Wakala with banks	**8,060,228**	**391,888**	**1,048,373**	**-**	**-**	**9,500,489**
Investments, net						
Available for sale	**647,065**	**3,204,026**	**3,855,000**	**5,528,888**	**8,407**	**13,243,386**
Held as FVSI	**-**	**77,045**	**-**	**-**	**-**	**77,045**
Others	**901,650**	**-**	**1,005,167**	**-**	**92,342**	**1,999,159**
Financing, net						
Retail	**656,648**	**1,937,431**	**7,409,626**	**4,630,204**	**-**	**14,633,909**
Corporate	**13,000,479**	**18,323,191**	**21,565,090**	**11,539,928**	**-**	**64,428,688**
Property and equipment, net	**-**	**-**	**-**	**-**	**1,876,423**	**1,876,423**
Other assets					**1,658,229**	**1,658,229**
Total	**30,853,809**	**23,933,581**	**34,883,256**	**21,699,020**	**3,635,401**	**115,005,067**
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Demand	**83,153**	**-**	**-**	**-**	**-**	**83,153**
Time investments	**769,508**	**500,226**	**-**	**-**	**-**	**1,269,734**
Customers' deposits						
Demand	**46,077,366**	**-**	**-**	**-**	**-**	**46,077,366**
Customer's Time investments	**29,778,887**	**13,123,315**	**85,183**	**-**	**-**	**42,987,385**
Other liabilities	**-**	**-**	**-**	**-**	**3,990,276**	**3,990,276**
Shareholders' equity	**-**	**-**	**-**	**-**	**20,597,153**	**20,597,153**
Total	**76,708,914**	**13,623,541**	**85,183**		**24,587,429**	**115,005,067**
Commitments & contingencies						
Letters of credit	**1,730,135**	**802,337**	**490,385**	**223**	**-**	**3,023,080**
Letters of guarantee	**2,781,836**	**2,152,009**	**2,545,021**	**68,986**	**-**	**7,547,852**
Acceptances	**159,762**	**13,910**	**-**	**-**	**-**	**173,672**
Irrevocable commitments	**-**	**488,627**	**-**	**-**	**-**	**488,627**

2016	SAR'000					
	Within 3 months	**3 months to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	7,105,665	-	-	-	-	7,105,665
Due from banks and other financial institutions:						
Current accounts	372,459	-	-	-	-	372,459
Murabaha and Wakala with banks	14,461,217	1,383,855	1,424,249	-	-	17,269,321
Investments, net						
Available for sale	-	659,837	2,417,210	-	7,514	3,084,561
Held as FVSI	-	68,246	-	-	-	68,246
Others	1,901,503	-	1,005,223	-	97,808	3,004,534
Financing, net						
Retail	937,991	1,821,062	6,536,933	4,962,694	-	14,258,680
Corporate	12,137,548	16,079,343	21,863,839	5,972,538	-	56,053,268
Property and equipment, net	-	-	-	-	1,737,818	1,737,818
Other assets	-	-	-	-	1,775,308	1,775,308
Total	36,916,383	20,012,343	33,247,454	10,935,232	3,618,448	104,729,860
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Demand	67,725	-	-	-	-	67,725
Time investments	1,378,160	985,919	-	-	-	2,364,079
Customers' deposits						
Demand	44,178,002	-	-	-	-	44,178,002
Customer's Time investments	27,016,278	5,466,032	3,951,914	-	-	36,434,224
Other liabilities	-	-	-	-	2,507,370	2,507,370
Shareholders' equity	-	-	-	-	19,178,460	19,178,460
Total	72,640,165	6,451,951	3,951,914	-	21,685,830	104,729,860
Commitments & contingencies						
Letters of credit	867,679	1,044,056	218,547	-	-	2,130,282
Letters of guarantee	568,489	1,783,492	5,280,948	53,257	-	7,686,186
Acceptances	193,654	23,460	-	-	-	217,114
Irrevocable commitments	-	746,037	-	-	-	746,037

28. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises throughout the Bank and from almost any activity.

The Bank has an Operational Risk Team as a part of Risk Management Group which is tasked with monitoring and controlling the operational risks of the Bank. Functions of this unit are guided by the Operational Risk Policy and Framework. To systematize the assessment and mitigation of operational risks, the Business Environment and Internal Control Framework is established through Risk Control and Self-Assessment (RCSA) along with establishing Key Risk Indicators (KRIs) for all business and support units. These risk metrics are proactively monitored by Operational Risk department on a regular basis. In addition, the Bank has a successfully tested and documented business continuity plan and operational disaster recovery site.

29. Shariah non-compliance risk

Being an Islamic bank, the Bank is exposed to the risk of Shariah non-compliance. To mitigate such risk, extensive Shariah policies and procedures are in place. Further, the Bank has established a Shariah Board and a Shariah Compliance Audit Unit to monitor such risk.

30. Reputational risk

Reputational risk covers the potential adverse effects resulting from negative publicity about the Bank's products, services, competence, integrity and reliability.

As an Islamic bank, one of the major sources of reputational risk is Shariah non-compliance. The other sources of negative publicity could be major frauds, customer complaints, regulatory actions and negative perceptions about the Bank's financial condition. The Bank has put in place controls around reputational risk in order to mitigate and avoid such risks. Currently, the Bank measures the reputational risk through a Scorecard based approach, where Risk Management group compiles the results of assessments made by business heads to derive the Bank's overall reputational risk indicators.

31. Fair values of financial assets and liabilities

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

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

The fair values of on-balance sheet financial instruments are not significantly different from their carrying values included in the consolidated financial statements.

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

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

Level 2: quoted prices in active market 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.

(a) Fair values of financial assets and liabilities carried at fair value

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

				SAR '000
2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held as FVSI				
- Equities	**71,691**	**-**	**-**	**71,691**
- Mutual funds	**5,354**	**-**	**-**	**5,354**
Financial assets held as available for sale				
- Equities	**112,095**	**-**	**-**	**112,095**
- Mutual funds	**1,690,789**	**-**	**206,283**	**1,897,072**
- Sukuk	**8,922,889**	**2,311,330**	**-**	**11,234,219**
Total	**10,802,818**	**2,311,330**	**206,283**	**13,320,431**

				SAR '000
2016	Level 1	Level 2	Level 3	Total
Financial assets held as FVSI				
- Equities	61,091	-	-	61,091
- Mutual funds	7,155	-	-	7,155
Financial assets held as available for sale				
- Equities	168,337	-	-	168,337
- Mutual funds	503,179	-	208,570	711,749
- Sukuk	37,831	2,166,644	-	2,204,475
Total	777,593	2,166,644	208,570	3,152,807

(b) Fair values of financial assets and liabilities not carried at fair value

Management adopts discounted cash flow method using the current yield curve to arrive at the fair value of financial instruments. Following table shows the fair value of financial instruments carried at amortized cost.

	2017		**2016**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
	SAR '000			
Assets				
Due from banks and other financial institutions	**9,788,857**	**9,755,746**	17,641,780	17,567,378
Investments – Murabaha with SAMA	**1,906,817**	**1,896,071**	2,906,726	2,891,454
Financing, net	**79,062,597**	**79,054,001**	70,311,948	69,987,810
Liabilities				
Due to banks and other financial institutions	**1,352,887**	**1,352,251**	2,431,804	2,437,961
Customers' deposits	**89,064,751**	**89,093,574**	80,612,226	80,649,644

32. Employees share based scheme

Significant features of the employees share based scheme outstanding at the end of the year are as follows:

Nature of scheme	ESGS
No. of outstanding scheme	One
Grant date	April 01, 2013
Maturity date	March 31, 2018
Number of shares granted	2,717,200
Number of shares vested	2,342,650
Vesting period	3-5 years
Value of shares granted (SAR)	35,731,181
Value of shares vested (SAR)	30,805,848
Fair value per share at grant date (SAR)	13.15
Vesting conditions	Employee remains in service and meets prescribed performance criteria
Method of settlement	Equity
Valuation model used	Market Value
Weighted average remaining contractual life	0.25 years

These rights are granted only under a service/performance condition with no market condition associated with it. Total amount of expense recognized during the year in the consolidated financial statements, in respect of this plan was SAR 1.4 million (2016: SAR 3.7 million).

33. Related party balances and transactions

In the ordinary course of its activities, the Bank transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

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

	2017 SAR'000	2016 SAR'000
Directors, key management personnel, Bank's mutual funds, major shareholders and affiliates		
Financing	**41,480**	20,362
Customers' deposits	**11,490,257**	17,152,299
Investments in associates	**92,341**	97,808
Financing and investments in mutual funds	**2,794,093**	1,846,999
Deposits from mutual funds	**687,550**	196,495

(i) Income and expenses pertaining to transactions with related parties included in the consolidated statement of income are as follows:

	2017 SAR'000	2016 SAR'000
Income on financing	**98,185**	83,191
Return on time investments	**320,937**	261,837
Fee from banking services, net	**193,726**	176,656
Directors' remuneration	**4,257**	2,871

The advances and expenses related to executives are in line with the normal employment terms.

(ii) **The total amount of compensation to key management personnel during the year is as follow:**

	2017 SAR'000	2016 SAR'000
Short-term employees benefits	**53,259**	45,239
End of service benefit	**2,216**	1,302
Shares under employee share based scheme	**1,662**	8,817

34. Capital adequacy

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

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

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

SAMA has issued the framework and guidance for implementation of capital reforms under Basel III, which are effective from January 01, 2013. Accordingly, the risk weighted assets, total capital and related ratios are calculated using Basel III framework.

Particulars	**2017 SAR'000**	2016 SAR'000
Credit Risk Weighted Assets	**95,890,718**	89,919,894
Operational Risk Weighted Assets	**6,727,186**	5,631,488
Market Risk Weighted Assets	**870,356**	663,137
Total Pillar-I Risk Weighted Assets	**103,488,260**	96,214,519
Tier I Capital	**20,597,153**	19,178,460
Tier II Capital	**884,207**	573,800
Total Tier I & II Capital	**21,481,360**	19,752,260
Capital Adequacy Ratio %		
Tier I ratio	**20%**	20%
Tier I + Tier II ratio	**21%**	21%

35. Investment management and brokerage services

The Bank offers investment management services to its customers through its subsidiary which include management of funds with total assets under management of SAR 31,510 million (2016: SAR 24,470 million).

36. Prospective changes in the International Financial Reporting Standards

The Bank has chosen not to early adopt the standards and amendments which have been published and are mandatory for compliance by the Banks effective from accounting period beginning on or after January 1, 2018.

Standard, and amendments	Effective date	Brief description of changes
IFRS 16 – "Leases"	January 01, 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.
Amendments to IFRS 2 -- "Share-based Payment"	January 01, 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 15 – "Revenue from contracts with customers"	January 1, 2018	This is a converged standard from the IASB and Financial Accounting Standards Board (FASB) on revenue recognition. This standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
Amendments to IAS 40 – "Investment Property"	January 1, 2018	These amendments clarify that to transfer to, or from, investment properties there must be a change in use. If a property has changed use, there should be an assessment of whether the property meets the definition and this change must be supported by evidence.
Amendments to IAS 28 – "Investments in associates and joint ventures"	January 1, 2018	These amendments clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9.
Annual improvements 2014 - 2016	January 1, 2018	These amendments impact two standards: • IFRS 1, 'First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IFRS 19 and IFRS 10 effective from January 1, 2018. • IAS 28, 'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective January 1, 2018.
Amendments to IFRIC 22 – "Foreign currency transactions and advance consideration"	January 1, 2018	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

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Implementation and Impact Analysis of IFRS-9

Implementation strategy

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

Classification and measurement

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

The majority of the bank's sukuk 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 FVTPL will continue to be measured on the same basis under IFRS 9.

The majority of financial assets that are classified as financing and are measured at amortised cost under IAS 39 are expected to be measured at amortised cost under IFRS 9 as well. Sukuks instruments that are classified as AFS under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on particular circumstances.

Under IFRS 9, the accounting for financial liabilities will largely remain similar to IAS 39.. The de-recognition rules have been transferred from IAS 39 and have not been changed. The Bank therefore does not expect any material impact on its financial liabilities and the de-recognition accounting policy.

Impairment

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

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

The above parameters are generally derived from internally developed statistical models, other historical data and are adjusted for forward looking information. The Bank will 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 comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL.

- Stage 3: Impaired assets: For Financial asset(s) that are impaired, the Bank will recognise the impairment allowance based on lifetime ECL.

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

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

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

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

Overall expected impact

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

- According to transitional provisions for initial application of IFRS 9, the bank is allowed to recognize any difference between previous carrying amount under IAS 39 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings. Accordingly, the impact on equity and the aggregated carrying value of relevant financial assets is estimated to be less than 3% and 1% respectively, arising due to application of expected credit loss model as against Incurred loss model;

- Furthermore and as a result, the bank's Tier 1 ratio will be impacted primarily from potential increase in credit impairment provisions. Based on the balances as at 31 December 2017, the day 1 impact of IFRS 9 (applicable from 1 January 2018) would be an estimated reduction of approximately less than 1% in Capital Adequacy Ratio which would be transitioned over five years in accordance with SAMA guidelines.

- Gains or losses realized on the sale of equity instruments classified as FVOCI will no longer be transferred to consolidated statement of income. During the year ended 31 December 2017, only SAR 8.3 million of such gains were recognised.

- 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.

Governance and controls

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

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 31 December 2017 under IAS 39. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Bank could vary significantly from this estimate. The Bank continues to refine models, methodologies and controls, and monitor developments in regulatory rulemaking in advance of IFRS 9 adoption on 1 January 2018.

Other than IFRS 9, the above new IFRS and amendments are not likely to have any material impact on the Bank's future consolidated financial statements except for certain additional disclosures

37. Comparative figures

Figures have been rearranged or reclassified wherever necessary for the purpose of better presentation; however, no significant rearrangements or reclassifications have been made in these consolidated financial statements.

38. Approval of the consolidated financial statements

These consolidated financial statements were approved by the Board of Directors of the Bank on 20 Jumada -I, 1439H (corresponding to 06 February, 2018).