البنك السعودي للاستثمار
The Saudi Investment Bank

VISION رؤيـــة
2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

INTEGRATED REPORT 2017

البنك السعودي للاستثمار
The Saudi Investment Bank

Integrated Report
2017

Prince Mohammad bin Salman bin Abdulaziz Al-Saud
Crown Prince

King Salman bin Abdulaziz Al-Saud
Custodian of The Two Holy Mosques

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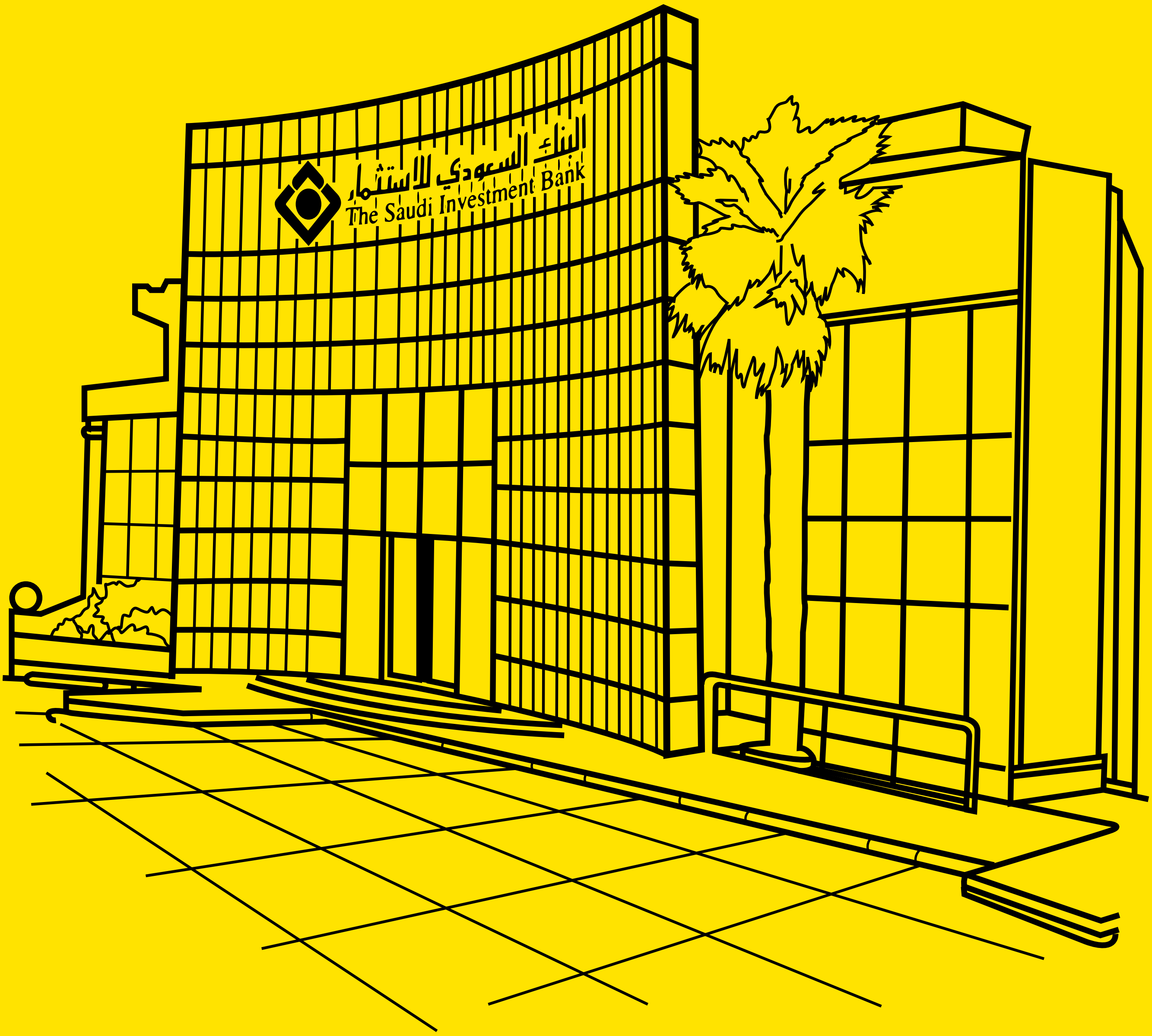

البنك السعودي للاستثمار
The Saudi Investment Bank

About this Report

GRI 102-11, 102-12, 102-46, 102-49, 102-50, 102-52

Integrated Reporting

This report marks the next milestone in the Bank's annual reporting after moving to sustainability reporting in 2011. It is the Bank's first integrated report, and it provides a concise yet comprehensive account of the Bank's results from a broad perspective, and its value creation process in the short, medium and long term.
It demonstrates how stocks of value in various forms are created and transformed by our activities and business processes. The report takes a forward-looking approach and elaborates on the opportunities and challenges the Bank faces.

Concepts

In 2011, The Saudi Investment Bank (SAIB) took a major step forward in its reporting process with the introduction of a sustainability report. This marked a change from a single minded focus on the bottom line to a triple bottom line perspective encapsulating our economic, social and environmental impact. With this Report we mark another major milestone by moving to integrated reporting.

Our emphasis is now on value creation; value in its various forms both internal and external. We also consider value creation over the entire time scale – short, medium and long term. Through the process of value creation, stocks of value, our capitals, are generated. The capitals are transformed by our activities and processes, according to our business model, and this Report describes the transformation.

Report boundary

This Report covers SAIB's operations only, subject to the exceptions stated below.

The boundary for financial reporting is the entire Group including SAIB and the following subsidiary and associate companies.

Subsidiary companies

- Alistithmar for Financial Securities and Brokerage Company
- The Saudi Investment Real Estate Company
- The Saudi Investment First Company Limited
- SAIB Markets Limited Company

Associate companies

- American Express Saudi Arabia
- Saudi ORIX Leasing Company
- Amlak International for Finance and Real Estate Development Company

Non-financial matters are reported on only for SAIB except for the workforce data presented in the Management Discussion and Analysis.

This Report covers the period from January 1, 2017 to December 31, 2017, and is consistent with our usual reporting cycle for financial and sustainability reporting.

There are no significant changes from previous reporting periods in the scope and aspect boundaries. The most recent previous annual report covered the 12-month period ended December 31, 2016.

The information given in this Report, as in the past, has been prepared in accordance with all applicable laws, regulations, as well as guidelines for voluntary disclosures.

This Integrated Report has been issued in both Arabic and English. In the event of any discrepancy, the official Arabic shall prevail.

Compliance

The consolidated financial statements as of and for the year ended December 31, 2017 have been prepared using:

- International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and Income Tax, which requires adoption of all IFRS 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” in so far as these relate to Zakat and Income Tax. As for 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
- Are in compliance with the Banking Control Law, the applicable provisions of regulations for companies in the Kingdom of Saudi Arabia, and the Bank’s Articles of Association.

In preparing this Report we have also drawn on concepts, principles and guidelines of;

Global Reporting Initiative Sustainability Reporting Guidelines-GRI Standards – Core Option, International Integrated Reporting Framework and Smart Integrated Reporting Methodology™

We welcome your comments or queries regarding this Report. The Bank’s Corporate Communication Group is the custodian of this Report and for comments or queries please contact the Head of CSR at Head Office, The Saudi Investment Bank.

The SAIB Integrated Report online

The HTML version is published online on the same date as the date of issue of this Integrated Report at www.saib.com.sa/integratedreport2017

Reading this Integrated Report

The Bank uses a variety of media in communicating a cohesive story. In this printed version, cross-referencing has been given to various sections within the report, where relevant, as shown below. Apart from this printed version, a detailed view of our story is accessible through the online version, which has been referenced as shown below, throughout this report where relevant.

Further information could be found elsewhere in this printed version of the Integrated Report.

Additional information that supplement the printed version is available in the online version of this Integrated Report.

The Saudi Investment Bank

GRI 102-1, 102-3, 102-5, 102-16

The Saudi Investment Bank (SAIB) is a Saudi Arabian joint stock company which was established by Royal Decree No. M/31 dated June 23, 1976, as The Saudi Investment Banking Corporation and is headquartered in Riyadh.

Our Vision

To offer the simplest and most accessible products and services to each of our customers.

Our Mission

Towards our customers

- We make banking simple and accessible for each of our customers.
- We are flexible, adaptive and responsive to deliver what suits our customers.
- We listen to our customers and understand their needs and preferences in order to evolve and improve.

Towards our employees

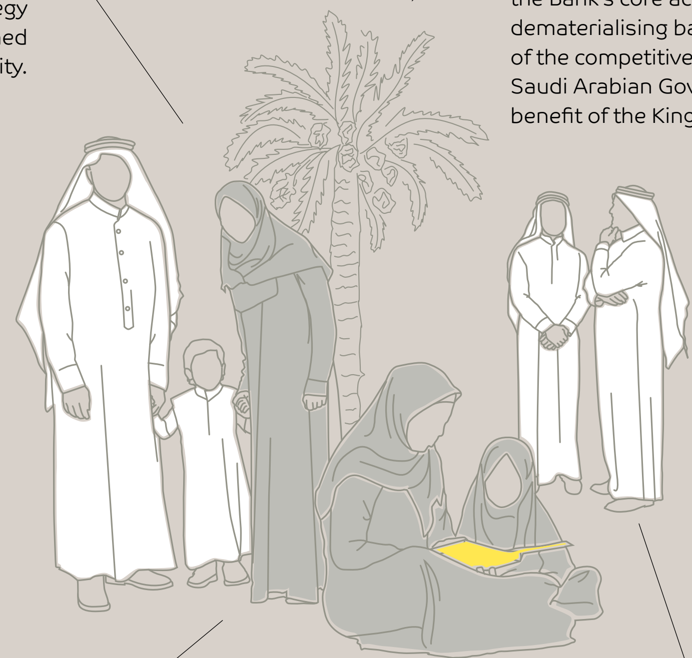
- We value ideas, inputs, and initiatives.
- We empower our staff to bring out their best and go the extra mile.
- We recognise individual contribution and we support individual development.
- We enhance team spirit, which allows us to collectively build the smartest solutions.

Our sustainability framework

SAIB's sustainability strategy is built on five sustainability pillars, based on Islamic values, which are described below:

Nummow (Growth):
We aim to deliver strong financial performance for our shareholders by executing our growth strategy while maintaining a disciplined approach to financial stability.

Hifth (Environmental protection):
SAIB will build a competitive advantage by embedding environmental management into the Bank's core activities and continuously dematerialising banking. SAIB will be a model of the competitive environmental practices the Saudi Arabian Government is seeking for the benefit of the Kingdom.



Takleef (Responsibility):
SAIB will be recognised by customers, investors, employees and the public as the most genuine, integrity based, value driven, and accountable Bank in Saudi Arabia.

Re'aya (Workforce):
SAIB will be the most sought after Bank to work for, owing first and foremost to its clear transparency and accountability to both its employees and society.

Awn (Helping others):
SAIB will measure not only the amount of money it invests but the extent and effectiveness of its impact. SAIB will narrow and focus its investments in areas where it can contribute money, tools, and expertise.

History and Operations

When the Bank commenced operations in March 1977, its business was mainly the medium-term financing of Industrial projects. In 1983, with the adoption of the SAIB name, the Bank moved into full commercial banking. The ALASALAH Islamic banking brand was launched in September 2006 with the opening of 10 Shariah-compliant branches.

Our operations include wholesale, retail and commercial banking products, both Shariah-compliant and traditional. Our finance operations offer a range of non-interest bearing banking products including Murabaha, Istisna'a and Ijarah. Islamic principles are at the heart of all our operations. Adherence to Shariah principles in product build and product development is assured by our Shariah Committee.

Our Personal and Corporate Banking product lines include deposits, loans, and other credit products for individuals, SMEs, mid-corporates, corporates, and other institutional customers. We also offer several Treasury and Investment Banking products including money market services and managing investments.

Through our joint ventures and subsidiaries we provide investment banking, share trading, asset management, leasing finance, mortgage finance, and credit card services. Our wholly owned subsidiary, Alistithmar Capital (ICAP), provides brokerage services, investment products, and corporate finance services.

The Bank currently operates through a network of 49 branches, of which 44 are fully Shariah-compliant and 12 of the branches have ladies sections to serve our lady customers. The Bank's commercial activities are confined to the Kingdom of Saudi Arabia.

As at December 31, 2017, the Bank operated 416 ATMs and 9,178 point-of-sale terminals; the total Bank staff was 1,506. The Bank follows a consistent policy of Saudization with 85.4% of staff being Saudi nationals at the end of 2017. Females accounted for 18.3% of the workforce.

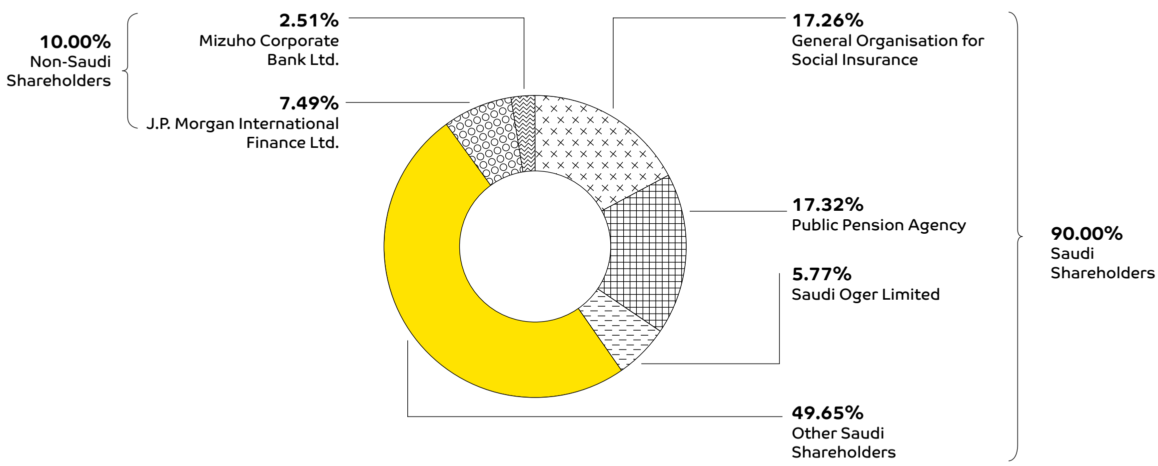
The Bank has four subsidiary companies, all of which are 100% owned by the Bank viz.,

- Alistithmar for Financial Securities and Brokerage Company (ICAP) which offers brokerage and other services within the Kingdom.
- The Saudi Investment Real Estate Company; the main business of which is to hold assets given to the Bank as collateral.
- Saudi Investment First Company Limited which holds the shares in American Express Saudi Arabia.
- SAIB Markets Limited Company, which the Bank has 100% ownership. This Cayman Islands limited liability company does not have any debt instruments issued. The objective of SAIB Markets Limited Company is trading in derivatives and Repo activities on behalf of the Bank.

In addition the Bank also has investments in the following three associate companies.

- American Express Saudi Arabia, the principal activity of which is to issue credit cards and handle other American Express products in the Kingdom, in which the Bank holds a 50% interest.
- Saudi ORIX Leasing Company, of which the primary business activity is lease financing servicing and in which the Bank has a 38% ownership.
- Amlak International for Finance and Real Estate Development Company which offers real estate finance products and services and in which the Bank has a 32% ownership.

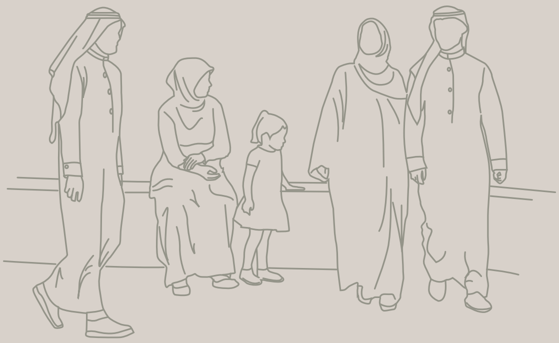
The Bank's major shareholders with their shareholdings are listed below:



SAIB's commitment to Vision 2030

SAIB is firmly committed to play a major role in the realisation of Vision 2030 of the Kingdom of Saudi Arabia. The bedrock of the Vision is the following three themes. The detailed goals under the Vision and SAIB's envisioned contribution are detailed below:

Theme	Vision
A Vibrant Society A vibrant society with strong roots, fulfilling lives and strong foundations.	Islamic values Serve Umrah visitors Living healthy, being healthy Developing our cities Environmental sustainability Caring for families Developing our children's character
A Thriving Economy A thriving economy which rewards opportunities, invests for the long term, is open for business and leverages its unique position as the hub of three continents.	Learning for work Small businesses Equal opportunities Talent attraction Promising sectors Business environment Regional logistic hub
An Ambitious Nation An ambitious nation which is effectively governed and responsibly enabled.	Embracing transparency Protect vital resources Engaging everyone Responsible lives Responsible business Responsible society



Vision goals	SAIB's contribution
Moderation, tolerance, excellence, discipline and transparency	The Islamic principles of Takleef, Nummow, Re'aya, Hifth and Awn
30 million Umrah visitors	Infrastructure/tourism infrastructure finance
40% of citizens to exercise once a week	Fitness club memberships, football, bowling and basketball teams, awareness campaigns, "Flexx Bike" and healthy dietary tips
3 KSA cities among top 100	Urban Infrastructure Project Finance
Resource efficiency, pollution reduction, nature conservation	GHG tracking, evaluate EMS, UNPRI and implementation of a Building Management System (BMS)
5% increase in home ownership by 2020. 80% of parents are engaged in school activities by 2020	Al Asalah Home Finance
Empowering educational, cultural and entertainment institutions	WooW Alkhair Programme, Community investment, Minopolis and Kidzania activties
Reduce unemployment to 7%, sector councils, vocational training	41% youth employment; Programmes such as Fast Track, Graduate Programme and Young Hires
Small business SMEs contribute 35% to GDP, financial institutions allocate up to 20% of funding to SMEs	SME specific products – 0.22% of funding to SME's
30% female employment	19.2% female employees, 28% of new hires are women
Improve living and working conditions for non-Saudis	Expatriates personal finance
Renewable energy, industrial equipment, retail, tourism and leisure, digital economy, mining, oil and gas, 75% localisation of oil and gas, 9.5 GWh renewable energy	2.53% of loan portfolio for environmentally friendly, low carbon activities
65% private sector GDP 5.7% FDI of GDP Top 10 Global Competitiveness Index	Specialised products and services, ICAP a signatory to the United Nation Principles for Responsible Investment, Global Reporting Initiative Gold Member, signatory to the United Nations Global Compact
Rank 25 in the Logistics Performance Index, Invest in construction of ports, railways, roads and airports	Infrastructure project finance Evaluate Equator Principles
Top 5 E-Government Index	Ranked 7th in S&P Hawkamah ESG Pan Arab Index in 2017 for disclosure of environmental, social and governance (ESG) issues
Build safe and sufficient strategic food reserves	2.53% of loan portfolio for environmentally friendly projects, low carbon activities
Interactive, online and smart engagement methods	E-services, online banking, annual and sustainability reporting
10% household saving Greater financial independence	4 financial literacy awareness sessions delivered in 2017
Corporate Social Responsibility	Creation and implementation of sustainability strategy and action plan, designated CSR Unit within the Bank
1/3 of NPO projects have deep and measurable social impact one million volunteers by 2020	Increase in community investment, active volunteer program and policy

Networking

We are a signatory to the United Nations Global Compact (UNGC) which seeks to align the operations of commercial as well as non-profit organisations with principles of human rights, environmental protection, labour, and anti-corruption. Description of the relevance of these four main areas and descriptions of concrete actions taken regarding them have been communicated to UNGC. The methodology of monitoring and evaluating performance as well the outcome of the measurements have also been communicated.

The required behaviour of employees are enshrined in our HR Policy Code of Conduct.

Our investment brokerage subsidiary Alistithmar Capital (ICAP), is also a signatory to the United Nations Principles for Responsible Investment (UNPRI). So far, we are one of two entities in the Kingdom to take this step. UNPRI encapsulates six principles of which three are related to environmental, social, and governance issues. The others are related to advocacy for the principles, joint action regarding the principles, and reporting.

SAIB at a Glance

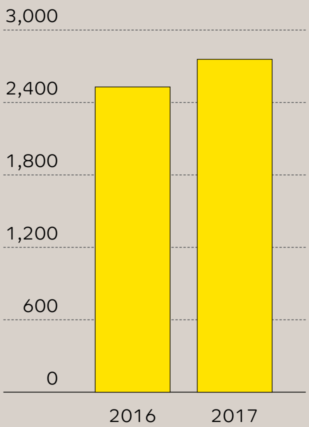
Financial Capital

	2017 SAR million	2016 SAR million
Total income[1]	**2,792**	2,557
Total expense[2]	**1,059**	1,051
Operating profit	**1,733**	1,506
Impairment charges	**322**	453
Net income	**1,411**	1,053
Loans and advances, net	**59,588**	60,249
Investments, net	**21,714**	21,448
Investments in associates	**1,020**	1,000
Total assets	**93,796**	93,047
Term loans	**2,015**	2,032
Subordinated debt	**2,003**	2,002
Customer deposits	**66,943**	65,640
Total shareholders' equity	**13,494**	12,834
Tier I Sukuk	**785**	500
Total equity	**14,279**	13,334
Return on average equity %	**10.72**	8.54
Return on average assets %	**1.51**	1.13
Capital adequacy %	**20.38**	18.93
Equity to total assets %	**15.22**	14.33

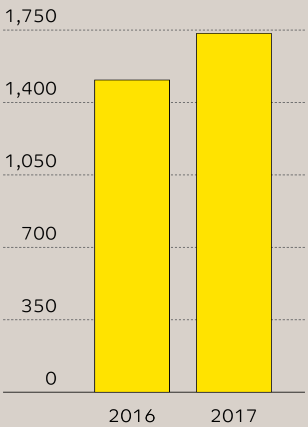
[1] Total income includes total operating income plus Bank's share in earnings of associates.

[2] Total expense includes total operating expenses before impairment charges.

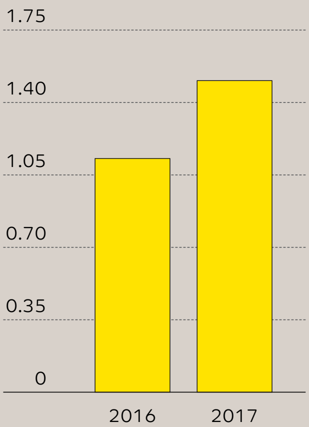
Total income — SAR million



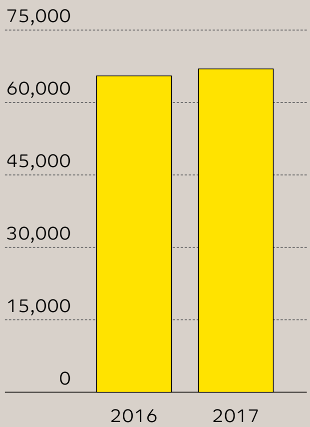
Operating profit — SAR million



Return on average assets — %



Customer deposits — SAR million



Institutional Capital

Developed a Sustainability Dashboard Management System (SDMS)

Automated **over 10** processes in better serving our customers

Awarded ISO 14001:2015

4 Awards won during the year

Investor Capital

Market capitalisation in excess of **SAR 11 billion**

Over 3,000 shareholders

EPS of **SAR 1.88** (2016: SAR 1.40)

Dividends per share of **SAR 0.60** (to be paid in 2018)

RoE of **10.72%** (2016: 8.54%)

Customer Capital

49 Branches 12 branches include ladies sections

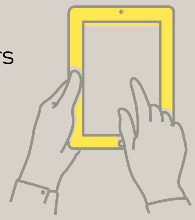
416 ATMs

59 Cash Deposit Machines

4 Interactive Teller Machines

9,178 POS Terminals

380,000+ retail customers



15,900+ Small Business Customers

1,400+ Large Business Customers

46.7% YoY increase in online transactions

Over 10 products and services launched during the year

82.5% overall customer satisfaction

2 unique loyalty programmes

Business Partner Capital

Ethical procurement policy and process

Over 150 registered local suppliers and 70 registered international suppliers

87% procurement spend on local suppliers

Widespread correspondent banking relationships covering the MENA Region, Europe, Africa and North America

Employee Capital

1,571 strong workforce*

87.5% Saudization rate*

19.22% female employment*

38% below the age of 31 years

119 growth in workforce

4,491 Number of training days

SAR 579 million total salaries and benefits paid

86% employee satisfaction

**SAIB and Alistithmar Capital (ICAP) staff only*

Social and Environmental Capital

Environmental Management System (EMS) implemented during the year

Committed towards improving Bank-wide energy efficiency

3% reduction in fuel consumption

9,676kgs of paper recycled

2,010kgs of electronics recycled

Over 20 community outreach programmes conducted

Over SAR 5 million in community investments

126 SAIB volunteers engaging in community outreach programmes

This report marks another milestone in our reporting process; moving from sustainability to integrated reporting. It therefore focuses on all aspects of value creation and the interconnections between them. Through our integrated strategies we have been able to forge ahead towards achieving the targets laid down in our Strategic Plan for 2015-2019, despite economic headwinds.

A Letter from the Chairman

GRI 102-14

Dear Shareholders,

On behalf of the Board of Directors, it is with pleasure that I present to you the Integrated Report of The Saudi Investment Bank for the year 2017.

During the year under review, The Saudi Investment Bank faced both challenges and opportunities. There was the economic slowdown in the Kingdom brought about by reduced oil prices and curtailing of government expenditure. However, the Saudi Government is forging ahead with the Vision 2030 strategy, which it unveiled in 2016, opening up new vistas. The banking industry globally is still grappling with the repercussions of the crisis at the end of the last decade. The new regulatory frameworks and standards are making capital and liquidity requirements and credit impairment provisions more stringent, threatening to lower the profitability of financial institutions.

Banks, as financial intermediaries are custodians of depositors' funds. In the present environment where there have been major concerns with prudent fund management, governance is the foundation on which we can build confidence. While we have had strong governance practices in place we are continuously striving to improve them. In recognition of our strong governance environment, the Bank was ranked first amongst all Saudi listed companies at the First Annual Corporate Governance Conference hosted by Alfaisal University 2017. Our robust policies, systems and processes are a firm foundation for us to build trust in the financial marketplace.

Compliance with the new statutory and regulatory requirements brings a need for improved mechanisms to ensure all internal processes comply with local and international best practices. Up-to-date information is needed on a real-time basis so that corrective action can be taken swiftly when necessary. We have developed cutting edge IT solutions to support our compliance procedures. Much of the information that the Bank stores is highly sensitive and confidential and today cybercrime poses the threats of unauthorised access, theft or corruption of data. Our IT security systems need to be robust enough to measure up to these threats. The Bank takes countermeasures on an ongoing basis to identify, prevent and correct any vulnerabilities. Promotion of customer awareness and staff training also mitigates these threats. SAIB also leverages the potential of Information Technology to provide the best possible service to attract and retain customers. Several digital-based initiatives were mounted during the year to add value to our products and services.

The nature of banking operations makes prudent management and monitoring of risk imperative. SAIB has a sophisticated risk management framework in place with well-defined policies, systems and processes. At the operational level, these translate into the risk appetite framework, which lays down the level of the risk the Bank could prudently take. The actual degree of risk taken is rigorously monitored against the risk appetite.

SAIB's strategies are built on the ethos of sustainability which is reflected in our five sustainability pillars: Nummow (growth), Takleef (responsibility), Re'aya (workforce), Hifth (environmental protection) and Awn (helping others). The pillars underpin our commitment to ethical conduct, the care with which we nurture our human resources, our concern for preserving a liveable planet for future generations and helping the less fortunate in society. All of these will bring us commercial success and growth. While we seek to grow, we do not have a narrow focus on the bottom line. As with governance we need the systems and data to support our sustainability initiatives. Our Sustainability Dashboard Management System has been developed to ensure timely availability of accurate data for decision-making to achieve short and long-term sustainability objectives. Despite the headwinds we have been faced with in the economic environment, we have continued with the implementation of our Strategic Plan for the period 2015-2019 and its attendant strategic initiatives.

This Report marks a major milestone in our reporting process. After moving to sustainability reporting in 2011, this is our first integrated report. Whereas formerly sustainability was presented separately from our financial reporting, in this report we integrate the economic, social, and environmental aspects. We seek to bring out how we create value for all our stakeholders including shareholders, customers, business partners, the environment and the community, and the interconnections between the different aspects of value creation.

The Bank makes dividend payouts balancing the need to give a satisfactory return to shareholders whilst maintaining sufficient retained earnings for future growth. A dividend of SAR 350 million equal to SAR 0.5 per share for the year 2016 was approved by the Board of Directors and paid in April 2017. A bonus share issue of 50 million shares with a par value of SAR 10 per share, or 1 share for each 14 shares outstanding was also made.

With the rapid changes in banking procedures and environment we recognise the importance of keeping the staff abreast of the changes and being able to cope with any resulting challenges. We do not stint when it comes to providing our employees with the training necessary to excel in their tasks. In line with the goals of Vision 2030 we continue to enhance Saudization of our workforce and also strive to increase the percentage of women.

I look forward to 2018 with confidence that we can continue to overcome any challenges and continue to generate value for our stakeholders as well as for the Bank. In doing so, we will continue to help realise the aspirations of the Kingdom and the Saudi people for economic growth and well-being in a conducive environment.

Abdallah Saleh Jum'ah
Chairman

In a rapidly changing environment, we focus on constant innovation to deliver to our customers the products and services that will delight them. To face this challenge, we need to develop our human resources so that they will measure up to the demands placed on them. As a socially conscious financial institution we do not single mindedly focus on the bottom line – preserving the environment and giving a helping hand to the community are also among our strategies.

Message from the Chief Executive Officer

It is with pleasure that I invite you to review the Integrated Report of the Saudi Investment Bank for the year 2017. In this Report we have made a concise presentation of the Bank's financial and non-financial results for the year.

Our focus on sustainability

The culture of SAIB is founded on the underlying philosophy of building an organisation that will last and continue to deliver value in the long term to all our stakeholders. This is the bedrock which underpins our sustainability pillars which in turn underpins all our policies, systems and procedures. Our sustainability pillars are closely interconnected and reinforce each other. In the evolving economic, social and regulatory environment we need to look at sustainability as a broad canvas, including not only financial but also social and environmental considerations. To be effective, sustainability considerations need to be incorporated into all our activities and their importance needs to be instilled into our employees as well.

Our performance

It is heartening to be able to report that in 2017 the Bank was able to achieve an increase in its net income of 34% over the previous year. While assets, loans and advances, and investments remained almost constant, we were able to achieve a satisfactory reduction in non-performing loans and advances. The Bank repaid a five-year loan facility of SAR 1 billion on schedule during the year, which demonstrates our prudent financial management. This gave us the credibility to secure a new loan facility for the same amount which will be repayable in 2022. To strengthen our regulatory capital base, the Bank also issued SAR 285 million under a Tier I Sukuk programme which was initiated in 2016. We were also able to achieve a significant improvement in our net efficiency ratio, reflecting effectiveness in control of resources. Our capital adequacy ratio at end 2017 also improved over that of 2016.

The International Financial Reporting Standards (IFRS 9) – "Financial Instruments: Recognition and Measurement" has been implemented with effect from January 1, 2018. The Bank is fully in compliance with SAMA guidelines in this regard as well as in respect of applicable Basel III standards with respect to capital requirements. The Internal Capital Adequacy Assessment Process (ICAAP) for 2018, Stress Testing Report as of December 31, 2017 and Internal Liquidity Adequacy Assessment Process (ILAAP) for 2018 were prepared in accordance with the SAMA guidelines.

Nurturing our human resources

Providing the best possible service to our customers and innovating the products and services they need in a rapidly changing environment, place demands on human talents, skills, aptitudes and attitudes. We strive to build our human resource strategies around building diversity and promoting inclusiveness. In line with the aspirations of Saudi Arabia's Vision 2030, we are seeking to increase our young workforce and our women employees; we are also promoting Saudization. At the end of 2017, 88.6% of SAIB's workforce were Saudis, 19.0% were female and 38.0% were below 31 years of age. Through our recruitment procedures we aim at the cream of the talent available in the Kingdom, giving special attention to women. We are careful to place our new recruits in the roles they are most suited for according to their talents and aptitudes. SAIB has reserved hiring for office and administrative levels to Saudis.

The performance management process at SAIB has been crafted to align individuals' performance targets, appraisals and training with the goals of the Organisation, both short term and long term. Our training plans are drawn up to ensure that our employees can meet the evolving needs of the banking industry, conform to new regulatory requirements and meet customer expectations. A judicious mix of all possible methods is used in our training programmes.

Customer relations

Our customers are our lifeblood and the banking industry is a highly competitive one. Keeping in mind the changing tastes and preferences of our customers we make the best use of digital and mobile platforms to optimise our service delivery. We strive to keep our banking products and services as user-friendly and accessible as possible which is vital to draw new customers as well as to retain existing customers. A large number of initiatives were rolled out during the year to build our retail banking franchise; consumer lending and core deposits were aggressively promoted.

Developing the SME sector is also a priority for us, which once again is aligned with the Vision 2030 strategy. The added value we delivered to the sector during the year included escrow accounts, payroll services and streamlining credit processes. Affluent banking customers were also identified as a lucrative segment to promote and special provision has been made for such customers at branches. We have put in place specialised teams catering to different customer segments, such as ladies, youth, and affluent customers to give more focus to product and service development and delivery. To retain our customers, it is necessary that we be close to them and be aware of customer sentiments. To this end a customer satisfaction survey was conducted to feel the pulse of the customer. The survey gave us very useful feedback, particularly regarding branch service. We also promptly investigate and respond to any customer complaints and give appropriate redress when this is deemed necessary.

Leveraging information technology

Being at the forefront of Information Technology developments is essential for our competitive edge, as most of our product and service innovations are built on IT platforms. A striking innovation that was introduced during the year was the automated appointment system at branches to cut waiting and service times. Improving our efficiency brings demands for re-engineering our processes – achieving an increased output with fewer resources – and cutting turnaround times. SAIB also uses all possible channels, including website, email and social media to market its products and services. Social media is an especially effective tool as customers can share their experiences with one another.

The environment and society

Protecting the environment is one of our sustainability pillars. Although as a financial institution our direct impact is limited, we make our contribution by carefully tracking our consumption of energy, fuel, water and paper and striving to minimise them. Beyond this, we endeavour to make a broader impact by reducing our impact across our value chain. Making a contribution to the community, especially to the less fortunate in society, is another of our key strategic objectives. Our initiatives in this direction include financial education, community development, health and helping the differently abled. We build links with community organisations, with which we partner in delivering our social programmes.

Preparing for a cashless world

The world is moving towards a cashless society which has widespread implications – on business processes, trade and especially on banking and finance. The wider impacts on economic systems and society may be difficult to foresee at this point. Although much of banking is already cashless, the entire concept of money could change which will bring with it a profound psychological shift. There could be legitimate fears arising from the fact that every transaction a person makes is in principle, traceable. This would bring with it increased demands from banks, especially regarding IT security. With this background it is important that we proactively hone our systems and processes to be aligned with this dramatic change in the economic and financial landscape.

We look forward to working productively with our employees to ensure the sustainability of the Bank in the years ahead. We are confident that with the strengths of the Bank we can find opportunity even in adversity, and continue to grow, prosper and deliver value to our stakeholders.

In conclusion, I wish to thank the Board of Directors for their guidance and support, our employees for their dedication and commitment and our customers for their continued patronage. I also wish to express my gratitude to our shareholders and investors for the confidence they have reposed in us, and without whose support the continuance of the Bank would not be possible.

Musaed Mohammad Al-Mineefi
Chief Executive Officer

Stewardship

The Bank requires a governance structure with well-defined roles and responsibilities to ensure that our ethics, policies, and procedures are faithfully executed. Risk is inherent in the Banking industry, but it needs to be kept within prudent limits to maintain financial stability and sustainability. The Bank also needs mechanisms in place to ensure that it is in conformance with all legal and statutory requirements.

Board of Directors

GRI 102-22, 102-23

Mr. Abdallah Saleh Jum'ah
Chairman of the Board

Former President and CEO of Saudi Aramco. Has been a board member of many companies including Halliburton. Bachelor's Degree in Political Science from the American University of Beirut.

Mr. Abdulaziz Abdul-rahman Al-Khamis
Vice-Chairman of the Board

Director General Financial Investments, Public Pension Agency. Held numerous positions with the Saudi Arabian Monetary Agency prior to assuming his current position in July 2006. Currently a board member of several companies. Bachelor in Economics Degree from Northeastern University, Boston, Massachusetts.

Mr. Mohammed bin Abdullah bin Ahmed Al Ali
Board Member

Former Senior Vice-President of Finance of Saudi Aramco. He also served on several companies executive committees'. An MBA from the University of Denver and BS Degree in Accounting from the University of Texas-Arlington.

Mr. Abdul Rahman bin Mohammed Al-Rawaf
Board Member

Manager of the Investment Portfolios Department at the General Organization for Social Insurance. Has been a board member of many banks and other companies. Bachelor's Degree in Business Administration from Arkansas State University and an MBA from the University of Southern California.

Mr. Mishari Ibrahim Al-Mishari
Board Member

Former CEO and board member of Bank Al-Jazira. Has extensive banking experience and currently a board member of many companies. Bachelor's Degree in Business Administration from the University of Oregon.

Dr. Abdulaziz Abdallah Alnowaiser
Board Member

Board member of several public companies and governing authorities, and he also worked as an Assistant Professor of Physics at King Saud University. He holds a BS Degree in Mathematics and Physics from the University of California, and an MS and PhD in Physics from Duke University.

Dr. Abdulraouf bin Mohammed bin Abdullah Mannaa
Board Member

Former Managing Director of SAVOLA Group. Former CEO of several major companies (such as SAVOLA Group, EMAAR Economic City). Bachelor's Degree in Mechanical Engineering from King Fahad University of Petroleum and Minerals, Master's Degree from the University of California at Berkley, and a PhD from the University of Washington at Seattle.

Dr. Fouad Saud Al Saleh
Board Member

Occupied numerous positions in the government until his retirement as a Colonel in the Ministry of Defence. He is currently a partner in numerous construction-related companies. He holds a BS in Mechanical Engineering from St. Martin College, and an MS and PhD in Construction Engineering from the University of Washington.

Mr. Saleh Ali Al-Athel
Board Member

Progressed through various executive positions within the Saudi Industrial Development Fund until he reached the position of the Assistant Director General. He is a board member of several companies. He holds a BA in Philosophy and Sociology from Damascus University, and a Higher Diploma in Management from Hartford University.

Management Team

Mr. Musaed Mohammad Al-Mineefi
Chief Executive Officer

Mr. Faisal Abdullah Al-Omran
Deputy Chief Executive Officer

Mr. Ramzi Abdullah Al-Nassar
General Manager – Personal Banking

Mr. Majed Abdulghani Fakeeh
General Manager – Corporate Banking

Mr. Suliman Abdulaziz Al-Obaid
Chief Operating Officer

Mr. Salman Badar Al-Fughom
Treasurer and Chief Investment Officer

Mr. David Kenney
Chief Risk Officer

Mr. Saud Abdulaziz Al-Hoshan
General Manager – Human Resources

Mr. Badr Sulaiman Al-Aswad
General Manager – Quality Assurance

Mr. Badr Ahmed Allaf
General Manager – Compliance

Mr. Majed Mohammed El-Rubaiaan
General Manager – Operations

Ms. Ishraq Mohammed Al-Thebiani
Assistant General Manager –
Corporate Communication

Mr. Saleh Abdullah Al-Oqla
Assistant General Manager –
Personal Banking

Mr. Ali Abdullah Al-Shayea
Head of Information Security

Mr. Mohammed Abdulaziz Al Fraih
Assistant General Manager –
Chief Information Officer

Mr. Waleed Saleh Al-Omary
Chief Internal Auditor

Mr. David Kent Johnson
Chief Financial Officer

Corporate Governance

GRI 102-18, 102-19

Corporate governance encompasses the system of policies, rules, procedures and practices that underpin the stewardship of a bank. It includes not only a well-defined documented element but also intangible elements such as culture, ethics, values, integrity, and reputation. Governance involves sustainable value creation in the short and long term while balancing the interests of the diverse stakeholders of the Bank – shareholders, management, customers, business partners, suppliers, employees, Saudi citizens, the Government and the environment. It involves managing the synergies and the trade-offs between the stakeholders. SAIB was the only Bank in the Kingdom which was ranked amongst all Saudi listed companies at the First Annual Corporate Governance Conference hosted by Alfaisal University 2017 in collaboration with Harvard University. The Bank was also ranked among the top 10 in the 2017 S&P Hawkamah Pan Arab Index for Environmental, Social and Corporate Governance Practices in the Middle East and North Africa Region.

Compliance

The Bank fully complies with the Principles of Corporate Governance for banks operating in Saudi Arabia issued by Saudi Arabian Monetary Authority (SAMA) in March 2014. The Bank also complies with the Corporate Governance Guidelines in the Rules Governing Companies in the Kingdom issued by the Capital Market Authority of Saudi Arabia (CMA) on 21/10/1427H corresponding to 12/11/2006G and all the subsequent amendments except the following:

General principles

The main principles of corporate governance at SAIB are:

- Exercising internal control, driven by the Board and supported by documented guidelines to safeguard the interests of all stakeholders.
- The framework, policies, procedures, and processes to effectively identify, monitor and control risks and minimise their impact.
- The timely and accurate flow of information in a sufficient level of detail to internal and external stakeholders including regulators, investors, and employees.
- Demonstrate commitment and follow strong, ethical and effective governance by continuous monitoring, follow-up and improvement.

Governance structure

Our corporate governance structure has three broad pillars; establishing strategic direction; executing strategy and managing risks; and stewardship through conformity with policy and established procedures.

This governance structure is underpinned by policies and practices to ensure good corporate governance, values and ethics, organisation structure design, adherence to policies, efficient and effective procedures, the Bank's authorities matrix and effective internal and external communication.

The Bank's governance framework, the Board Executive Management governance structures, the key policies, guidelines and control functions, and duties and restrictions on Board members are clearly set out in the corporate governance manual. The General Manager – Corporate Governance, overseen by the Bank's Corporate Governance Subcommittee is responsible for keeping the manual regularly updated.

The manual, is accessible to the general public via the Bank's website.

Employees and others who wish to contact the Board or any member of the Audit Committee to make any complaint or report any concern with respect to fraud, financial matters and restitution, non-compliance with laws and any other matters, may do so anonymously via the online submission form found on the Bank's website.

The manual is in accordance with the guidelines of the regulatory authorities; SAMA, the CMA and the Basel Committee on Banking Supervision. It is updated to be kept in line with the requirements of these regulatory authorities.

The Bank's governance structure is depicted in the diagram below:

Shareholders Annual Meeting

↓ ⇡

Board of Directors

↓ ⇡

Board Committees

↓ ⇡

Board Subcommittee

↓ ⇡

Management Committees

↓ ⇡

Management Subcommittees

→ Appointment flow ⇢ Responsibility flow

For a detailed governance structure of the Bank refer the online report at www.saib.com.sa/integratedreport2017/governance-structure

Board of Directors

The General Assembly will appoint the members of the Board in accordance with the procedures for such appointment approved by itself. The Board members are appointed for a period of three years and membership for more than 12 consecutive years is discouraged in accordance with SAMAs Principles of Corporate Governance. Subject to the foregoing, Board members may be reappointed unless provided otherwise in the Articles of Association. Compensation to Board members will be in accordance with SAMA regulations and any other relevant regulations.

Board composition

The Board should consist of at least nine members of which not more than two should be executives of the Bank. The Board members should have the blend of skills, expertise and knowledge to guide the Bank and ensure good governance.

The criteria for Board membership in terms of past records for honesty, integrity, reputation, and personal financial soundness are also specified. In addition members of the Board are also required to be able to function independently and be free of conflicts of interest. The Chairman and Vice-Chairman are required to be Non-Executive Directors. No member of the SAIB Board may serve on the Board of another Saudi bank licensed and incorporated in the Kingdom, on the Board of another financial institution that may cause a conflict of interest, on the Board of a significant or potentially significant competitor, or on the Board of more than four other listed companies. Board members have a duty to keep the Bank informed about all participation in Boards outside the Bank and executive positions they hold in other listed companies.

The members of the Board have diverse strengths and experience including banking, IT, commerce, regulatory functions, audit, capital markets, and strategic planning. The composition of the Board conforms to the requirements laid down in the governance manual. The Board presently consists of nine members, of which five are Non-Executive Directors and four are Independent Directors.

The details of the members of the Board including area of expertise, status, date of appointment, number of Board meetings attended and other directorships held are given in the table below:

Name	Status	Classification	Date of appointment	No. of Board meetings attended	Other directorships
Mr. Abdallah Saleh Jum'ah	Chairman	Non-Executive	February 14, 2010	4	Board member, Hassana Investment Company (UL) Board member, Saudi Arabian Airlines Corporation (UL) The Saudi Investment Bank (L) Vice-Chairman, Zamil Industrial (L)
Mr. Abdulaziz Al-Khamis	Vice-Chairman	Non-Executive	February 14, 2007	4	Tawuniya Insurance Co. – Board Director The Saudi Investment Bank The United Insurance Co. Bahrain
Dr. Fouad Al Saleh	Board member	Non-Executive	February 14, 2013	4	The Saudi Investment Bank
Dr. Abdulraouf Mannaa	Board member	Independent	February 14, 2010	3	The Saudi Investment Bank
Dr. Abdulaziz Alnowaiser	Board member	Independent	February 14, 2013	4	The Saudi Investment Bank
Mr. Abdulrahman Al-Rawwaf	Board member	Non-Executive	February 14, 2010	4	The Saudi Investment Bank
Mr. Mishari Al-Mishari	Board member	Non-Executive	February 14, 2010	4	Board member of the Saudi Re-Insurance Co. The Saudi Investment Bank Board member of Hana food Industries Company Chairman of Droob AlElm for Training and Education
Mr. Muhammed Al-Ali	Board member	Independent	July 1, 2014	3	The Saudi Investment Bank Saudi Energy Efficiency Services Company
Mr. Saleh Al-Athel	Board member	Independent	February 14, 2014	4	Board member Saudi Telecommunication Company The Saudi Investment Bank

For further details of requirements of Board members refer the online report at www.saib.com.sa/integratedreport2017/board-composition

Responsibilities of the Board

The responsibilities of the Board may be grouped as strategy responsibilities, risk responsibilities, performance management responsibilities, and organisational responsibilities.

They include crafting and implementing strategy, approving policies and plans, ensuring effectiveness of internal controls, ensuring compliance with laws and regulations, risk management, performance management, being responsible for the appointment/ removal of key members of the management team, approval of compensation packages and setting the cultural and ethical tone of the Bank.

A Board member has a fiduciary duty to keep confidential all non-public information he has obtained in the course of his duties. No member shall use confidential information for his own personal benefit or for the benefit of any person/entity inside or outside the Bank. A Board member may divulge confidential information, whether during or after his service, only with the written permission of the Chairman of the Board.

Board process

The number of general Board meetings should be at least the minimum required by Saudi laws and the meetings should be scheduled at the beginning of the year. Additional or extraordinary meetings can be convened or requested by the Chairman and two or more Board members. The agenda and information packs for meetings should be sent out at least seven days in advance and the Board Secretary is responsible for this. For extraordinary meetings it should be sent as much in advance as feasible. In addition to face-to-face meetings teleconference or videoconference meetings are also permissible. The quorum for a Board meeting shall be:

- The Chairman or Vice-Chairman
- At least five Board members either in person or by an authorised representation by another Board member subject to the fact that a Board member may not represent more than one member.

Board decisions shall be by a simple majority of members present or represented with the Chairman's (or Vice-Chairman's in his absence) vote being the deciding vote in the case of a tie.

The Board Secretary is tasked with assisting the Chairman in the smooth functioning and logistics of the Board and Board Committee meetings. He should maintain minutes of meetings including discussions, votes, objections, and abstentions from voting. Minutes should be dispatched not later than 10 days from the meeting date.

The details of the attendance at the respective Board meetings are given below:

Date of meeting	Directors present
March 23, 2017	Mr. Abdallah Saleh Jum'ah – Chairman Mr. Abdulaziz Al-Khamis – Vice-Chairman Mr. Abdul Rahman Al-Rawaf Dr. Abdulaziz Alnowaiser Dr. Abdulraouf M. Mannaa Dr. Fouad Al-Saleh Mr. Mishari Al Mishari Mr. Saleh Al Athel Mr. Mohammed Al Ali
May 25, 2017	Mr. Abdallah Saleh Jum'ah – Chairman Mr. Abdulaziz Al-Khamis – Vice-Chairman Mr. Abdul Rahman Al-Rawaf Dr. Abdulaziz Alnowaiser Dr. Fouad Al-Saleh Mr. Mishari Al Mishari Mr. Saleh Al Athel
September 26, 2017	Mr. Abdallah Saleh Jum'ah – Chairman Mr. Abdulaziz Al-Khamis – Vice-Chairman Mr. Abdul Rahman Al-Rawaf Dr. Abdulaziz Alnowaiser Dr. Abdulraouf M Mannaa Dr. Fouad Al-Saleh Mr. Mishari Al Mishari Mr. Saleh Al Athel Mr. Mohammed Al Ali
December 11, 2017	Mr. Abdallah Saleh Jum'ah – Chairman Mr. Abdulaziz Al-Khamis – Vice-Chairman Mr. Abdul Rahman Al-Rawaf Dr. Abdulaziz Alnowaiser Dr. Abdulraouf M. Mannaa Dr. Fouad Al-Saleh Mr. Mishari Al Mishari Mr. Saleh Al Athel Mr. Mohammed Al Ali

Board committees

The ultimate responsibility for safeguarding the interests of SAIB through effective governance lies with the Board of Directors. The Board is supported in its governance function by several committees; five Board Committees and one Board subcommittee. The Board Committees are:

- Board Executive Committee
- Board Risk Committee
- Board Audit Committee
- Board Nominations and Remuneration Committee
- Board Shariah Committee

For further details of the responsibilities of Board Committees refer the online report at www.saib.com.sa/integratedreport2017/board-committees

For further details of the members of the Board Committees refer the online report at www.saib.com.sa/integratedreport2017/board-committees-members

Board subcommittee

There is one Board Subcommittee which is on corporate governance.

The role of the Corporate Governance Subcommittee is to ensure that corporate governance systems and procedures are in line with international standards and that these standards are followed throughout the Bank. The Committee reports to the Board Nominations and Remuneration Committee.

The General Manager – Corporate Governance, performs the role of the executive arm of the subcommittee at management level. He is charged with ensuring observance of sound Corporate Governance Policies.

For further details of the responsibilities of Board Subcommittee refer the online report at www.saib.com.sa/integratedreport2017/board-subcommittee

Management

The Board is responsible for the appointment of the CEO and the continuing evaluation of his performance. There should be clear division of responsibilities between the Chairman and the CEO to ensure separation of the roles of Executive Management and the Board.

The management process is overseen through a system of management committees and subcommittees.

Management committees

Management committees execute policies and directives issued by the Board and the Senior Management and also recommend, decide, approve and monitor matters in their area of specialisation. They also provide platform for exchange of views at Senior Management level in a formal manner.

There are seven Management Committees which are listed below:

- Management Committee
- Credit Committee
- Asset and Liability Committee
- IT Steering Committee
- Enterprise Risk Management Committee
- Information Security Committee
- Compliance Committee

For further details of the functions of the respective Management Committees refer the online report at www.saib.com.sa/integratedreport2017/management-committees

Management subcommittees

The Management Subcommittees make recommendations on a specific topic to a predetermined Management or Board Committee.

There are eight Management Subcommittees which are listed below:

- Sustainability Subcommittee
- Business Continuity Subcommittee
- Securities Valuation Subcommittee
- Structures Solution Approval Subcommittee
- Financial Fraud Control Subcommittee
- Operational Risk Management Subcommittee
- Stress Testing Subcommittee
- Labour Subcommittee

For further details of the functions of the respective Management Subcommittees refer the online report at www.saib.com.sa/integratedreport2017/management-subcommittees

Since Board members have no individual power to give directives to members of the staff, communication between Board members and management outside of Board and Board Subcommittee meetings should be through the Corporate Secretary who will then obtain the consent of the Chief Executive Officer for the meeting or contact. The CEO can opt to participate in the discussion if he so desires.

Financial disclosure and transparency

SAIB follows the:

- International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and Income Tax, which requires adoption of all IFRS 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" in so far as these relate to Zakat and Income Tax. As for 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
- Are in compliance with the Banking Control Law, the applicable provisions of regulations for companies in the Kingdom of Saudi Arabia, and the Bank's Articles of Association.

The Financial Statements for the year ended December 31, 2017 have been approved by the Directors in detail to ensure that they present a true and fair view of Company's affairs for the period under review.

IT governance

Information technology plays a vital role in the Bank's strategy and operations across all business units and supporting divisions. The Bank has a clear IT strategy which has been crafted to give the Bank a competitive edge in the market. All IT activities and projects are conducted in accordance with best practices and standards including the following.

- ISO 20000
- The System Development Life Cycle
- Bank's IT Policies and Procedures
- Project Management Frameworks
- IT Architecture Standards
- Cyber Security Standards

The Bank's IT strategy has been developed to contribute to the Bank's overall strategy by alignment with the business strategy.

SAIB has a comprehensive Information Security Policy which is the foundation of the Information Security Management Security (ISMS). ISMS is intended to safeguard the Bank's digital assets and processing facilities. It thereby assures the information security interests of customers, employees and other stakeholders by minimising exposures to risks. A management framework has been put in place defining the roles and responsibilities to implement the ISMS. All digital assets should have a nominated owner and rules for accessible use should be established. Access to IT systems and facilities are on a "least privilege" and "need to know" basis. Critical and sensitive information processing facilities should be housed in secure areas with appropriate security barriers and entry controls.

A consistently configured environment should be maintained which is secure against known vulnerabilities in operating systems, network components/software and application software. Appropriate controls should be installed to make swift, effective, and appropriate responses to information security incidents including communication on security incidents and weaknesses.

Ethics and standards

The Bank maintains high ethical and professional standards in all its activities which are governed by a code of conduct. The Code of Conduct ensures that a culture of professionalism is maintained where ethical standards prevail. The Code of Conduct is based on fundamental principles of ethics, confidentiality, and professionalism. It applies to all persons who may represent the Bank including Directors, employees, consultants and affiliates. The importance of following ethical standards is instilled into employees in the process of training and career development. The Code of Conduct provides a guide for making ethical decisions in day-to-day operations. The Bank operates under the governing authority of its Board of Directors which oversees the implementation of the ethical standards and code of conduct. The Board is governed by the Directors Code of Conduct.

Internal control

An effective system of internal controls is an indispensable component of good corporate governance and is necessary to achieve the strategic objectives of the Bank. A system of internal controls includes the policies, procedures, systems, and processes required to ensure effective, efficient, and ethical functioning of the Bank.

Internal controls are overseen by the Internal Control Unit which is independent of the line management of the Bank. The Unit is responsible for assessing the adequacy and effectiveness of the internal controls across the Bank. The Unit reports its significant and material findings to the Audit Committee.

Internal control is not merely a top-down process. Efforts are made by all functions of the Bank to make a contribution towards reviewing and streamlining controls. The Audit Committee actively monitors the internal controls to safeguard the interests of the Bank. The internal control system has been designed to provide reasonable assurance to the Board on minimising risks and safeguarding assets. However, the management is very conscious of the fact that no system is absolutely foolproof and may not detect all possible control deficiencies. Moreover the changes in products, services and operations may place new demands on the rigour of control systems. The control system needs to be tested at regular intervals and revisions to the system made if necessary.

Whistleblowing

We have policies and procedures in place to ensure that the Bank complies with the applicable laws and regulations of Saudi Arabia, and that we follow international guidelines and recognised principles for ethical behaviour within the Bank. The SAIB's Code of Conduct provides specific guidelines on how employees are expected to behave in a number of areas, including dealing with inside information, conflicts of interest and whistleblowing, Our whistle-blowing policy is designed to allow employees to report possible breaches of our Code of Conduct or other laws, rules, regulations and guidelines applicable to our operations, to the CEO or the General Manager – Human Resources in good faith, without fear that their action may have adverse personal consequences. Externally, the Bank has a portal on its website for external parties to report possible breaches of laws and regulations to the Company which are handled by the Bank's Governance Department.

Notable activities during 2017

- Corporate Governance conducted revision of all Committee Charters, the Bank's major policies and reporting and the key functions where the Board of Directors approval is required.
- Ensured the completeness and compliance of all policies and committee's charters to be in line with SAMA and CMA guidelines as well as the overall effectiveness of the process implemented.
- Tracked and initiated the review of policies and charters at Board and Management level.
- Conducted orientation sessions to Senior Management and Board Members on corporate governance and provided additional workshops for Directors on current issues.

Risk Management

The Bank is operating in a complex and dynamic environment and judicious management of risk is an essential component of good governance and long-term value creation. Identifying, quantifying and managing all risks as well as striking a balance between risk and return is the essence of risk management. The Bank has a professional Risk Management Framework (RMF) in place underpinned by rigorous structures, systems, procedures and practices, taking into account all the risks the Bank is exposed to, both internal and external. The RMF has been drawn up taking into account the needs of regulators and other stakeholders. It is detailed in the Risk Management Policy Guide. The Risk Management Framework is reviewed at least annually to take into account any changes in Saudi Arabian Monetary Authority (SAMA) regulations, the Bank's risk management needs, and the operating environment.

The Risk Appetite Framework (RAF) is an expression of the corporate strategy which serves as a guide for day-to-day operations. This covers both risks arising as a result of the Bank's strategy as well as other risks. Regarding the former, it addresses the maximum level of risk the Bank could take without hampering its operations (risk capacity) as well the policy on the level of risk it should take (risk appetite). It also sets out the policy on the risk return trade-off which is measured by the budgeted Regulatory Capital Adequacy Ratio. The Bank's risk profile is the actual risk exposures which are monitored across each category, aggregated and reported periodically to SAMA. The risk profile should be kept within the risk appetite.

The implementation of the RAF is supported by a robust risk culture that is instilled into employees at all levels. Directives from the Board are communicated as necessary to all levels and enforced stringently. The culture promotes open discussion of issues pertaining to risk, shared values and communication. Self-reporting of risk and control issues is encouraged as well as escalation of violations to higher levels. Exceptions to limits require approval of an appropriate authority. Risk profile measurement and aggregation is to be adequately monitored and reported.

The different types of risk that the Bank has to take into account are described below:

Credit risk

This is the risk that counterparties do not fulfil their obligations on time and/or in full. Credit risk may arise with any type of counterparty – corporate, small businesses or individuals. Credit risk with business entities arises primarily from loans, acceptances, guarantees, derivatives and foreign exchange products. Credit risk to retail customers mainly relates to loans, mortgages and credit cards. The Bank has a Credit Policy Guide (CPG) approved by the Board of Directors, which provides strategic guidelines for managing credit risk. The CPG seeks to maximise returns while keeping risk to a practicable minimum. It mandates rigid compliance with all relevant laws, rules and regulations. Risk is also minimised by avoiding concentration of risk and diversifying credit across borrowers, industries, geographic locations, banks, collaterals, products etc.

Operational risk

This is the risk arising from inadequate or faulty internal processes, human failures and external events. Some examples are internal or external fraud, market manipulation, damage to physical assets, hardware and software failures. An Operational Risk Management Framework, approved by the Board of Directors, addresses the various types of operational risk and how they should be handled. An Operational Risk Appetite Matrix has also been established for the Bank as a whole. Operational losses incurred are monitored on an ongoing basis and appropriate corrective action taken. A set of Key Risk Indicators (KRIs) has also been developed at the level of the business units to enable proactive monitoring and management of operational risks.

Market risk

This is the risk arising from changes in market variables such as interest rates, foreign exchange rates and equity prices. Management of such risks is laid down in the Treasury Policy Guide (TPG) issued by the Board of Directors.

Some of the types of market risk:

Interest rate risk

This is the possibility that changes in interest rates affect either future cash flows or fair values of financial instruments. This could arise from timing differences for fixed rate and floating rate assets and liabilities. The Board strives to manage these risks, by controlling mismatches by time periods.

Currency risk

This is the risk of fluctuations in exchange rates affecting values of financial instruments. The Board monitors this risk by setting limits of forward maturity gaps and by hedging strategies.

Equity price risk

Equity price risk is the risk of decrease in fair values of a Bank's non-trading equities. This risk is mitigated by adhering to limits on equity investments which are set by the Board.

Investment risk

Investment risk, is a combination of credit risk, interest rate risk, market risk and currency risk. There are also dependencies and correlations between these various factors. The Board monitors this type of risk by setting limits on investments in terms of size, asset class, credit class, currency and type.

Liquidity risk

This is the risk that the Bank will be seriously hampered in its ability to meet its current or future cash flow requirements without resorting to exceptional measures that may jeopardise its financial position or standing. This tends to be a combination of other risks such as credit risk and market risk. This risk is mitigated by reducing dependence on more volatile funding sources such as wholesale funding and inter-bank funding; avoiding external downgrades or other negative news; reducing unsecured borrowings from the short-term money market; minimising inter-bank credit lines; avoiding flights of deposits; limiting off balance sheet derivative products and committed credit lines.

Reputation risk

This is the risk arising from a loss of public confidence in the Bank, and the resulting loss in earnings and capital. In today's communication environment where news spreads instantaneously, it is paramount that reputation should be safeguarded. Reputation risk can arise from failure to comply with regulatory requirements, unethical conduct of employees or poor standards of service.

The Bank handles the possibility of reputation risk by strict compliance with laws, regulations and governance principles, updating Standard Operating and Accounting Procedures (SOAPs) and adhering to policies laid down by the Board.

Macroeconomic and business risk

This is the risk arising from macroeconomic parameters such as inflation rates and oil price fluctuations. These risks are taken into account in drawing up the annual business plans, and adherence to the plans will mitigate such risks.

Legal risk

Legal risk arises from failure to comply with statutory or regulatory obligations, uncertainty due to legal actions, uncertainty regarding application or interpretation of contracts, laws and regulations, or uncertainty about the rights and obligations of the parties the Bank is dealing with.

The Bank takes a proactive approach to managing legal risk by analysing all business activities considering their legal implications. Similarly, all Bank procedures, policies and documents are also reviewed periodically from a legal perspective.

Information security risks

This is the risk of unauthorised access or disclosure, tampering or destruction of information. This has become a very important threat in the present context when cyber threats have become widespread.

Information security is a part of corporate strategy. The Bank actively promotes security governance and a security culture. A clearly laid down Information Security Policy, on which is built an Information Security Management System (ISMS), is the foundation of the Bank's security system. Comprehensive security measures are in place to safeguard IT facilities, hardware, data, and software.

Security is assured by risk based audit conducted by internal audit, external agencies and certification bodies. The Bank deploys adequate technical safeguards to prevent breaches of security. This is complemented by training and promoting awareness of staff and customers.

Strategic risk

Strategic risk is the impact on the Bank's current or prospective earnings or capital arising from improper business decisions, flawed implementation of decisions or inadequate responsiveness to industry developments and the business environment. The Bank mitigates these risks by adhering to the five-year strategic plans which are prepared periodically.

Global risk

This is the risk arising from events over which the Government of the Kingdom has no control such as recessions in major economies, natural disasters and terrorist attacks. Global risks are monitored through the Asset and Liability Committee (ALCO) by monthly review meetings and corrective action.

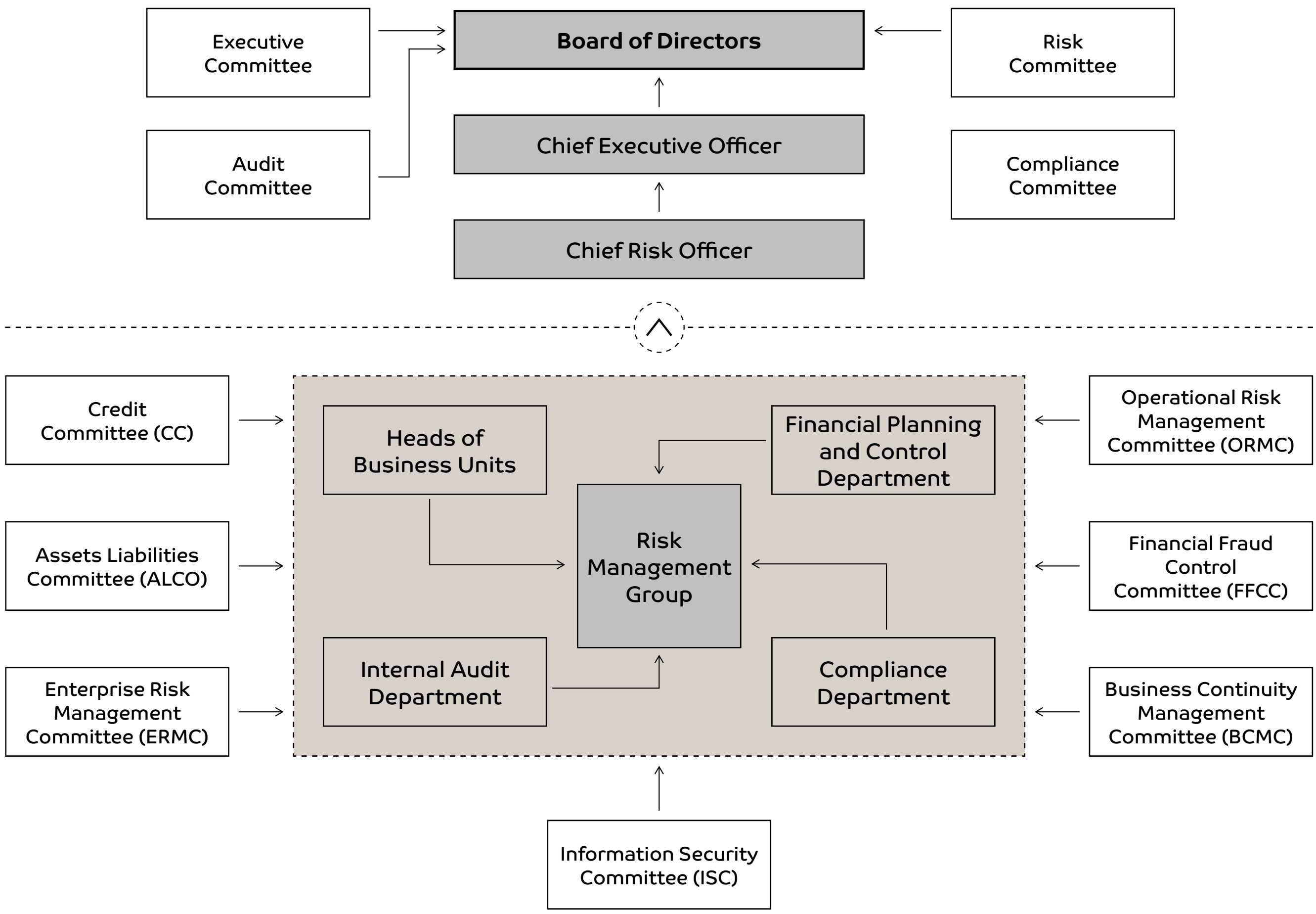
Pre-settlement and settlement risk

Pre-settlement risk is the possibility of counterparties to a contract not fulfilling their obligations under the contract and defaulting before the contract's settlement date prematurely ending the contract. This could arise for example, if the counterparty becomes bankrupt prior to performing the contract. This will entail finding a replacement party to complete the contract and incurring the resulting costs. The pre-settlement risks for various types of transactions are covered in the Bank's Treasury Policy Guide. The Bank measures pre-settlement risk by the likelihood of adverse market movements leading to default situations.

Settlement risk is the possibility that a counterparty to a contract does not deliver a security or an agreed cash value when the Bank has fulfilled its obligations under the contract. This could occur with future contracts.

Risk governance

The Board of Directors bears the primary responsibility for risk governance assisted by several other committees such as Executive Committee, Risk Committee, Audit Committee and Compliance Committee. A number of other management committees also handles the risk governance at the management level. The composition, roles and responsibilities of these committees are laid down in the Corporate Governance Policy of the Bank as well as in their respective charters. Reporting to the various committees for monitoring and control/approval is independent of normal business lines at all times.



For further details on risk governance and the functions of the respective committees refer the online report at www.saib.com.sa/integratedreport2017/risk-governance

The General Managers of various business units will manage risks pertaining to their respective units by adhering to the relevant guidelines and limits set by policies approved by the Board.

A Risk Management Group is in place to monitor and control the relevant risks and exposures of the Bank. The monitoring and controlling process is supported by Financial Planning and Control Department, Internal Audit Department and Compliance Department. The Risk Management Group is headed by a Chief Risk Officer and includes Heads of the Departments actively involved in risk management.

For further details on the duties of the Chief Risk Officer refer the online report at www.saib.com.sa/integratedreport2017/chief-risk-officers-duties

The Bank utilises a number of qualitative and quantitative tools to identify, assess, limit, and monitor risks.

For further details on the tools used by the Bank for risk management refer the online report at www.saib.com.sa/integratedreport2017/risk-management-tools

An Internal Capital Adequacy Assessment Plan (ICAAP) is prepared in accordance with Saudi Arabian Monetary Authority (SAMA) guidelines. ICAAP includes an assessment of the Bank's risk exposures over a one year period, along with an assessment of available and required capital.

The Bank also carries out stress testing to gauge its robustness to withstand risks. This includes the Bank's exposures to credit, market, liquidity, concentration, operational and other risks.

During the year under review, a number of initiatives were implemented to improve the risk management function, especially regarding increasing automation. The second phase of Proactive Risk Manager (PRM), an online fraud prevention system, was successfully implemented. Major improvements in automation of market risk and operational risk are also in progress. Initiatives are also under way regarding modelling credit risk. Probability of default (PD) and loss given default (LGD) will be quantified in line with the new IFRS for loan impairments; this is a team effort involving business, finance and IT.

Developing the human resources skills for credit risk management has not been neglected. During 2015, 22 Saudi graduates including nine women were recruited and they followed an intensive 15-week programme in risk management and related topics. These graduates have now been assigned to various departments within the Risk Management Group and have been confirmed in their positions. We look forward to a valuable contribution from them to the Bank's risk management function in the years ahead.

Business continuity plan

The Bank is cognisant of the fact that it can be vulnerable to threats, both internal and external. Such threats include natural disasters, system failures, and data breaches which can seriously disrupt or halt operations. It can also seriously tarnish the Bank's reputation and impair stakeholder confidence. The Bank has policies and plans in place to enable continuance of normal business operations despite a disruptive incident; also to detect, prevent where possible and minimise the impact of such incidents. Advance preparation and planning is required to restore normal services in the event of a disruptive crisis. Since the Bank's processes are highly automated there is a need for backup and recovery strategies and temporary alternative processes in the event of a system crash or failure.

The business continuity function is overseen by a Business Continuity Management Committee (BCMC) headed by the Business Continuity Plan Manager. The Bank has a detailed Business Continuity Plan (BCP) to manage disruptive situations. The goal of the BCP is to enable the Bank to recover from any crisis situation and restore all critical business lines within four hours. It also aims to minimise the loss of information and assets to an acceptable level. All staff are familiarised with the BCP and their respective roles in a situation where it has to be invoked. The BCP is tested periodically in a simulated environment to ensure its applicability and effectiveness in a real situation. The BCMC will periodically review the progress of the BCP and consider necessary changes.

To reaffirm the comprehensiveness of our Business Continuity Plan, preparation for the ISO 22301:2012 surveillance audit for the Bank-wide Business Continuity Management was commenced in 2017. The audit was conducted in January 2018 by TUV HELLAS and covered actions on previous surveillance observations, Business Continuity Management Structure and Policies, Business Impact Analysis (BIA) methodology and Business Continuity Plan. The audit was successfully completed with zero non-conformity, but three potential improvements were identified that will be considered in due course. The re-certification audit, which will be more comprehensive than the current one, will take place at the end of 2018.

Risk performance

It is suggested that the actual performance of some key risk indicators against a benchmark such as Bank target levels/Regulator approved limits/Saudi Industry averages be given in a table similar to that given below:

Risk category and parameter	Description	Benchmark/Regulatory limit	Actual position as at December 31, 2017
Credit risk			
Quality of lending portfolio	Gross NPA ratio (%)	N/A	1.27
	Net NPA ratio (%)	N/A	1.29
	Provision cover (times)	N/A	1.39
Liquidity risk			
	Liquid coverage ratio (as of last 90 days) (%)	Minimum LCR to be maintained at 100%	223.17
Strategic risk			
Capital adequacy	Capital adequacy – Tier I	N/A	17.34
	Capital adequacy – Total capital	N/A	20.42
	Capital funds to deposits ratio	N/A	20.16
	ROE	N/A	10.72
	Creditworthiness – Fitch Ratings	Investment grade rating (BBB-)	BBB+/F2

Notable activities during 2017

An automated process was also introduced for processing financial institution-related TACM approval requests. A new monthly report was also implemented for financial institutions covering country limits and Bank exposures.

To improve retail credit risk management, scorecards for credit card and loan applications as well as application procedures were revised. An IFRS 9-based project was also carried out for consumer lending products. Frameworks were also developed to improve operational risk management and risk and control self-assessment workshops were conducted for 15 entities in the Bank.

New rules covering payments to give effect to proactive fraud monitoring through a Proactive Risk Management System were implemented. Business continuity process testing exercises were conducted Bank-wide; disaster recovery testing was also carried out for critical business areas such as Treasury and Call Centre. Enhanced monitoring of Treasury-related activities was also conducted to minimise market risk. Improved procedures were also introduced for tracking and managing all assets held as collateral including land.

Compliance

GRI 205-1

The role of the compliance function of the Bank is to ensure that the functioning of the Bank is in accordance with laws, regulations, rules and policies both internal and external. Compliance is an important facet of SAIB's culture and is instilled into employees at all levels. SAIB follows not merely the letter but also the spirit of the regulations.

The compliance function and all related procedures are set out in a compliance manual which is prepared by the Compliance Department and approved by the Board of Directors. It is based not only on the letter, but also of the spirit of the recommendations included in the Compliance Manual for Banks operating in the Kingdom of Saudi Arabia issued by Saudi Arabian Monetary Authority (SAMA) in December 2008 (Appendix – A). The responsibility for administering the Manual rests with the Head of Compliance (HOC). The Manual needs to be kept current taking into account changes in environment, both internal and external. Revisions may become necessary due to changes in laws and regulations, functions, activities and business processes of the Bank, changes in organisation/authority structures, and job roles.

Monitoring and action

The Bank has a Compliance Monitoring Programme in place to identify, assess, and monitor the risks of non-compliance with laws, regulations, and procedures. The Programme is overseen by the Compliance Committee (CC) and the HOC submits a quarterly report to the CC. The compliance function also develops an Annual Compliance Plan. This is based on the Compliance Risk Assessment Methodology included in the Compliance Monitoring Programme. It includes testing of significant risk products and activities at a frequency which is set by the level of the risks involved.

To ensure the effectiveness of compliance monitoring, the compliance function maintains a comprehensive Compliance Risk Register giving full details of all compliance risks including the nature and severity of risk, source reference, likelihood and potential impact, controls assessed, control score, and residual risk score.

A Compliance Issue Tracker has been developed for better monitoring of observations and exceptions having compliance implications and reducing the chance of errors.

Organisation structure

The Board of Directors does not exercise any executive function regarding compliance, but supervises compliance activities. This responsibility has formally been delegated to the Compliance Committee, and the BOD monitors and evaluates the compliance function through this Committee.

For further details on the compliance function of the Board as well as the composition and responsibilities of the Compliance Committee refer the online report at www.saib.com.sa/integratedreport2017/organisation-structure

Compliance initiatives of SAIB

Anti-Money Laundering/Counter Terrorism Financing (AML/CTF)

Financial institutions such as SAIB are particularly vulnerable to being used for money laundering activities. Money laundering usually involves the placing of proceeds of illegal activities such as narcotics, fraud, corruption, organised crime and terrorism with financial institutions, disguising their source, so that they can flow into the economy as legitimate funds. Money laundering is criminalised in the Kingdom of Saudi Arabia and SAIB adheres to the Anti-Money Laundering Rules and Guidelines Law issued by Royal Decree No. M/31dated 11/5/1433. SAIB employees are required to familiarise themselves with indicators of suspicious transactions and bring any such transactions to the notice of AML/CTF. The Bank also has a "Know Your Customer" policy in place, to safeguard the Bank from clients who may pose risks.

Cross-border issues

The Bank should comply with all laws and regulations in all jurisdictions within which it operates. The organisation, structure and processes of the compliance function should be aligned with the requirements of the respective jurisdictions. The Bank conducts business internationally through local subsidiaries or branches in other locations when they do not have a physical presence. The compliance function should ensure that operations in other locations are carried out by persons with local knowledge and expertise.

Human resources policy

As part of the recruitment process all prospective employees are screened for their past professional conduct. All supervisors monitor their direct reports to ensure compliance. Systems and procedures as well as employees are kept current with compliance requirements. The Head of Compliance (HOC) is responsible for implementing any new laws and regulations. The Compliance Department takes care to eliminate any conflicts of interest among the compliance staff or supporting staff of other departments.

Employee adherence to Bank's compliance policies and procedures will be an element of staff appraisals at all levels.

Customer complaints

All customer complaints are dealt with promptly and effectively at SAIB. Complaints may be submitted in any form and through any medium. Employees are required to strictly adhere to the procedures for dealing with customer complaints.

Notable activities during 2017

Compliance

The Compliance Department participated in the implementation of disaster recovery preparation plans as directed by SAMA. The existing processes for monitoring of transactions were also reviewed from a systemic perspective and identified gaps were closed. High risk accounts and transactions were also reviewed from a regulatory perspective. Coordination with business units was also improved through branch visits, participation in FTACA project and providing opinions on regulatory matters. All recommendations issued to compliance by audit were also implemented.

Internal audit

The Internal Control Project, mandated by SAMA was conducted in coordination with the Protiviti Team. The project involved a complete walk through of Bank-wide processes and controls. The risk and control matrices resulting from the exercise were documented and submitted to SAMA. They were also incorporated in the TeamMate system as the Bank's Risk Register and are used in audit programmes. Internal audit is also responsible for validating all SAMA observations and initiating any correcting action recommended by SAMA. Three investigations and live testing of disaster recovery procedures mandated by SAMA were conducted.

The Department was strengthened with additional manpower and rotation of staff was conducted between the Audit Department and the Treasury and Corporate Banking Group. A comprehensive Business and IT Audit Universe and Risk Assessment Framework was also drawn up.

Investing in sustainable community activities in creating a modern and vibrant society

Business Model

The Bank functions within a local and global economic, social, and political environment. Within the constraints of this environment, and guided by its sustainability pillars, it has to develop strategies to achieve the desired objectives.

Operating Environment

Global economy

The world economy, which had a lacklustre start in 2016, started on an upswing in the middle of the year and this momentum has generally continued into 2017. Growth in global GDP which recorded a low 3.2% in 2016, grew by 3.7% in 2017, and growth in 2018 is projected at 3.9%. A total of 120 countries, collectively accounting for three-quarters of world GDP, grew in year on year terms in 2017. Growth was better than previous forecasts showed in several advanced and emerging economies including the United States, Germany, Japan, Korea, Brazil, China, and South Africa. Many advanced economies are now approaching full employment. World trade picked up towards the end of the year driven by increased investment particularly in advanced economies and increased manufacturing output in Asia. However, the picture is not entirely rosy. Growth is still weak in many areas and political uncertainties; terrorism and climate change also pose risks.

The prices of fuel, which fell between February and August 2017, picked up in the last quarter of the year buoyed by the global growth, weather conditions in the US, production cuts by OPEC, and geopolitical tensions in the Middle East. Marker prices are expected to gradually decline over the next 4-5 years. Although short term economic forecasts are somewhat optimistic things look less rosy in the medium term. Possible downsides are increases in inflation and interest rates, protectionist policies, geopolitical tensions and political uncertainties. Furthermore, growth still remains weak in many areas. Nevertheless, the current environment has opened up opportunities which policy makers should capitalise on.

The US economy grew by 2.3% during the year. Corporate tax cuts are expected to stimulate growth through the next few years. Business and consumer confidence remains upbeat. With unemployment being at its lowest level since 2000, this should contribute to wage growth. Highly skilled and highly paid baby boomers becoming senior citizens in large numbers will slow the rate of labour force growth and consequently consumption growth. However, a substantial and sustained global upturn should stimulate increased economic activity through linkages to global value chains. Nevertheless, some uncertainties surrounding the policies of the current administration remain which may have a dampening effect.

The Chinese economy recorded a moderate growth of 6.5%. Growth was somewhat slowed down by policy makers seeking to rein in debt and factory pollution. The upside is that the changes should augur well for sustainable growth in the long term. The Indian economy is expected to record its lowest growth in four years (6.5%) in the year to March 2018. The economy was adversely affected in the short term by demonetisation and the Goods and Services Tax. GST and other structural changes augur well for the medium term. Other emerging economies in East and South East Asia were also boosted by increased external demand.

The US Dollar appreciated in real terms by 6% since August. The currencies of certain commodity exporters, including Russia, also appreciated reflecting improvement in commodity prices; on the other hand, the Euro, the Japanese Yen, and some emerging market currencies have weakened.

Low income countries continue to be faced with many challenges including diversifying their economies, maintaining growth while achieving the sustainability development goals, high debt levels and low commodity prices. Priority areas to address include broadening the tax base, improving debt management, reducing poorly targeted subsidies and improving infrastructure, health, and education. Climate change and extreme weather conditions, such as droughts in sub-Saharan Africa, pose threats to many countries. In low income countries a rise in temperature tends to lower per capita output both in the short and medium terms. Though sound domestic strategies and policies can help such countries will be unable to cope with the challenges without the assistance of the international community.

The Gulf region

All countries of the Gulf region have been adversely affected by the reducing oil price trend of the last three years but have nevertheless shown resilience. Growth has been reduced accompanied by widening fiscal and external deficits. Both OPEC and non-OPEC members have agreed to production cuts until March 2018 and there is a possibility of a further extension. There is optimism about stronger global growth resulting in higher demand and oil prices stabilising at around USD 55 per barrel in 2018/19. All GCC countries have to address the issues of reducing the oil dependence of their economies and cutting financing by the state. While this has led to fiscal consolidation it has weakened non-oil growth. The region is also affected by geopolitical risks.

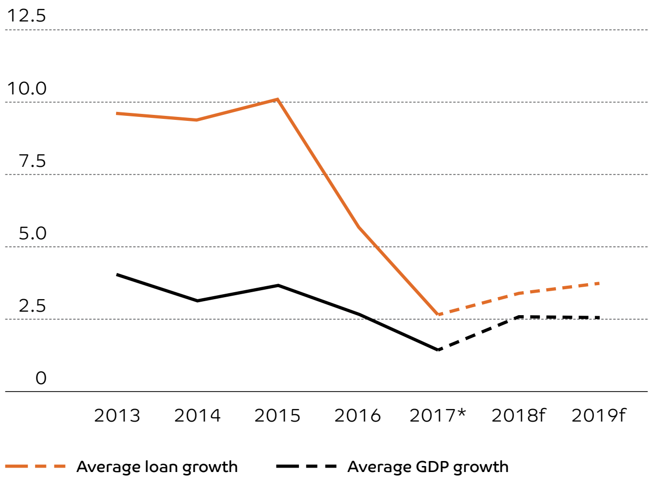
A unified framework has been agreed on for the introduction of VAT within the GCC countries which will promote cross-border trade in the region. Although implementation was due to start from 1st quarter of 2018 it is likely to be delayed in most countries due to coordination issues and preparatory work requirements.

Bahrain has been adversely affected by low prices for both oil and bauxite. A moderate level of GDP growth has been maintained by deficit spending, at the cost of reduced reserves and increased public debt. The Kuwaiti economy grew by about 3% in 2016, boosted by higher oil production and government spending. Growth is expected to slow in 2017, but is expected to pick up in the medium term in the wake of increased oil production (and possibly higher prices) and infrastructure spending. Introduction of VAT in 2018 is on track, which should ease fiscal pressure.

Growth of the UAE economy, which recorded 2.3% in 2016, is expected to reduce further due to oil production cuts. However, investment that should take-off to support the Expo 2020 event coupled with increased oil production as a fruition of oil field development should boost growth from 2018. The Expo event is expected to draw visitors in large numbers fuelling private consumption and services.

As with the rest of the GCC, Oman's growth slowed down in 2016 and a growth of only 1% is forecast for 2017. Reduced government spending, low business confidence and private consumption is expected to slacken growth. Despite large spending cuts a budget deficit of 10%-14% is expected. With increasing interest rates monetary policy is expected to remain tight.

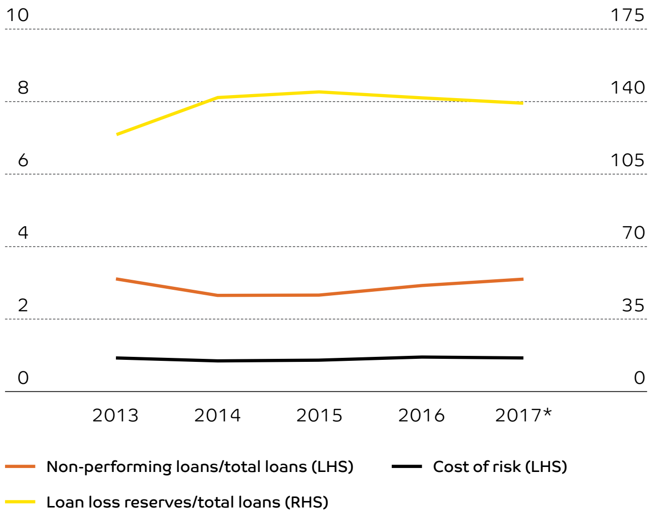
Growth of GCC banks' loan portfolios versus GDP growth %



Annualised. f–Forecast. Source: S&P Global Ratings, GCC Central Banks.

Coming to the banking and financial sector of the region, private sector lending which grew by 2.6% in 2017 on annualised average basis, is expected to grow by about 3-4% in 2018. This should be boosted by initiatives such as Dubai Expo 2020, the Saudi Vision 2030 and Kuwait 2035. The economic slowdown of the last two years caused a slight increase in non-performing loans. It is expected that the deterioration will continue for six months and then stabilise.

Asset quality indicators %



**As of September. Source: S&P Global Ratings.*

Growth in customer deposits slowed to 3.5% in the first months of 2017 compared to 5.0% in the corresponding period in 2016. Nevertheless, the GCC banks' funding profiles can be broadly be considered satisfactory. Funding is largely from core customer deposits except for a few large wholesale customers. Loan to deposit ratios have been on an improving trend during the year. While the first nine months saw an increase in GCC banks' profitability there are grounds for scepticism as to whether the trend will last. The increase has been due to banks deploying their excess liquidity in relatively high interest earning government bonds; a higher net interest margin due to improving local liquidity and increase in Federal Reserve's interest rates; and aggressive measures of cost reduction. However, the trend is not likely to continue due to slower loan growth, higher loan impairment particular due to the implications of IFRS 9, and increase in operating costs due to the introduction of VAT.

The Saudi economy

The Saudi economy which grew by 1.4% in 2016 contracted by 0.7% in 2017 according to preliminary data. The main cause is the contraction in the oil sector, which is expected to be about 3%. The Kingdom complied with production cuts in 2017, which are due to last until March 2018. The Government's efforts to diversify the economy have borne modest results with the non-oil sector expected to grow by 1%. Within the non-oil sector, a major contribution to growth will be from the non-oil mining sector, which is now the fastest growing sector in the Kingdom. Private ownership of residences is also expected to grow rapidly.

The fiscal deficit narrowed to 8.9% of GDP in 2017, from nearly 13% the previous year. This was mainly as the result of major steps taken to restore fiscal balance by way of cuts to civil service remuneration, affecting around two thirds of employed nationals, and reduction of subsidies. With reduced oil prices, the policies of the past underpinned by government employment, generous subsidies and free public services is becoming increasingly unsustainable. However, in April 2017 these measures were partially reversed with results coming in from other measures of fiscal consolidation.

The Kingdom successfully introduced Value Added Tax (VAT) from January 1, 2018 to be aligned with the GCC VAT framework. Saudi Arabia and the UAE have become the first countries in the GCC to introduce VAT. The rate will be 5%, but in accordance with the GCC VAT Treaty certain products and services will be exempt or entitled to zero rating. An excise tax of 100% will be levied on tobacco and energy drinks and 50% on soft drinks. From January 1, 2018, SAIB added VAT to all its products and services unless they came under the VAT exempt or zero-rated category.

The introduction of VAT is a necessary step to diversify the sources of government revenue in the context of falling oil prices. The practice of the past when citizens enjoyed generous subsidies while being free of taxes is no longer sustainable. While this will cause a slight rise in the cost of living, this will depend on an individual's purchasing patterns. Citizens whose purchases are mostly of tax exempt goods will not be much affected.

A glimpse of the future face of the Kingdom was revealed at the Future Investment Initiative (FII) held in October 2017. This mega-event drew 3,500 leaders from the corporate, government and financial sectors and featured extremely high profile speakers. The cornerstone of the initiative is NEOM, a USD 500 billion giga-project which would be a business and financial hub extending over 26,500 square kilometres in the North Western region of the Kingdom. The thrust areas will be digital technologies, biotech, advanced manufacturing and energy making it a Silicon Valley of the Middle East. NEOM will be a partially autonomous region having its own customs, taxation and labour laws. In addition, there are plans to build an entertainment city in Riyadh and a resort destination on the Red Sea.

Vision 2030

In April 2016 a visionary strategic plan for the future of the Kingdom was unveiled.

The Vision is built around three themes; a vibrant society, a thriving economy, and an ambitious nation. The members of a vibrant society would keep to their religious and cultural heritage while enjoying a good life in a beautiful environment with social protection. A thriving economy will create opportunities for all, by building an education system aligned with market needs. The nation's ambitions will be achieved through effective, responsible, transparent, enabling, and high performing government at all levels.

The Vision envisages reducing the dependence on oil, expanding the role of the private sector in the economy and bringing Saudi Arabia into the top 10 slots in the Global Competitiveness Index. It targets an increase in non-oil revenue from SAR 163 billion to SAR 1 trillion. To meet the needs of the economy the education system will be revised to be aligned with the job market. A modern curriculum will be prepared focusing on rigorous standards in literacy, numeracy and character development. By 2030 The Kingdom aspires to have at least five universities in the ranks of the global top 200. The talents of Saudi women, which are at present an underutilised asset (over 50% of university graduates are women) will be brought on stream.

The role of the SME sector, which at present contributes only 20% to the GDP, is projected to expand. Young Saudi entrepreneurs will be encouraged with business-friendly regulations, easier access to funding, international funding and a greater share of national and government procurement bids.

The privatisation of state assets which is ongoing will be continued. The ownership of ARAMCO, the state oil giant, will be transferred to the Public Investment Fund and an Initial Public Offering is planned for up to 5% of the ownership. The revenue resulting from privatisation will be reinvested for the long term, in strategic sectors which require capital intensive inputs. In the process the economy of the Kingdom will be diversified away from excessive dependence on oil. Some of the thrust areas identified are localising renewable energy and industrial equipment sectors, developing leisure and tourism, investing in the digital economy and exploring and exploiting the non-oil mineral resources of the Kingdom. Saudi Arabia is endowed with many non-oil minerals such as, gold, silver, aluminium, copper, lead, zinc, iron ore, uranium and phosphate.

A Vibrant Society

To increase our capacity to welcome Umrah visitors from 8 million to 30 million every year

To more than double the number of Saudi heritage sites registered with UNESCO

To have three Saudi cities be recognised in the top-ranked 100 cities in the world

To raise our position from 26 to 10 in the Social Capital Index

To increase the average life expectancy from 74 years to 80 years

To increase household spending on cultural and entertainment activities inside the Kingdom from the current level of 2.9% to 6%

To increase the ratio of individuals exercising at least once a week from 13% of population to 40%

An Ambitious Nation

To rally one million volunteers per year (compared to 11,000 now)

To raise our ranking on the E-Government Survey Index from our current position of 36 to be among the top five nations

To increase non-oil government revenue from SAR 163 billion to SAR 1 trillion

To raise our ranking in the Government Effectiveness Index, from 80 to 20

To increase household savings from 6% to 10% of total household income

To raise the non-profit sector's contribution to GDP from less than 1% to 5%

A Thriving Economy

To move from our current position as the 19th largest economy in the world into the top 15

To rise from our current position of 25 to the top 10 countries on the Global Competitiveness Index

To increase foreign direct investment from 3.8% to the international level of 5.7% of GDP

To increase the Public Investment Fund's assets, from SAR 600 billion to over 7 trillion

To increase the private sector's contribution from 40% to 65% of GDP

To raise the share of non-oil exports in non-oil GDP from 16% to 50%

To increase the localisation of oil and gas sectors from 40% to 75%

To raise our global ranking in the Logistics Performance Index from 49 to 25 and ensure the Kingdom is a regional leader

To increase SME contribution to GDP from 20% to 35%

To lower the rate of unemployment from 11.6% to 7%

To increase women's participation in the workforce from 22% to 30%

The service sectors will be opened up to private participation, shifting the government's role to being more of a regulator. Banks and other financial service providers will adapt their products and services to the needs of each sector. The economic cities, projects, which have lagged in implementation, will be revitalised. The Kingdom will also create new economic zones in exceptional and competitive locations. Though the retail sector has flourished, it currently employs only 0.3 million Saudis out of a workforce 1.5 million and it is largely traditional retail. We intend to provide jobs for an additional million Saudis by 2020 and increase the contribution of modern retail and e-commerce.

To achieve its ambitious targets the Kingdom will need to identify and put in place best practices that will improve the efficiency and effectiveness of our public administration. This will include recruitment according to merit, human capital development and providing a conducive working environment.

In order to build the institutional capacities and capabilities needed to achieve the goals of Vision 2030 a National Transformation Programme 2020 was launched in 2016 with a four-year time frame. This sets interim targets within the framework of Vision 2030. The programme is intended to make a significant impact on planning efficiency and effectiveness as well as the integration of government action. The strategic targets and objectives for entities participating in the Vision 2030 will be identified. The strategic objectives will then be translated into initiatives, backed by detailed implementation plans and feasibility studies.

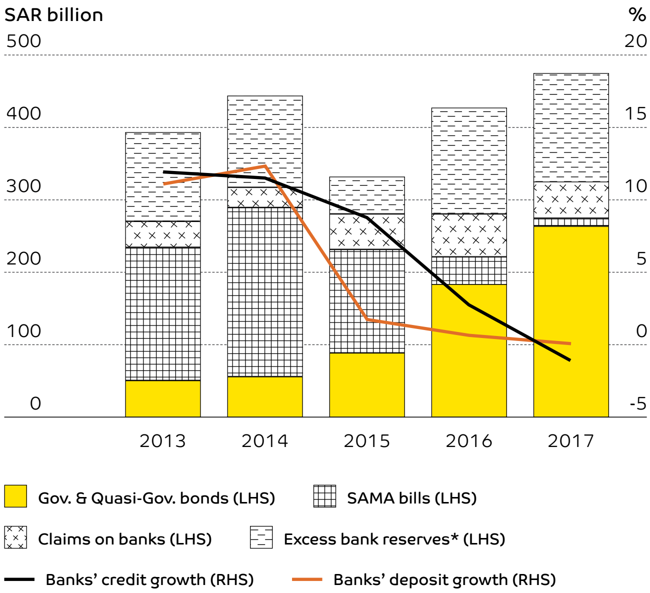
Partial achievement of some of the goals of Vision 2030 by 2020 is also planned. Some of these include:

- Creating at least 450,000 jobs in the non-governmental sector;
- The private sector to make a contribution of 40% towards funding of initiatives;
- Increasing localising at least SAR 270 billion of content which will reduce imports and create job opportunities;
- Build digital infrastructure and digital platforms to support government digital transformation.

The Saudi banking sector

In 2017 Saudi banks achieved a very favourable liquidity position, with liquid assets standing at a record SAR 457 billion. This was despite slackening of deposit growth (growth was only 0.1% in the year) and unfavourable business conditions. Bank's domestic liquid assets grew 11% in 2017 and accounted for 20% of total bank assets at year end. In another positive trend, Saudi banks' reserves to total deposits notched 14.8% at end 2017, its highest in five years. The positive changes were achieved despite deposits remaining practically constant, by a 1.0% drop in banks' loans (compared with a 3% increase in 2016) and a 43% increase in government bonds. The Bank's holdings of domestic government bonds were SAR 254 billion at end 2017 compared with SAR 86 billion at end 2015. Successive issuance of debt by the Saudi Government, especially Sukuk issuance, provided an opportunity for banks to utilise their excess liquidity to purchase such high quality government investments.

Composition of liquid assets and credit and deposit growth of Saudi banks



**Excess bank reserves include cash in vault and deposits with SAMA in excess of statutory deposits.*

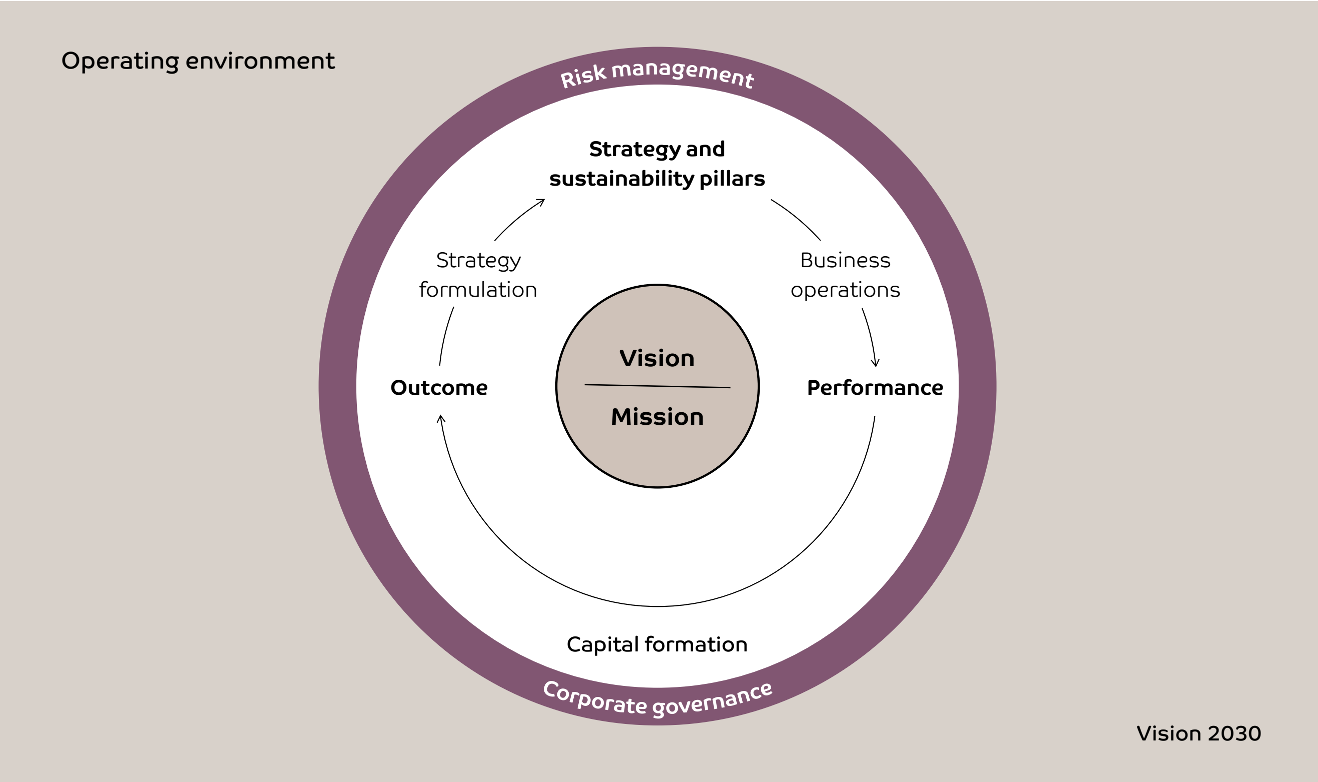
Source: Saudi Arabian Monetary Authority monthly statistics bulletin

The reduction in oil prices has adversely impacted deposit growth which averaged 12% during 2012-2014. The lower oil prices caused decline in government balances, contraction in deposits from the private sector, payment delays and weakened economic growth all of which slackened deposits. However, the situation was somewhat mitigated when the government issued increased international debt which enabled a 12% increase in public sector deposit inflows as against a 10% decline in 2016.

The reduction in loans was mainly due to reduced economic growth (actually forecast to be a contraction) lower credit demand and banks' reduced lending appetite. Loans declined especially in the building and construction sector (the sector suffered a drop of 15% in 2017), which is heavily dependent on government spending. The loan to deposit ratio stabilised at 86% at end 2017, 1% less than at end 2016.

Strategic Framework

GRI 103-1, 103-2, 103-3



Strategy and sustainability pillars

A five-year Strategic Plan was developed by the Bank in 2014 for the period 2015-2019. It was crafted considering the outcomes and experience of the previous strategic plan for the period 2010-2014 with the theme "Building on Strength". The plan was drawn up in the context of the broad economic, social, environmental and regulatory environment and the goals of the Vision 2030 Plan of the Kingdom.

A new Vision and Mission were decided on for the plan. New business initiatives which are required to build on the achievements of the 2010-2014 plan were identified. The goals of the plan were customer and business focused and each of the business units' contributed initiatives. The supporting units complemented the objectives by developing initiatives accordingly. Growth opportunities by market segments were carefully considered for both personal and corporate banking.

Some of the specific strategies decided on include:

- Improving the percentage of demand deposits to improve profitability
- Improving fee generation to reduce risk
- Identifying and developing new market segments
- Strengthening affluent banking
- Direct offering to youth and women
- Developing joint calling by business units and cross-selling with business partners. Cross-selling between personal banking and treasury is an attractive possibility
- Exploiting synergies that can be realised across the Bank and with joint venture partners
- Improving efficiency and enhancing customer service by refining and automating the credit processing chain
- Closer control of costs

The cornerstone of our strategy is our five sustainability pillars: Nummow (growth), Takleef (responsibility), Hifth (environmental protection), Re'aya (workforce) and Awn (helping others)

Further details maybe found in the sub-section The Saudi Investment Bank on page 8 of this Report.

Performance

Plans are formulated based on our strategies, which in turn are converted to business operations. Our business operations transform strategies into results, both financial and non-financial. This involves having in place the required measurement and monitoring systems to assess performance.

An electronic Sustainability Dashboard Management System (SDMS) has been developed to track the progress and report on initiatives at a high level of granularity. The dashboard provides timely and accurate information for decision-makers and enables efficiency improvement and cost reduction at branch level. Data can be entered, and information obtained on a monthly and quarterly basis; data is securely stored and easily accessible to authorised users.

Since sustainability is a cornerstone of SAIB's strategy, performance is continuously assessed across the five sustainability themes we have identified which are described below. Our sustainability strategy is an integrated system that tracks economic, social, environmental, and governance performance and the consequent value delivered to all stakeholders.

Nummow (Growth)
This pillar includes growth not only in the financial sense but also in products, customer service, and innovation. A strong and sustained financial performance will enable us to give continuing and growing returns to our shareholders. Development of innovative new products and services in keeping with market trends will delight and grow our customer base. The process is supported by communication with customers through diverse channels and adopting their opinions, suggestions, and ideas.

Takleef (Responsibility)
Social, environmental, and governance issues are well-integrated into our financing and investment activities. The policy is also carried through in our subsidiary and associate companies where SAIB uses its voting rights to promote environmental and social causes. Such considerations are also embedded into new product development. SAIB also supports government and private initiatives which promote sustainable economic development. In our dealings with customers we practice transparency by making information about products and services, and any risks involved, easily accessible in a simple and understandable manner.

Hifth (Environmental protection)
In our activities and operations, we endeavour to monitor, minimise, and report on our environmental impacts. This includes energy consumption, greenhouse gas emissions, paper and water consumption, and waste treatment. In addition, we assist and encourage our customers and suppliers do the same and mitigate their environmental risks. We also assist them to formulate and implement environmental risk management policies.

Re'aya (Workforce)
We are committed to the fact that employees are our primary resource and we give the utmost importance to nurturing, retaining, developing, and motivating them. While we provide them with all necessary information, we also set clear performance targets for each employee and rewards for outstanding performance. Our employees are trained to understand customer needs and provide the best possible service. We also educate them on compliance with local and international laws and regulations to protect human rights. We have a diverse working environment and we strive to eliminate all forms of discrimination and harassment. Providing equal opportunities for women and utilising their capabilities to the maximum is one of our highest priorities.

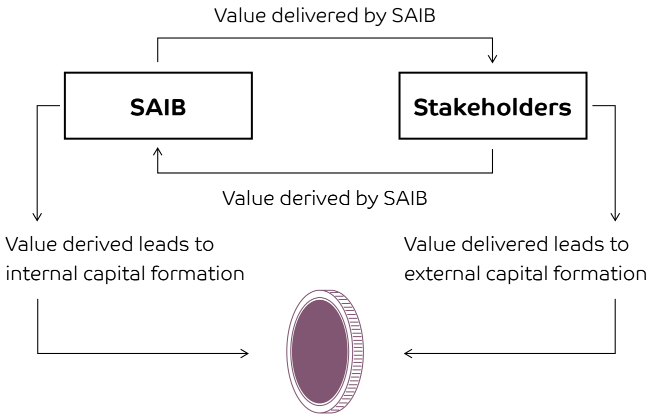
Awn (Helping others)
SAIB supports community projects both through financial assistance as well as providing expertise and equipment. The focus areas for such projects include financial education, career development, environmental protection, and health development. The impact of the projects are carefully measured and evaluated; we require that impacts should be sustainable and measurable. We also foster institutional sustainability of organisations implementing such projects.

We also give preference to suppliers who have robust sustainability practices in place, and who also have administrative systems to support such practices. We also work with our suppliers to improve their practices and ensure they conform to international norms.

The integration of the pillars with our activities is further described under appropriate sections in the Management Discussion and Analysis found on page 57.

Value creation and capital formation

In the following section on Stakeholders (pages 50 to 54) we identify our key stakeholder groups and how we engage with them. In the section on Materiality (page 55) we distinguish between the Bank and its stakeholders, identify key issues that affect various stakeholder groups and assess the importance of these issues from the perspective of the Bank as well as the stakeholder. Such an analysis (materiality matrix, page 56) helps us to refine our business model and becomes the bedrock of our value creation process. Value creation is the philosophy that drives all what we do and is a two-way process. For the Bank to derive sustainable value for itself it must also deliver value to its stakeholders.



Total capital of SAIB

Outcomes

Capitals are stores of value in various forms which the Bank uses in its business processes.

Value creation leads to capital formation, which may be internal or external to the Bank.

The Bank derives value through the dynamic interaction between its external capital and its own internal capital over time. Our internal capital comprises financial capital and institutional capital. The former is what is reported in the Financial Statements, while the latter are intangibles such as integrity, corporate culture, specialised knowledge, systems, processes and brand image.

The Bank delivers value, both financial and non-financial, to its stakeholders. As stores of value, they comprise investor capital, customer capital, employee capital, business partner capital, and social and environmental capital.

Value creation is a dynamic process with flows taking place between the various forms of capital all the time. There can be trade-offs between the different forms of capital with a reduction in one resulting in an increase in the other. Although the Bank does not "own" any of its external forms of capital it has access to and uses them, and along with its own internal forms of capital, creates value for itself and for its stakeholders.

The dynamic relationship between strategy, performance, and outcomes which takes place within the framework of corporate governance and risk management is visually presented above. The Bank's strategy, operations and performance result in changes in the various forms of capital discussed previously. The outcomes of the strategy and business processes are evaluated and provide the basis for refining the strategies going forward. The value creation process as described above drives our reporting, particularly the Management Discussion and Analysis.

Management approach

The materiality matrix defines the relative importance of a particular issue in the value creation process. The various forms of capital are dynamic the stores of each type change depending on strategies and business activities. The Bank uses the various forms of capital, whether internal or external to create value for its stakeholders and for itself.

In the Management Discussion and Analysis, we describe the assessment of materiality, the management and transformation of capitals, and the evaluation of the results. These are further elaborated with supporting performance indicators and measures wherever possible.

Looking ahead

Looking forward to 2018, the Bank remains committed to the implementation of the 2015-2019 Strategic Plan approved by the Board of Directors in November 2014, while focusing on maintaining adequate liquidity and capital levels in a challenging economic and operating environment.

Given the lower level of oil prices during 2017 and the changing cash flow model of the Government, the financial goals of the strategic plan are in process of being updated as part of the 2018 Profit Plan process. Additionally, the Bank is also in the process of implementing a cost control and revenue enhancement programme through the automation of FPC data capturing.

A responsible corporate citizen – investing towards improving resource efficiency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Stakeholders

GRI 102-21, 102-40, 102-42

Stakeholders are individuals or entities who are affected by the Bank's activities or whose actions, attitudes, or perceptions can have an impact on the Bank and its ability to carry on its activities.

As a company operating in Saudi Arabia, SAIB is bound by various statutory and regulatory laws and guidelines to protect the interests of stakeholders. These include the provisions of the Saudi Companies Act requiring companies to establish a policy protecting the interests of stakeholders; supervisory guidelines issues by SAMA which make similar provisions; and Corporate Governance rules issued by CMA which stress on the need to protect stakeholders against any violation. The last includes mechanisms for compensation in case of any violations and also for settlement of disputes. SAIB abides by not only the letter but the spirit of all the above laws and regulations. The Bank endeavours to maintain the best relationships with all stakeholders and protect their rights and interests.

SAIB's stakeholders include investors, employees, vendors and service providers, customers, regulators, and the community. In addition, the stakeholders include those with whom the Bank interacts periodically on special projects or issues, and those who have an impact on or who are impacted by our activities even if they do not directly transact with the Bank. We include "silent stakeholders" such as environmental groups and the future generations.

We will now consider the important groups of stakeholders and the relevant issues.

Investors

Investors are those who have invested funds in the Company with the expectation of a return. Investors' rights, including dividends, voting rights and rights to information are defined in the Bank's Articles of Association and Corporate Governance Manual. There are stakeholder groups associated with investors such as fund managers, stock market analysts, and stock brokers.

In its relationships with investors the Bank maintains the highest possible degree of transparency and provides adequate information on the Bank's activities, financial and non-financial, both about past performance and future expectations.

In addition to the Annual General Assembly and Board of Directors meetings, investors are kept informed through annual, semi-annual, and quarterly reports. The Bank also has a shareholder relations team and a complaint handling mechanism in place.

Customers

The Bank always strives for closeness to the customer; it maintains two-way communication with them and plays close attention to their views and aspirations. The customers desire sustainability oriented products and services and the Bank does its utmost to satisfy their requirements. Customers' suggestions and opinions are taken into account when developing new products. Customer workshops are conducted to cement relationships with customers and develop a sustainability roadmap. The Bank's policies require all staff to provide an excellent service to customers, particularly in the launching of new products and services. We seek to ensure service is provided without any discrimination or exceptions. Through communication with customers the Bank obtains timely feedback on the efficiency and quality of services provided by the Bank's different business units.

The Bank utilises a diversity of channels to engage customers and to facilitate transaction processing. In addition to brick and mortar branches, ATMs, and cash deposit machines, customers can transact through mobile/online banking and SMS. Our dedicated customer relationship personnel also maintain seamless communication through "Flexx Call" contact centre, website, webchat and social media channels.

The Bank gives careful attention to customer complaints and a dedicated Customer Complaint Handing Unit, with well-defied procedures, has been established for this purpose. Complaints can be addressed to the Bank through a channel of the customer's choice. Complaints and actions taken are well-documented and corrective action is taken to prevent recurrence.

Employees

SAIB considers that its staff are its most valuable asset, considering the customer-facing role they play. SAIB remunerates its staff in line with the market and they are treated in accordance with clearly laid down professional policies. The Bank does not stint when it comes to training of its staff; they are well-positioned to satisfy the demands of customers and meet the challenges of a globalised environment. Employees are evaluated fairly by annual performance reviews and rewarded accordingly.

The staff's attitudes should be aligned with the Bank's values, visions, strategies, and objectives. Staff are kept up-to-date on strategic changes, changes to systems, expansion plans, staff benefits, customer and suppler contracts, and community support. The responsibility to communicate with staff rests with each line manager, human resources personnel, and the Senior Management.

Bank staff are bound by a stringent Code of Conduct according to which they are expected to maintain high ethical standards in their activities. By their conduct, they should safeguard the Bank from illegal and unethical activities. They should also safeguard the customers from losses due to acts such as fraud and forgery. In the event of any conflict of interest between themselves and the Bank, employees are required to give priority to the Bank's interests.

We have many mechanisms and procedures to maintain staff morale and communication such as the employee engagement survey, SAIB internal magazine, regular meetings, HR Help Desk, employee suggestion programme, recognition and rewards programme, and Yammer (staff social media application).

Regulators

SAIB is committed to maintaining the highest degree of compliance with all laws, regulations, and guidelines. SAIB's primary regulator is the Saudi Arabian Monetary Authority (SAMA). SAIB scrupulously complies with the SAMA policies and regulations in all its banking activities. Regular meetings are held to create a match between SAIB's requirements and SAMA's expectations. Among SAMA requirements are having Anti-Money Laundering (AML), Know Your Customer (KYC), and Combating Terrorism Financing (CTF) policies. SAIB has complied with SAMA guidelines in this regard and has documented procedures for AML.

The Saudi Arabian Capital Market is governed by the Capital Market Authority (CMA), which issues the rules and regulations to create a smoothly functioning investment environment. The business portfolios of SAIB and its subsidiaries include financial securities, asset management and real estate management. SAIB's Management ensures compliance with CMA rules and regulations to safeguard shareholders' and customers' interests through prudent banking practices which minimise transactional and operational risks.

The Bank rigidly conforms to all reporting requirements of regulators and gives its fullest cooperation for meetings and on-site visits. Regular communication is also maintained through letter and email. SAIB also maintains relationships with regulators by participation in governmental initiatives and campaigns.

Community

With SAIB's widespread network of branches we contribute to local economies throughout the Kingdom. By building relationships with local communities and stakeholders we generate sustainable growth for future generations. By encouraging innovation, we focus on changing needs and expectations in line with Vision 2030. The Bank also supports social projects; in our lending practices we pay special attention to the socio-economic needs of the Saudi Community and thereby foster financial inclusion. Affordable housing is also an area where we have made a significant social contribution.

Through the Saudization programme we provide career opportunities for the younger generation of Saudis including women. The staff are assigned roles after providing suitable training. The Bank also supports a large number of charitable and social activities including educational, training, and general learning programmes. These programmes may be carried out by the Bank itself or through licensed charity associations. Scholarships are provided for students attending universities and other institutions. SAIB also has a volunteer programme, whereby staff are encouraged to participate in social and charity programmes.

The community is kept informed of the social impact we are making through public reports, media reports, website, social media, and our employees who are mostly nationals.

Vendors and service providers

In dealing with vendors and service providers the Bank aims to build long-term relationships based on mutual trust. Our procurement policies are based on an understanding that both the Bank and the vendor are responsible for quality of products and services. We also promote ethical sourcing standards that comply with local and international norms. Our procurement and vendor management policy ensures fair treatment for all vendors. There is regular communication with vendors regarding changes in all relevant matters such as expansion plans, strategies, and operational systems.

We maintain open communication with our vendors through bidding and tendering procedures and a complaint management framework.

Environment

The Bank also supports environmental protection activities and promotes training on environmental awareness. SAIB sponsors, in coordination with Saudi Wildlife Commission, several programmes to raise public awareness regarding environmental protection. In its own operations the Bank follows environmental principles by moving towards a paperless environment and adopting live green concept.

As the environment is a silent stakeholder we maintain communication with various non-governmental environmental groups as stakeholders who will represent the cause of the environment. Since moving to sustainability reporting our annual reports have published environmental performance data.

Stakeholder engagement at SAIB

Our stakeholders	How we engage	Their expectations	Our response
Regulators SAIB is regulated and supervised by the Saudi Arabian Monetary Authority (SAMA), the Capital Market Authority (CMA), and the Ministry of Commerce and Investment (MCI)	• Letters of correspondence and email communications • Meetings and on-site visits • Regular reporting • Participation in governmental initiatives and campaigns	• Compliance to policies and regulations • Reporting disclosures as per engagements • Delivering best banking practices • Investments in customer awareness and education initiatives (financial literacy) • Consumer protection • Alignment to the Kingdom's national strategy (National Transformation Plan and Vision 2030)	• SAIB's detailed compliance plan for the year overseen by its Audit and Compliance Committee • Reporting performance for relevant disclosures such as Basel III • Seeking consultation to increase transparency and prevent noncompliance • Enforcement of compliance and best-in-class governance practices
Investors/Shareholders SAIB's shareholders include the Saudi public, two Saudi Government organisations, and two financial services companies.	• Annual General Assembly • Board of Directors meetings • Annual, semi-annual and quarterly reports • Shareholder relations team • Complaints handling mechanism	• Profitability and growth • Strong, sustainable financial returns • Excellent corporate reputation • Sound corporate governance • Transparent communication • Compliance with all laws and regulations • Strong risk management	• Net income growth • Ongoing development of the corporate governance framework • Strengthening of risk management capabilities • Constitutional rights • Dividend entitlements • Voting rights

Our stakeholders	How we engage	Their expectations	Our response
Customers Our customers include over 381,500 retail banking customers, in addition to more than 15,900 small businesses and over 1,400 large companies utilising our corporate banking and treasury services.	• Branches • "Flexx Call" Contact Centre • Mobile and online banking • Website • Social media channels • Relationship managers • Customer research • SMS Banking • Web Chat • ATMs • Cash Deposit Machines • Interactive Teller Machines	• Innovative, high quality products and services • 24/7 quality customer service • Secure, accessible and easy banking • Transparent and fair fees and charges • Privacy • Shariah compliance	• "Flexx Click" Internet banking • "Flexx Touch" mobile banking • "Flexx Call" Contact Centre • WooW and Aseel loyalty programmes • Code of Conduct • Privacy Policy • Shariah Board and controls • Customer segmentation • Voice of Customer Unit • Customer Complaints Unit • Customer satisfaction surveys • Customer Awareness and Education Unit • Disclosures
Business partners Over 500 vendors and service providers deliver goods and services to SAIB. The Bank also has a large number of correspondent banking relationships.	• Bidding and tendering • Procurement and vendor management policy • Complaints management framework	• Vendor and service provider communications • Fair contract bidding and awarding processes • Ethical business dealings • Favouring local bids from local companies • Timely payment	• Maintain mutually beneficial cooperative relations • Increase the number of vendors and service providers with preference to local suppliers where possible • Growing correspondent banking relationships
Employees A workforce of more than 1,600 employees.	• Employee engagement survey • SAIB internal magazine • Training and development • Regular meetings • Annual performance reviews • HR Help Desk • Employee suggestions • My Idea programme • Recognition and awards programmes • Code of Conduct • Innovation centre • Yammer (staff social media app) • Internal communication announcements	• Equal opportunity and fairness • Employee health, safety and well-being • Open, two-way communication with Management • Competitive salary and benefits • Opportunities for training and career development • Transparent and accountable management	• HR Policy • Employee Grievance Policy • Safety training and inspections • Employee satisfaction survey • Thank You programme • SAIB e-learning academy • Al-Aqeeq SAIB Academy Training Centre • Ask HR • Creative Mornings initiative

Our stakeholders	How we engage	Their expectations	Our response
Local community This includes the Saudi Arabian society	• Public reports • Media relations activities • Bank's employees, who are primarily Saudi nationals • Charitable initiatives supporting important local issues • Website • Social media	• Financial inclusion • Financial education • Affordable housing • Advancing social development via investments in the community • Developing local talent and providing employment opportunities • Minimising environmental impacts • Corporate responsibility	• EasyPay • Partnership with Real Estate Development Fund (REDF) • "Flexx Bike" programme • Community investments • Lending towards strategically important sectors that stimulate the economy • Hiring of younger individuals for the workforce; Saudi Graduate and Saudi Fast Track (FaTra) programmes for Saudi nationals
Environmental groups The environment is an important stakeholder that must be considered and protected to ensure long-term, sustainable operations. Environmental groups give voice to the needs of the environment	• Engagements with various environmental oriented non-governmental organisations (NGOs) • Annual sustainability reports which publish environmental performance data	• Minimisation of waste and emissions • Limited use of finite resources (energy, water, and paper) • Improvement in measurement of resource consumption • Incorporation of environmental criteria in financed projects, investments, and supplier qualification	• Implementing a Building Management System (BMS) • Water and energy usage reduction • Recycling initiatives • Reducing printing • Electronic document archiving • Funding of environmental protection initiatives in the community

Materiality

GRI 102-47

In order to prioritise the issues pertaining to the Bank we address issues that are materially important to our stakeholder; those that substantively address the ability of the Bank to create value in the short, medium and long term. In determining materiality both the magnitude of the impact of the issue as well as the probability of occurrence are taken into account. Events that may have a high impact if they occur but have a very small probability of occurrence are not considered material. The basis on which a materiality analysis is carried out is the Bank's stakeholder engagement process, which has been detailed elsewhere in this Report.

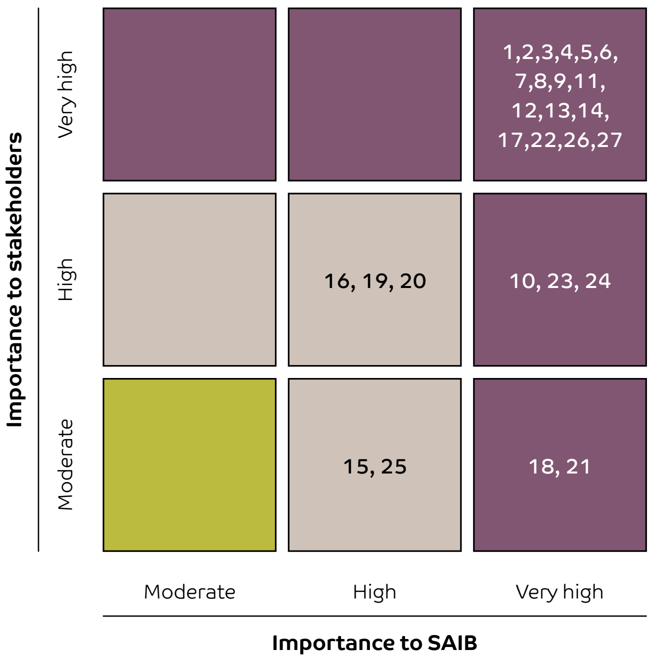
The engagement process has been covered in detail on pages 50 to 54 of this Report.

Materiality can be viewed from two different perspectives; that of the Bank and its stakeholders. A mapping was carried out for identified issues from the above two perspectives. The material issues identified are depicted in a two dimensional materiality matrix. Only issues that have at least a moderate importance to both the Bank and the stakeholders are included. The issues which have a high degree of importance to both the Bank and the stakeholders are assigned a high level of materiality; these issues are important for both organisational success and stakeholder satisfaction. The issues which it would be advisable for the Organisation to manage well are assigned a medium level of materiality. The issues which currently have a low level of strategic importance for the Organisation and the stakeholders, and so will not be subjects for immediate action are given a low level of materiality. Our Management approach towards all material issues is contained in this report under the appropriate sections.

Material issues are not static but evolve and change with time. We review the materiality analysis periodically to keep pace with the changes. The table and matrix below illustrate the issues that are material to us and the importance placed on each issue:

No.	SAIB material issues	GRI Standards: Topic-specific Standards		Most concerned stakeholders
1	Customer Trust and Protection	418	Customer Privacy	Customers, Regulators
2	Quality of Services and Customer Satisfaction	102-43	General Disclosures: Stakeholder Engagement	Customers, Regulators
3	Compliance with Regulations	307	Environmental Compliance	Shareholders and Investors, Regulators
		419	Socio-economic Compliance	
4	Accurate and Transparent Disclosure of Performance	102-45 through		
		102-56	General Disclosures: Reporting Practice	Shareholders and Investors, Regulators
5	Data Security	418	Customer Privacy	Customers, Regulators
6	Financial Performance	201	Economic Performance	Shareholders and Investors, Customers, Regulators, Employees
7	Governance and Accountability	102-18 through 102-39	General Disclosures: Governance	Employees, Shareholders and Investors, Regulators, Community
8	Financial System Stability	203	Economic Performance	Customers, Employees, Regulators
9	Business Ethics and Prevention of Financial Crime	205	Anti-Corruption	Shareholders and Investors, Regulators, Community, Employees, Suppliers
10	Human and Labour Rights	408	Child Labour	Regulators, Employees, Community
		409	Forced or Compulsory Labour	
11	Workforce Training and Education	404	Training and Education	Employees, Regulators
12	Community Investment and Engagement	413	Local Communities	Community, Customers, Employees, Regulators
13	Risk Management	103	Management Approach: all material topics	Shareholders and Investors, Regulators
14	Saudization	202	Market Presence	Employees, Shareholders and Investors, Regulators

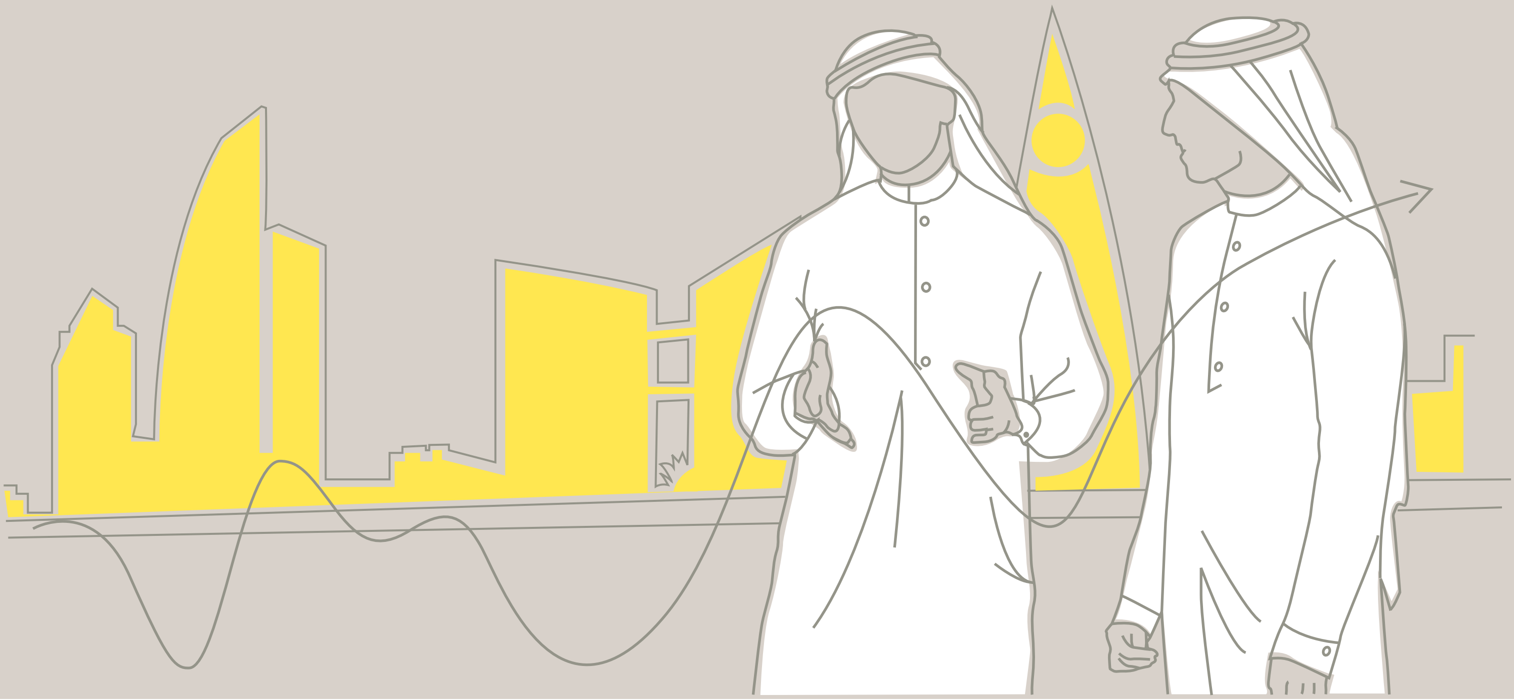
No.	SAIB material issues	GRI Standards: Topic-specific Standards		Most concerned stakeholders
15	ESG Risks in Lending and Investment	201	Economic Performance	Customers, Shareholders and Investors, Community
16	Equal Opportunity and Anti-Discrimination	405	Diversity and Equal Opportunity	Employees, Community
17	Employee Satisfaction and Engagement	401	Employment	Employees
		403	Occupational Health and Safety	
18	Sustainable Procurement	204	Procurement Practices	Suppliers, Community
19	Infrastructure and Accessibility	203	Indirect Economic Impacts	Customers, Regulators, Employees
20	Adherence to Islamic Banking Principles	–	–	Customers, Community, Regulators
21	Reduction of Environmental Impact of Operations	302	Energy	Community, Employees
		303	Water	
		305	Emissions	
		306	Effluents and Waste	
22	Operational Efficiency	–	–	Customers, Regulators
23	Innovation and Product Development	–	–	Customers
24	Engaging with Customers	–	–	Customers
25	Strengthening Relationships with Business Partners	–	–	Suppliers
26	Employee Retention	401	Employment	Employees
27	Soft Skills Development of Employees	404	Training and Education	Employees



Management Discussion and Analysis

The Bank generates and stores value in diverse forms known as capitals. Over time these capitals are increased, decreased or transformed into other forms of capital in a dynamic process.

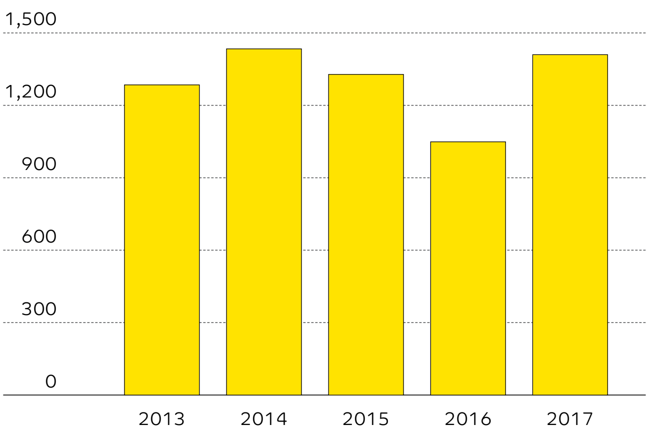
Financial Capital



The Bank showed a very satisfactory financial performance during the year with the net income increasing by 34% over the previous year. This is especially creditable in view of the fact that the increase in assets was only 0.8%, which reflects more efficient utilisation of assets. The main contribution to the increased utilisation was from a positive rate variance. The financial soundness of the Bank is demonstrated by the fact that it has been able to enter into two five-year loan facility agreements within the last two years. The Bank also judiciously managed its capital to be in compliance with the capital requirements set by SAMA. We have also achieved favourable credit ratings with Standard & Poor and Fitch.

The Bank showed a very satisfactory financial performance during the year under review with the net income increasing by 34% over the previous year to reach SAR 1,411 million, compared with the 2016 figure of SAR 1,053 million. The increase is mainly attributable to higher net special commission income, which includes special commission income from placements, investments, and loans, less special commission expense from deposits and other borrowings. The net special income for 2017 was SAR 2,042 million, whereas the corresponding figure for 2016 was SAR 1,672 million, an increase of 22.1%. The components of the increase were a positive rate variance of SAR 313 million and a positive volume variance of SAR 57 million.

Net income

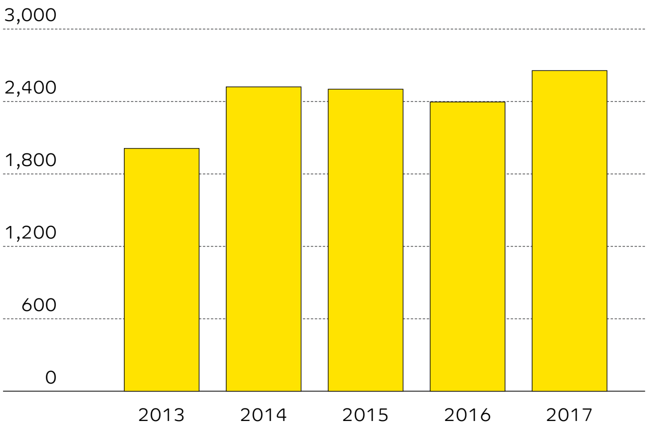


However, there was a decline in other sources of income. Fees from banking services amounted to SAR 412 million (2016 figure: SAR 415 million) and decreased by 0.7% over the previous year. Exchange income too recorded a decrease of 6.2% declining from SAR 146 million in 2016 to SAR 137 million. Gains on investments and dividend income also decreased from SAR 173 million in 2016 to SAR 69 million in 2017, a decrease of 60.1%.

The Bank's total operating income is generated entirely from its operations in the Kingdom of Saudi Arabia and the income is analysed into the different regions in the table below:

	Central region SAR '000	Western region SAR '000	Eastern region SAR '000	Total SAR '000
2017	**1,763,173**	**548,039**	**348,671**	**2,659,883**
2016	1,712,466	424,035	269,365	2,405,866

Operating income

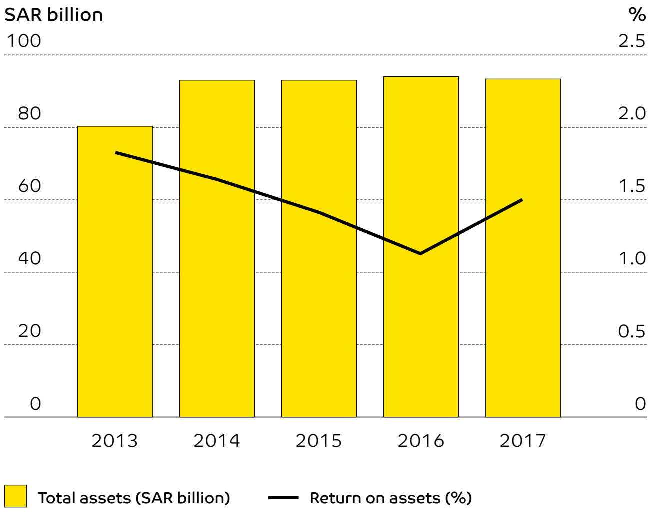


Nevertheless, the Bank's average return on assets showed a healthy increase to 1.51% in 2017 as against 1.13% the previous year. The return on shareholders' equity also rose from 8.54% in 2016 to 10.72% in 2017.

Assets

The total assets of SAIB as at end 2017 were SAR 93.8 billion, which was an increase 0.8% over the assets a year before which were SAR 93.1 billion. Total investments, net, recorded an increase of 1.4% or SAR 0.3 billion to reach SAR 21.7 billion as at December 31, 2017. Net loans and advances remained nearly constant, at SAR 59.6 billion as at December 31, 2017 compared with SAR 60.2 billion at end 2016. The non-performing loans and advances as at December 31, 2017 was SAR 773 million compared with SAR 1,070 million at end 2016. As a percentage of totals loans and advances there was a decline from 1.75% to 1.27%. The allowance for credit losses totalled SAR 1,075 million as at end 2017 which amounted to 139% of non-performing loans; the corresponding figure for 2016 was 93%. The estimated fair value of collateral held by the Bank as security for non-performing loans and advances as of December 31, 2017 is approximately SAR 600 million.

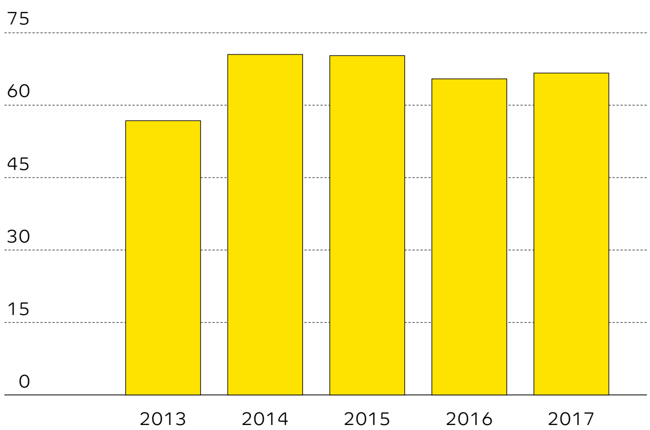
Total assets vs return on assets



Customer deposits and loans

Customer deposits reached SAR 66.9 billion as at December 31, 2017, which amounted to an increase of SAR 1.3 billion or 2% over December 31, 2016. Demand deposits, which represented 36.7% of total deposits, increased by 0.6 billion or 2.6%. Special commission bearing deposits increased by SAR 0.7 billion, or 1.8%.

Total customer deposits — SAR billion



On May 30, 2011, the Bank entered into a five-year medium-term loan facility agreement with Samba Financial Group for an amount of SAR 1.0 billion for general corporate purposes. The facility was due and repaid on May 30, 2016. On June 24, 2012, the Bank entered into another five-year medium-term loan facility agreement with National Commercial Bank for an amount of SAR 1.0 billion for general corporate purposes. The facility was due and repaid on September 5, 2017.

On June 19, 2016, the Bank entered into a five-year medium-term loan facility agreement with Samba Financial Group for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully-utilised and is repayable on June 19, 2021. On September 26, 2017, the Bank entered into another five-year medium-term loan facility agreement with SAMBA Financial Group for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully-utilised on October 4, 2017 and is repayable on September 26, 2022.

The above loans bear commission at market based variable rates and the Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related facility agreements. The agreements carry a responsibility to maintain certain financial ratios and other requirements, with which the Bank is in compliance. There have been no instances of the Bank defaulting on any principal or commission of the term loans.

On June 5, 2014, the Bank concluded the issuance of a SAR 2 billion subordinated debt issue through a Shariah-compliant Tier II Sukuk which was issued through private placement to local investors in the Kingdom. The Sukuk has a maturity period of ten years with the Bank retaining the right to call the Sukuk at the end of the first five-year period, subject to certain regulatory approvals.

Operating expenses and net efficiency

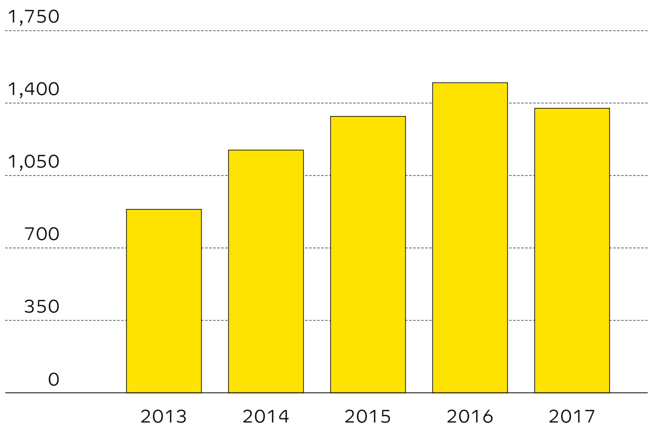
Operating expenses before impairment charges for credit losses and investments increased only marginally in 2017. Expenses were SAR 1,059 million in 2017 compared to SAR 1,051 million in 2016, an increase of 0.8%.

The Bank measures operating efficiency by the net efficiency ratio defined as normal operating expenses before impairment charges, divided by total income excluding non-recurring income. This ratio gives a good indication as to how resources are controlled and managed. This ratio, being 38.0% in 2017, showed an improvement from the previous year's figure of 39.4%.

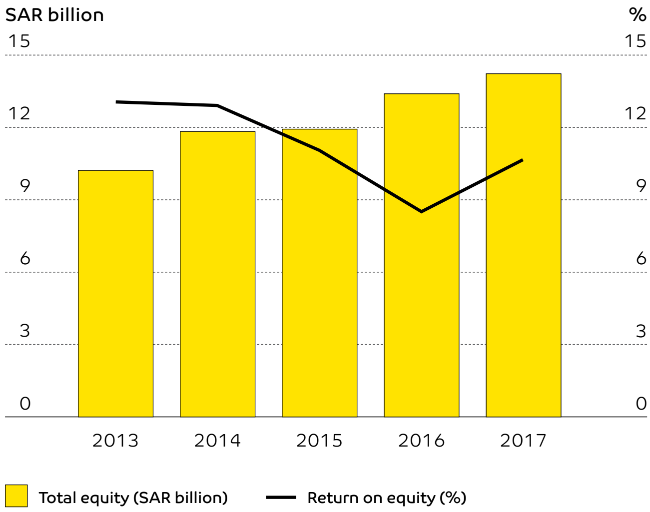
Considering the breakdown of operating expenses, salaries and employee-related expenses in 2017 were lower compared to 2016 by 2.2%; rent and premises-related expenses increased by 15.4%; depreciation and amortisation increased by 4.0%; and other general and administrative expenses decreased by 1.6%.

Total operating expenses

SAR million



Total equity vs return on equity



Impairment charges

The impairment charge on investments substantially reduced to SAR 109 million in 2017 compared to SAR 207 million in 2016. This decrease was due to lower valuations of equity securities which are traded in the local market. The impairment charge for credit losses was SAR 213 million in 2017 compared to SAR 246 million in 2016. The reduced impairment charge for credit losses in 2017 reflects the improvement in the Bank's asset quality.

The consolidated net income of the Bank's reportable operating segments for the years ended December 31, 2017 and 2016 is summarised as follows:

	2017 SAR '000	2016 SAR '000
Retail Banking	**446,091**	234,055
Corporate Banking	**717,246**	789,224
Treasury and Investments	**341,320**	203,712
Asset Management and Brokerage	**6,368**	9,649
Business Partners	**31, 209**	92,731
Others*	**(131,436)**	(276,413)
Net income	**1,410,798**	1,052,958

**Others include the net results related to Information Technology, Operations, Risk, and other support units.*

Total equity and capital adequacy

As of December 31, 2017, the Bank's total equity, which was SAR 13.3 billion as at December 31, 2016, increased to SAR 14.3 billion as at December 31, 2017. The total number of shares outstanding as of December 31, 2017 was 750 million. The ratio of total equity to total assets as of December 31, 2017 was 15.22%, as against 14.33% as of end 2016. The Bank's leverage ratio as at December 31, 2017 stood at 6.95 compared to 7.25 as of December 31, 2016.

The Group completed the establishment of a Shariah-compliant Tier I Sukuk Programme in 2016, which was duly approved by the Group's regulatory authorities and shareholders. Under the programme, the Bank issued SAR 500 million on November 21, 2016, followed by another issue of SAR 285 million on June 6, 2017.

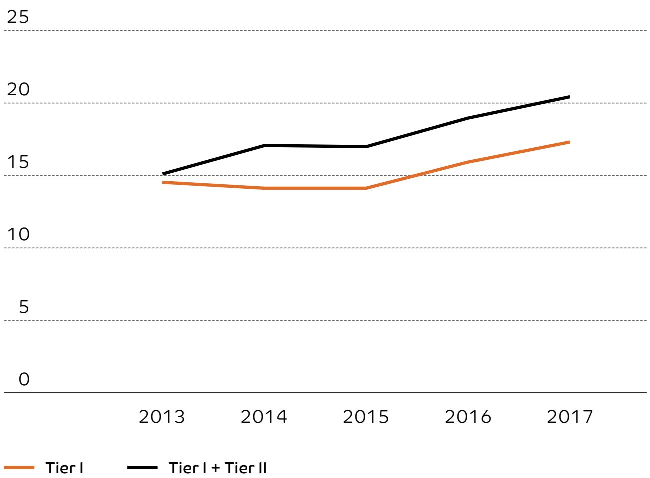
The Tier I Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets. They are an unsecured conditional and subordinated obligation of the Group classified under equity. However, the Group has the exclusive right to redeem or call the Tier I Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the programme.

The applicable profit rate on the Tier I Sukuk is payable semi-annual in arrears on each periodic distribution date, except upon the occurrence of a non-payment event or non-payment election by the Group. However, the Group may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such a non-payment event or non-payment election are not considered to be an event of default, and the Bank is not bound to cumulate or compound amounts not paid thereof with any future distributions.

The Bank stringently managed its capital so as to be in compliance with the capital requirements set by SAMA as well as to safeguard the solvency and continuance of the Bank. SAMA regulations make it mandatory for the Bank to hold a minimum level of capital while also ensuring a ratio of total regulatory capital to risk-weighted assets at or above the minimum requirement of 9.875%. Ratios established by SAMA enables the Bank to monitor the adequacy of its capital. These ratios measure capital adequacy by comparing the Bank's eligible capital with assets, commitments, and notional amounts of derivatives, as per its consolidated statement of financial position at the required-weighted amount for each component to reflect its relative risk.

As at December 31, 2017, the Bank's Tier I plus Tier II capital adequacy ratio increased to 20.38% compared to 18.93% as of December 31, 2016.

Capital adequacy ratio %



Financial performance of SBUs

Personal Banking Group (PBG)

As at December 31, 2017 the assets of the Personal Banking Group were SAR 27 billion whereas the liabilities were SAR 50 billion. In 2017, the PBG achieved a net income of SAR 446 million which amounted to 31.62% of the total net income of the Group. The operating income for 2017 was SAR 1, 171 billion while the operating expenses were SAR 725 billion.

Refer Note 29 to the Consolidated Financial Statements for further details on the financial performance of the unit

Corporate Banking Group (CBG)

As at December 31, 2017 the assets of the Corporate Banking Group were SAR 35 billion while the liabilities were SAR 8 billion. In 2017, the CBG achieved a net income of SAR 717 million which amounted to 50.84% of the total net income of the Group. The operating income for 2017 was SAR 1,071 billion while the operating expenses were SAR 353 Billion.

Some of the financial highlights for the five-year period 2013-2017 are shown in the table below:

	2017 SAR million	2016 SAR million	2015 SAR million	2014 SAR million	2013 SAR million
Total income (1)	**2,792**	2,557	2,667	2,610	2,178
Total expense (2)	**1,059**	1,051	1,033	943	762
Operating profit	**1,733**	1,506	1,634	1,667	1,416
Impairment charges	**322**	453	305	231	129
Net income	**1,411**	1,053	1,329	1,436	1,287
Loans and advances, net	**59,588**	60,249	60,269	57,473	47,567
Investments, net	**21,714**	21,448	18,983	22,397	17,696
Investments in associates	**1,020**	1,000	939	846	1,071
Total assets	**93,796**	93,047	93,578	93,626	80,495
Term loans	**2,015**	2,032	2,011	2,000	2,000
Subordinated debt	**2,003**	2,002	2,000	2,000	–
Customer deposits	**66,943**	65,640	70,518	70,733	57,044
Total shareholders' equity	**13,494**	12,834	12,036	11,852	10,253
Tier I Sukuk	**785**	500	–	–	–
Total equity	**14,279**	13,334	12,036	11,852	10,253
Return on average equity %	**10.72**	8.54	11.12	13.00	13.11
Return on average assets %	**1.51**	1.13	1.42	1.65	1.84
Capital adequacy %	**20.38**	18.93	16.94	17.08	15.12
Equity to total assets %	**15.22**	14.33	12.86	12.66	12.74

(1) Total income includes total operating income plus Bank's share in earnings of associates.

(2) Total expense includes total operating expenses before impairment charges.

During the year there was a continued focus on the Micro, Small and Medium Enterprises Sector (MSME), which the Bank defines as customers with an annual sales turnover of less than SAR 100 million. Credit procedures were streamlined for this sector and in addition a pipeline was developed to acquire new customers. The Group also sponsored and participated in the Massachusetts Institute of Technology Enterprise Forum (MITEF) hosted by Community Jameel for the promotion of young entrepreneurship and innovation in Saudi Arabia.

The following table summarises key financial information for the Bank's MSME operations:

	Micro	Small	Medium	Total
Loans to MSMEs on-Balance Sheet (SAR '000)	6,765	72,707	57,031	136,503
Loans to MSMEs off-Balance Sheet (Notional amount) (SAR '000)	2,851	33,652	21,634	58,137
On-Balance Sheet MSME Loans as a percentage of total loans	0.01	0.12	0.09	0.22
Off-Balance Sheet MSMEs position as a percentage of total off-Balance Sheet position	0.00	0.06	0.04	0.10
Number of loans (on and off-Balance Sheet)	12	305	190	507
Number of customers for loans (on and off-Balance Sheet)	8	58	16	82
Number of loans guaranteed when the Kafalah programme (on and off-Balance Sheet)	7	189	0	196
Amount of loans guaranteed by Kafalah programme (on and off-Balance Sheet) (SAR '000)	3,387	43,960	0	47,347

Refer Note 29 to the Consolidated Financial Statements for further details on the financial performance of the unit

Treasury and Investments Group (TIG)

As at December 31, 2017 the assets of the Treasury and Investments Group were SAR 27 billion while the liabilities were SAR 20 billion. The Treasury and Investments Group achieved a net income for the year of SAR 341 million which amounted to 24.19% of the Groups net income. The total operating income for the year was SAR 561 million while the operating expenses were SAR 220 million.

Refer Note 29 to the Consolidated Financial Statements for further details on the financial performance of the unit

Regulatory payments

Zakat payments due from Saudi shareholders and which are paid by the Bank are deducted from their share of cash dividends. Any unreimbursed income tax payable by the non-Saudi shareholders on their share of profits is also deducted from cash dividends.

The Bank paid SAR 24.3 million in Zakat on behalf of Saudi shareholders, and SAR 12.2 million of income tax on behalf of its non-Saudi shareholders during the year ended December 31, 2017. The Bank also paid SAR 2.1 million as withholding tax on payments to non-residents made during the year ended December 31, 2017.

The Bank has received assessments for additional Zakat, income tax, and withholding tax totalling approximately SAR 277 million relating to the Bank's Zakat, Income tax, and withholding tax filings for the period 2003 to 2009. The Bank has filed an appeal for these assessments.

In addition, partial assessments have also been received for additional Zakat totalling approximately SAR 383 million relating to the Bank's 2010, 2011 and 2013 Zakat filings. The assessments are primarily due to the disallowance of certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its Zakat advisors, has filed an appeal with the Department of Zakat and Income Tax and a response is awaited. At the present time, it is not possible to make a reliable estimate of the ultimate additional Zakat liability.

The Bank paid a total of SAR 47.2 million to the General Organisation for Social Insurance on behalf of its employees, including the employee share of SAR 21 million during the year ended December 31, 2017. The Bank also paid approximately SAR 1.5 million for visa, other-related governmental fees, municipality and related fees during the year ended December 31, 2017Regulatory penalties and fines

Regulatory penalties and fines

During 2017, the Bank paid SAR 1.36 million in penalties and fines to the following regulatory agencies:

- No fines reported by CMA
- No fines reported by Ministry of Municipal and Rural Affairs
- SAMA penalties:

Violation subject	Financial year 2017	
	No. of penalties	Total fines amounts in SAR
Violation of SAMA's Supervisory instructions	4	760,000.00
Violating SAMA's instructions for customer protection	3	65,000.00
Violating SAMA's instructions for due diligence	1	455,400.00
Violating SAMA's instructions for ATM and POS performance*	3	85,000.00

**Two penalties have been added totalling SAR 75,000 were not reflected in the 2016 Board of Directors' Report.*

Profit distribution

The net income of the Bank will be distributed as directed by the Board of Directors in accordance with the provisions of the Banking Control Law, as follows:

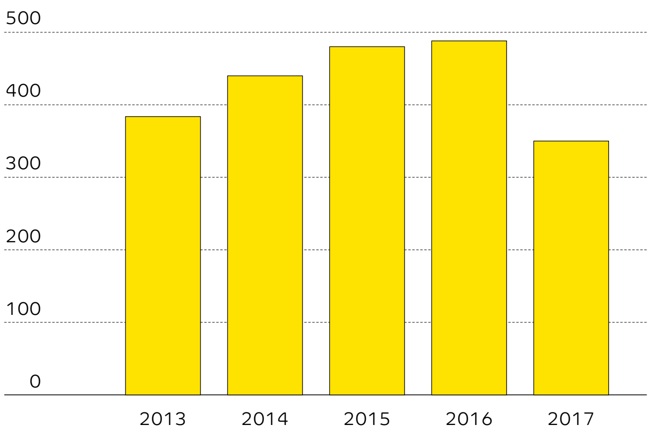
(a) The amounts for payment of the Zakat owed by the Saudi shareholders and any income tax owed by the non-Saudi shareholders according to the applicable laws of the Kingdom will be withheld. The Bank will pay the required amounts to the authorities and deduct the Zakat owed by the Saudi shareholders and any unreimbursed income tax of the non-Saudi shareholders from amounts due to these shareholders, respectively.

(b) After the deduction of the Zakat and Income Tax as mentioned in the paragraph (a) above, not less than 25% of the remaining net income will be allocated to the Statutory Reserve until this Reserve is equal to at least the Paid-Up Capital.

(c) The remainder, after all, allocations mentioned in paragraphs (a) and (b) above are made, shall be used in any manner recommended by the Board of Directors and approved by the General Assembly.

In 2016, the Board of Directors proposed a cash dividend of SAR 350 million equal to SAR 0.5 per share, net of Zakat to be withheld from the Saudi shareholders totalling SAR 70 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each 14 shares outstanding. The Bank's shareholders approved the proposed dividend and bonus share issue in an Extraordinary General Assembly Meeting held on 21 Rajhab 1438 H., corresponding to April 18, 2017. The net dividends and bonus shares were distributed to the shareholders thereafter.

Dividends paid SAR million



The prior period amounts have been adjusted primarily to reflect a change in the accounting for Zakat and Income Tax to conform to the current year presentation.

Credit ratings

The nature of banking transactions makes credit ratings of the utmost importance, especially in today's globalised commercial environment. They are necessary not only to ensure access to funding and capital markets, but also to demonstrate that the Bank conforms to internationally recognised credit and risk management standards. During the year, the Bank continued its rating reviews with Standard & Poor and Fitch Ratings.

Standard & Poor have maintained the long-term and short-term counterparty ratings "BBB"/"A-2" with a stable outlook. S&P defines these ratings as follows:

- **Long-Term Issuer Credit Ratings** – An obligor rated "BBB" has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity of the obligor to meet its financial commitments.
- **Short-Term Issuer Credit Ratings** (less than 12 months) – An obligor rated "A-2" has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.

Fitch have confirmed the Bank's ratings as "BBB+"/"F2" long term and short term and have changed the outlook from negative to stable. Fitch defines the ratings as follows:

- **Long-Term Issuer Default Ratings** – "BBB+" ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate, but adverse changes in circumstances and economic conditions are more likely to impair this capacity.
- **Short-Term Issuer Default Ratings** (less than 12 months) – "F2" ratings indicate good credit quality with a satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

The Bank's ratings reflect the recognition of our financial performance, asset quality and capitalisation levels; these have been backed up by sound strategy and adequate liquidity profile. The ratings are also supported by the fact that the Kingdom has one of the strongest banking sectors and best regulated markets, not only in the Middle East but among all emerging markets.

Enabling a thriving economy through support for the SME and mid-corporate segments

Institutional Capital

The Bank's institutional capital consists of the values, ethics, policies, systems and procedures that guide all its activities and promote sustainability. The ethos of responsibility is ingrained in the Bank's culture. We seek to be recognised as responsible, by all our stakeholder groups. The principle of responsibility permeates our product and service design, our customer service, our systems and procedures and the security and integrity of our data. The Bank has developed supporting mechanisms to ensure its sustainability through availability of accurate, timely and well-visualised data for decision-making.

Our values

Institutional capital is the values, ethics, policies, systems and procedures that govern the Bank's activities. SAIB's approach to sustainability rests on five strategic pillars, which guide all our activities, all of which have some bearing on institutional capital. However, the one which most underpins our institutional capital structure is Takleef (responsibility).

Further information on the Bank's sustainability pillars could be found under The Saudi Investment Bank on page 8.

Responsibility is thus ingrained into the Bank's activities. We endeavour to be recognised by our stakeholder groups inclusive of customers, employees, business partners, suppliers, investors and the general public as an ethical and responsible Bank. We practice the principle of responsibility in our product and service design, in our customer service, in our systems and procedures and in the security and integrity of our data. We also scrupulously comply with not only the letter but also the spirit of all Saudi laws relating to human rights, anti–corruption and the environment. Under the direction of the Board of Directors and the Board Risk Committee we seek to carry out our lending and investment issues with an understanding of environmental, social and governance issues.

The Bank also carries out a large number environmental and social responsibility programmes, details of which are given under Social and Environmental Capital found on pages 102 to 110.

Policies and governance

While the Bank seeks to be ethical, effective and consistent in all aspects of our business, to translate these values into practice we need clear policies and guidelines; to implement them in turn we need practical mechanisms, systems and procedures. SAIB has clearly documented policies covering all important business aspects including investor relations, procurement, product and service development, investment, lending, risk management, borrowing, customer relations, marketing, information technology and information security. Our policies also ensure we comply with the laws and regulations of the Kingdom of Saudi Arabia as well as international guidelines for ethical behaviour. Our Code of Conduct sets out how employees or management should act in cases of inside information, conflict of interest or whistleblowing.

Further information on the Bank's governance framework and policies as well as activities carried out during the year in relation to governance could be found under Stewardship on page 21.

The Bank also actively participates in both local and international committees and groups that align with its own business and sustainability goals. These engagements, in certain instances, include policy development as well. Some of the banking sector committees the Bank participate include SAMA committees such as the CEO Committee, the Risk Committee and the CFO Committee. The Bank also plays an active role in the Saudi Media and Banking Awareness Committee.

Systems and Processes

One of the mechanisms SAIB has developed to ensure sustainability through good corporate governance is a Sustainability Management Dashboard System (SDMS) to collect, store, analyse, visualise and utilise data related to sustainability performance. The system has been devised to enable regular (monthly or quarterly) collection of information efficiently with minimum labour. It provides a unified and secure storage for information and facilitates automated calculation and visualisation of performance, while ensuring more accurate information output.

When developing the system, the goals and objectives included improved decision-making by providing timely and accurate information in the hands of decision-makers; regular tracking and internal reporting of performance against sustainability goals being a basis for continuous improvement; cost efficiency by more efficient resource utilisation at Branch level; better communication and presentation of information both internally and externally. All departments are stakeholders in SDMS, but the principal stakeholders include the CEO, Sustainability Committee and the Corporate Communications Department.

We continued to re-engineer the way we do business in order to gain efficiency, doing more with fewer resources and improving turnaround time for customers by carrying out various automation initiatives. A number of significant products and improvements in systems and services were launched during the year which gave value to our customers. New services included automated corporate account opening via CRM; alert service for non-individual customers; and an appointment system in branches to shorten waiting/service times. Some of the new products were Shares Finance being rolled out to all branches, Taif University non-profit education loan, the Travel Companion Financial Product and launching of the Visa Infinite debit card with concierge and lounge access services. The Bank's loyalty programmes – Aseel and WooW, continued to exceed expectations of customers and partners.

Our operations group successfully carried out several implementations of new products, systems, processes and controls over the year. Some of the new products and systems implemented were TI Plus (Trade Innovation) with many new features, the integrated Trade Service Offering with Aramco through SWIFT and new functionalities on credit cards. Process innovations were also implemented in credit cards, travel cards, automation of GL posting, automation of early termination of deals and mortgage finance among others. New controls were also introduced to minimise risks to the Bank including Marine Cargo Insurance programme for import LCs and automated blocking of accounts for recovery of credit card dues.

Financial Planning and Control Group (FPC) continued the implementation of the data warehouse project with the support of IT MIS. The unit also completed Phase I of the data discovery programme with the assistance of Rockit Astra and Protiviti and is currently planning to move to Phase II to include additional systems. The Bank-wide reporting automation project continued on to the next phase with the completion of Phase I SAMA reporting. FPC is now moving forward with the assistance of Fintellix to automate Bank-wide performance and business unit reporting, along with the remaining supplemental reports required before the Bank's former MIS system is shutdown. Further automation in of daily balance sheet aspects and derivative reporting was carried out to reduce volume of manual work as well as to improve management and monitoring.

Digital strategy and information technology

The Bank's digital strategy and innovativeness is a major source of our competitive edge and makes us stand out in the market. Several major enhancements were introduced to the existing systems during the year. These included enhancements to prepaid cards including the introduction of a household workers card; introducing new templates into the secure printing platform; and a new state-of–the-art core system based on virtualised concept.

The Information Technology shared services group also completed several major projects during the year, some of which were Direct Sales Agent (DSA); new Trade Innovation System; budgeting and planning system; and Branches Appointment System.

In catering to emerging and dynamic security threats, a new dedicated Security Operations Centre (SOC) has been formed by the Bank's IT Group. This section will enable SAIB to proactively and effectively review and monitor any attack and incident on a 24-hour 365-day basis. Thus far over 120 systems have been integrated with SOC for centralised logging, review and management.

Organisational changes

To implement our new strategy and align SAIB more with Vision 2030, Commercial Banking Business Group (CBBG) was established with a focus on smaller size business segments – the mid-corporate segment and SME, which migrated across to corporate banking from Retail Banking.

Credit rating

A recognition that SAIB has achieved for its governance is a credit rating of BBB/Stable/A-2 in the Standard & Poor global ratings. The stable rating is based on the expectation that the Bank's business and financial profiles will remain basically unchanged over the next two years.

Further information on the Bank's credit ratings could be found under Financial Capital on page 65.

Accolades

Rated as "The Best Saudi Bank in Service Quality Index" by SAMA

Global Banking and Finance Review

- Best Bank for Social Media Channels Saudi Arabia 2017
- Best Loyalty Programmes Saudi Arabia 2017

International Finance Magazine

- Best Loyalty Programme Saudi Arabia 2016 (awarded in 2017)
- Best Environmental Sustainable Bank Award 2016 (awarded in 2017)

The only KSA Bank ranked amongst all Saudi listed companies at the First Annual Corporate Governance Conference hosted by Alfaisal University 2017 in collaboration with Harvard University.

Awarded the ISO 14001:2015 for Banking Services Including ATM Activities and Operations


CERTIFICATE

TÜV AUSTRIA

Ambassadors for the King Khalid Award for Responsible Competitiveness (RC)

Nominated for the Bank's past performance and practices and for the leading role it plays in promoting sustainability and responsible competitiveness.

UN Global Compact Status

SAIB retained for a 2nd year its UN Global Compact (GC) Status based on its Communication on Progress (COP) submission. The Bank's COP met all minimum requirements and qualified for the GC Active Level.

Registration of ICAP with UNPRI

Completed the process of registering Alistithmar Capital (ICAP) with United Nations Principles of Responsible Investments (UNPRI). ICAP is the 2nd entity in KSA to register with UNPRI. This will lead to significant value addition to the Bank's Group profile for the purpose of King Khalid Award assessment.

Global Reporting Initiative (GRI) Gold Community Member

SAIB retained its GRI Gold Membership status based on its Sustainability Reporting and publicly available disclosures on Sustainability.

Sustainability Report

SAIB was the first Bank globally and one of 10 global companies to have issued a Sustainability Report using the new Global Reporting Initiative (GRI) Standards reporting methodology.

Investor Capital

Our shareholders and investors are those who provide the capital for the Bank to operate and so are a key stakeholder. The Bank scrupulously adheres to a strict code of transparency in our relationships with investors. Information on all the Bank's activities and performance, financial and non-financial, as well as strategies, future plans and forecasts are made available to investors to the maximum extent practicable. The rights of shareholders and the mechanisms for exercising these rights are clearly laid down.

In its relationships with shareholders and investors the Bank exercises due care and follows a policy of transparency. Information on the Bank's activities and performance, present and past and financial and non-financial, as well as policies, expectations, future plans, general strategies and risks are provided to the maximum extent possible. The Bank publishes information in line with the regulatory requirements and its own disclosure policy in the press, the Bank's website and on the Tadawul.

The Bank's policies lay down the guidelines for its relationships with shareholders, their rights and the mechanisms for exercising these rights. These are reaffirmed by the Bank's Articles of Association and the Corporate Governance Rules, which set out the procedures and precautions to facilitate shareholders exercising their legal rights. This includes rights relating to dividends, convening, attendance and participation at meetings, voting rights and right to information.

The Financial Statements and Auditors' Report, and the Board of Directors Report are made available to all shareholders, the investor community and the general public. They are published in the local press, the SAIB website as well as the Tadawul website. Mechanisms also have been laid down for shareholders to make any complaints which will be reviewed by the Corporate Governance Department. The shareholder will be assured of a reply to a complaint and will be advised of any action taken in this connection.

The Saudi Stock Exchange (Tadawul)

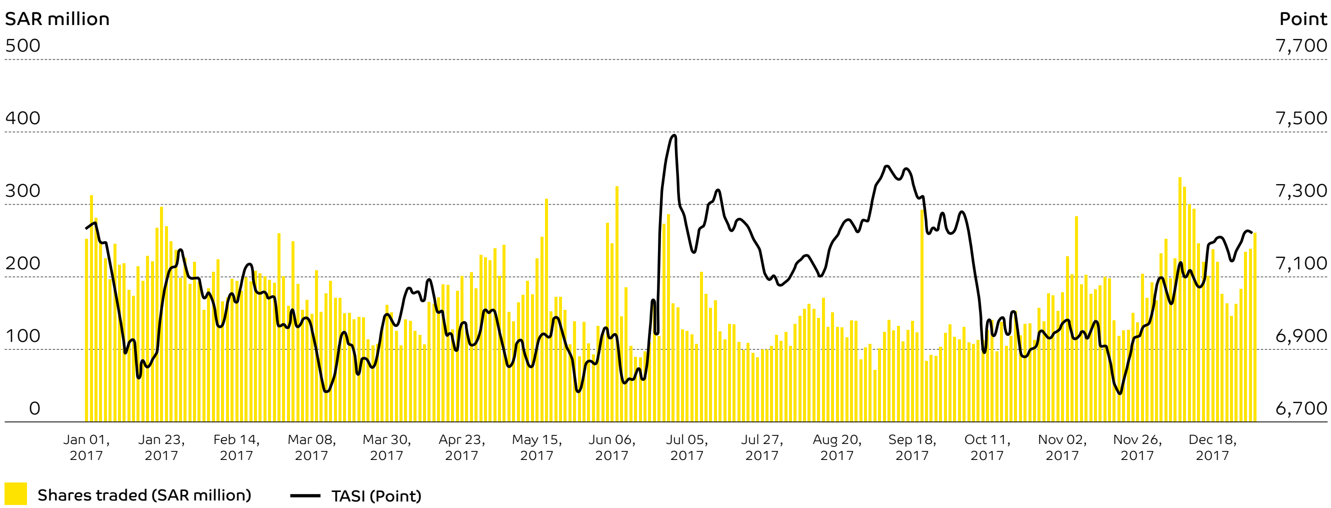
The total market capitalisation of the Tadawul as at December 31, 2017 reached SAR 1,689.60 billion (USD 450.56 billion) which was an increase of 0.45% over the figure at end 2016. At the end of 2017, Tadawul All Share Index (TASI) closed at a level of 7,226.32 points compared to 7,210.43 points a year before, reflecting a gain of 15.89 points or 0.22%. A total of 21.90 million transactions were executed during the year and the total value of shares traded was SAR 836.28 billion (USD 223.01 billion) which was a decrease of 27.72% over the previous year (value: SAR 1,156.99 billion or USD 308.53 billion).

Industry groups activities

The banking industry group was the market leader in terms of the value of shares traded during the year 2017 amounting to SAR 194.86 billion which accounted for 23.30% of the total value traded. The materials industry group took second place followed by the insurance industry.

In the sector ranking by the number of transactions during the year, the insurance industry led with 4.32 million trades that represented 19.72% of total trades during the year. The banking sector came in third place (the materials industry group took second place) with 2.12 million trades accounting for 9.67% of total trades. In terms of number of shares traded (adjusted) the real estate management and development group was in the leading slot with 9.68 billion shares traded that accounted for 22.36% of the total volume traded. The Bank's industry group took second place with a volume of 9.40 billion shares representing 21.70%; the materials industry group took third place.

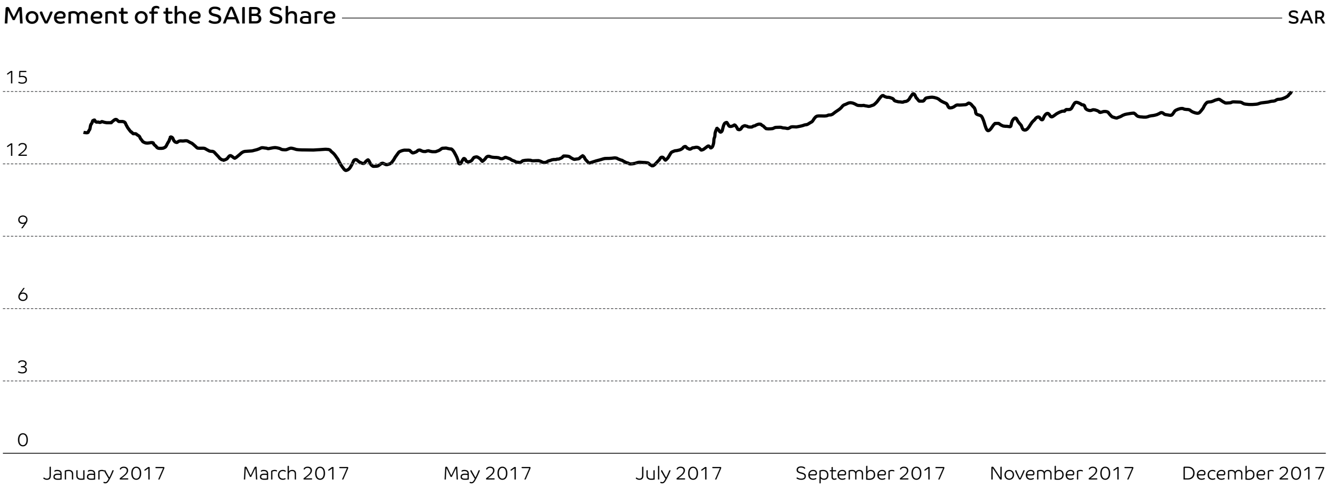
TASI and shares traded – 2017 – Main Market



The SAIB share

As at December 31, 2017, the market value of the Bank's ordinary share was SAR 15.08, as against SAR 14.20 as at December 31, 2016. During the year 2017, the highest price the share recorded was SAR 15.35 which was on September 18, 2017, while the lowest price the share recorded was SAR 12.10 which was on March 14, 2017.

Movement of the SAIB Share



Market capitalisation

For the years ended December 31,	2017	2016	2015	2014	2013
Value, SAR billion	**11,310**	9,940	9,711	12,528	11,578
Percentage of total market capitalisation (%)	**0.91**	0.87	0.96	1.11	1.08

Days traded

For the years ended December 31,	2017	2016	2015	2014	2013
Number of days traded	**250**	249	251	250	248
Total number of market days	**250**	249	251	250	248
Percentage of market days traded (%)	**100**	100	100	100	100

Frequency of shares traded

For the years ended December 31,	2017	2016	2015	2014	2013
Number of deals*	**15,418**	21,466	26,618	30,339	15,985

**One deal could include the trade of several stock*

Distribution of shareholding

Investors are the persons, individuals or institutional, who provide the Bank with the capital it needs to operate. They do so with the expectation of a return on their investment, which is usually a mix of short, medium or long term.

The break-up of the Bank's shareholdings into individual/institutional and foreign/local is shown below:

As at	December 31, 2017			December 31, 2016		
	Foreign %	Local %	Total %	Foreign %	Local %	Total %
Individual	–	**49.65**	**49.65**	–	46.84	46.84
Institutional	**10**	**40.35**	**50.35**	10	43.16	53.16
Total	**10**	**90.00**	**100.00**	10	90.00	100.00

Shareholding by size

As at	December 31, 2017			December 31, 2016		
	No. of shareholders	No. of shares	% of shares held	No. of shareholders	No. of shares	% of shares held
01–10,000	**2,629**	**4,668,342**	**1**	2,527	4,567,137	1
10,001–100,000	**706**	**23,031,364**	**3**	663	21,817,267	3
100,001–1,000,000	**201**	**54,379,408**	**7**	174	45,807,116	7
1,000,001–10,000,000	**28**	**80,875,646**	**11**	26	80,975,287	12
10,000,001–100,000,000	**13**	**327,637,703**	**44**	11	304,719,491	44
Over–100,000,000	**2**	**259,407,537**	**35**	2	242,113,702	35
Total	**3,579**	**750,000,000**	**100**	3,403	700,000,000	100

Shareholders equity

Key performance indicator	2017	2016	2015	2014	2013
Share capital (SAR million)	**750**	700	650	600	550
Total shareholders' equity (SAR '000)	**13,494**	12,833	12,036	11,852	10,253
Basic and diluted earnings per share (SAR)	**1.88**	1.40	1.90	2.39	2.14

Capitalising on technology to offer convenient and hassle-free banking

Customer Capital

At SAIB we strive to offer our customers simple, accessible and reliable products and services which provide the best possible financial return. Banking today is a fast evolving and competitive industry. It is moving from traditional bricks and mortar banking to the digital mode. Increasingly customers wish to be able to perform their banking transactions wherever they are and at a click of a button. They also desire services to be available 24/7. We have to leverage the latest technology to cater to these needs. However we have to continue to provide traditional banking services to those of our clientele who still desire the face-to-face contact at a branch.

Banking with SAIB

At SAIB we believe in empowering our customers to grow financially by making investments in simple, accessible and reliable products and services. In the process they create growth for our shareholders and the citizens of the Kingdom. Nummow (growth) is one of our strategic sustainability pillars and we thereby realise value in the short, medium and long term. Another strategic sustainability pillar, Takleef (responsibility), underpins building customer relationships; by being responsible to our customers we in turn earn their trust and loyalty.

We strive to offer the best possible banking experience for our customers, as they are at the heart of our business, and are the drivers of our long-term growth and profitability and one of the key drivers of our sustainability. This means offering the simplest and most accessible products and services to each of our customers at every touchpoint in the most user-friendly manner.

Our customer base includes over 381,571 retail customers, 1,450 large companies and over 15,936 small businesses. We seek to provide a diverse and accessible range of touchpoints to maximise convenience to our customers and to cater to their differing preferences.

Across the Kingdom we have 49 branches, of which 12 include ladies sections. In addition, we have 416 ATM's, 59 cash deposit machines, and 4 interactive teller machines. The number of ATM transactions increased by 15.3% in 2017 over the previous year to 18,319,625. On the other hand, the number of Branch transactions declined by 13.4% to 284,414.

Our digital and mobile service platforms minimise the need for customers to visit bricks and mortar branches if they do not wish to do so. We also provide 24/7 service for those who so desire. Online transactions showed a remarkable increase of 46.7% recording a total of 4,711, 819. These figures confirm the trend of customer preferences. However, we do not neglect the customers who have traditional preferences who desire face-to-face contact at a branch.

Branches
49

2017	2016	2015	2014	2013
49	48	48	48	48

ATMs
416

2017	2016	2015	2014	2013
416	443	436	442	396

Cash Deposit Machines
59

2017	2016	2015	2014	2013
59	54	53	35	0

Interactive Teller Machines
4

2017	2016	2015	2014	2013
4	1	1	1	0

POS Terminals
9,178

2017	2016	2015	2014	2013
9,178	8,792	6,312	3,790	1,991

E-channel penetration

	UNIT	2017	2016	2015	2014	2013
SMS alerts	%	**98.00**	98.25	97.53	96.22	93.00
"Flexx Call" Phone banking services	%	**51.00**	45.96	54.22	30.74	29.00
"Flexx Click" Internet banking services	%	**68.00**	61.02	39.45	43.25	37.00

SAIB's growth has largely been driven by the unique service offerings and customer experience that SAIB's ongoing sustainability-driven innovations have made possible. These innovations will continue to be the central showpieces of SAIB's sustainability efforts and will demonstrate not only how sustainability can shape the core of a Bank, but can also drive its differentiation, top line revenue growth and profitability. Furthermore, the technology, especially automation of transactions, will increase efficiency and will have a positive impact on the bottom line.

Our products and services

We have established business units to cater to the needs of our different customer segments and the appropriate products and services for each segment. All of our main banking segments grew in 2017. Our personal banking customers increased by 21% to reach 381,571; our corporate customers by 30% to reach 1,450; and our small and medium enterprise customers by 16% to reach 15,936. Regarding our service quality, our payment accuracy reached 99.9% while our payment timeliness reached 99.9%.

Personal banking group

Our retail banking segment encompasses a wide spectrum of customers including individuals from both the Government and private sector entities. Customers are served through our widespread network of branches, internet banking channel, mobile banking channel, call centre and an extensive network of ATMs throughout the Kingdom. Our service offerings include a wide range of Shariah-compliant products, such as Murabaha as well as conventional banking.

Our personal banking group, which is the organisational unit of our retail banking, aggressively pushed to expand market share across all retail banking segments and in accordance with our vision and mission statement.

A total of 26 initiatives were initiated or implemented during the year to build our retail banking customer base as well as improve our products and services. Consumer lending and core deposits were aggressively pushed while enhanced offerings were made to our loyalty programmes, our suite of payment cards, payroll

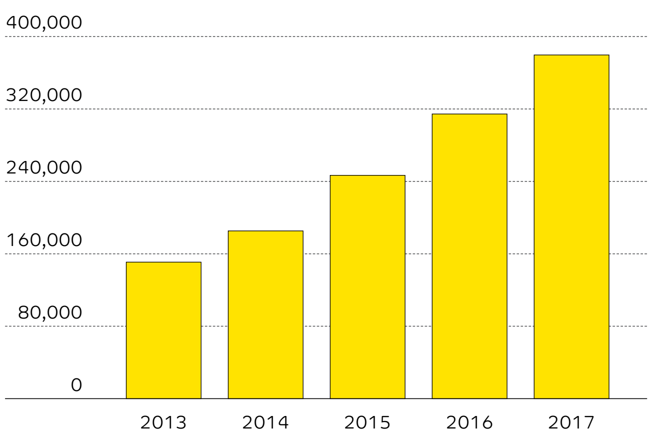
and money transfer products. We see much potential in developing the affluent banking segment; a value proposition for this was developed including providing special facilities for such customers at branches. New deposit products were also introduced and roll-out commenced at sales centres. New product units have been created while to streamline customer service and supporting operations, segment teams have been assigned to ladies, youth and affluent customer segments. Revised SAMA rules on dormant, old items and abandoned accounts have been implemented. All Bank forms and agreements have been standardised and rationalised which has resulted in significant cost savings.

New products and services

Among the new products that were launched during the year was the "Flexx Transfer" Service which provides instant money transfer facilities to six countries. Internet banking with remittance service was enabled for our EasyPay cardholders. We also initiated a zero-interest loan for Taif University students and a further personal finance product. Two home finance products, Madoom and Moyassar, were launched targeting low income Saudi nationals. They will provide finance on easy terms and at reduced cost.

Among the service improvements which were made during the year was an automated appointment system at the Branches which provide customers with a better service experience as well as reducing waiting times. The Interactive Teller Service, which allows, recorded, video-based interaction between a Bank teller and the customer, was expanded to four machines with centralised management via our contact centre. Our remittance services were enhanced with the addition of new foreign currencies.

Personal banking customer growth — Nos.



Corporate banking business group

Our Corporate Banking Business Group (CBBG), caters to the full range of business establishments – large corporates, mid-corporates and of late the SME sector which has migrated from the personal banking group. CBBG develops its strategies to be aligned with Vision 2030 of the Kingdom. CBBG operates from three regional headquarters based in Riyadh, Jeddah and Al-Khobar and strives to provide a wide range of financial products catering to our clientele's diverse needs and efficient customer services. We make the best use of cutting-edge technology to add value to our products and services. Among our product and service offerings, which span both conventional and Islamic banking, are –

- Working Capital Financing
- Trade Finance Services/E-Trade
- Contract Financing
- Project Financing
- Islamic Financing
- Cash Management
- Financial Institutions
- Syndicated Loans
- Treasury Services for Corporates.

In the year under review the Group commenced or implemented 15 initiatives. The Group also continuously strived to increase efficiency by re-engineering processes – doing more with less and improving turnaround times.

The Group's performance during the year is highly commendable in view of the fact that the Bank faced major headwinds in the form of the general economic slowdown as a result of which the Kingdom is expected to register negative growth in 2017. There were also constraints in the form of high costs of labour and funds. On the positive side there was an improvement in liquidity in the Banking system compared to the previous year. The increased government focus on the SME sector, through the newly formed SME Authority was also favourable to us. CBBG have signed several agreements to support specific sectors, which are in line with the Government's 2020 and 2030 directions and vision, with various government entities.

During the year our marketing strategies included expanding the mid-market segment, deepening client relationships and pushing our cash management services. A significant achievement in the large corporate sector was our participation in a syndicated financing deal for Saudi Arabian Airlines for the acquisition of 12 Airbus A330-300 aircraft. New risk assessment criteria were developed customised for specific segments; efforts were also made to diversify our portfolio and reduce risk concentration.

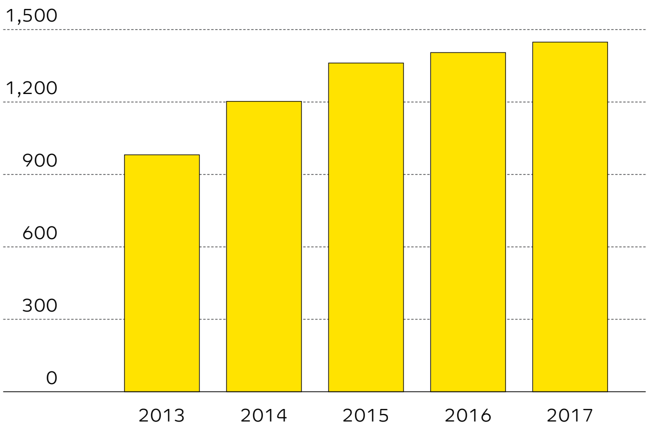
Among the initiatives we have mounted for the mid-corporate/SME sector have been introducing escrow accounts, moving customers from manual to online processing, payroll services, POS terminals, and SAIB-Amex co-branded corporate cards. These were included in our 2015-2019 Strategic Plan. Several Trade Finance and Cash Management products and services were also introduced. The credit approval process for SME customers was streamlined.

A new Trade Innovation (TI Plus) was successfully implemented with new features to support new products and online services. The Integrated Trade Service Offering with Aramco was enhanced as per their new requirements. A new pre-paid online Banking portal with beneficiary registration and online remittance for pre-paid customers was also implemented. An important innovation for the import trade was the introduction of the Marine Cargo Insurance programme for goods imported on Letters of Credit which will mitigate the risks associated with such imports while extending insurance options at very competitive rates. A mobile POS device has also been launched for the benefit of corporate and SME clients. With the implementation of VAT on January 1, 2018 all forms and agreements have been amended to be in line with the new requirements.

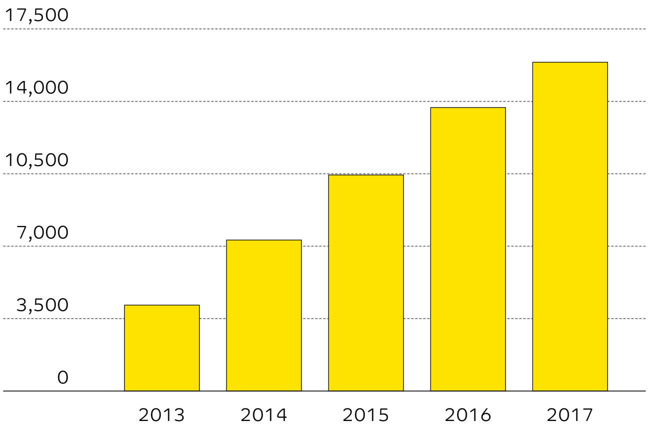
An enhancement to our internal processes was CRM360 which is a one stop solution providing in-depth insights into customer data. This will enable SAIB to assess its customer service and anticipate future customer needs.

Looking to the future, the unit aspires to improve its contribution to the overall performance of the Bank. We anticipate rapid progress in the Saudi economy, which we will reap the fruits of especially in view of several initiatives we have embarked on which are aligned with Vision 2030. These include customer segmentation, strategic partnerships, industry specific offerings and cash management. There are however several challenges we have to overcome especially in the operating and regulatory environment. We need find the right expertise for implementing Public-Private partnerships. Long-term funding needs to be planned with a time horizon of 20 years or more. We also need to deal with changes in the International Banking Regulations and Accounting Standards.

Corporate banking customer growth — Nos.



Small and Medium Enterprises (SMEs) customer growth — Nos.



Treasury and investments group

Treasury and Investments Group are responsible for foreign exchange trading, funding and liquidity management, as well as the Bank's investment securities portfolio and derivative products. It also manages the Bank's asset-liability structure and interest rate and market risks and liquidity. The Group plays a major role in the Bank's governance as well as handling important aspects of the Bank's operations. Some of the developments during the year were planning for new regulations, system upgrades, introducing new treasury products and diversification into alternative products. Out of 11 initiatives that were commenced or implemented, 95% of activities were completed.

Some of the highlights of the Group's achievements during the year were higher optimisation of the balance sheet by maintaining loan-to-deposit ratio; maintaining a liquidity ratio of 25% by prudent liquidity management; and concluding the first treasury structured trade with SAIB Syndication Department. In addition, we maintained the top 20 depositors' concentration at 37.60% against a target of 45%. Two tranches of Tier I Sukuk programme of a total of SAR 785 million were closed which is the second such transaction in the Saudi market.

Closeness to the customer

Through frequent communication with customers we evaluate our customer service performance; the results help drive improvements at SAIB and influence the development of new products and services to meet customers' evolving needs and expectations. We have set up several channels to receive and address customer queries and complaints so that we can understand and meet their expectations better. All customer complaints are handled and processed by the Customer Care Unit at our Head Office which has obtained the ISO 9001 standard certification.

Marketing and communications initiatives for 2017

A number of significant initiatives were embarked on in 2017 including the following:

- 45 Marketing Campaigns were launched in 2017 compared to 25 in 2016. A growth of 80%;
- 85 events were managed compared to 30 in 2016. A growth of 185%;
- External emails sent to customers increased to 95,000 from 65,000 the previous year;
- A total of 54 press releases were published compared with 40 in 2016. A growth of 35%;
- Launched the Budget Calculator in March 2017 – Appearing as the top result in Google search. Averaging 6,000 page views per month;
- e-forms were upgraded with the inclusion of all SAIB products and services;
- Digitalisation of the Alistithmar Magazine;
- Three WooW loyalty programme campaigns were launched;
- A social media campaign was launched to coincide with the 'Deaf Week Programme' with a 36% engagement rate.

- Revamping of SAIB's website –
  - 36% increase in unique visitors per month to the website compared to 2016.
  - 28% increase in page views per month to the website compared to 2016.
  - Restructured the website to make it more user-friendly and more efficient in applying for a product or service.
  - Updated the mobile app section to give option to users to download Al-Huda App.
  - Optimised the homepage to include the SAIB Twitter feed.

- SAIB is the number one financial institution in the Kingdom with 2.2 million social media fans and followers –
  - 13% increase in Twitter followers compared to last year.
  - 3% increase in Facebook Fans: compared to last year.
  - 27% increase in Instagram followers compared to last year.
  - 66% increase in snapchat views.
  - 35% increase in producing SAIB product, services and offers social media videos compared to last year.

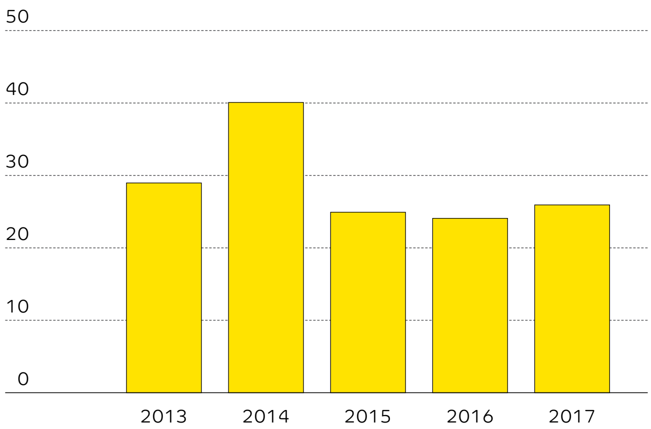
SAIB avails itself of all possible channels, both traditional and modern (branches, website, ATMs, telephone banking and mobile banking) as well as public channels such as print, radio and TV to market its financial products. The Bank also leverages the potential of social media especially to keep the customer informed of current offers, campaigns and competitions. Social media affords clients the opportunity to be informed about others' comments on products or services. We judiciously choose the mix of marketing channels according to the target segment. We strive to be absolutely accurate and transparent in our advertising. All our advertising clearly states the terms and conditions of our products. The Bank also provides the opportunity for customers to communicate and conduct transactions using the channel of their choice.

Customer satisfaction

We fervently believe in feeling the pulse of our customers and to this end a survey was conducted during 2017 through our Voice of Customer (VoC) function – a function that was developed to assess our customer service performance through frequent customer satisfaction surveys. The survey was intended to measure up customers' experience with SAIB and understand the key drivers of customer retention. The survey was conducted by the Quality Assurance Team assisted by a specialised vendor. A systematic sampling methodology was used. The total size of the sample was approximately 1,000 and was randomly selected from SAIB's data base. The satisfaction rate of survey participation was quantitatively measured, and this yielded a rate of 82.52% showing a marginal decrease over the previous year. The primary source of dissatisfaction was the Branch service. Concerns were expressed regarding slow service; the Central region was particularly affected by shortage of staff and resulting long waiting times. On the other hand, there was increased satisfaction expressed with Internet banking. A significant finding was the high rate of loyalty among female and customers over 55 years of age. The survey turned up several useful recommendations such as improving the rapport with customers by continuity of customer service staff in their branches; setting Arabic as the default language in SAIB ATMs; enhancing the product and service portfolio e.g. car lease; and creating a new segment for customers with drawing high remuneration.

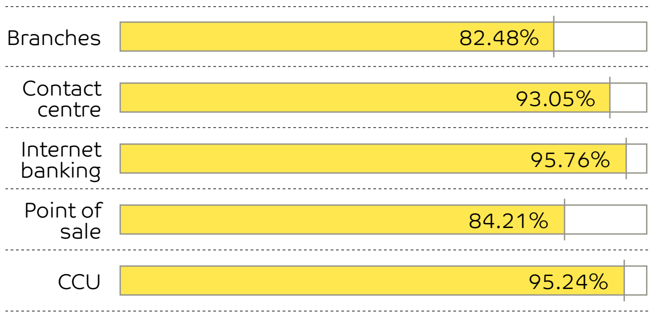
	Data	Unit	2017	2016	2015	2014	2013
Customer Satisfaction	Overall satisfaction	%	82.52	85.61	79.58	85.22	76.00
	On account opening	%	90.84	90.45	94.00	92.00	88.00
	On branch services	%	99.12	99.17	99.00	99.00	99.00
	On loan services	%	88.16	89.80	92.00	91.00	92.00
	On “Flexx Click” Internet Banking Service	%	86.51	89.74	90.00	92.00	91.00
Customer Complaints	Complaints registered	Nos.	14,523	9,897	8,294	7,907	4,585
	Complaints resolved within 5 days	%	99.03	98.06	99.00	99.00	99.00

Complaints registered per 1,000 customers — Nos.



Of the three categories premises received the highest score; in the overall score region-wise the Western region scored the highest.

Customer satisfaction results



The customer experience was also evaluated through our 8th Mystery Shopper Programme. Part time employees were specially hired to act as mystery shoppers. The programme was executed jointly with an outside consultant and it was conducted across our branches, contact centre, merchants who have a SAIB Point of Sale (POS) device, Customer Care Unit (CCU) and both “Flexx Click” and “Flexx Touch” Channels. A mystery shopper checklist was crafted by the Quality Assurance Division in consultation with other operating departments. The results of the branch visits are evaluated, and scores assigned from a customer perspective. They are analysed into three categories: premises, staff and products and services; given a weightage of 20%, 60% and 20% respectively. The results were encouraging; however, we are not resting on our laurels and realise improvement is necessary.

Building trust through being responsible

In line with our sustainability pillar Takleef (responsibility), SAIB has clearly documented policies for protecting customers’ interests. Fair and equitable treatment of all customers, including giving special attention to the vulnerable is a cornerstone of the process. The Bank seeks to communicate information about its products and services, in a concise, easily understandable and accurate form. We also seek to educate existing and potential customers about risks and opportunities in financial products.

All customer financial information, personal information and assets are safeguarded from unauthorised access, misuse and fraud through carefully designed control mechanisms. This includes accepting responsibility for the conduct of all agents. SAIB will only disclose any customer information without his or her consent, on a request by an authorised authority such as the Ministry of the Interior or the courts. We have a complaint handling mechanism to provide an independent, fair and accurate hearing to customers and to give appropriate redress where appropriate. Furthermore, if an error is discovered, quick refunds are given to all customers who have been affected by a similar error.

Just as SAIB scrupulously fulfils its responsibilities to its customers, we do our best to educate the customers on their responsibilities. These include always giving accurate information; asking for clarifications when necessary; procedure for making complaints; selecting products and services that suit one's needs and according to one's risk appetite; disclosure of sensitive personal information; and exercising due care when filling in documents. All new customers are provided with a copy of the Bank's Consumer Protection Policy.

Saudi Arabian Monetary Authority (SAMA) launched a programme named Banking Consumer Protection Principal (BCCP) in support of banking customers. The programme was designed to create awareness amongst consumers on consumer protection when dealing with banks in the Kingdom. SAIB's Quality Assurance supported the initiative with a variety of activities of our own such as e-training, issuing brochures, providing information on the Bank's website, classroom sessions for customer service staff, and banking awareness events to public and private institutions to reach institutional customers.

Rewarding loyalty

Maintaining customer loyalty is an important facet of our customer relationship programme. We have loyalty programmes which are built round brand image, quality of customer service, appropriate communication, understanding the customer and confidence that the Bank will keep its commitments. We strive to give our loyalty programmes a unique flavour which will make them stand out. While we welcome new customers, we consider retaining our existing customers to be paramount. The cost of attracting a new customer usually exceeds the cost of retaining an existing one. Being close to the customer, identifying and targeting their needs, and analysing their behaviour are all essential components of a successful loyalty programmes. In our products and services, we have to keep pace with changes in attitudes, perceptions, needs and aspirations among the younger generation. We also consider integrity and honesty to be essential to cementing our relationship with our customers.

Consumer protection
"Take a leading role in promoting transparency, fairness and ease of access for financial consumers, including the resolution of complaints"

Principles
Provide guidance to policy makers to make decisions

A combined approach of "Principles" and "rules"

Rules
Provide direction to police makers to make decisions

Business conduct
"Issuing policy principles that financial institution will be encouraged to achieve"

Regulations
"Issuing directives by way of regulations that financial institution must fully implement and comply with"

Loyalty programmes

Loyalty programmes are an important facet of our customer retention strategy. SAIB currently has two loyalty programmes, Aseel and WooW.

Our customers are eligible for discounts and offers when they use their credit, Mada debit cards and prepaid cards at participating merchant partners under the Aseel Loyalty Programme.

The WooW Loyalty Programme is a points-based reward programme which rewards customers with points for various transactions performed via banking channels. The WooW points can then be redeemed by the customer for WooW Gift items which are available for redemption via the WooW e-catalogue, through the Bank's "Flexx Click" and "Flexx Touch" channels

Refer our Social and Environmental Capital subsection for details of how customers can make charitable donations using their WooW points to worthy causes through the WooW AlKhair Programme.

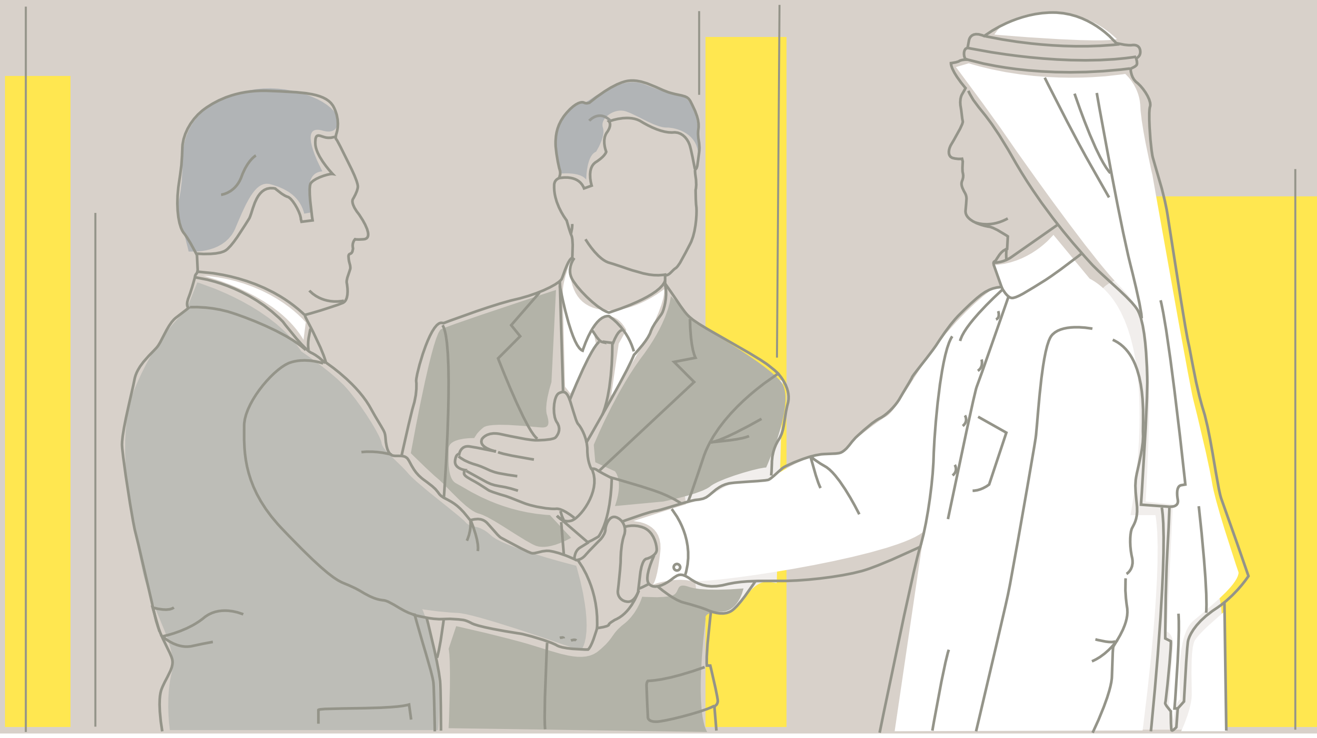
Improving efficiency to serve better

SAIB has a Quality Assurance Group in place to optimise the effectiveness and efficiency of processes through business transformation and foster an innovation culture. During the year 11 projects were completed to improve the Bank's internal operations which resulted in SAR 1.9 million in cost savings. Furthermore, more than 10 Six Sigma process improvement projects were carried out which led to savings of SAR 0.6 million. The Quality Assurance Team conducted more than 10 workshops with around 150 participants to promote awareness of quality issues by training staff on quality improvement techniques.

The Customer Care Unit within Quality Assurance, is tasked with resolving customer complaints within the time frames agreed with SAMA. This has been achieved at a practically 100% level. The CCU team had the ISO 9001:2008 certificate renewed once again, for complaints management. This demonstrates our commitment to continuous improvement of processes which leads to excellence in customer service.

Supporting a vibrant society through affordable home loans for low and middle-income earners

Business Partner Capital



We seek to build long-term relationships with our business partners, such as suppliers and vendors, which will be mutually beneficial. In our dealings with suppliers we practice ethical and responsible sourcing and expect ethical and responsible conduct on their part in return. The Bank's sourcing procedures are up to local and international ethical standards. We are always mindful of the economic impact our purchasing will have through the supply chain. We therefore take pains to procure from local suppliers wherever possible thereby creating value for the Saudi economy and local communities.

In its dealings with vendors and service providers SAIB strives to build long-term relationships based on trust and transparency. We believe that this will be conducive to the Bank achieving its long-term objectives. SAIB practices ethical and responsible procurement and in turn expects ethical and responsible conduct on the part of its suppliers. The Bank's sourcing procedures are up to local and international ethical standards especially in the avoidance of bribery and corruption. We aim to have a good understanding of the actual and potential supplier network which promotes the efficiency of our operations by reducing costs while maintaining quality.

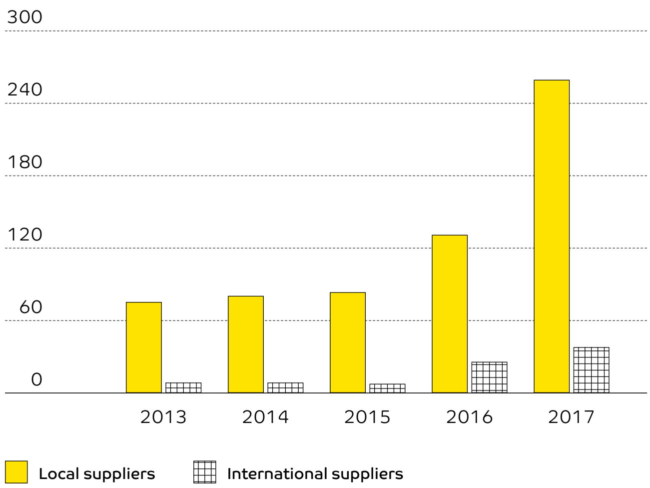
Given the nature of our business, the bulk of our procurement spending is on stationery, IT equipment, utilities and software. However, we are always conscious of the economic impact that our purchasing will have through the supply chain. Given our commitment to developing the Saudi economy, local communities and local employment, wherever possible we procure from local suppliers.

Our procurement policy is managed by our Head of Procurement to build a stable supplier base and ensure the sustainability of our operations. We conduct periodic vendor evaluation, carried out jointly by procurement and business units. Thereby we seek to ensure quality and regularity of supplies as well as develop good relations with suppliers we wish to retain. We strive to achieve a win-win situation where both parties will achieve their goals and build lasting relationships. Smoothly functioning mechanisms have also been established for vendors and service providers to make any complaints using the channel of their preference. Any complaints are directed to the relevant business unit or purchasing department, documented, and escalated to whatever level necessary. If legal aspects are involved, then the expertise of the Bank's Legal Department are called on.

Number of suppliers — Nos.

The Bank has 79 international suppliers and 154 local suppliers. The increase in supplier numbers during the year was due to registration of all suppliers in the Bank's ERP System. The Bank's spend on international procurement is SAR 36,644,044, while its spend on local procurement is SAR 259,314,171, with a total procurement spend of SAR 295,958,215 for the year 2017.

Procurement spending — SAR million



The Bank also aims to maintain good relationships and smooth communication with all creditors and ensure that all the Bank's obligations are met in a timely manner.

During the year, Quality Assurance Unit along with IT Group and relevant other stakeholders within the Bank, automated the end-to-end procurement, vendor management and payment processes, which helped the Bank to streamline its purchases and payments in a more efficient and effective way.

We also have our network of correspondent banks serving the leading banks in MENA, Europe, Africa and North America.

Employee Capital

At SAIB our human resources strategies are aligned with our organisational strategies and goals. On one hand we have to identify the knowledge, skills and attributes needed to fulfil the various organisational roles. On the other we have to identify the sources of the human resources we need. Learning and development programmes will have to be crafted and implemented to fill any gaps. While we fill our needs through our human resources strategies we have also to ensure the career development and job satisfaction of our employees.

Human resources being a prime driver of value creation is a cornerstone of SAIB's strategy. We strive to build internal relationships which will generate synergy in the talents, capabilities and activities of our employees.

Our human resources planning is based on a two-faced analysis. One is to determine the skills, talents and numbers needed to fill the various functional roles in the different organisational units and levels. The other is to identify the sources of the human resources needed, both internal and external. The latter includes learning and development programme enabling staff to take on enhanced roles. By developing and motivating our staff in turn we enhance the quality of our customer service.

Our HR strategy

The Bank's human resources strategy is founded on five pillars:

Control of headcount and costs

Our HR strategies are focused on minimising numbers by improving efficiency and effectiveness of our staff. We strive to keep the link between pay and performance while being equitable internally and remaining competitive in the marketplace.

During 2017, a new Product Incentive Plan was introduced to provide attractive incentives while maintaining equity in compensation, meeting business needs and keeping rewards within the risk appetite of the Bank.

Enhancing Saudization

In line with the objectives of the Kingdom set out in Vision 2030 Saudization of our workforce is one of our main strategic objectives. Our succession plans, which are drawn up to ensure that persons with the right knowledge and skills are available to fill vacancies when needed, support our Saudization objectives. Through new strategies during the year we achieved an increase in Saudization from 84% to 85.4%.

Partnering with business departments

SAIB has in place a comprehensive organisation design framework which is composed of several components namely, internal and external environment, strategy and purpose, process and control, structure and roles, competency and career development and culture and motivation.

Organisational design is the focal point of all HR matters which interface with organisational structure. It includes the organisation structure and reporting lines as well as the responsibilities, required qualifications, experience and training for each job. It has been drawn up to support the organisational goals and targets and ensure efficient deployment of resources.

Upskill SAIB human capital

We give the utmost importance to developing our human resources so as to able to fulfil our goals, objectives and plans. While achieving this, we also provide career development opportunities and job satisfaction for our employees. We also seek to instil in them the capability to think outside the box, drive innovation and growth, teach and engage others and become role models of ethics and integrity.

Boost automation

We are continuously seeking to increase the efficiency of our HR processes and automation is given high priority. A performance management system has been implemented covering the entire performance cycle from objective setting to year-end appraisals. A Training Management System has also been put in place which covers competency assessment, training history, training requests, approval cycle and budget controls.

An 80% level of automation of HR processes was achieved during the year. All staff profiles have been uploaded to the Human Resources Management System and each staff has access to his/her job profile competency requirements. Automated systems have also been introduced for succession planning and recruitment.

Our workforce

Total number and rate of new employee hires during the reporting period, by gender
(SAIB only)

119

86 Male

33 Female

Total number of employees
[SAIB and Alistithmar Capital (ICAP)]

1,571

1,269 Male

302 Female

** All SAIB and Alistithmar Capital employees are on full-time basis*

Employees by employment contract and by gender (SAIB Group)

1,625

SAIB only
1,452

81% Male

19% Female

Alistithmar Capital (ICAP)
119

78% Male

22% Female

Outsourced Employees
54

Rate of Saudization

SAIB only
1,452

Saudi
88.6%

Non-Saudi
11.4%

Alistithmar Capital (ICAP)
119

Non-Saudi
75.0%

Saudi
25.0%

12.5%

87.5%

Our workforce* at end 2017 was 1,571 out of which 87.5% were Saudis and 19.2% were female. 38.0% of SAIB workforce were below 31 years of age. Saudis accounted for 88% of our Management Team. All employees were permanent staff. We do not have any collective bargaining agreements with our employees.

**SAIB and Alistithmar Capital (ICAP) staff only*

Total number and rate of employee turnover during the reporting period, by gender and age group (SAIB only)

84% Male

16% Female

30% 18 to 30 years

51% 31 to 50 years

19% 51 years and above

Total number of employees by age group (SAIB only)

18 to 30 years	31 to 50 years	51 years and above
38% (552)	**57%** (829)	**5%** (71)

Total number of employees by grade (SAIB only)

1,452

1,176 Male

276 Female

	Senior Management	Middle Management	Other
Total	**146**	**687**	**619**
Male	**137**	**592**	**447**
Female	**9**	**95**	**172**
Female %	**3%**	**34%** ↑	

Salary ratio men:women

Senior Management employees	Middle Management employees	Non-Management employees
1:0.55	1:0.76	1:0.86

Recruitment

When recruiting we seek to obtain the best of the talent available in the Kingdom and place our new hires in the roles they are most suited for. We strive to achieve a diverse and inclusive workforce and our recruitment policies are crafted accordingly. In doing so we pay special attention to giving opportunities to qualified and talented young people with a focus on women.

A total of 119 new staff were hired during the year. Employees between 18 and 31 constituted 58% of our new hires during the year. Females accounted for 27.3% of new hires and 34% of our middle management positions and 3% of our Senior Management positions. An initiative which was commenced in 2015, the "Female Awareness Programme", to educate our women staff about the working environment and their rights was continued this year.

The momentum of the Saudization programme continued and a new policy was introduced whereby hiring for officer and administrative levels would be restricted to Saudis. It was also decided that certain vacancies would be converted to outsourced functions. We have retained our position near the upper end of the Green Band of the Saudi Nitaqat programme which sets a range of 65% – 89% national staff for financial institutions of SAIB's category.

Salary and benefits

In addition to a highly competitive salary we offer our employees benefits packages that include life insurance, medical insurance, fitness club membership, social security, our Aseel Loyalty Programme, and allowances for housing and transportation. A total of SAR 385,819 million was paid in 2017 as salaries, while a total of SAR 193,286 million was paid in other benefits and employment costs resulting in a total salaries and benefits paid SAR 579,105 million.

We are conscious of and address the special issues our female workforce face in meeting their family responsibilities while pursuing their career aspirations. We provide paid maternity leave of up to 10 weeks. Expecting mothers are also given up to 180 days of paid sick leave in case of illness due to the pregnancy. Additionally, we offer three days of parental leave for male employees.

In 2016, 23 female staff took parental leave, all of whom returned to work afterwards. This 100% return-to-work rate is an indication of our commitment to provide our employees with work-life balance. Furthermore 22 of them remained in employment one year after returning from parental leave; this shows that we provide an environment for our female staff which is conducive to combining motherhood with their work responsibilities.

Salaries and benefits

SAR million	2017	2016	2015	2014	2013
Salaries paid	**386**	274	254	227	191
Benefits paid	**118**	267	316	270	221
Social security contributions	**51**	28	27	21	17
Staff health insurance	**24**	23	22	14	11
Total salaries and benefits paid	**579**	592	619	531	439

Equal pay

	2017	2016	2015	2014	2013
Salary ratio men:women – middle management employees	**1:0.76**	1:0.86	1:0.78	1:0.74	1:0.73
Salary ratio men:women – non-management employees	**1:0.86**	1:0.96	1:0.96	1:0.92	1:0.90
Salary ratio men:women – senior management employees	**1:0.55**	1:0.69	1:0.72	1:0.77	1:0.65

Parental leave (FY 2017)

Return to work and retention rates after parental leave, by gender	Female	Male
The number of employees by gender that took parental leave	23	105
The number of employees who returned to work after parental leave ended by gender	23	105
The number of employees who returned to work after parental leave ended who were still employed twelve months after their return to work by gender	22	105
The return to work and retention rates of employees who returned to work after leave ended by gender	96%	100%

Performance management

The performance management process at SAIB has been drawn up to integrate the goals of the organisation and that of the individual to mutual benefit. The outcome of the process includes performance evaluation, rewards, career development, identification of training and development needs, feedback and motivation for employees and achieving organisational goals. Key Performance Indicators for teams and individuals are derived by a top-down process from organisational strategy and goals. All employees are appraised at mid-year and end-year. The appraisal discussion is a two-way process and areas for improvement are brought out in a constructive manner. All SAIB's employees have received performance and career development reviews during the reporting period.

Training and development

We fervently believe that our employees need continuous training and development to keep them abreast of developments in the banking industry, meet customers' needs, and to increase their productivity and motivation. Training needs of employees are identified in annual performance and career development reviews. The Bank strives to incorporate these needs into its training programmes and schedules them accordingly. Special attention is paid to the training needs of young Saudi nationals who are identified and groomed for leadership positions in the future. Training is also focused on the needs of succession planning, for all key positions a successor is identified and a comprehensive development plan with time frames is developed.

A diversity of training methods is used. In addition to traditional classroom sessions, online e-learning courses, in-job training and training videos are also used. Due to the availability of our e-learning portal and over 9,000 subjects (both banking and technical) being covered in online courses, the extent of training cannot be gauged from formal training hours alone.

The following training and knowledge enhancement programmes were conducted during the year:

- A total of 219 different programmes were conducted and attended by 1,732 participants representing 4,491 training days;
- The number of trained staff has been increased by 7% from 707 the previous year to 794;
- A total of 60 Co-op trainees were trained including both males and females;
- Two workshops on "Corporate Governance" have been conducted for Board Members and Senior Managers.
- Implementation of "Core Behavioural Competency" and "Technical Competency";
- Two e-learning portals were made available on mobile apps.

Training and development

Type	Number of employees			Number of person hours of training		
	Male	Female	Total	Male	Female	Total
Senior Management	137	9	146	2,338	252	2,590
Middle Management	614	95	709	9,093	3,094	12,187
Non-Management	479	172	651	9,198	7,462	16,660

Type	Number of employees			Number of person hours of training		
	Male	Female	Total	Male	Female	Total
Mandatory	143	77	220	1,162	609	1,771
Non-Mandatory	527	1578	2,105	19,467	10,199	29,666
E-Learning	1,169	259	1,428	1,344	298	1,642

Supporting
a young and vibrant
Saudi workforce

Health and safety

The Bank takes care to safeguard the health, safety and well-being of our employees. While this is part of our commitment to responsible conduct and human rights it will also bring results in the form of employee loyalty, productivity and commitment. Our safety and security policy address the risks of fire, violent criminal acts and other risks. Each Branch, Division or Floor has security personnel in the staff. These include a security and safety coordinator, a backup, fire wardens and alternate fire wardens. Our security and safety procedures are reinforced by daily branch inspections, monthly safety orientations and awareness campaigns for all employees.

A landmark event in this regard was the implementation of the OHSAS 18001 standard in 2016 making us the first Bank in the Gulf to do so. This standard spell out requirements for an occupational health and safety management system and lays down a framework to identify and implement necessary improvements.

Health and safety programmes for employees

- As we are concerned about the health and work-life balance of our employees we send out awareness messages and conduct health-related events to educate our employees. Due to the high prevalence of diabetes in Saudi Arabia this is a priority area. An awareness event was hosted for all SAIB employees to promote healthy living and medical checks to diagnose diabetes.
- In cooperation with Anti-smoking charity (Purity) SAIB hosted an awareness exhibition on how to quit smoking by providing staff with medical check-ups and consultation. Free vouchers to start a course to give up the smoking habit were provided to staff. We also sponsored a lecture for the benefit of our female employees on breast cancer with awareness posters on all branch screens as well as distributing of flyers.
- SAIB also facilitates its staff to participate in socially responsible initiatives. Four blood donation events were held during the year where over 12% of staff participated and a total of 86,000 millilitres of blood was donated.

Safety

	2017	2016	2015	2014	2013
Employee and contractor fatalities	**–**	–	–	–	–
Employee and contractor lost -time injuries	**5**	–	–	–	–
Employee and contractor total recordable injuries	**1**	5	3	–	–
Employee and contractor absenteeism	**not known**				

Human rights

SAIB is a signatory to the UN Global Compact which underpins our commitment to human and workplace rights. Our commitment to employee rights is also enshrined in our HR Policy as well as our Employee Code of Conduct. Our Code of Conduct enables any employee to report any concerns directly to the Board of Directors in a confidential manner. SAIB scrupulously adheres to all laws and regulations of the Ministry of Labour and other regulators.

Seven staff from HR team have attended a series of training sessions in preparation for SHRM Certification (Society for Human Resources Management is the world's largest HR professional society). The programme included several modules focusing on Labour Rights. Further, all seven staff became members of SHRM society which gives them connectivity to an online platform that provides access to enormous number of books and article forums related to HR activities.

Grievance handling

SAIB has a robust employee grievance policy. It is made available to employees in the employee handbook and HR Policy and employees are free to raise their concerns without fear of reprisals. The policy mandates prompt responses from responsible parties. From 2015 employee grievances were raised, indicating employee trust in the system. Both years, all grievances raised were resolved promptly, within the year.

Grievances

	2017	2016	2015	2014	2013
Grievances filed during the year	**0**	8	6	Not available	Not available
Grievances resolved that were filed during the year	**–**	8	6	Not available	Not available
Grievances resolved that were filed during the previous year/s	**–**	–	–	Not available	Not available

Employee engagement

We believe in and practice the fact that to keep our employees satisfied and motivated as well as to achieve a high rate of retention needs regular and proactive communication. By honest and two-way dialogues with our staff we understand each other's viewpoints, needs and concerns and are able to make appropriate responses to any problems our staff are facing.

We conduct a biennial employment satisfaction survey through which we solicit the feedback of our staff. The need for such a survey was felt in the context of today's volatile, uncertain, complex and ambiguous (VUCA) environment if we are to create a sustainable future. Through this survey, we measure several human resources related parameters such as employee satisfaction with performance management and growth, work processes and quality, pay and benefits, workload and stress, communication, supervisor, bank image, customer focus, employee appreciation, and upper management.

The employment survey was conducted in October 2017 and had an 87% participation rate. A total of 56 questions were asked across 13 dimensions including work structure and process, quality and customer focus, training, pay and benefits and development opportunities. The results of the survey, which was conducted by an international consultant, were benchmarked against data collected from a large number of banking organisations across the GCC.

The results of the survey have given us a detailed feedback on employee engagement at the employee and functional level and has provided us with an organisation-wide view of strengths, opportunities and areas of focus. The survey yielded a positive score of 86% vs 82% in 2015 and 76% in 2013 in Employee Engagement Index.

	2017 %	2015 %	2013 %
Employee Engagement Index	**86**	82	76

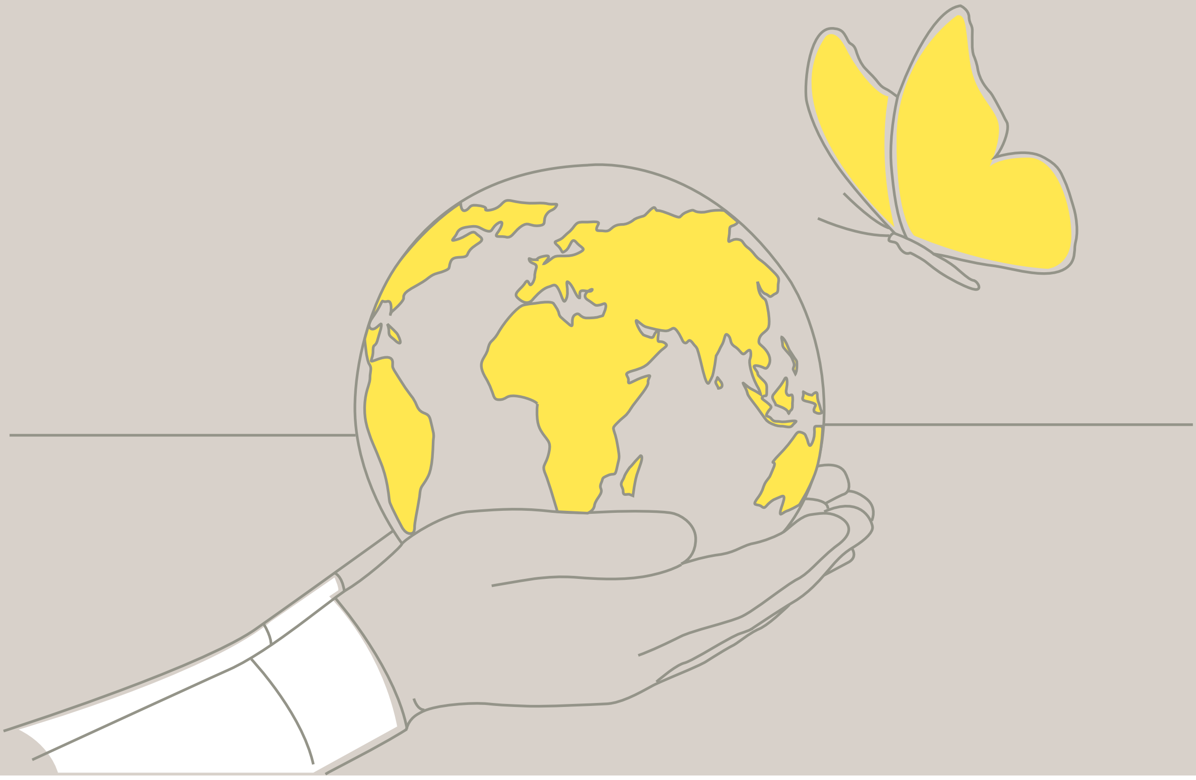
Scores of 90% and above were recorded in the areas of quality and customer focus, clarity of direction, quality of leaders and respect and recognition. While the survey has shown good results, it has also highlighted areas where improvements are needed such as streamlining processes and empowering employees.

We have continued our employee suggestions programme, 'My Idea', that allows employees to submit suggestions to our Innovation Centre for consideration. This will lead to reduced expenses and increased profitability. In 2017 we received a total of 1,380 suggestions, 90 of which were accepted and 27 implemented.

Creative Mornings have been organised where HR has nominated more than 140 staff from various departments to meet with the CEO and the HR team to share creative ideas which benefit both customer and staff. Over 10 sessions were held during the year. HR staff visited 44 branches, which is 75% of the total. In addition, six Staff Town Hall meetings were held with the participation of the HR Department and follow-up action taken on the findings.

Some of the results of the above-mentioned initiatives were; a day care allowance to staff who have given birth; staff credit card payment reduced from a minimum of 50% to 5%; and a 360 degree assessment for certain managerial level staff.

Social and Environmental Capital



At SAIB we fervently believe that we have a social responsibility to contribute to preserving the environment. We strive to minimise our direct impact on the environment through our waste and emissions as well as our energy and water use. Beyond this, we also seek to minimise our indirect impact through our value chain. The Bank has adopted an Environmental Management System to give a formal structure to our environmental policies. Climate change is a major issue facing the global community today. As part of our CSR programmes we use social media to educate our stakeholders on the importance of climate change.

Environmental protection (Hifth), which entails the sustainable use of natural resources is one of the five pillars on which our sustainability framework rests. Our activities consume environmental resources and produce waste and emissions both directly through our operations and indirectly through our value chain. We believe that safeguarding the environment and conserving resources will lead to sustainable value creation in the long term. The Bank is committed to complying with or exceeding the environmental requirements of the Kingdom. The fact that we have included environmental protection as one of our core pillars demonstrates our commitment to supporting the Kingdom's Vision 2030 programme. Vision 2030 enunciates the importance of preserving the environment and natural resources as part of our Islamic, human and moral duties. Doing so is part of our responsibility to future generations.

Beyond this, we are very conscious of the global threat of climate change. We, through our CSR awareness efforts using social media, actively educate all our stakeholders to promote the cause of combating climate change. Our commitment to combating climate change is further supported by our status as a signatory to the United National Global Compact and our Communication on Progress (COP) submission. The Bank's COP met all the minimum requirements and qualifies the Bank for the Global Compact Active Level. The COP and self-assessment is publicly available on the UN Global Com act website. https://www.unglobalcompact.org/what-is-gc/participants/61161

The specific environmental initiatives include monitoring and reducing energy use, greenhouse gas emissions, paper consumption and water consumption; managing and reducing waste by reduction, recycling; investing in energy efficient technologies; and giving consideration to environmental considerations in all aspects of our buildings.

Environmental management system

The Bank has adopted a systematic approach to environmental management by implementing an Environmental Management System (EMS). The EMS is aligned with the ISO14001 standard. The Bank has also developed a Standard Operating and Accounting Procedure (SOAP) detailing how the system is operationally managed. This framework is used as a tool for reducing and mitigating adverse impacts on the environment, assisting the Bank in fulfilment of compliance obligations and mitigating the potential impact of environmental conditions on the organisation. It is also crafted to realise the financial and operational benefits of sound environmental practices and communicate environmental information to related parties.

In 2017, the Bank was awarded the ISO14001:2015 for banking services including ATM services and operations. This accolade reaffirms the effectiveness of the incorporation of SAIB's environmental policies into its core activities. By doing so, we not only fulfil our social responsibilities; it will also be a source of competitive advantage in the long term.

The mechanisms that the EMS adopts to achieve its objectives are ascertaining the needs and expectations of stakeholders regarding SAIB's environmental impacts; identifying the environmental conditions that can affect the organisation; identifying the environmental impact of SAIB's activities, products and services; defining organisational risks and opportunities pertaining to the environment; providing a framework for implementing SAIB's environmental policies and deciding on KPIs for evaluating performance.

Environmental risks and opportunities need to be prioritised for the EMS to be implemented. The Bank maintains a complete documented inventory of environmental aspects, impacts, risks, and opportunities. A full environmental materiality assessment is conducted by using a risk assessment matrix. In the risk assessment matrix all environmental aspects are rated according to the likelihood and severity of associated risks. All aspects are classified as high, medium, low, or negligible risks. This classification is made taking into account both the likelihood and the consequences.

Roles of organisational units

The EMS also lays down the responsibilities of the respective organisational units.

The Management bears general responsibilities for endorsing the environmental policy and EMS, communicating the importance of EMS, assigning of key personnel for EMS, providing necessary resources, overseeing implementation, fulfilment of compliance obligations, and promoting continuous improvement. The roles that personnel have to play is further strengthened by the HR Department by identifying and implementing training needs connected with environmental management, integrating environmental performance into performance management and appraisal systems, promoting understanding of environmental policy and ensuring that individuals are aware of their roles and responsibilities throughout the organisation.

The Administration Department has several responsibilities including the following:

- Coordination of the establishment, implementation and review of the EMS;
- Developing environmental objectives, targets and processes as well as action plans for each objective;

- Preparing environmental budgets and training plans;
- Communications on environmental matters both internal and external;
- Tracking and reporting on performance;
- Identifying actual and potential non-conformities; correcting and preventing non- conformities.

The Finance Department tracks data on environmental management costs and conducts economic feasibility studies on environmental initiatives. The roles that the Procurement Department plays relate to aligning procurement policies with the environmental policies, drawing up environmental criteria for procurement and suppliers, and monitoring supplier environmental performance.

The Operational Risk Management Department is responsible for reviewing the SOAP from the operational risk angle, identifying operational risks and recommending solutions while the Compliance Department reviews the SOAP from a regulatory angle. The Fraud Prevention and Detection Department looks at the SOAP from a fraud vulnerability angle.

Energy usage and emissions

We need to preserve a habitable planet for our children and climate change is one of the major issues confronting mankind today. However, climate change provides commercial opportunities by way of green alternatives to industrial processes and energy generation. Although, as a financial organisation our direct impact is limited, we can and do strive to play a broader role through our value chain.

The Bank's direct energy usage comes from:

- Energy usage in our service infrastructure which has to be at a level to provide a comfortable environment for our employees and customers.
- Usage in our technical infrastructure especially data centres, which supports our online and mobile banking facilities.
- Fuel consumption for inter-branch travelling.

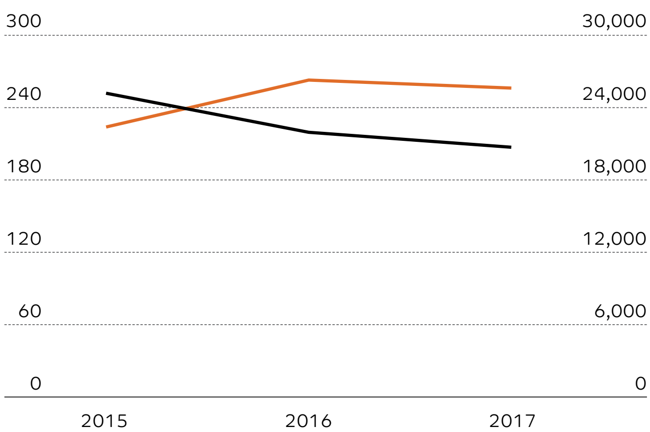
To quantify the impact SAIB began tracking its energy consumption (mwH) and energy expenditure (SAR) in 2014.

Energy consumption

Item	Unit	**2017**	2016	2015	2014	2013
Electricity consumption	mwH	**32,596**	33,541	38,610	Not available	Not available
Electricity consumption	GJ	**122,687**	120,748	138,996	Not available	Not available
Electricity expenditure	SAR	**10,132,628**	9,877,600	9,167,956	8,211,304	7,430,766
Direct GHG emissions – Scope 1 (Electricity usage)	Tonnes CO_2e	**257**	264	223	197	195
Indirect GHG emissions – Scope 2 (Electricity usage)	Tonnes CO_2e	**20,673**	21,936	25,251	Not available	Not available
Petrol fuel consumption	litres	**107,310**	110,005	93,011	82,264	81,269
Petrol fuel consumption	GJ	**8,584**	8,813	3,224	2,851	2,817

Energy consumption

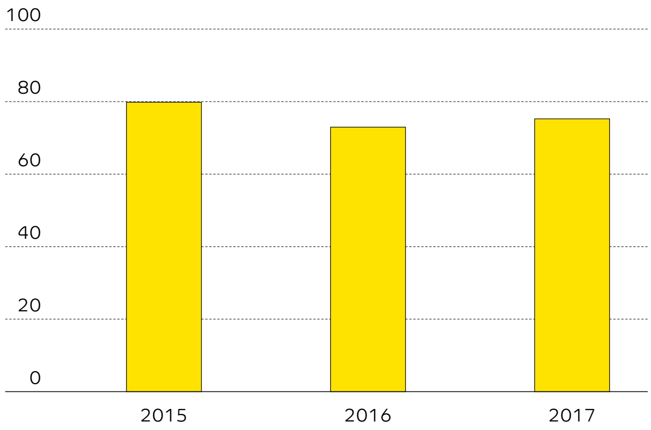
Tonnes CO_2e



Direct GHG emissions – Scope 1 (LHS)

Indirect GHG emissions – Scope 2 (RHS)

Electricity consumption per employee — GJ/Employee

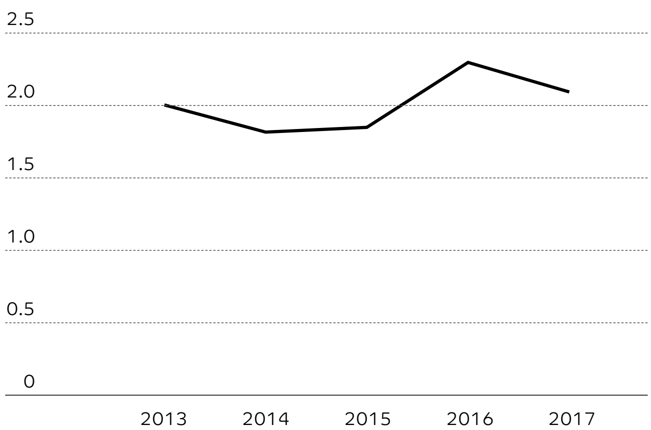


Water expenditure

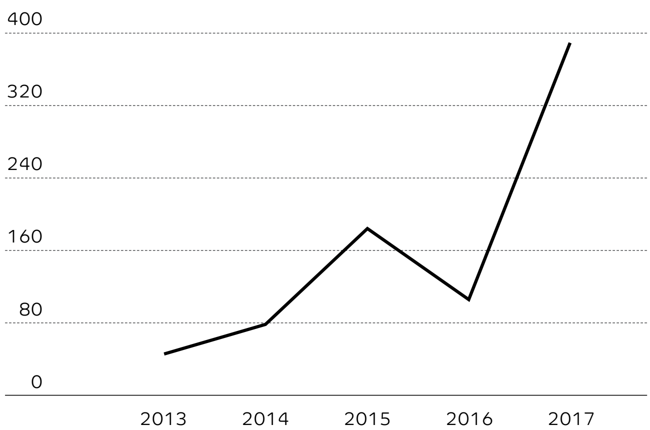
Year	Expenditure SAR '000
2017	**580**
2016	174
2015	293
2014	112
2013	58

A steep increase in expenditure on water was experienced during the year due to revisions made to municipal charges on water.

Fuel consumption per employee — GJ/Employee



Water expenditure — SAR '000



Water consumption

The climatic conditions and terrain of Saudi Arabia naturally make water a scarce commodity. We are therefore forced to rely on our limited ground water and costly desalinised water to meet our water requirements. To ensure our future sustainability we need to economise on our water consumption.

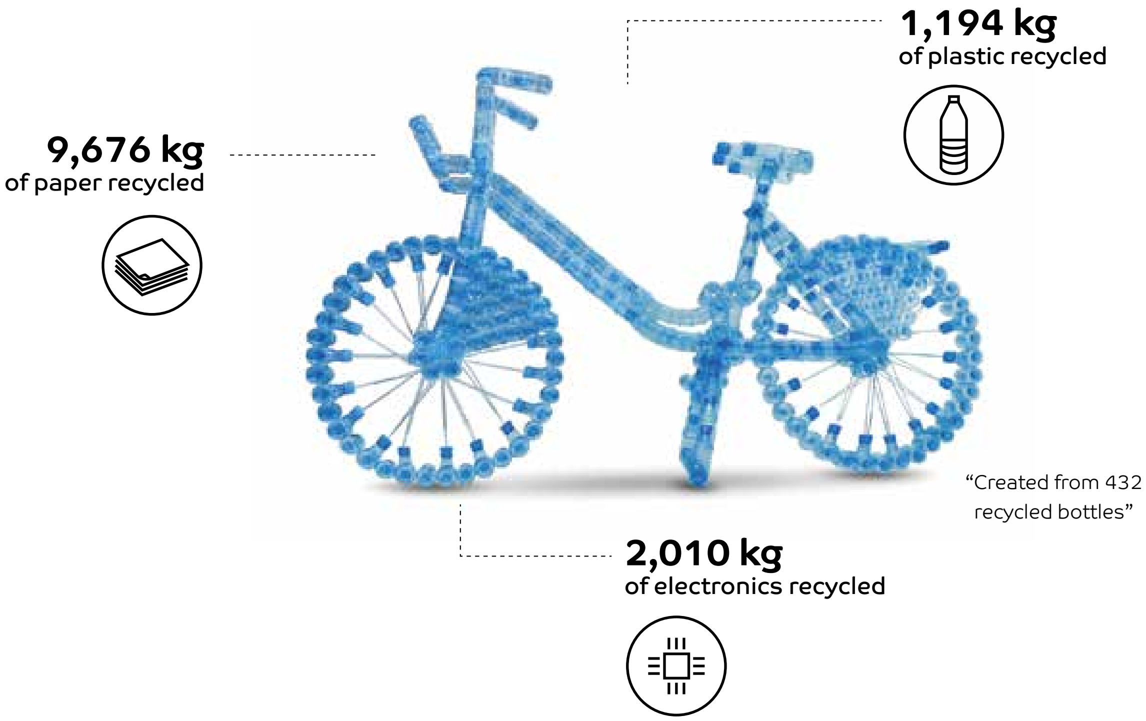
Given the size of our total workforce (numbering 1,625) there is a significant water consumption in our offices. Water consumption meters which have been installed across our entire Branch network give our water consumption accurately. Our monthly water consumption is logged into our Building Management System (BMS).

Paper consumption and recycling

Another area where SAIB is contributing to sustainability is by reducing its paper consumption. We have an ongoing programme of digitising our policies and processes, one example is that at our ATMs receipts are not printed unless requested and we exhort customers to minimise printing. In 2017, our paper consumption per employee was 49kgs. The Bank continues to ensures that usage of paper is optimal.

In addition to reducing paper consumption, waste paper is segregated, shredded and wherever possible recycled. In 2017 we recycled 9,676kgs of paper.

Committed to safeguarding the environment and providing a helping hand to the community

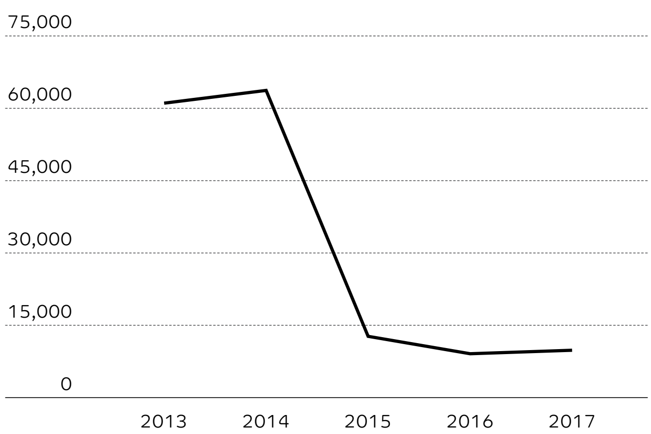


Paper consumption

	Unit	**2017**	2016	2015	2014	2013
Paper consumption	kg	**73,995**	64,187	73,372	67,098	62,644
Paper consumption per employee	kg/Employee	**49**	39	42	43	45
Total paper recycled	kg	**9,676**	8,852	12,480	63,745	60,990

Total paper recycled

Kg



SAIB participated in the World Earth Hour global day by turning off lights at its three head offices, on March 25th, from 8.30pm – 9.30pm. This was followed by a video published on social media in support of the cause to create a sustainable planet for all.

Another of SAIBs sustainability pillars is helping others (Awn). We fervently believe that being of service to the community enhances our own sustainability. We build long-term strategic relationships with community organisations and through our networks, partnerships and resources we both derive and deliver value. Our social interventions are carefully selected and targeted. We focus our programmes on priority areas defined in our corporate sponsorship policy: financial education, human and social development, environmental protection and community health. We also continuously monitor the effectiveness and efficiency of our social programmes and strive to improve the impact per Saudi Riyal spent.

We also encourage our staff to make their own contribution by way of voluntary work for the community. 8.7% of our SAIB Bank staff are registered volunteers, 29% of the Volunteer Team are females.

Initiatives to help the differently abled

A major community-oriented initiative has been sponsored by SAIB in partnership with King Faisal Agricultural University. The University is running a farm which is also rehabilitating and training persons who are differently abled. A graduation ceremony was held for the first batch in September 2017.

The project helped build a channel of communication between the University and local communities. It also facilitates the integration of persons with special needs with the community. The Agricultural and Veterinary Research and Training Station hosted the trainees for a six month period in cooperation with the Department of Community Partnership Development, the Special Education Department at the Faculty of Education and the Deanship of Student Affairs. The Association of Persons with Disabilities in Al-Ahsa selected the trainees and provided the University with the details of each trainee. It is now up to the local community institutions and local sectors to provide employment opportunities to the graduates of the programme so that they can become self-sufficient and productive individuals.

Two programmes were also conducted for the benefit of hearing-impaired persons. One was a lecture conducted in cooperation with the King Salman Centre for Disability Research to increase the awareness of deaf culture. In partnership with the same institution we also conducted a creative competition to promote interactive learning and awareness about sign language.

King Faisal Agricultural University project

Through this project we rehabilitated differently-abled individuals to become productive citizens and make a contribution to society.

Combining banking with charity

SAIB has also combined its banking products with charitable initiatives. This also reflects our belief in combining our banking initiatives with our religious and cultural values. Our WooW Loyalty Programme awards customers with points for a wide range of transactions. The points are redeemable for numerous gifts and options. WooW AlKhair offers customers the option of donating their WooW points to a large number of charitable organisations and other not-for-profit associations. WooW AlKhair is the channel provided as part of the WooW Loyalty Programme for the points donation to charites, with over 407 million WooW points donated, by our customers, since the programme started in 2015. There are over 40 organisations participating in the WooW AlKhair Programme, with a 200% growth year on year in charities. The mandates of these organisations include health, assistance for disabled, support for women and children, sports and religion.

SAIB was also the official sponsor for a graduation ceremony for 360 Saudi students in the United States which was held in Washington, D.C. demonstrating our commitment to our talented youth. We look forward to the students returning and making their contribution to the future development of the Kingdom of Saudi Arabia.

Corporate social responsibility policy development and advocacy

Our contribution to corporate social responsibility is not limited to the Bank's own CSR programmes. Beyond this we also play a policy making and advocacy role. The Bank was represented on a Corporate Practices Committee which was tasked with studying the ISO 26000 standard for CSR and customising a local standard. SAIB had the distinction of being the only Bank invited to sit on this Committee and being one of only two private sector companies which participated. The initiative lasted for 11 months and the standard was subsequently launched for public review and comment.

The King Salman Youth Centre also invited SAIB to make a presentation at a forum where the Bank represented the private sector. At this forum the Bank showcased its best practices in CSR and sustainability. Our presentation also gave insights to the participants as to how SAIB's practices could support in achieving the Vision 2030.

The Bank was also invited by the Ministry of Labour and Social Development to participate in a workshop about regulating volunteer work within corporates.

Promoting healthy living

"Flexx Bike" is an innovative social responsibility initiative launched by SAIB. The programme aims to raise the awareness of the importance of health and fitness by encouraging the community to practice cycling in public areas. Members of the public can obtain "Flexx Bike" membership electronically, rent a bike at any time for use from a "Flexx Bike" station and then return it for a moderate fee. "Flexx Bike" stations are solar powered and designed with colours that suit the climate.

Another health-oriented initiative was the partnership with KFU and the Saudi Cycling Federation in hosting the first cycling marathon in Al Hassa, where we also took the opportunity to promote "Flexx Bike". This also raised the visibility of SAIB in community activity in Al Hassa.

Developing the talents of our youth

Today there is tremendous emphasis on developing the talents of youth in the Kingdom, which is a priority in Vision 2030 and the Bank is seeking to make its contribution.

In line with this objective, we sponsored a SME competition in collaboration with MIT Saudi Arabia to support youth entrepreneurship projects in the Kingdom. The orientation day also created an opportunity to increase awareness of the SAIB Academy and the SAIB brand among the youth. A total of 2,269 projects participated in the programme with 45 projects qualifying for the final stage; SAIB volunteers were among the judges. Participants were also educated at two workshops about banking principles for SMEs. The SAIB brand was also featured in all printing materials at the final event.

Charitable activities

We strive to do whatever is practicable to help the less fortunate members of our society. SAIB volunteers distributed 2,500 school kits through charitable organisations to families in need. The same number of Winter Kits were also distributed similarly, and the beneficiaries included the sons of martyrs. Blood donation campaigns were also conducted quarterly where a total of 86,000 millilitres of blood were donated by SAIB staff.

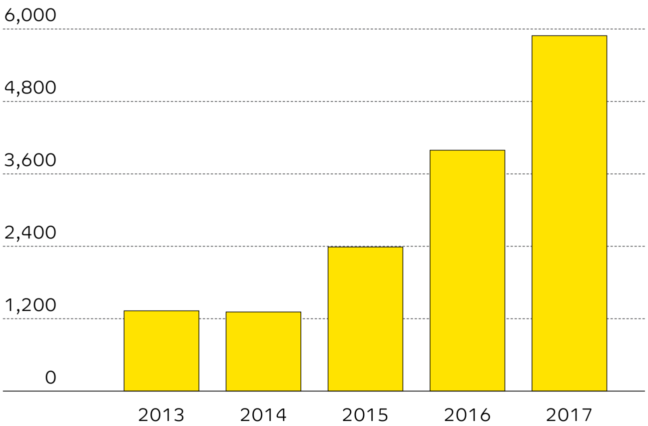
Community investments

Some of the community activities which were sponsored by the Bank are given below with the related costs. The focus areas included financial literacy, needy children and orphans, needy families and sports:

Event/List of sponsorships	SAR
Kids school kits for needy children	206,375
Minopolis sponsorship – children's financial literacy	250,000
Kidzania sponsorship – children's financial literacy	1,600,000
Ramadan Baskets for needy families	319,280
Winter Blankets for needy families	72,500
SAIB volunteers day	10,000
Prince Sultan University scholarships	1,400,000
WooW AlKhair programme	1,027,150
EasyPay SAIB T20 Cricket Tournament 2017	15,000
Orphans event at Minopolis	6,401
Deaf week	6,499
Orphans event at Kidzania	2,050
Gifts for children at King Khalid University Hospital	1,120
King Faisal University – sustainable farm project for disabled persons	1,000,000
Total	**5,916,375**

During the year Bank mounted a range of charitable initiatives which are listed above with the related cost. The total expenditure on community investments for the period 2013-2017 are shown below:

Community investments SAR '000



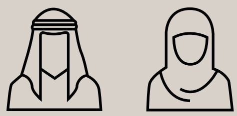
Employee volunteerism

We encourage our employees to participate in social projects. While this will leverage the Bank's social commitment it will also give them the satisfaction of helping others. We facilitate the process with our employee volunteering policy which permits employees to donate up to three working days a year towards a charitable cause. A planned volunteer activity is organised every month as part of the employee volunteer programme. The number of volunteers has seen a growth of 60% over the past two years, and of the current 126 volunteers 72% are male and 28% female.

الفريق التطوعي
VOLUNTEER TEAM

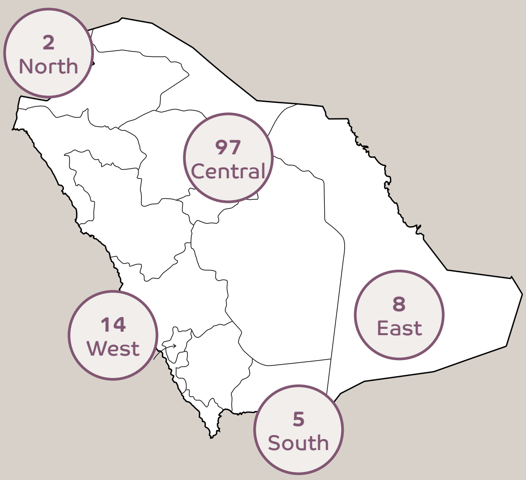
8.7%
SAIB volunteers from total SAIB staff

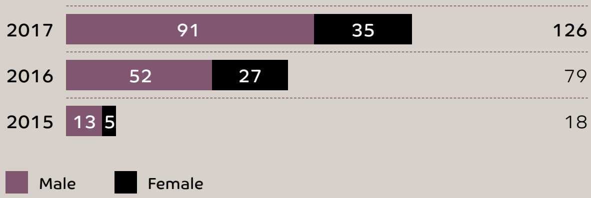
72%



28%

Gender mix of volunteers





Board of Directors' Report and Financial Statements

The Bank has a duty to present to its shareholders an account of its activities during the year and especially an in-depth view of its finance position and performance. This will enable the shareholders to form an opinion on the Bank's stability and future prospects.

Board of Directors' Report

The Board of Directors of The Saudi Investment Bank ("Bank") is pleased to present its annual report of the Bank's activities as of and for the year ended December 31, 2017 which includes information about the Bank's activities, achievements, strategies, financial results, Board of Directors and its subcommittees, in addition to other complementary information that aims to meet the needs of the reader.

Overview

The Bank is a Saudi Arabian joint stock company formed pursuant to a Royal Decree M/31 issued in 1976, with its Head Office in Riyadh. The Bank operates 49 branches including 12 ladies sections located throughout the Kingdom of Saudi Arabia. The Bank's website address is www.saib.com.sa.

The Bank's major shareholders include:

Public Pension Agency	17.32%
General Organization for Social Insurance	17.26%
JP Morgan International Finance Limited	7.49%
Saudi Oger Limited	5.77%

Main banking activities

The Bank offers a wide of conventional and Shariah-compliant products and services for corporate clients, individuals, and commercial businesses comprising small and medium size enterprises through the Bank's head office and a network of retail branches located throughout the Kingdom. The Bank also provides tailor-made financial products and services to corporate, government, and public sector entities through its three regional offices located in Riyadh, Jeddah, and Al-Khobar. The Bank, through its wholly-owned subsidiary Alistithmar for Financial Securities and Brokerage Company (Alistithmar Capital), also provides brokerage services in the Saudi and international markets, as well as offering asset management products and services.

The Bank is subject to the laws and regulations of the Kingdom of Saudi Arabia and is regulated by the Saudi Arabian Monetary Authority ("SAMA"). The Bank also follows regulations issued by the Ministry of Commerce and Investment ("MOCI") and the Capital Market Authority ("CMA").

Significant highlights

Significant highlights for the year included continued progress in several core business and financial ratios, increasing our customer base, and improving service quality, expansion of our personal financing programs and ATM network, and further automation and expansion of the retail banking business. As part of our ongoing retail activities, the Bank continued to enhance the ALASALAH Islamic Banking brand. Under this brand, the Bank also operates forty-five Shariah-compliant branches within the Kingdom. Finally, the Bank also continued its credit rating review process with Standard & Poor's and Fitch Ratings. The Bank currently has investment grade ratings of ('BBB'/'A-2') and ('BBB+'/'F2'), with Standard & Poor's and Fitch, respectively.

During 2017, the Bank received the Best Loyalty Program Saudi Arabia 2016 Award and the Best Environmental Sustainable Bank 2016 Award by the International Finance Magazine, and was only Saudi Bank ranked among all Saudi listed companies in 2017 at the 1st Corporate Governance Office Conference hosted in 2017 by the Al Faisal University in collaboration with Harvard University.

Strategy and objectives

The Bank offers traditional wholesale, retail and commercial banking products. In particular, we arrange financing of quasi-government and private industrial sectors and trade finance products for facilitating imports and increasing Saudi exports.

The Bank continues to pioneer in providing corporate banking services. The Bank also concentrates on expanding its customer base of individuals by providing them smart banking solutions that meet their different needs, especially the youth as the case is with Travel Cards and EasyShopping Cards.

Regardless of the economic and competitive challenges SAIB encounters today, the Bank sees bigger opportunities for growth with Vision 2030 as its guide towards establishing ambitious plans by focusing on meeting the financial and banking needs of the sectors mostly focused on in Vision 2030.

SAIB's vision is to offer the simplest and most accessible products and services to each of our customers.

Our mission towards our customers is to make banking simple and accessible for each of our customers, we are flexible, adaptive and responsive to deliver what suits our customers, and most importantly is that we listen to our customers and understand their needs and preferences in order to evolve and improve.

While towards our employees, we value ideas, inputs, and initiatives, empower our staff to bring out their best and go the extra mile. We recognize individual contribution and support individual development, enhancing team spirit, which allows us to collectively build the smartest solutions.

Operating results

The Bank's net income for the year ended December 31, 2017 was SAR 1,411 million, an increase of SAR 358 million, or 34%, compared to the 2016 net income of SAR 1,053 million.

The Bank's return on average assets was 1.51% in 2017 compared to 1.13% in 2016. The Bank's return on average shareholders' equity was 10.72% in 2017 compared to 8.54% in 2016.

Total operating income was SAR 2,660 million in 2017, compared to SAR 2,406 million in 2016, an increase of SAR 254 million, or 10.6%. This was mainly due to an increase in net special commission income.

Net special commission income, which includes special commission income from placements, investments, and loans, less special commission expense from deposits and other borrowings, reached SAR 2,042 million in 2017 compared to SAR 1,672 million in 2016, an increase of SAR 370 million, or 22.1%. This increase was due to a positive rate variance of SAR 313 million and a positive volume variance of SAR 57 million.

Fees from banking services totaled SAR 412 million in 2017, compared with SAR 415 million in 2016, a decrease of SAR 3 million, or 0.7%.

Exchange income reached SAR 137 million in 2017, compared to SAR 146 million in 2016, a decrease of SAR 9 million, or 6.2%.

Gains on investments and dividend income were SAR 69 million in 2017 compared to SAR 173 million in 2016, a decrease of SAR 104 million, or 60.1%.

Operating expenses before impairment charges for credit losses and investments were SAR 1,059 million in 2017 compared to SAR 1,051 million in 2016, an increase of 0.8%. The level of operating expenses in 2017 resulted in a net efficiency ratio of 38.0% compared to 39.4% in 2016. The net efficiency ratio, defined as normal operating expenses before impairment charges, divided by total income excluding non-recurring income, is a key indicator of how resources are controlled and managed.

Salaries and employee-related expenses in 2017 were lower compared to 2016 by 2.2%. Rent and premises-related expenses increased by 15.4%, depreciation and amortization increased by 4.0%, while other general and administrative expenses decreased by 1.6%.

The impairment charge on investments was SAR 109 million in 2017 compared to SAR 207 million in 2016, while the impairment charge for credit losses was SAR 213 million in 2017 compared to SAR 246 million in 2016. The impairment charge on investments was due to lower valuations of equity securities which are traded in the local market. The 2017 impairment charge for credit losses reflects the improvement in the Bank's asset quality.

Consolidated net income by operating segment

The consolidated net income of the Bank's reportable operating segments for the years ended December 31, 2017 and 2016 is summarized as follows:

	2017 SAR '000	2016 SAR '000
Retail Banking	**446,091**	234,055
Corporate Banking	**717,246**	789,224
Treasury and Investments	**341,320**	203,712
Asset Management and Brokerage	**6,368**	9,649
Business Partners	**31,209**	92,731
Others*	**(131,436)**	(276,413)
Net income	**1,410,798**	1,052,958

**Others include the net results related to Information Technology, Operations, Risk, and other support units.*

Consolidated Statement of Financial Position

Total assets were SAR 93.8 billion as of December 31, 2017 and increased by 0.8% compared to December 31, 2016 which were SAR 93.1 billion.

Total investments increased by SAR 0.3 billion or 1.4% to SAR 21.7 billion as of December 31, 2017. Investments classified by rating agencies as investment grade represent 86.7% of the Bank's investment portfolio as of December 31, 2017.

Net loans and advances remained overall flat at SAR 59.6 billion as of December 31, 2017 compared to the 2016 level of SAR 60.2 billion. The Bank's non-performing loans and advances reached SAR 773 million as of December 31, 2017 compared to SAR 1,070 million as of December 31, 2016. The percentage of non-performing loans and advances to total loans and advances decreased to 1.27% as of December 31, 2017 compared to 1.75% in 2016. The allowance for credit losses as of December 31, 2017 totaling SAR 1,075 million represents 139% of non-performing loans, compared to 93% in 2016. The estimated fair value of collateral held by the Bank as security for non-performing loans and advances as of December 31, 2017 is approximately SAR 600 million.

Customer deposits increased by SAR 1.3 billion, or 2%, to SAR 66.9 billion as of December 31, 2017. Demand deposits increased by SAR 0.6 billion, or 2.6%, and represent 36.7% of total deposits. Special commission bearing deposits increased by SAR 0.7 billion, or 1.8%.

On May 30, 2011, the Bank entered into a five-year medium-term loan facility agreement with SAMBA Financial Group for an amount of SAR 1.0 billion for general corporate purposes. The facility was due and repaid on May 30, 2016. On June 24, 2012, the Bank entered into another five-year medium-term loan facility agreement with National Commercial Bank for an amount of SAR 1.0 billion for general corporate purposes. The facility was due and repaid on September 5, 2017.

On June 19, 2016, the Bank entered into a five-year medium-term loan facility agreement with SAMBA Financial Group for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on June 19, 2021. On September 26, 2017, the Bank entered into another five-year medium-term loan facility agreement with SAMBA Financial Group for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized on October 4, 2017 and is repayable on September 26, 2022.

The term loans bear commission at market-based variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related-facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. The Bank also has not had any defaults of principal or commission on the term loans.

On June 5, 2014, the Bank concluded the issuance of a SAR 2 billion subordinated debt issue through a private placement to local investors of a Shariah-compliant Tier II Sukuk in the Kingdom of Saudi Arabia. The Sukuk has a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five-year period, subject to certain regulatory approvals.

Total equity and capital adequacy

As of December 31, 2017, the Bank's total equity increased to SAR 14.3 billion compared to SAR 13.3 billion as of December 31, 2016. The total number of shares outstanding as of December 31, 2017 was 750 million shares. The ratio of total equity to total assets as of December 31, 2017 was 15.22%, compared to 14.33% as of December 2016. The Bank's leverage ratio was 6.95 on December 31, 2017 compared to 7.25 as of December 31, 2016.

The Group completed the establishment of a Shariah-compliant Tier I Sukuk Program (the Program) in 2016. The Program has been approved by the Group's regulatory authorities and shareholders. On November 21, 2016, the Bank issued SAR 500 million under the Program. On June 6, 2017, the Bank issued another SAR 285 million under the same program.

The Tier I Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Group classified under equity. However, the Group has the exclusive right to redeem or call the Tier I Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Program.

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

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 regulatory capital are closely monitored by the Bank's Management. SAMA also requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets at or above the minimum requirement of 9.875%.

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 Consolidated Statement of Financial Position assets, commitments, and notional amounts of derivatives, at the required weighted amount to reflect their relative risk.

As of December 31, 2017, the Bank's Tier I plus Tier II capital adequacy ratio increased to 20.38% compared to 18.93% as of December 31, 2016.

Five-year financial highlights

	2017 SAR millions	2016 SAR millions	2015 SAR millions	2014 SAR millions	2013 SAR millions
Total income (1)	**2,792**	2,557	2,667	2,610	2,178
Total expense (2)	**1,059**	1,051	1,033	943	762
Operating profit	**1,733**	1,506	1,634	1,667	1,416
Impairment charges	**322**	453	305	231	129
Net income	**1,411**	1,053	1,329	1,436	1,287
Loans and advances, net	**59,588**	60,249	60,269	57,473	47,567
Investments, net	**21,714**	21,448	18,983	22,397	17,696
Investments in associates	**1,020**	1,000	939	846	1,071
Total assets	**93,796**	93,047	93,578	93,626	80,495
Term loans	**2,015**	2,032	2,011	2,000	2,000
Subordinated debt	**2,003**	2,002	2,000	2,000	–
Customer deposits	**66,943**	65,640	70,518	70,733	57,044
Total shareholders' equity	**13,494**	12,834	12,036	11,852	10,253
Tier I Sukuk	**785**	500	–	–	–
Total equity	**14,279**	13,334	12,036	11,852	10,253
Return on average equity %	**10.72**	8.54	11.12	13.00	13.11
Return on average assets %	**1.51**	1.13	1.42	1.65	1.84
Capital adequacy %	**20.38**	18.93	16.94	17.08	15.12
Equity to total assets %	**15.22**	14.33	12.86	12.66	12.74

(1) Total income includes total operating income plus Bank's share in earnings of associates.
(2) Total expense includes total operating expenses before impairment charges.

Micro, Small & Medium Enterprises (MSME)

Qualitative disclosures

The Bank's currently approved definition of MSMEs includes Customers with SAR 0 – SAR 100 million in Annual Sales Turnover.

During 2017, there was a continued focus on the MSME segment which incorporated a growth strategy under which the following initiatives were implemented:

- Adopted a faster credit approval process.
- Developed a pipeline to acquire new customers.
- Sponsored and participated in the Massachusetts Institute of Technology Enterprise Forum (MITEF) hosted by Community Jameel for the promotion of young entrepreneurship and innovation in Saudi Arabia.

The Bank's MSME unit is managed within the Corporate Banking segment. It includes eight staff members. The number of man-days of training provided to the Bank's staff totaled 34 days. The Number of man-days of training provided to customers totaled 2 days.

Quantitative disclosure

The following table summarizes key financial information for the Bank's MSME operations in SAR '000:

	Micro	Small	Medium	Total
Loans to MSMEs on balance sheet	6,765	72,707	57,031	136,503
Loans to MSMEs off-balance sheet (notional amount)	2,851	33,652	21,634	58,137
On-balance sheet MSME loans as a % of total loans	0.01%	0.12%	0.09%	0.22%
Off-balance sheet MSMEs position as a % of total off-balance sheet position	0.00%	0.06%	0.04%	0.10%
Number of loans (on and off-balance sheet)	12	305	190	507
Number of customers for loans (on and off-balance sheet)	8	58	16	82
Number of loans guaranteed when the Kafalah program (on and off-balance sheet)	7	189	0	196
Amount of loans guaranteed by Kafalah program (on and off-balance sheet)	3,387	43,960	0	47,347

Geographical distribution of revenues

The Bank's total operating income is entirely generated from its operations in the Kingdom of Saudi Arabia and is summarized below in SAR '000:

	Central region	Western region	Eastern region	Total
2017	**1,763,173**	**548,039**	**348,671**	**2,659,883**
2016	1,712,466	424,035	269,365	2,405,866

Risk management

The complexity of today's financial services sector in a globalized economy requires the identification, measurement, aggregation, and effective management of risks, including an efficient allocation of regulatory capital to support the balance sheet and derive an optimal risk and return ratio. The Bank endeavors to:

(a) Ensure that significant and measurable risks are identified, quantified, and managed proactively to avoid loss; and

(b) Enhance risk adjusted returns and provide financial comfort and stability to our many customers and other stakeholders.

The Bank's stakeholders including regulators and rating agencies also expect the Bank to have a clear and well-documented risk management framework in place that addresses the various dimensions of the Bank's business.

The Bank has a comprehensive set of policies dealing with all aspects of risk management. The Board Approved Risk Management Policy Guide is the overarching policy document prepared in conformity with SAMA guidelines which covers in depth the risks the Bank is exposed to in the pursuit of its business. It also describes the risk governance structures and risk management policies in place for the management, monitoring, and control of the risks through the Board Approved Risk Appetite Framework, Credit Policy Guide, and Treasury Policy Guide.

The Bank manages its risks in a structured, systematic, and transparent manner through a broad-based Risk Appetite Framework (RAF) approved by the Board of Directors that incorporates comprehensive risk management into the Bank's organizational structure, risk measurement, and monitoring processes. The Bank's RAF is aligned with the Bank's strategy, business planning, capital planning, and policies and documents approved by the Bank's Board of Directors. The Bank's RAF is in compliance with the Financial Stability Board's "Principles for an effective Risk Appetite Framework" dated November 18, 2013, as adopted by SAMA.

The Bank's RAF includes the following key characteristics:

- The nature of risks to be assumed as a result of the Bank's strategy;
- The maximum level of risk at which the Bank can operate (Risk Capacity) and the maximum level of risk it should take (Risk Appetite);

- The maximum level of other quantifiable risks that should be considered (Other Risk Limits);
- The desired balance of risks versus returns by Business Line (Business Unit Risk Appetite measurements); and
- The desired risk culture, compensation programs, business continuity management, information technology and cybersecurity risk, and the overall compliance environment of the Bank for a successful implementation of the RAF (Qualitative Reporting).

As a part of risk governance, the Bank has a Board Risk Committee and various committees at the management level, including the Credit Committee, Management Asset Liability Committee, Operational Risk Management Committee, Stress Testing Committee, Enterprise Risk Management Committee, Information Security Steering Committee, and the Business Continuity Planning Committee.

In addition to the above, the Bank's Internal Audit Function Reports to the Audit Committee of the Board of Directors and provides an independent validation of business and support units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a Bank-wide basis.

The following provides a description of the Bank's significant risks including how the Bank manages these risks:

Credit risk

Credit Risk arises from the potential that a borrower or counterparty will fail to perform on its financial obligations to the Bank. The exposure to credit risk arises primarily from loans and advances to customers and the investment portfolio. Credit risk is also present in off-balance sheet financial instruments such as Letters of Credit, Guarantees, Derivatives, and Commitments to extend credit.

The Bank has a comprehensive framework for managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Bank assesses the probability of default of counterparties using internal rating tools. This is supplemented by external ratings of major rating agencies, where available.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices.

(a) Commission rate risk

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

(b) Currency risk

Currency risk is the risk of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are independently monitored.

(c) Equity price risk

Equity price risk is the risk of a decrease in fair values of equities in the Bank's investment portfolio as a result of possible changes in levels of equity indices and the value of individual shares. The Board of Directors sets limits on the level of exposure to each industry, and overall portfolio limit, which are independently monitored.

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements when needed and at an acceptable cost. Liquidity risk can be caused by market disruptions or credit rating downgrades for the Bank, which may cause certain sources of funding to dry-up unexpectedly.

The Bank's management carefully monitors the maturity profile of its assets and liabilities to ensure that adequate liquidity is maintained on a daily basis. In addition, the Daily Liquidity Ratio, Net Stable Funding Ratio, and the Loans to Deposit Ratio are monitored regularly and independently to ensure compliance with SAMA guidelines. The Bank also conducts regular liquidity stress testing under a variety of scenarios which covers both normal and more severely stressed market conditions. All liquidity policies and procedures are subject to review and approval by the Bank's Asset and Liability Committee.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events.

The Bank's Operational Risk Management Framework provides a Bank-wide definition of operational risk and lays down the processes under which the operational risks are to be identified, assessed, monitored, and controlled. The key components of this framework are comprehensively documented in the Bank's operational risk policies, procedures, and controls. The continuous assessment of operational risks and their controls in all business and support units of the Bank are monitored through Risk and Control Self-Assessment (RCSA) exercises, close monitoring of agreed action plans as a result of the RCSA exercises, and establishing an Operational Risk Appetite Matrix for the Bank as a whole. This includes monitoring the operational risk losses incurred on an ongoing basis and taking corrective actions to eliminate or minimize such losses in the future. The Bank has also developed a set of Key Risk Indicators (KRIs) covering all the business and support units to facilitate proactive monitoring and management of operational risks.

Financial crime risk

Financial crimes are considered a significant risk on both financial institutions and their staff, since the occurrence of such crimes can have a negative impact on the Bank's reputation of its banking services. Financial crimes too have negative impact of stakeholders' trust and threatens the Bank's reputation locally and internationally. Therefore, SAIB continued in 2017 executing its plans for improving and developing Anti-Financial Fraud Control System.

Cyber information security risk

The Cyber and Information Security Risk landscape was very dynamic and challenging during 2017. The Bank's Information Security Division (ISD) proactively addressed current information security challenges and deployed defenses in depth with multiple countermeasures to ensure prevention, detection, and correction of vulnerabilities. Along with the technical controls, awareness training of staff and customers was provided on an ongoing basis. The Bank also implemented a security governance structure and inculcated a security culture throughout the organization. ISD also completed a security strategy during 2017 which was approved by the Information Security Committee. Confidentiality, integrity, and access controls were introduced as an integral part of all business and technical processes. A risk-based audit by internal audit, external agencies and certifications bodies, e.g., ISO 27001 (Information Security Management System) were also completed, and findings were satisfactory, PCI-DSS (Payment Card Industry Data Security Standard) provided further assurance of information security controls. Furthermore, ISD also complies with the Saudi Information and Cyber Security Regulations as well as SAMA guidelines and adheres to international best practices. No ISD related downtime or operational losses were incurred in 2017. Further, due to controls enhancement in 2017, the ISD Risk Appetite reduced from SAR 50,000 in 2016 to SAR 23,000 in 2017.

Business continuity plan

The Bank recognizes the importance of planning for Business Continuity and continued to make progress in this area in 2017. An effective Business Continuity Plan ('BCP') facilitates the Bank in mitigating a serious disruptive crisis in a controlled, timely, and structured manner.

It also helps the Bank to effectively manage any disruption in its operations effectively and to recover as quickly and effectively as possible from an unforeseen disaster or emergency that may interrupt normal business operations in full or in part.

During 2017, the Bank further strengthened the testing of its BCP and procedures. Detailed tests were completed on two separate occasions. Further, the Bank as specified by SAMA, successfully conducted in November 2017 a continuous five days disaster recovery test of all critical IT systems by switching and operating them from the Bank's Disaster Recovery Center and then switching them back to the Bank's Head Office IT Center. The tests were successful and provided confidence that the Bank will be able to handle such a crisis, should it occur. The Bank will continue testing its process for business continuity annually.

In its effort to provide uninterrupted service to its customers, the Bank will continue to implement hot backups for critical systems in 2018. The Bank has made progress in building a new Disaster Recovery Center and expects this to be completed in 2018. The Bank also continued its emphasis on training of staff on Business Continuity.

In recognition of its BCM efforts, the Bank received the ISO 22301 Certification in 2012 for its Business Continuity Management in the Bank. The certificate was renewed in January 2016.

Information technology transformation strategy

Several factors drove the Information Technology Group (ITG) during 2017 which are summarized below:

- A full commitment to the Bank's five-year strategy (2015-2019), focus on flexible infrastructure and innovative business solutions to meet increasing business demands, rising cost of capital, more stringent local and international regulatory requirements, and the Board of Directors mandate to support long-term sustainability and effective governance.
- The automation of new products such as the roll over and enabled straight through processing of ITM transactions and reconciliations, the roll out of the Remittance platform and "Flexx Transfer" in six countries with two additional countries to be added in 2018 to serve the Bank and its Prepaid cardholders customers.
- The introduction of new technologies such as the coin deposit machines in addition to enabling the new Direct Sales Agents Portal and supporting the automation of profit plan reporting.
- The card initiatives technology spectrum included enhancements to issuance functions on contactless cards, EasyShopping Card, 'easypay' Household Card, and 'easypay' Payroll Card and enabled managing cards through IVR channel and Internet Banking.
- The implementation of new enrichments that have had a major impact on services and operations, Online Branch Appointments, Refer Card Automation, and Charity Transfers across all channels.
- The completion of enhancements to AML processing, and implementation of Risk-Based Customer Assessments.
- The completion of enhancements to IVR services to automate all call center services, and provide dynamic IVR capability.
- The completion of infrastructure enhancements including implementing a new state-of-the-art flash disk storage and the introduction of a new service-oriented architecture based on IBM enterprise service bus as a middleware.

Business segments

In 2017, SAIB achieved a number of key milestones. The Bank continued to create value for customers by developing products and services for our different segments in pursuit of fulfilling its customers' needs and expectations. The Bank is managed on a line-of-business basis. Transactions between business segments are conducted on normal commercial terms and conditions through the use of funds transfer pricing and cost allocation methodologies. A detailed summary of the business segment results for 2016 and 2017 is presented in Note 29 to the Consolidated Financial Statements.

The Bank has three significant business segments, each of which is described below:

(a) Retail banking

Retail banking offers a wide range of conventional and Shariah-compliant retail services for individuals, government and public sector entities through a network of branches throughout Saudi Arabia. Services include current accounts, savings, and time deposit accounts. The Bank also offers a full range of Shariah-compliant products through its Shariah-compliant branches, including Islamic Murabaha. The Bank also has an extensive network of ATMs covering all regions of Saudi Arabia.

(b) Corporate banking

Corporate banking focuses on providing tailor-made financial products and efficient customer services to corporate, micro, small and medium enterprises (MSME) and financial entities. It operates from three regional headquarters based in Riyadh, Jeddah, and Al-Khobar which offer innovative financial solutions to its customers. The services and products offered include project finance, working capital finance, trade finance and services, import and export documentary credit, standby letters of credit, letters of guarantee, bill discounting, documentary and clean collections, and other trade-related products, including conventional and Shariah-compliant products. It also provides innovative financial solutions using advanced technological systems.

(c) Treasury and investments

Treasury and investments are responsible for foreign exchange trading, funding and liquidity management, as well as the Bank's investment securities portfolio and derivative products. It also manages the Bank's asset-liability structure and interest rate and market risks and liquidity.

Silver, Gold and Platinum Customer Programs

SAIB provides its valued customers three-customer programs, which are designed to meet our customers banking needs through a package of products and services that suit their different lifestyles. "Gold" and "Platinum" customer programs provide a high class banking relationship and exclusive services tailored for our elite customers; where we serve them in total privacy and luxurious comfort.

Ladies Banking Services

SAIB has 12 ladies sections providing products and services that meet SAIB female customers' aspirations. SAIB continued to provide its valued female customers' the best of its new and developed products and services which have contributed to the increase of its female customer base. SAIB is currently developing special new services to provide to its valued female customers.

E-Banking Services

The Saudi Investment Bank has been in the forefront of introducing various innovative services and products to its customers in order to provide friendly digital banking experience that aligns with the Bank's strategy in digitalization.

During the past few years, the Bank introduced new technologies, channels and services to meet increasing business demands, which made an impact on the overall customer experience.

Our personal digital banking services have multiple distribution channels, including online banking (Website & Mobile Applications), ATM, Interactive Teller Machines (ITM), Interactive Voice Recognition (IVR). Our corporate digital banking services currently has multiple distribution channels including corporate online banking, eTrade, ePayroll, Cash Management, and B2B services.

In addition, there are several services and enhancements introduced to SAIB customers highlighted below:

- Digitalization and automation of critical business processes in SAIB branches with huge optimization in service delivery.
- Enablement for SAIB customers' to interact easily with Customer Care Unit for their request fulfillment through a digital experience.
- Introduction of a complete digital-based customer Loyalty Program (WooW).
- Introducing a 24/7 card issuing services, which includes issuing of mada debit and Travel Cards.
- easypay online banking channels (Web and Mobile), offered in many different languages, has been designed for labours and households employees and holders of our easypay card, in order to perform wide set of services, like account management and remittance services without visiting branches.
- Extended services after working hours through our Interactive Teller Machine channel.
- Launching an Emergency Cash Withdrawal Service 24/7 without the need of using a card.
- For Travel Cardholders, continuous enrichment of further currencies. There are now 17 available currencies which can be added and managed through the electronic banking channels.
- Securing our personal banking customers by introducing a digital soft token (FlexxSafe) to logon and perform transactions online and via mobile banking channels anytime anywhere either by PIN or using biometric methods.
- Implementing a fully-automated B2B service that enables our Corporate, MSME and Government clients to perform various types of seamless payment instructions via our banking services.
- Enhancing online and mobile banking performance by applying the latest technology practices for better usability and user experience.
- Letters Authenticity Verification Service was introduced to allow SAIB customers' submitted letters to third parties to be authenticated by The Saudi Investment Bank by digital means.

As digital business development grows within the Kingdom and in delivering financial services, the Bank is working on new and innovative FinTech-based initiatives to enable digital payment services for SAIB and Non-SAIB customers.

In addition to that, digital media communication is becoming as a key factor of promoting digital channels and services in terms of awareness, promotions and customer awareness, which has given the Bank an edge of the overall customer experience.

Branch network

As of December 31, 2017, the number of branches operating under the Bank was forty-nine, twelve of which contain a ladies section. The Bank currently operates a network of 416 ATMs and 4 Interactive Teller Machines throughout Saudi Arabia. The Bank also introduced 386 new POS terminals in 2017 bringing the total POS terminals to 9,178.

Alasalah Islamic Banking

The Bank provides Shariah-compliant products and services under the ALASALAH Islamic Banking brand. These products have been given particular attention to ensuring their compliance with Shariah Principles and their suitability to the local market in recognition of the increasing demand for Shariah-compliant products and services, and the significance of Islamic Banking as a strategic direction for banks operating in the Kingdom. The Bank now operates forty-five Shariah-compliant branches. The Bank successfully increased its Shariah-compliant loans during the year ended December 31, 2017 to SAR 37.3 billion. The Bank's Shariah compliant deposits during the year ended December 31, 2017 reached SAR 58.4 billion, or 87% of total deposits.

Strategic partnerships

The Bank has four subsidiaries as follows:

- Alistithmar for Financial Securities and Brokerage Company (Alistithmar Capital), which offers brokerage, asset management, and other services in the Kingdom of Saudi Arabia. The total capital of the Company is SAR 250 million with 25 million shares outstanding. The Bank owns 100% of the Company, and the Company does not have any debt instruments issued. The Company was established in July 2007 as a limited liability Company, and in 2015 the Company was converted into a closed joint stock company. The Company provides brokerage services, investment management services in the form of mutual funds and portfolios, custody services, and investment banking advisory. Assets under management totaled SAR 6,816 million as of December 31, 2017, of which SAR 2,219 million is considered Shariah approved.
- The Saudi Investment Real Estate Company. The Bank owns 100% of the SAR 500 thousand in capital, and the Company does not have any debt instruments issued. The main activity of this Saudi limited liability Company is to hold real estate assets given to the Bank as collateral.
- Saudi Investment First Company Ltd. The Bank owns 100% of the SAR 25 thousand in capital, and this Saudi limited liability Company does not have any debt instruments issued. The main activity of this Company is to hold shares in American Express (Saudi Arabia).
- SAIB Markets Limited Company, was registered as a limited liability Company in the Cayman Islands in July 2017. The Bank has 100% ownership, and this Cayman Islands limited liability Company does not have any debt instruments issued. The objective of SAIB Markets Limited Company is trading in derivatives and Repo activities on behalf of the Bank.

In addition to the above, the Bank has investments in three associate companies in Saudi Arabia as follows:

- American Express (Saudi Arabia) – ("AMEX"), is a Saudi Arabian closed joint stock Company. The total capital is SAR 100 million with 10 million shares outstanding, and the Bank holds a 50% interest or 5 million shares. The principal activities of AMEX are to issue credit cards and offer other American Express products and services in Saudi Arabia.
- Saudi Orix Leasing Company ("Orix"). Orix is a Saudi Arabian closed joint stock Company in Saudi Arabia. The total capital is SAR 550 million. Orix has 55 million outstanding shares, and the Bank holds 20.90 million shares representing 38% of the outstanding shares. The primary business activities of Orix include lease financing services in Saudi Arabia.
- Amlak International for Finance and Real Estate Development Co. ("Amlak"). Amlak is a Saudi Arabian closed joint stock Company in Saudi Arabia. The total capital is SAR 903 million. Amlak has 90.3 million outstanding shares, and the Bank holds 29 million shares representing 32% of the outstanding shares. Amlak offers real estate finance products and services.

All the above associate companies are incorporated and doing business in Saudi Arabia.

Credit rating

Credit ratings are an integral component for participation in the international financial markets. As the global economy becomes more integrated, credit ratings are necessary not only to ensure funding and obtain access to capital markets but also to demonstrate a commitment to meeting a high level of internationally recognized credit and risk management standards. During the year, the Bank continued its program of rating reviews with Standard & Poor's Ratings Services (S&P) and Fitch Ratings.

S&P have maintained the Bank's long-term and short-term counterparty credit ratings to 'BBB'/'A-2' with a Stable Outlook. S&P defines these ratings as follows:

- **Long-Term Issuer Credit Ratings** – An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity of the obligor to meet its financial commitments.
- **Short-Term Issuer Credit Ratings** (less than 12 months) – An obligor rated 'A-2' has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.

Fitch affirmed the Bank's 'BBB+'/'F2' long-term and short-term ratings, and have changed the Outlook from Negative to Stable. Fitch defines these ratings as follows:

- **Long-Term Issuer Default Ratings** – 'BBB+' ratings indicate that there is currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate, but adverse changes in circumstances and economic conditions are more likely to impair this capacity.

- **Short-Term Issuer Default Ratings** (less than 12 months) – 'F2' ratings indicate good credit quality with a satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

The Bank's ratings are the result of our financial performance, asset quality, and capitalization levels, supported by a stable strategy and adequate liquidity profile. Our ratings take into consideration the fact that the Bank operates in one of the strongest banking sectors and best regulated markets both in the Middle East and among all emerging markets. The ratings also reflect Saudi Arabia's sovereign credit ratings from S&P and Fitch, in addition to the country's economic fundamentals.

The credit ratings from S&P and Fitch are considered "Investment Grade Ratings" in the international markets.

Compliance

The Banks Compliance Group is a separate group that practices identifying, evaluating, advising, supervising and reporting non-compliance risks which might expose the Bank to administrative and legal penalties, financial loses, or damage to the Bank's reputation for not complying with regulations, conducts, and professional practices.

The Compliance Group is one of the Bank's key success factors due to the significant role it plays in protecting the Bank's reputation, credibility, shareholders' interests, and depositors by protecting them from:

- Preventing risks, especially methodological and reputation risks and financial penalties.
- Strengthening relationships with regulators.
- Implementing mechanisms and frameworks to prevent SAIB channels being used to commit crimes, especially in relation to anti-money laundering and combating terrorism financing.
- Protecting professional practices and values in exercising banking best practices.
- The implementation of the best compliance principles is one of the priorities of the Bank, starting with members of the Board of Directors and Executive Management and all employees.

The senior management team has established a culture based on high standards of integrity and affirms compliance principles, which are not only the responsibility of the Compliance Group, but the responsibility of all SAIB employees, and which is an integral part of our commercial and operational activities in general.

Quality Assurance Department

The Bank's quality Group has undertaken a variety of initiatives to meet the requirements of SAMA, to support development and innovation, and to adhere to the best banking standards as follows:

- Supported central governance by establishing a memorandum of approval for each product or service submitted to meet SAMA requirements, implemented mandatory controls, and identified risks in these products or services before they were introduced.
- Maintained 100% of customer complaints processing in accordance with the requirements of SAMA. More than 4,700 complaints were dealt with under the Service Level Agreement of 2017. The Quality Group has also resolved the internal complaints of employees in accordance with the agreed time frame to ensure compliance with the best quality standards and support for streamlining work.
- Supported customer protection through a variety of awareness campaigns on the Bank's website, visiting and training branches and printing leaflets and brochures. Also carried out were awareness campaigns for customers and the community through platforms and visits to several public and private sector entities.
- ISO 9001: 2008 was renewed in the area of customer complaints management and handling, which demonstrates the Bank's commitment to continuously improving operations and providing the best services.

The quality group also improved the customer experience and enhanced the Bank's brand by:

- Surveying more than 150,000 customers, measuring their satisfaction with the Bank's products and services and the efficiency of electronic channels, and sharing these results with management to enhance and improve operations.
- Completing the feedback process from customers via the CRM system and analyzing the satisfaction levels.
- Creating a customer voice page on the Bank's website to view customer survey results, and adding a new channel to collect customer feedback via email.
- Training more than 50 employees on quality improvement (Six Sigma & Line), and conducting 10 (ten) workshops for more than 150 employees to enhance and improve quality.

As a result of these initiatives, the Bank in 2017 received the following awards:

- King Abdulaziz Award for Quality 2016 at its 3rd session held by the Saudi Standards, Metrology, and Quality, with the authority to use this certificate for three years.

- The best Saudi Bank Award in the SQI (3.25 of 5.0) by Finalta, with the second wave of the project currently being processed.

Profit distribution

The net income of the Bank will be distributed as directed by the Board of Directors in accordance with the provisions of the Banking Control Law, as follows:

(a) Withholding the necessary amounts for payment of the Zakat owed by the Saudi shareholders and any income tax owed by the non-Saudi shareholders according to the applicable laws of the Kingdom. The Bank will pay the required amounts to the authorities and deduct the Zakat owed by the Saudi shareholders and any unreimbursed income tax of the non-Saudi shareholders from amounts due to these shareholders, respectively.

(b) Allocating not less than 25% of the remaining net income, after the deduction of the Zakat and income tax as mentioned in paragraph (a) above, to the Statutory Reserve until this Reserve is equal to at least the Paid-Up Capital.

(c) The remainder, after all, allocations mentioned in paragraphs (a) and (b) above are made, shall be used in any manner recommended by the Board of Directors and approved by the General Assembly.

In 2016, the Board of Directors proposed a cash dividend of SAR 350 million equal to 0.5 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 70 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each 14 shares outstanding. The Bank's shareholders approved the proposed dividend and bonus share issue in an Extraordinary General Assembly Meeting held on 21 Rajhab 1438 H., corresponding to April 18, 2017. The net dividends and bonus shares were distributed to the shareholders thereafter.

Regulatory payments

Zakat attributable to the Saudi shareholders paid by the Bank is deducted from their share of cash dividends. Any unreimbursed income tax payable by the non-Saudi shareholders on their share of profits is also deducted from cash dividends.

The Bank paid SAR 24.3 million in Zakat on behalf of Saudi shareholders, and SAR 12.2 million of income tax on behalf of its non-Saudi shareholders during the year ended December 31, 2017. The Bank also paid SAR 2.1 million in withholding tax on payments to non-residents made during the year ended December 31, 2017.

The Bank has received assessments for additional Zakat, income tax, and withholding tax total approximately SAR 277 million relating to the Bank’s 2003 through 2009 Zakat, income tax, and withholding tax filings. The Bank has filed an appeal for these assessments.

The Bank has also received partial assessments for additional Zakat totaling approximately SAR 383 million relating to the Bank’s 2010, 2011 and 2013 Zakat filings. The assessments are primarily due to the disallowance of certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its Zakat advisors, has filed an appeal with the Department of Zakat and Income Tax and is awaiting a response. At the current time, a reasonable estimation of the ultimate additional Zakat liability, if any, cannot be reliably determined.

The Bank paid SAR 47.2 million to the General Organization for Social Insurance for its employees, including the employee share of SAR 21 million during the year ended December 31, 2017. The Bank also paid approximately SAR 1.5 million for visa, other-related governmental fees, also the municipality and related fees during the year ended December 31, 2017.

Regulatory penalties and fines

During 2017, the Bank paid SAR 1.36 million in penalties and fines to the following regulatory agencies:

- No fines reported by CMA
- No fines reported by Ministry of Municipal and Rural Affairs
- SAMA penalties:

Violation subject	Financial year 2017	
	No. of penalties	Total fines amounts in SAR
Violation of SAMA's Supervisory instructions	4	760,000.00
Violating SAMA's instructions for customer protection	3	65,000.00
Violating SAMA's instructions for due diligence	1	455,400.00
Violating SAMA's instructions for ATM and POS performance*	3	85,000.00

**Two penalties have been added totaling SAR 75,000 were not reflected in the 2016 Board of Directors' Report.*

Human resources

The Human Resources Department seeks to maximize the return on investment in the Bank's human capital and reduce financial risk. The Human Resources Department functions include recruiting, acquiring, developing, and maintaining qualified talent to meet the needs of the Bank. The Department includes a number of sub-departments such as recruitment, performance management, benefits and wages, personnel relations, payroll, human resources department system, and training and development.

Saudization and training

As a result of the Bank's continuing commitment to increase Saudization, the percentage of Saudi nationals to total staff as of December 31, 2017 remained strong at 85.4%, compared to the end of the year 2016 where Saudization percentage was 84%. In addition, the Bank has kept the female staff percentage at 18.3% of the total workforce of the Bank.

During the year ended December 31, 2017, the Bank provided a total of 219 separate training courses resulting in 4,491 training days being delivered to the Bank's staff members.

The 2017 new program for Summer Students was also introduced, as more than 65 males and females were sponsored for an 8 weeks program in computer skills.

During 2017, the Bank increased the usage of all E-Channels, such as "E-Learning – Training video tutorials – and summarization of Books" by delivering more than 9,000 different programs in different fields. The benefit of E-Learning is to help the Bank employees to improve their knowledge and competencies in a range of general skills. All portals are available 24/7 and accessible from anywhere by using any device, in both Arabic and English.

Employee benefits

Benefits payable to employees either at the end of their services or during the term of their employment are accrued in accordance with guidelines set by the Saudi Arabian Labor Regulations and as per the Bank's accounting policies. The amount of provision made during the year ended December 31, 2017 in respect of employees' end of service benefits was SAR 32.3 million. The balance of the accrued benefits outstanding is approximately SAR 186.3 million as of December 31, 2017.

The Bank also offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("Plan"). Under the terms of the Plan, employees are granted shares which vest over a four-year period. The cost of the plan is measured by the value of the shares on the date purchased by the Bank and recognized over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee stock option shares are recorded by the Bank at cost and presented as a deduction from the Bank's equity as adjusted for any transaction costs, dividends and gains or losses on sales of such shares. During 2017, the Bank vested 1,592,318 shares for a total cost of approximately SAR 21.6 million. The balance of the Plan as of December 31, 2017 is approximately SAR 24.2 million. For further information on this Plan, refer to Note 38 in the Consolidated Financial Statements.

In addition, the Bank grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Bank and the employees. These contributions are paid to the participating employees at the respective maturity date of each Plan. The balance of the accrued benefits outstanding for the Bank's security plan and the Bank's savings plan is approximately SAR 24.3 million as of December 31, 2017. The amount of provision made during the year ended December 31, 2017 for these plans was approximately SAR 18.2 million.

Related party transactions & balances

In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia which specifies the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's Related Party Identification and Disclosure of Transactions Policy complies with the Guidelines issued by SAMA and has been approved by the Bank's Board of Directors. These Guidelines include the following definitions of Related Parties:

- Management of the Bank and/or members of their immediate family;
- Principal shareholders of the Bank and/or members of their immediate family;
- Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management, therefore, includes the members of the Bank's Board of Directors, and members of the Bank management that require a no objection approval from SAMA.

Immediate family members include parents, spouses, and offspring and whom either a principal shareholder or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship.

Principal shareholders include those owners of record of more than 5% of the Bank's voting ownership and/or voting interest of the Bank.

The balances as of December 31, 2017, resulting from such transactions included in the Consolidated Financial Statements were as follows:

	2017 SAR '000
Management of the Bank and/or members of their immediate family:	
Loans and advances	**88,334**
Customer deposits	**227,848**
Tier I Sukuk	**2,000**
Commitments and contingencies	**1,880**
Principal shareholders of the Bank and/or members of their immediate family:	
Due from banks and other financial institutions	**12,241**
Loans and advances	**126,214**
Customer deposits	**10,416,049**
Subordinated debt	**700,000**
Commitments and contingencies	**372,991**
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:	
Loans and advances	**596,117**
Customer deposits	**104,094**
Commitments and contingencies	**106,317**
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:	
Customer deposits and other liabilities	**152,572**

Income and expense pertaining to transactions with related parties included in the Consolidated Financial Statements are as follows:

	2017 SAR '000
Management of the Bank and/or members of their immediate family:	
Special commission income	3,093
Special commission expense	34
Fee income from banking services	20
Principal shareholders of the Bank and/or members of their immediate family:	
Special commission income	42,671
Special commission expense	27,039
Fee income from banking services	4,219
Rent and premises-related expenses (Building rental)	7,758
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:	
Special commission income	8,736
Special commission expense	9
Fee income from banking services	5,607
Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank:	
Special commission expense	–

Board of Directors, Committees, Management

Composition of the Board of Directors

The General Assembly dated January 25, 2016, elected the Bank's Board members for the next term starting February 14, 2016 for a three-year term. The Board is comprised of the following members:

The names of the members of the Board of Directors, Committees, Management, and their current functions and their qualifications and experience

Board of Directors

Name	Classification	Current job	Previous jobs
Abdallah Saleh Jum'ah	The Saudi Investment Bank Non-Executive Member (Chairman)	Retiree	1. President and Chief Executive Officer of Saudi Aramco 2. Executive Vice President for International Affairs (Aramco) 3. Senior Vice President for Human Resources (Aramco)
Mr. Abdulaziz Abdulrahman Al-Khamis	Non-Executive Member (Vice Chairman)	Investment Advisor, Alra'idah Investment Co.	1. Vice governor for Investment, Public Pension Agency 2. Director General for Financial Investment, Public Pension Agency 3. Fixed Income Chief Dealer, Investment Management Dept., Saudi Arabian Monetary Authority 4. Assistant Chief Dealer, Investment Management Dep., Saudi Arabian Monetary Authority 5. Senior Fixed Income Dealer, Investment Management Department, Saudi Arabian Monetary Authority
Dr. Fouad Saud Al Saleh	Non-Executive Member	1. Chairman of Project & Construction Company (Saudi Projacs) 2. Chairman of Fuad Saud Al-Saleh & Associates (Projacs)	1. Chief of Contract Administration and Construction Inspection Sections of the Construction and Maintenance Department, Ministry of Defense, Riyadh, Saudi Arabia 2. Assistant Director of Contract Administration and Construction Inspection Sections of the Construction and Maintenance Department, Ministry of Defense, Saudi Arabian Army 3. Assistant Director of Construction and Maintenance Department, Saudi Arabian Army 4. Director of Project Management Department, General Directorate of Military Works, M. O. D. A. 5. Director General of Construction Management Department, General Directorate of Military Works, M. O. D. A. 6. Took early retirement from Military Services with the Rank of Engineer Colonel

Qualifications	Current membership	Previous membership
1. Bachelor of Political Science from American University in Beirut	1. Board Member, Hassana Investment Company (UL) 2. Board Member, Saudi Arabian Airlines Corporation (UL) 3. The Saudi Investment Bank (L) 4. Vice Chairman, Zamil Industrial (L)	**In Kingdom** 1. Board Member of Saudi Aramco (UL) 2. Board Member and CEO of Saudi Consolidated Electric Company (SCECO) (L) 3. Board Member of Saudi Aramco Mobil Refinery Co. Ltd. (SAMREF) (UL) **OOK (overseas)** 1. Board Member S-Oil (S. Korea) (L) 2. Board Member Petron Corp. (Philippines) (L) 3. Board Member Motor Oil Hellas (MOH) (Greece) (L) 4. Board Member Saudi Petroleum Int. (US) (UL) 5. Chairman of the Board, Motiva Enterprise (US) (UL) 6. Board Member Aramco Overseas Co. (Holland) (UL) 7. Board Member Halliburton Company (USA) (L) 8. Member JP Morgan Chase & Co. Int. Advisory Council (US) (L) 9. Member Schlumberger Business Consulting Advisory Board (France) (L) 10. Member Reliance Int. Advisory Board (India) (L)
Bachelor of Economics, Northeastern University, Boston, USA	1. Tawuniya Insurance Co. Board Director 2. The Saudi Investment Bank 3. The United Insurance Co., Bahrain	1. Petrochem 2. Sipchem 3. Saudi Polymer Co. 4. Gulf Polymers Distribution Co., UAE.
1. Bachelor of Civil Engineering (Civil Engineer), St. Martin College at Olympia, Washington 2. Masters of Civil Engineering (Construction Management), the University of Washington at Seattle 3. PhD of Civil Engineering (Construction Management), University of Washington – Seattle	The Saudi Investment Bank	1. Member of American Association of Construction Managers 2. Member of American Society of Civil Engineers 3. Member of the Society of American Value Engineers 4. Member of British Arbitration Association 5. Member of Project Management Institute 6. Member of American Arbitration Association

Name	Classification	Current job	Previous jobs
Dr. Abdulraouf bin Mohammed bin Abdullah Mannaa	Independent Member	Director	Managing Director and CEO of Savola Group
Dr. Abdulaziz Abdallah Alnowaiser	Independent Member	Director General of Saudi Medical Services FA Ltd.	1. Director General of Saudi Charter Medical Ltd. 2. General Manager of TRAINEX Saudi Arabia Ltd. 3. Deputy General Manager of Saudi Oger Ltd. 4. Executive General Manager of King Fahad Complex for the Printing of the Holy Quran 5. Assistance Professor Physics Dept., King Saud University
Abdul Rahman bin Mohammed Al-Rawaf	Non-Executive Member	General Manager of Deposit and Bond Management – Hasana Investment Company	1. General Manager of International Markets – Hasana Investment Company 2. Director of Investment Portfolio Management – General Organization for Social Insurance 3. Financial Analyst in the General Administration of Investment – General Organization for Social Insurance
Mr. Mishari Ibrahim Al-Mishari	Non-Executive Member	Director	1. CEO – Bank Al-Jazira 2. Saudi American Bank – Saudi Arabia (SAMBA) General Manager – Retail Bank 3. Citi Bank/London. Consumer Services Group. Upscale Group Head (Middle East – Africa)
Mohammed bin Abdullah bin Ahmed Al Ali	Independent Member	Advisor to the Minister of Energy, Industry, and Mineral Resources	1. Senior Vice President – Aramco Finance 2. Financial Controller – Aramco 3. Chief Internal Auditor – Aramco 4. Director of International Accounting and Financial Reports 5. Administrator of Sales and Petroleum
Mr. Saleh Ali Al-Athel	Independent Member	Director	Assistant General Manager – Saudi Industrial Development Fund (SIDF)

Qualifications	Current membership	Previous membership
1. Bachelor of Mechanical Engineering from Petroleum and Minerals University 2. Master of Science in Engineering and Mechanical Engineering from the University of California at Berkeley, Ph.D. in Mechanical Engineering from the University of Washington at Seattle	The Saudi Investment Bank	1. Managing Director and CEO of Savola Group 2. Managing Director and CEO – Emaar, Economic City 3. Board of Directors of Almarai Company 4. Board of Directors of Panda 5. Board of Directors of the General Organization for Social Insurance 6. Board of Directors of Hassana from the General Organization for Social Insurance 7. Board of Knowledge Economic City 8. Enjaz (NGO) 9. Board of Kinan International Real Estate Development
1. Bachelor of Physics and Mathematics – University of California 2. Master's of Physics – Duke University, USA 3. Ph.D. Of Physics – University of Maryland College Park	The Saudi Investment Bank	1. The National Insurance Committee 2. USB Bank, Investment Fund 3. Medgulf Insurance and Reinsurance Co.
1. Bachelor of Science, Arkansas State University 2. Master of Public Administration, University of Southern California	The Saudi Investment Bank	1. Board of Directors of the Industrialization and Energy Services Company 2. The Board of Directors of Sahara Petrochemical Company 3. Member of SAMBA Financial Board 4. Member of the Board of Directors of Bank Aljazira 5. Member of several committees (Audit, Executive Committee, Nominations, and Rewards) in several companies and banks
Bachelor of Science Business Administration, University of Oregon Eugene USA	1. Board Member of the Saudi Re-Insurance Co. 2. The Saudi Investment Bank 3. Board Member of Hana Food Industries Company 4. Chairman of Droob AlElm for Training and Education	1. Board Member of the Saudi Fund for Development 2. Board Member of the AlOula Real Estate Company 3. Board Member of Sadan International 4. Board Member of Bank Al-Jazira
1. Bachelor of Accounting, University of Texas Arlington 2. Master of Business Administration from the University of Denver 3. Education Program for Executives at Carnegie Mellon University and Oxford University Creative Placement Center	1. The Saudi Investment Bank 2. Saudi Energy Efficiency Services Company	1. Member of several executive committees of Aramco 2. Chairman of Saudi Aramco Investment Management 3. Chairman of Aramco International 4. Chairman of Saudi Aramco Trading 5. Chairman of the Board of Governors of the GCC-BDI "Board of Directors Institute"
1. Bachelor of Philosophy and Sociology, University of Damascus, Syria 2. Management Higher Diploma, University of Hartford, USA	1. Board Member, Saudi Telecommunication Company 2. The Saudi Investment Bank	1. Board Member, Saudi House for Consultation 2. Board Member, Saudi Electrical Industries Company 3. Board Member, Saudi Laboratory Company

Committee Members

Name	Classification	Current job	Previous jobs
Saleh Khalifi	Independent Board Audit Committee Member	General Director of Sultan Bin Abdulaziz Al Saud Charity Foundation	1. Saudi Company for Hotels and Tourist Areas 2. Arab Investment Company 3. Saudi Fund for Development
Abdullah Al Anzi	Independent Board Audit Committee Member	Head of Internal Audit of Saudi Telecom Group	General Manager of Information Systems and Network Audit
Menahi Al-Muraikhi	Independent Board Audit Committee Member	Retiree	1. Head of Internal Auditor – Bank Albilad 2. Department Manager of Automated Audit – Al Rajhi Bank 3. Department Manager of IS Operation & Control – Al Rajhi Bank 4. Department Manager of IS Audit & Security – Al Rajhi Bank 5. Manager of Programming Systems – Ministry of Defense
Dr. Mohamed A. Elgari	Chairman of the Shariah Committee as an External Independent Member	Committee Member	1. Professor of Islamic Economics, King Abdulaziz University (formerly) 2. Director of Islamic Economics Research Center, King Abdulaziz University (formerly) 3. Expert in Islamic Fiqh Academy, Organization of the Islamic Conference (Jeddah Complex)

Qualifications	Current membership	Previous membership
1. Bachelor of Administrative Sciences, Accounting, King Saud University 2. Master of Accounting from United States	1. Saba Real Estate Company 2. Umm Al Qura Cement Company	1. Management of the National Company for Agricultural Development – Nadec 2. Saudi Company for Land Transport – Mubrad 3. Emaar Al Watan Real Estate Investment Company 4. Hail Cement Review Committee
1. Bachelor of Information Systems from the Faculty of Computer Science, King Saud University 2. Master of Business Administration, King Fahd University of Petroleum and Minerals 3. Internal Auditor Fellowship 4. CISA Fellowship 5. CRMA Risk Management Fellowship 6. CFE Fraud and Fraud Fellowship		
Bachelor of Computer Science and Mathematics from the University of East Washington		
	1. Member of the Islamic Classification Board of the Islamic Rating Agency (Bahrain) 2. Member of the Advisory Board of the Harvard Series in Islamic Law, Harvard Law School 3. Founding Member of the National Society for Human Rights in Saudi Arabia (Riyadh) 4. Member of a number of Sharia bodies in Islamic banks and financial institutions in the Kingdom and abroad	1. Member of the Shari'a Council, AAOIFI (Bahrain) 2. Member of the Scientific Committee of the Islamic Institute for Research and Training, Islamic Development Bank in Jeddah (formerly)

Name	Classification	Current job	Previous jobs
Dr. Abdulaziz Bin Ahmed Almezeini	Member of the Shariah Committee as an External Independent Member		
Dr. Fahd Bin Nafel Alsigheir	Member of the Shariah Committee as an External Independent Member	1. Member of the Faculty of the Higher Judicial Institute at Imam Muhammad Bin Saud Islamic University, Comparative Jurisprudence Department (currently) 2. Deputy of the Higher Institute of Judiciary at Imam Muhammad Bin Saud Islamic University (currently) 3. Member of the Council of the Higher Institute of Justice at the University of Imam Muhammad bin Saud Islamic (currently)	Judge in the Ministry of Justice (former)

Executive Management

Name	Current job	Previous jobs	Qualifications	Experiences
Musaed Mohammed Al Mineefi	Chief Executive Officer	Director of Finance	Bachelor of Accounting	1. Director of Finance at Al Salam Aircraft Company 2. Senior Accountant at Petromin Saudi Lube 3. Deputy Finance Controller at Saudi Telecommunications
Faisal Abdullah Al Omran	Deputy Chief Executive Officer	Treasurer and Chief Investment Officer	Bachelor of Finance and Accounting	1. General Manager at Awraq Al Jazeera Investment Company 2. Insurance Consultant at General Organization of Social Insurance 3. Accountant at Liberty Mutual Insurance Company
Ramzi Abdullah Al-Nassar	General Manager – Personal Banking Group	Officer – International Banking Division Riyadh Bank	Bachelor of Petroleum Engineering	1. Officer – International Banking Division Riyadh Bank 2. Head – Contract Account at the General Petroleum & Mineral Organization
David Kent Johnson	Chief Financial Officer	Senior Director with (PWC) Saudi Arabia	Bachelor of Science in Industrial Administration Accounting Degree with minor degrees in Economics and Finance	1. CFO – The Saudi Investment Bank 2. Senior Director at PWC Saudi Arabia 3. Independent Consultant 4. Partner, KPMG Sacramento, California 5. Manager, KPMG Des Moines, Iowa

Qualifications	Current membership	Previous membership
1. Doctoral Degree in Law and exact specialization in Islamic Finance from Georgetown University in Washington, D.C. The thesis was entitled – Selling debt in Islamic jurisprudence, comparative analytical comparative study 2. Master's Degree in Law and exact specialization Financial Regulations and Regulations of Georgetown University in the American Capital Washington 3. Master of Systems from the Higher Institute of Judiciary at Imam Muhammad bin Saud Islamic University in Riyadh. The research was entitled: Internal Crimes of Information in Financial Markets, A Comparative Juristic Study 4. Bachelor in Islamic Law, Faculty of Sharia, Imam Muhammad bin Saud Islamic University, Riyadh	1. Member of the Faculty of the Higher Judicial Institute at Imam Muhammad bin Saud Islamic University in Riyadh (currently) 2. Founding partner in the Office of Mohammed Al-Marzouq, Lawyers and Consultants in Cooperation with Ku	
1. Doctorate Degree from the Faculty of Sharia at the University of Imam Muhammad bin Saud Islamic University in Riyadh with an excellent grade with honors first 2. Master Degree from the Higher Judicial Institute, Imam Muhammad bin Saud Islamic University, Riyadh 3. Bachelor of Islamic Sharia, from the Faculty of Sharia at the University of Imam Muhammad bin Saud Islamic University in Riyadh with an excellent grade with honors first He is a member of many Shariah scientific committees as the Arbitrator and Supervisor of Research and specialized scientific programs in the transactions of jurisprudence and jurisprudence		

The Board of Directors has the following Committees:

- The Executive Committee is comprised of five Board members. This committee supervises the credit and financial policies of the Bank.
- The Audit Committee is comprised of five members: two Board members and three non-Board members. The Audit Committee's activities include supervising the Bank's Internal Audit function, recommending the appointment of the External Auditors, and related activities.
- The Nomination and Remuneration Committee is comprised of five Board members. This committee is responsible for recommending to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards, reviewing on an annual basis the requirements for the suitable skills for membership of the Board of Directors, and reviewing the structure of the Board of Directors and recommending changes to it. It is also responsible for recommending to the Board the approval of the Bank's compensation policy and amendments to that, and other activities related to the Bank's compensation policies and guidelines.
- The Governance Committee is composed of three members. The Committee is responsible for promoting and implementing best practices of governance by acting on behalf of the Board to ensure the implementation of these practices in all activities of the Bank. The Committee also monitors the Bank's compliance with relevant local and international regulations.
- The Risk Committee is comprised of five Board members. This committee supervises the risk management activities of the Bank including market, credit, and operational risks.
- The Shariah Committee is comprised of three members and is responsible for providing Shariah opinions on submitted applications and related contracts and forms. The Committee is also responsible for ensuring the Bank's compliance with Shariah principles and decisions through the Shariah control function. In addition, the Committee answers Shariah-related inquiries for the Bank and its customers.

The composition of the six Board Committees is presented below:

Executive Committee	Audit Committee	Nomination and Remuneration Committee	Governance Committee	Risk Committee	Shariah Committee
Mr. Abdulaziz Al-Khamis (Chairman)	Mr. Muhammad Al Ali (Chairman)	Dr. Abdulaziz Al Nowaiser (Chairman)	Dr. Abdulaziz Al Nowaiser (Chairman)	Mr. Mishari Al-Mishari (Chairman)	Dr. Muhammad Ali Elgari (Chairman)
Mr. Abdulrahman Al-Rawwaf	Dr. Fouad Al-Saleh	Dr. Abdulraouf Mannaa	Dr. Abdulraouf Mannaa	Mr. Abdulrahman Al-Rawwaf	Dr. Fahad Nafl Alsigheir
Dr. Fouad Al-Saleh	Mr.Abdullah Al-Anizi (non-board)	Mr. Mishari Al-Mishari	Mr. Saleh Al-Athel	Mr. Muhammad Al Ali	Dr. AbdulAziz Ahmad Almezeini
Mr. Mishari Al-Mishari	Mr. Mnahi Al-Muraki (non-board)	Mr. Saleh Al-Athel	–	Dr. Abdulraouf Mannaa	–
Dr. Abdulaziz Alnowaiser	Mr. Saleh Al-Khulaifi (non-board)	Mr. Abdulrahman Al-Rawwaf	–	Dr. Abdulaziz Alnowaiser	–

Directors' attendance

Four Board of Directors meetings were held during 2017 as follows:

Date of meeting	Members attended
March 23, 2017	Abdallah Saleh Jum'ah , Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Abdulraouf Mannaa, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari, Saleh Al Athel, Muhammad Al Ali
May 25, 2017	Abdallah Saleh Jum'ah, Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari, Saleh Al Athel
September 26, 2017	Abdallah Saleh Jum'ah, Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Abdulraouf Mannaa, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari, Saleh Al Athel, Muhammad Al Ali
December 11, 2017	Abdallah Saleh Jum'ah, Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Abdulraouf Mannaa, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari, Saleh Al Athel, Muhammad Al Ali

Thirteen Executive Committee meetings were held during 2017 as follows:

Date of meeting	Members attended
January 23, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari
February 28, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari
March 21, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari
April 18, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Mishari Al Mishari
April 30, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari
May 25, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari
June 20, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari
July 23, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari
September 19, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Mishari Al Mishari
October 02, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari
October 24, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari
November 21, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari
December 14, 2017	Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Fouad Al Saleh, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari

Four Nomination and Remuneration Committee meetings were held during 2017 as follows:

Date of meeting	Members attended
January 3, 2017	Dr/Abdulaziz Al Nowaiser, Abdulrahman Al Rawaf, Mishari Al Mishari, Saleh Al Athel, Dr. Abdulraouf Mannaa
April 18, 2017	Abdulrahman Al Rawaf, Mishari Al Mishari, Saleh Al Athel, Dr. Abdulraouf Mannaa
September 19, 2017	Dr/Abdulaziz Al Nowaiser, Abdulrahman Al Rawaf, Mishari Al Mishari, Saleh Al Athel, Dr. Abdulraouf Mannaa
November 27, 2017	Dr/Abdulaziz Al Nowaiser, Abdulrahman Al Rawaf, Mishari Al Mishari, Saleh Al Athel, Dr. Abdulraouf Mannaa

Two Governance Committee meetings were held during 2017 as follows:

Date of meeting	Members attended
September 25, 2017	Dr/Abdulaziz Al Nowaiser, Dr. Abdulraouf Mannaa, Saleh Al Athel
November 23, 2017	Dr/Abdulaziz Al Nowaiser, Dr. Abdulraouf Mannaa, Saleh Al Athel

Five Audit Committee meetings were held during 2017 as follows:

Date of meeting	Members attended
February 06, 2017	Muhammad Al Ali, Dr/Fouad Al Saleh, Saleh Al Khulaifi, Abdullah Al Anizi, Monahy Al Moreikhy
March 22, 2017	Muhammad Al Ali, Dr/Fouad Al Saleh, Saleh Al Khulaifi, Monahy Al Moreikhy
May 23, 2017	Muhammad Al Ali, Dr/Fouad Al Saleh, Saleh Al Khulaifi, Abdullah Al Anizi, Monahy Al Moreikhy
September 25, 2017	Muhammad Al Ali, Dr/Fouad Al Saleh, Saleh Al Khulaifi, Abdullah Al Anizi, Monahy Al Moreikhy
December 10, 2017	Muhammad Al Ali, Dr/Fouad Al Saleh, Saleh Al Khulaifi, Abdullah Al Anizi, Monahy Al Moreikhy

Five Risk Committee meetings were held during 2017 as follows:

Date of meeting	Members attended
January 22, 2017	Mishari Al Mishari, Abdulrahman Al Rawaf, Dr/Abdulraouf Mannaa, Dr/Abdulaziz Al Nowaiser, Muhammad Al Ali
March 06, 2017	Mishari Al Mishari, Abdulrahman Al Rawaf, Dr/Abdulaziz Al Nowaiser, Muhammad Al Ali
April 30, 2017	Mishari Al Mishari, Abdulrahman Al Rawaf, Dr/Abdulaziz Al Nowaiser, Muhammad Al Ali
September 19, 2017	Mishari Al Mishari, Abdulrahman Al Rawaf, Dr/Abdulaziz Al Nowaiser, Muhammad Al Ali
November 27, 2017	Mishari Al Mishari, Abdulrahman Al Rawaf, Dr/Abdulraouf Mannaa, Dr/Abdulaziz Al Nowaiser, Muhammad Al Ali

Six Shariah Committee meetings were held during 2017 as follows:

Date of meeting	Members attended
February 16, 2017	Dr. Mohamed A. Elgari, Dr. Fahd Bin Nafel Alsigheir, Dr. Abdulaziz Bin Ahmed Almezeini
April 27, 2017	Dr. Mohamed A. Elgari, Dr. Fahd Bin Nafel Alsigheir, Dr. Abdulaziz Bin Ahmed Almezeini
June 06, 2017	Dr. Mohamed A. Elgari, Dr. Fahd Bin Nafel Alsigheir, Dr. Abdulaziz Bin Ahmed Almezeini
November 08, 2017	Dr. Mohamed A. Elgari, Dr. Fahd Bin Nafel Alsigheir, Dr. Abdulaziz Bin Ahmed Almezeini
December 05, 2017	Dr. Mohamed A. Elgari, Dr. Fahd Bin Nafel Alsigheir, Dr. Abdulaziz Bin Ahmed Almezeini
December 21, 2017	Dr. Mohamed A. Elgari, Dr. Fahd Bin Nafel Alsigheir, Dr. Abdulaziz Bin Ahmed Almezeini

The General Assembly was held once as follows:

Date of meeting	Members attended
April 17, 2017	Abdallah Saleh Jum'ah, Abdulaziz Alkhamis, Abdulrahman Al Rawaf, Dr/Abdulraouf Mannaa, Dr/Abdulaziz Al Nowaiser, Mishari Al Mishari, Saleh Al Athel, Muhammad Al Ali

Performance of Board of Directors

Corporate Governance has become one of the most important concerns in the business world. The Board of Directors is entrusted to oversee the business, including implementation of the organization's strategic objectives, approving risk strategy, approving corporate governance rules and principles of professional conduct, and supervision of senior management. As per the Principles of Corporate Governance for Banks Operating in Saudi Arabia, issued by SAMA and endorsed by the CMA and International practices, the Board carries out, on a periodic basis, a regular assessment of the Board as a whole, of the individual Board members, and of the Board committees. The aim is to review the effectiveness of its own controls and work procedures, and identify weak points and make any necessary changes whenever the need arises thereof.

Changes in the Bank's ownership (Board of Directors and Senior Executives)

The Board of Directors is composed of natural persons represented on the Board in their personal capacities. Below is the list of the overall ownership of Bank's shares and debt instruments by the Board of Directors and Senior Executives and their immediate relatives who have an interest in such ownership.

Directors

No.	Name	Beginning of the year		End of the year		Net change	Percentage of change %
		Shares	Debt instruments	Shares	Debt instruments		
1.	Abdallah Saleh Jum'ah	263,126	–	281,920	–	18,794	7
2.	Abdulrahman Al-Rawwaf	1,555	–	1,666	–	111	7
3.	Dr. Abdulraouf Mannaa	1,270	–	1,360	–	90	7
4.	Saleh Al-Athel	236,776	–	253,688	–	16,912	7
5.	Mishari Al-Mishari	3,110	–	3,332	–	222	7
6.	Dr. Fouad Al-Saleh	233,332	–	249,998	–	16,666	7
7.	Abdulaziz Al-Khamis	1,555	–	1,666	–	111	7
8.	Dr. Abdulaziz Alnowaiser	1,270	–	1,360	–	90	7
9.	Muhammad Al-Ali	2,332	–	2,498	–	166	7

Senior Executives

No.	Name	Beginning of the year		End of the year		Net change	Percentage of change %
		Shares	Debt instruments	Shares	Debt instruments		
1.	Musaed Al-Mineefi	1,838,455	–	2,009,831	2	191,376	10
2.	Faisal Al-Omran	17,990	–	0	–	17,990	100
3.	Ramzi Al-Nassar	200,000	–	250,000	–	50,000	25
4.	David Johnson	182,338	–	224,250	–	41,912	23

Number of orders related to the register of company shareholders and the dates and causes of such applications.

The Bank ordered the following registers during 2017:

Number of order	Date of order	Reason of order
1.	02-Jan-2017	End of month report
2.	02-Feb-2017	End of month report
3.	01-Mar-2017	End of month report
4.	04-Mar-2017	To verify the execution of the sale outside the market
5.	02-Apr-2017	End of month report
6.	10-Apr-2017	The stock restrictions file has been requested as a result of a shareholder's inquiry
7.	01-May-2017	End of month report
8.	04-Jun-2017	End of month report
9.	02-Jul-2017	End of month report
10.	01-Aug-2017	End of month report
11.	10-Sep-2017	End of month report
12.	01-Oct-2017	End of month report
13.	01-Nov-2017	End of month report
14.	03-Dec-2017	End of month report

Directors' and Senior Executives' remuneration (in SAR '000)

The Bank's policy regarding remuneration of the Chairman and members of the Board of Directors shall be based on the limits set out in the Companies Regulations and the instructions of the Saudi Arabian Monetary Authority, as stated in the Bank's Governance Manual, which is available on the Bank's website.

The remuneration paid to Directors and Executives during the year ended December 31, 2017 was as follows:

Board Remuneration

	Fixed remunerations					Variable remunerations							End-of-service award	Aggregate amount	Expenses allowance
	Specific amount	Allowance for attending Board Meeting	Total allowance for attending Committee Meetings	Remunerations of the Chairman, Managing Director or Secretary, if a Member	Total	Percentage of the profits	Periodic remunerations	Short-term incentive plans	Long-term incentive plans	Granted shares	Total			
First: Independent Directors														
Total	–	70	225	1,852	2,147	–	–	–	–	–	–	–	2,147	80.8
Second: Non-Executive Directors														
Total	–	85	375	2,352	2,812	–	–	–	–	–	–	–	2,812	81.0

	Committees members remuneration		
	Fixed remuneration (Expect for the allowance for attending Board meetings)	Allowance for attending Board meeting	Total
Audit Committee Members			
Total	688	70	758
Shariah Committee Members			
Total	450	90	540

Remunerations of Senior Executives

Senior Executive	Fixed remunerations				Variable Remunerations							End-of-service award	Total remunerations for Board executives, if any	Aggregate amount
	Salaries	Allowances	In-kind Benefits	Total	Periodic Remunerations	Profits	Deferred amount	Short-term incentive plans	Long-term incentive Plans	Granted shares	Total			
Total	13,280	5,603	–	18,883	–	–	1,133	6,418	–	1,964	9,514	3,272	–	31,670

Board of Directors’ declaration

The Board of Directors hereby declares that to the best of its knowledge and belief and in all material respects:

– Proper books of account have been maintained;
– The system of internal control is sound in design and has been effectively implemented;
– There are no significant doubts concerning the Bank’s ability to continue as a going concern; and
– Based on the information and data provided, there are no significant doubts concerning any contracts or activities where the Bank is a party thereof, or where the Bank’s Board of Directors, CEO, Chief Financial Officer, or any other related person has an interest in.

The Bank has worked in enhancing effective communication and transparency with all shareholders to ensure consistency and transparency of disclosures at all times. To this end the Bank has established procedures to ensure that shareholders’ suggestions and feedback relating to the Bank and its performance are well reported to the Board.

Auditors

The Extraordinary General Assembly Meeting held on April 17, 2017 appointed PricewaterhouseCoopers and KPMG Al Fozan and Partners as the Bank’s Auditors for the financial year 2017. The Auditors’ Report has stated no significant material, no none with the applicable regulations, Banking Control Law and Banks Article of Associations.

Auditors’ qualified opinion on the annual Financial Statements

The Auditors’ report shows that the Financial Statements are free of any major errors and there are no qualified opinions with respect to that.

The Board of Directors’ recommendation and reason to replace the Auditors

The Board of Directors has not recommended to replace the Auditors before the end of the period they have been assigned for.

Corporate governance in the Kingdom of Saudi Arabia

The Bank substantially complies with the Principles of Corporate Governance for Banks Operating in Saudi Arabia issued by SAMA in March 2014.

The Bank also complies with the Corporate Governance guidelines included in the Rules Governing the Companies in the Kingdom of Saudi Arabia issued by the Capital Market Authority on 16 Jumada Al Awwal 1438 H., corresponding to February 13, 2017. The Bank keeps abreast of all governance developments, and continues to update the relevant policies and procedures in the event of new or updated regulations.

Accounting Standards

On April 11, 2017, the Saudi Arabian Monetary Authority (SAMA) issued Circular No. 381000074519 with subsequent amendments regarding certain clarifications relating to the accounting for Zakat and income tax. The impact of the Circular and amendments are as follows:

- The Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from January 1, 2017; and
- Zakat and income tax are to be accrued on a quarterly basis and recognized in the Consolidated Statement of Changes in Equity with a corresponding liability recognized in the Consolidated Statement of Financial Position.

Applying the above SAMA Circular and amendments to the Framework, the Bank's Consolidated Financial Statements as of and for the year ended December 31, 2017 have been prepared using:

- International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and income tax, which requires adoption of all IFRS's 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" in so far as these relate to Zakat and income tax. As for 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
- Are in compliance with the Banking Control Law, the applicable provisions of Regulations for Companies in the Kingdom of Saudi Arabia, and the Bank's Articles of Association.

Until December 31, 2016, the Consolidated Financial Statements were prepared in accordance with the Accounting Standards for Commercial Banks promulgated by SAMA, IFRS, and IFRC. This change in framework resulted in a change in the accounting policy for Zakat and income tax.

Bank's Code of Conduct and Ethical Standards

The Bank's Ethical Standards and Code of Conduct represent a standard and a Guide for high ethical principles and professional business dealings practices. Through its Code of Conduct, the Bank is committed to instil and maintain a culture of professionalism where the utmost ethical standards prevail. The Bank's Code of Conduct is based on fundamental principles of integrity, confidentiality, and professionalism. It applies to all Directors, employees, consultants, affiliates, and any other person that may represent the Bank. The Bank operates under the governing authority of its Board of Directors, which oversees the implementation and effectiveness of the Bank's Ethical Standards and Code of Conduct.

Annual review of the effectiveness of internal control

Management is responsible for establishing and maintaining an adequate and effective internal control system across the Bank. An internal control system includes the policies, procedures, and processes, which are designed under the supervision of the Board of Directors to achieve the strategic objectives of the Bank.

The scope of the Internal Control Unit, independent from line management of the Bank, includes the assessment of the adequacy and effectiveness of the internal control system across the Bank. All significant and material findings related to internal controls are reported to the Audit Committee of the Bank. The Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interests of the Bank.

Concerted and integrated efforts are made by all functions of the Bank to strengthen the control environment at a grass root level through a continuous process of reviewing and streamlining procedures to prevent and rectify any control deficiencies. Each function, under the supervision of senior management, is entrusted with the responsibility to oversee the rectification of control deficiencies identified by Internal and External Auditors, and various control units across the Bank.

The Management of the Bank has adopted the Internal Controls Integrated Framework as recommended by the Saudi Arabian Monetary Authority through its Guidelines on Internal Controls.

The Internal Control System of the Bank has been designed to provide reasonable assurance to the Board, on the management of risks and to achieve the Bank's strategic objectives. Internal control systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies or procedures.

Based on the results through ongoing testing and assessment of controls by the Internal Control Unit of the Bank carried out during the year, Management considers that the Bank’s existing internal control system is adequate and operating effectively. For further enhancing of controls, Management continuously evaluates the internal control system of the Bank.

Based on the above, the Board has duly endorsed Management’s evaluation of the Bank’s internal control system.

Community service and sustainability

Using a formalized framework, anchored to Islamic principles of good governance and management, the Bank continues to actively work to maximize its sustainability, contribution to the community and alignment to Saudi Arabia’s Vision 2030. The Bank’s sustainability framework is defined by five key pillars that guide its operations across the business. These pillars are Takleef, Nummow, Rea'ya, Hifth, and Awn.

The Bank recognizes its important role in helping the community grow and in developing a sustainable economy; hence, our sustainability strategy is to influence all stakeholders to adhere to practices that benefit society, the economy and the nation. We have a responsibility to our communities – from providing support to employees to increase awareness on important local issues, as we strive to make a positive impact on our society.

The Bank WooW Alkhair program continues to grow with over 40 Charities participating in the program, creating a qualitative integration between the Bank and its customers in donations. In 2017, the Bank and its Customers invested over SAR 5,916,375 in the community through programs such as the King Faisal University Agricultural Project for Disabled Persons Development in Al Hasa, sponsoring events and donating to sustainable charitable causes.

From an environmental perspective, we successfully implemented our Building Management System to reduce water and electricity consumption from our various buildings. Active campaigns to recycle paper, plastics and electronic items continued throughout the year. Our Volunteers Team continued to grow with over 126 Volunteers contributing over 450 hours to various community activities in 2017.

We continue to implement programs to attract and employ young Saudi graduates and promote gender equality with a significant increase in our female workforce.

Internationally, the Bank was the first, and one of ten global Companies, to have issued a Sustainability Report using the new Global Reporting Initiative (GRI) Core Standards reporting option. Alistithmar Capital became a signatory of the United Nations Principles for Responsible Investment (UNPRI), and the Bank continued its commitment of the United Nations Global Compact universal sustainability principles.

Conclusion

It is a pleasure, once again, for the Board of Directors to express its gratitude to the Government of the Custodian of the Two Holy Mosques, and in particular to the Ministry of Finance, as well as to the Saudi Arabian Monetary Authority, the Ministry of Commerce and Investment, and the Capital Market Authority, for their continued and constructive support. The Board of Directors would also like to thank its shareholders and customers for their support and trust, this support and trust encourages us to achieve more. The Board of Directors acknowledges with appreciation the dedication and loyalty of the Bank’s officers and staff to improve the performance of the Bank in order to achieve its strategic objectives.

Ten Year Financial Highlights

(SAR in millions)	**2017**	2016	2015	2014	2013	2012	2011	2010	2009	2008
Summary of Statement of Income										
Total income	**2,792**	2,557	2,667	2,610	2,178	1,868	1,709	1,844	1,633	1,938
Total expense	**1,059**	1,051	1,033	943	762	632	628	570	556	428
Operating profit	**1,733**	1,506	1,634	1,667	1,416	1,236	1,081	1,274	1,077	1,510
Impairment charges	**322**	453	305	231	129	324	373	845	555	997
Net income	**1,411**	1,053	1,329	1,436	1,287	912	708	429	522	513
Summary of Balance Sheet										
Loans and advances, net	**59,588**	60,249	60,269	57,473	47,567	34,051	27,114	31,002	29,785	29,556
Investments, net	**21,714**	21,448	18,983	22,397	17,696	10,912	8,893	8,060	10,737	12,731
Investments in Associates	**1,020**	1,000	939	846	1,071	966	895	865	817	719
Total assets	**93,796**	93,047	93,578	93,626	80,495	59,067	51,946	51,491	50,148	53,596
Customers' deposits	**66,943**	65,640	70,518	70,733	57,044	40,414	36,770	37,215	38,247	40,702
Total equity	**14,279**	13,334	12,036	11,852	10,253	9,379	8,557	8,141	7,428	6,609
Ratios (%)										
Return on shareholders' equity	**10.72**	8.54	11.13	12.99	13.11	10.17	8.48	5.51	7.43	7.67
Return on assets	**1.51**	1.13	1.42	1.65	1.84	1.64	1.37	0.84	1.01	1.03
Capital adequacy	**20.38**	18.93	16.94	17.08	15.12	17.62	19.12	17.29	14.48	13.71
Equity to total assets	**15.22**	14.33	12.86	12.66	12.74	15.88	16.47	15.81	14.81	12.33

Consolidated Statement of Financial Position

As of December 31, 2017 and 2016

	Notes	2017 SAR '000	2016 SAR '000
Assets			
Cash and balances with SAMA	4	**5,263,438**	5,684,338
Due from banks and other financial institutions	5,34	**3,513,073**	2,302,293
Investments, net	6,34	**21,713,976**	21,447,894
Positive fair values of derivatives	11,34	**669,170**	713,340
Loans and advances, net	7,34	**59,588,284**	60,249,052
Investments in associates	8	**1,019,961**	1,000,337
Property, equipment, and intangibles, net	9	**1,002,910**	987,600
Other real estate		**718,724**	418,724
Other assets	10	**306,683**	243,833
Total assets		**93,796,219**	93,047,411
Liabilities and Equity			
Liabilities			
Due to banks and other financial institutions	12,34	**7,609,686**	8,996,716
Customer deposits	13,34	**66,942,620**	65,640,325
Negative fair values of derivatives	11,34	**116,655**	174,550
Term loans	14,34	**2,014,823**	2,032,187
Subordinated debt	15,34	**2,003,068**	2,002,373
Other liabilities	16	**830,300**	867,718
Total liabilities		**79,517,152**	79,713,869
Equity			
Share capital	17	**7,500,000**	7,000,000
Statutory reserve	18	**4,563,000**	4,210,000
Other reserves	6(f)	**204,478**	509,651
Retained earnings		**1,284,858**	826,775
Proposed dividends	26	**–**	350,000
Shares held for employee options, net	38	**(58,269)**	(62,884)
Shareholders' equity		**13,494,067**	12,833,542
Tier I Sukuk	39	**785,000**	500,000
Total equity		**14,279,067**	13,333,542
Total liabilities and equity		**93,796,219**	93,047,411

The accompanying Notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Income Statement

For the years ended December 31, 2017 and 2016

	Notes	2017 SAR '000	2016 SAR '000
Special commission income	20	**3,533,089**	3,200,609
Special commission expense	20	**1,491,029**	1,528,553
Net special commission income		**2,042,060**	1,672,056
Fee income from banking services, net	21	**412,157**	415,504
Exchange income, net		**136,772**	145,650
Dividend income	22	**19,749**	27,543
Gains on investments, net	23	**49,130**	145,112
Other operating income, net		**15**	1
Total operating income		**2,659,883**	2,405,866
Salaries and employee-related expenses	24	**579,105**	591,801
Rent and premises-related expenses		**161,980**	140,320
Depreciation and amortization	9	**92,559**	89,001
Other general and administrative expenses		**225,670**	229,420
Impairment charge for credit losses	7 (b)	**213,000**	246,000
Impairment charge for investments	6 (e)	**108,622**	207,000
Total operating expenses		**1,380,936**	1,503,542
Operating income		**1,278,947**	902,324
Share in earnings of associates	8 (b)	**131,851**	150,634
Net income		**1,410,798**	1,052,958
Basic and diluted earnings per share (expressed in SAR per share)	25	**1.88**	1.40

The accompanying Notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2017 and 2016

	Notes	2017 SAR '000	2016 SAR '000
Net income		1,410,798	1,052,958
Other comprehensive income – items that are or may be reclassified to the consolidated income statement in subsequent periods:			
Available for sale investments:			
– Net change in fair value		(254,631)	552,136
– Fair value gains transferred to consolidated income statement upon disposal		(49,130)	(57,851)
Share of other comprehensive (loss) income of associates	8 (b)	(1,412)	3,598
Total other comprehensive (loss) income		(305,173)	497,883
Total comprehensive income		1,105,625	1,550,841

The accompanying Notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2017 and 2016

		2017 SAR '000								
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Shares held for employee options, net	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the year as previously reported (Audited)		7,000,000	4,210,000	509,651	966,421	420,000	(62,884)	13,043,188	500,000	13,543,188
Effect of the retroactive application of the new Zakat and Income Tax Policy and other adjustments	41	–	–	–	(139,646)	(70,000)	–	(209,646)	–	(209,646)
Balances at the beginning of the year as restated		7,000,000	4,210,000	509,651	826,775	350,000	(62,884)	12,833,542	500,000	13,333,542
Net income		–	–	–	1,410,798	–	–	1,410,798	–	1,410,798
Total other comprehensive loss		–	–	(305,173)	–	–	–	(305,173)	–	(305,173)
Total comprehensive income (loss)		–	–	(305,173)	1,410,798	–	–	1,105,625	–	1,105,625
Foreign shareholder income tax reimbursement		–	–	–	13,332	–	–	13,332	–	13,332
Zakat for current period		–	–	–	(45,323)	–	–	(45,323)	–	(45,323)
Income tax for current period		–	–	–	(27,386)	–	–	(27,386)	–	(27,386)
Income tax for prior periods, net		–	–	–	(2,091)	–	–	(2,091)	–	(2,091)
Dividends paid	26	–	–	–	–	(350,000)	–	(350,000)	–	(350,000)
Bonus shares issued	26	500,000	–	–	(500,000)	–	–	–	–	–
Tier I Sukuk proceeds	39	–	–	–	–	–	–	–	285,000	285,000
Tier I Sukuk Costs	39	–	–	–	(38,247)	–	–	(38,247)	–	(38,247)
Transfer to statutory reserve	18	–	353,000	–	(353,000)	–	–	–	–	–
Net movement in shares held for employee options	38	–	–	–	–	–	4,615	4,615	–	4,615
Balances at the end of the year		7,500,000	4,563,000	204,478	1,284,858	–	(58,269)	13,494,067	785,000	14,279,067

The accompanying Notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2017 and 2016

		2016 SAR '000								
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Shares held for employee options, net	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the year		6,500,000	3,946,000	11,768	1,100,949	534,500	(56,755)	12,036,462	–	12,036,462
Effect of the retroactive application of the new Zakat and Income Tax Policy and other adjustments		–	–	–	(160,426)	(47,000)	–	(207,426)	–	(207,426)
Balances at the beginning of the year as restated		6,500,000	3,946,000	11,768	940,523	487,500	(56,755)	11,829,036	–	11,829,036
Net income		–	–	–	1,052,958	–	–	1,052,958	–	1,052,958
Total other comprehensive income		–	–	497,883	–	–	–	497,883	–	497,883
Total comprehensive income		–	–	497,883	1,052,958	–	–	1,550,841	–	1,550,841
Zakat for current period		–	–	–	(26,144)	–	–	(26,144)	–	(26,144)
Zakat for prior periods, net		–	–	–	141	–	–	141	–	141
Income Tax for current period		–	–	–	(7,869)	–	–	(7,869)	–	(7,869)
Income Tax for prior periods, net		–	–	–	(15,348)	–	–	(15,348)	–	(15,348)
Dividends paid	26	–	–	–	–	(487,500)	–	(487,500)	–	(487,500)
Bonus shares issued	26	500,000	–	–	(500,000)	–	–	–	–	–
Proposed dividends	26	–	–	–	(350,000)	350,000	–	–	–	–
Tier I Sukuk proceeds	39	–	–	–	–	–	–	–	500,000	500,000
Tier I Sukuk Costs	39	–	–	–	(3,486)	–	–	(3,486)	–	(3,486)
Transfer to statutory reserve	18	–	264,000	–	(264,000)	–	–	–	–	–
Net movement in shares held for employee options	38	–	–	–	–	–	(6,129)	(6,129)	–	(6,129)
Balances at the end of the year		7,000,000	4,210,000	509,651	826,775	350,000	(62,884)	12,833,542	500,000	13,333,542

The accompanying Notes 1 to 42 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the years ended December 31, 2017 and 2016

	Notes	**2017 SAR '000**	2016 SAR '000
Operating Activities			
Net income		**1,410,798**	1,052,958
Adjustments to reconcile net income to net cash used in operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		**56,903**	57,787
Net change in accrued special commission income		**(84,713)**	(348,200)
Net change in accrued special commission expense		**(85,487)**	212,457
Net change in deferred loan fees		**11,038**	10,586
Gains on investments, net	23	**(49,130)**	(145,112)
Gains on sales of property, equipment, and intangibles		**(15)**	–
Depreciation and amortization	9	**92,559**	89,001
Impairment charge for credit losses	7(b)	**213,000**	246,000
Impairment charge for investments	6(e)	**108,622**	207,000
Share in earnings of associates	8(b)	**(131,851)**	(150,634)
Share-based provisions	38	**9,948**	33,996
		1,551,672	1,265,839
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		**243,558**	(191,035)
Due from banks and other financial institutions maturing after ninety days from acquisition date		**25,663**	(20,671)
Loans and advances, net		**545,068**	78,545
Positive fair values of derivatives		**6,357**	(604,047)
Other assets		**(357,024)**	(183,793)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(1,425,465)**	3,630,290
Customer deposits		**1,381,361**	(4,999,852)
Negative fair values of derivatives		**(29,708)**	394,310
Other liabilities		**(47,937)**	54,265
Net cash provided from (used in) operating activities		**1,893,545**	(576,149)
Investing Activities			
Proceeds from sales and maturities of investments		**3,894,435**	2,230,748
Purchases of investments		**(4,561,311)**	(4,310,757)
Dividends received from associates	8(b)	**98,815**	92,917
Acquisitions of property, equipment, and intangibles	9	**(107,880)**	(55,038)
Proceeds from sales of property, equipment, and intangibles		**15**	1
Net cash used in investing activities		**(675,926)**	(2,042,129)
Financing Activities			
Zakat and Income Tax payments, net		**(35,144)**	(53,847)
Purchases of shares for employee options	38	**(17,574)**	(58,206)
Dividends paid	26	**(350,000)**	(487,500)
Repayment of term loans	14	**(1,000,000)**	(1,000,000)
Proceeds from term loans	14	**1,000,000**	1,000,000
Proceeds from Tier I Sukuk	39	**285,000**	500,000
Tier I Sukuk costs	39	**(38,247)**	(3,486)
Net cash used in financing activities		**(155,965)**	(103,039)
Net increase (decrease) in cash and cash equivalents		**1,061,654**	(2,721,317)

	Notes	2017 SAR '000	2016 SAR '000
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		**4,382,652**	7,103,969
Net increase (decrease) in cash and cash equivalents		**1,061,654**	(2,721,317)
Cash and cash equivalents at the end of the year	28	**5,444,306**	4,382,652
Supplemental special commission information			
Special commission received		**3,448,376**	2,852,409
Special commission paid		**1,573,746**	1,312,983
Supplemental non-cash information			
Total other comprehensive income		**(305,173)**	497,883
Other real estate		**300,000**	265,888
Proposed dividends	26	**–**	350,000
Bonus shares issued	26	**500,000**	500,000

The accompanying Notes1 to 42 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

1. General

The Saudi Investment Bank (the Bank), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, (corresponding to June 23, 1976) in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, (corresponding to March 16, 1977) through its 49 branches (2016: 48 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P. O. Box 3533
Riyadh 11481, the Kingdom of Saudi Arabia

These consolidated financial statements include the financial statements of the Bank and the financial statements of the following subsidiaries (collectively referred to as the "Group" in these consolidated financial statements):

(a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a Saudi closed joint stock company, is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank;

(b) "Saudi Investment Real Estate Company", a Saudi limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010268297 issued on 29 Jumada Awwal 1430H (corresponding to May 25, 2009) and is owned 100% by the Bank. The Company has not commenced any significant operations;

(c) "Saudi Investment First Company", a Saudi limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014) and is owned 100% by the Bank. The Company has not commenced any significant operations; and

(d) "SAIB Markets Limited Company", a Cayman Islands limited liability company, registered in the Cayman Islands on July 18, 2017, and is 100% owned by the Bank. The objective of the Company is to conduct derivatives and repurchase activities on behalf of the Bank. The Company has not commenced significant operations.

The Bank offers a full range of commercial and retail banking services. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory, and custody services relating to financial securities. The Group also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board.

References to the "Bank" hereafter in these consolidated financial statements refer to disclosures that are relevant only to The Saudi Investment Bank, and not collectively to the "Group".

2. Basis of preparation

(a) Statement of compliance

On April 11, 2017, the Saudi Arabian Monetary Authority (SAMA) issued Circular No. 381000074519 with subsequent amendments regarding certain clarifications relating to the accounting for Zakat and Income tax. The impact of the Circular and amendments are as follows:

- The accounting standards for commercial banks promulgated by SAMA are no longer applicable from January 1, 2017; and
- Zakat and Income Tax are to be accrued on a quarterly basis and recognized in the consolidated statement of changes in equity with a corresponding liability recognized in the consolidated statement of financial position.

Applying the above SAMA Circular and amendments to the Framework, these consolidated financial statements as of and for the year ended December 31, 2017 have been prepared using:

- International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and Income Tax, which requires adoption of all IFRSs as issued by the International Accounting Standards Board (IASB) except for the application of International Accounting Standard (IAS) 12 – "Income Taxes" and IFRIC 21 – "Levies" in so far as these relate to Zakat and Income Tax. As for 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
- Are in compliance with the Banking Control Law, the applicable provisions of regulations for companies in the Kingdom of Saudi Arabia, and the Bank's Articles of Association

Until December 31, 2016, the consolidated financial statements were prepared in accordance with the accounting standards for commercial banks promulgated by SAMA, IFRS, and IFRIC. This change in framework resulted in a change in the accounting policy for Zakat and Income Tax, as disclosed in Note 3. The effects of this change are disclosed in Notes 27 and 41.

(b) Basis of measurement

These consolidated financial statements are prepared under the historical cost basis except for the following items in the consolidated statement of financial position:

(a) Assets and liabilities held for trading are measured at fair value;

(b) Financial instruments designated as fair value through the consolidated income statement are measured at fair value;

(c) Available for sale investments are measured at fair value;

(d) Derivatives are measured at fair value;

(e) Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged; and

(f) Cash settled share-based payments are measured at fair value.

During the years ended December 31, 2017 and 2016, the Group had no assets or liabilities which were held as trading, except for certain derivative financial instruments. The statement of financial position is stated broadly in order of liquidity.

(c) Functional and presentation currency

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

(d) Critical accounting judgements, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires Management to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future, as well as other key sources of estimation uncertainty at the reporting date, that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available at the date of statement of financial position. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are included in the assumptions when they occur.

Significant areas where Management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment for losses on loans and advances

The Group reviews its loan portfolios to assess specific and collective impairment at each reporting date. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating an impairment trigger and followed by a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows.

The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The assessment considers risk concentrations and economic data, including levels of unemployment, real estate price indices, country risk, and the performance of different individual groups.

(ii) Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each consolidated statement of financial position date, except as disclosed in Note 34.

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

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

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

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

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

Level 1. Quoted prices in active markets for the identical instrument that an entity can access at the measurement date (i.e., without modification or proxy);

Level 2. Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

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

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

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted available for sale financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External valuers are involved from time to time for the valuation of certain assets. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained.

At each reporting date, the Group analyzes the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

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

The Group exercises its judgement in considering any impairment on the available for-sale-equity and debt investments at each reporting date.

For equity investments, this includes a determination of a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline in fair value is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In making this judgement, the Group evaluates among other factors, the normal volatility in share/debt price. In addition, the Group considers impairment to be appropriate when there is objective evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Bank reviews its debt securities classified as available for sale at each reporting date to assess whether they may be impaired. This requires similar judgement as applied to the individual assessments of loans and advances.

(iv) Classification of held to maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturities as held to maturity in accordance with IAS 39. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to retain these investments to maturity other than in specific circumstances, including selling close to maturity or for an insignificant amount, the

Group reclassifies the entire class as available for sale. As of December 31, 2017 and 2016, the Bank has no held to maturity investments.

(v) Determination of control over investees

The control indicators set out in Note 3 (b) are subject to Management's judgement. The Group also acts as Fund Manager to several investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated the financial statements of these funds.

(e) Going concern

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

(f) Provisions for liabilities and charges

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

(g) Employee benefit plans

The Group provides post employment end of service benefits to its employees based on the Saudi Arabia Labor and Workmen Law. The liability is provided based on a projected unit credit method in accordance with the periodic actuarial valuations as described in Note 38 (b).

3. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. Except for the change in accounting policies resulting from new and or amended IFRS and IFRIC guidance as detailed in Note 3 (a) below, the accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2016.

(a) Change in accounting policies

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended December 31, 2016, as described in the annual consolidated financial statements for the year ended December 31, 2016, except for the change in accounting policy of Zakat and tax mentioned below and adoption of the following amendments to existing standards mentioned below:

- Amendments to IASs – "Disclosure Initiative" applicable from January 1, 2017.
- Amendments to IAS 7 – "Statement of Cash Flows", which is applicable for annual periods beginning on or after January 1, 2017.

These amendments are part of the IASB's Disclosure Initiative, which continues to explore how financial statements disclosures can be improved. The adoption of the above amendments to existing standards have not had a significant impact on the current year consolidated financial statements.

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 adoption for the accounting years beginning on or after January 1, 2018 (see Note 40).

As described in Note 2, the Group amended its accounting policy relating to Zakat and Income Tax effective on January 1, 2017. The effect of the new Zakat and Income Tax Policy is accounted for in these consolidated financial statements retroactively. The superceded Zakat and Income Tax Policy required only payments of Zakat and Income Tax to be recorded as an other asset until such amounts were reimbursed by a Bank's shareholders either through cash payments or by withholding the amounts from shareholder dividend payments. In addition, the superceded Zakat and Income Tax Standard did not require the accrual of Zakat and Income Tax in other liabilities. The new Zakat and Income Tax Policy requires both payments of Zakat and Income Tax previously included in other assets, and also accruals for Zakat and Income Tax on a quarterly basis to be included in other liabilities, with the corresponding amounts to be accounted for as a direct charge to retained earnings. See Notes 27 and 41 for further disclosures.

The adoption of the above amendments to existing standards have had no significant impact on the consolidated financial statements of the Group in the current year or prior years and is also expected to have an insignificant effect in future years.

(b) Basis of consolidation

These consolidated financial statements are comprised the financial statements of the Bank and its subsidiaries as identified in Note 1. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

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

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee. The financial statements of any such structured entities are consolidated from the date the Group gains control and until the date when the Group ceases to control the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect amount of its returns.

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

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights granted by equity instruments such as shares.

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

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

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

These consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

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

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

(c) Investments in associates

Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank has significant influence (but not control) over financial and operating matters and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Share in earnings of associates includes the changes in the Group's share of the net assets of the associates. The Group's share of its associates post-acquisition income or losses is recognized in the consolidated income statement and its share of post-acquisition movements in other comprehensive income is recognized in other reserves included in shareholders' equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Bank's interest in the associates.

The consolidated income statement reflects the Group's share of the results of operations of the associates. When there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in shareholders' equity. Unrealized gains on transactions are eliminated to the extent of the Group's interest in the investees. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The Group's share of earnings in an associate is shown on the face of the consolidated income statement, which represents the net earnings attributable to equity holders of an associate and therefore income after tax and Zakat and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the share in earnings of associates in the consolidated income statement.

(d) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(e) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are initially recognized at fair value on the date on which the derivatives contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position with transaction costs recognized in the consolidated income statement. All derivatives are carried at their fair value as assets where the net fair value is positive and as liabilities where the net fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow methods, and pricing models as appropriate.

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

(i) Derivatives held for trading

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

(ii) Embedded derivatives

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

(iii) Hedge accounting

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

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

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

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

iii (a) Fair value hedges

When a derivative is designated as a hedging instrument in the hedge of a change in fair value of a recognized asset or liability or a firm commitment that could affect the consolidated income statement, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the consolidated income statement together with the change in the fair value of the hedged item attributable to the hedged risk in special commission income.

For hedged items measured at amortized cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated income statement.

iii (b) Cash flow hedges

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

Where the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time such asset or liability is recognized, the associated gains or losses that had previously been recognized directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

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

(f) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the 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 consolidated statement of financial position date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for effective interest rates and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non-operating income in the consolidated income statement, with the exception of differences of foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement except for differences arising on the retranslation of available for sale equity instruments or when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment on investment securities available for sale, unless the non-monetary items have an effective hedging strategy.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

(g) Offsetting financial instruments

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

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

(h) Revenue/expense recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

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

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

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognized on the effective yield basis, based on the asset's carrying value net of impairment provisions.

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

Exchange income/loss is recognized when earned/incurred and in accordance with the principles included in Note 3 (f).

Fees that are considered as integral to the effective commission rate are deferred and included in the measurement of the relevant assets.

Fees from banking services that are not an integral component of the effective yield calculation on a financial asset or liability are generally recognized on an accrual basis when the related service is provided.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.

Fees received on asset management, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.

Performance linked fees or fee components are recognized when the performance criteria is fulfilled.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred, together with the investment costs, and recognized as on adjustment to the effective yield rate on the loan. When a loan commitment is not expected to result in the draw down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, and are recognized as expenses as the services are received or the transaction is completed.

Dividend income is recognized when the right to receive payment is established. Dividends are reflected as a component of net trading income, net income from FVIS financial instruments or other operating income based on the underlying classification of the equity instrument.

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

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

(i) Repurchase agreements and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership, and are measured in accordance with related accounting policies for investments held as available for sale. The transactions are treated as a collateralized borrowing and the counterparty liability for amounts received under these agreements is included in due to banks and other financial institutions or customer deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and recognized over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognized in the consolidated statement of financial position, as the Group does not obtain control over the underlying assets. Amounts paid under these agreements are included in cash and balances with SAMA. The difference between the purchase and resale price is treated as special commission income and recognized over the life of the reverse repurchase agreement on an effective yield basis.

(j) Investments

All investment securities are initially recorded at fair value, including any incremental direct transaction cost. Premiums are amortized and discounts are accreted using the effective yield basis and are taken to special commission income.

For securities traded in established financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date. Fair values of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximates the fair value.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets or reference prices, 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 judgement 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.

(i) Available for sale

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

Investments which are classified as available for sale are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at fair value, except for unquoted equity securities where fair value cannot be reliably measured which are carried at cost. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized in other comprehensive income. On derecognition or impairment, any cumulative gain or loss previously recognized in other comprehensive income is reclassified in the consolidated income statement.

Special commission income is recognized in the consolidated income statement on an effective yield basis. Dividend income is recognized in the consolidated income statement when the right to receive payment is established. Foreign exchange gains or losses on available for sale debt security investments are recognized in the consolidated income statement.

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

(ii) Held to maturity

Investments having fixed or determinable payments and a fixed maturity and for which the Group has a 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 are 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. Any gain or loss on such investments is recognized in the consolidated income statement when the investment is derecognized or impaired.

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

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

(k) Loans and advances

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

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances.

All loans and advances are classified as held at amortized cost. Loans and advances originated or acquired by the Group that are not quoted in an active market, and for which fair value has not been hedged, are stated at amortized cost using an effective commission rate, less any amount written off and allowance for credit losses.

(l) Impairment of financial assets

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

The Group considers evidence of impairment for loans and advances and held to maturity investments at both a specific and collective level. When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to the consolidated income statement or through a provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor'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 income statement and included in the relevant impairment charges.

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

Loans and advances are generally renegotiated either as part of an ongoing customer relationship, and possibly in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission. This may result in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal may not recover the original carrying amount of the loan. In other cases, renegotiation may lead to a new agreement, and accordingly the agreement is treated as a new loan.

(i) Impairment of financial assets held at amortized cost

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

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

In addition to specific provisions for credit losses, provisions for collective impairment are made on a portfolio basis. The collective impairment provisions are estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions.

For financial assets at amortized cost, the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the consolidated income statement.

(ii) Impairment of available for sale financial assets

For debt instruments classified as available for sale, the Group 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 income statement.

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

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. Determining the amount of a significant or prolonged decline in fair value requires judgement. The impairment loss cannot be reversed through the consolidated income statement 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 other comprehensive income. On derecognition, any cumulative gain or loss previously recognized in equity is included in the consolidated income statement.

(m) Impairment of non-financial assets

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

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

Impairment losses relating to goodwill are not reversed in future periods.

(n) Other real estate

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

Subsequent to initial recognition, any subsequent write-down to fair value, less costs to sell, are charged to the consolidated income statement. Any subsequent 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 together with any gain/ loss on disposal in the consolidated income statement.

(o) Property, equipment, and intangibles

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

Buildings	20 to 30 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Intangibles	8 years
Furniture, equipment and vehicles	4 to 5 years

The assets' residual values, useful lives, and depreciation or amortization methods are reviewed and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated income statement.

Other expenditures are capitalized only when it is probable that the future economic benefit of the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed when incurred.

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

(p) Financial liabilities

All money market deposits, customer deposits, term loans, subordinated debt, and other debt securities in issue are initially recognized at fair value less transaction costs.

Subsequently all commission-bearing financial liabilities other than those where fair values have been hedged are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

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

(q) Financial guarantees

A financial guarantee contract generally requires the issuer of the contract to make specific payments to the contract holder for a loss incurred by the holder if a debtor fails to pay under the terms of a debt instrument.

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

(r) Provisions

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

(s) Accounting for leases

Leases entered into by the Group as a lessee, are classified as operating leases because the leases do not transfer all risks and rewards of ownership. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

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

The Group also evaluates any non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

(t) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with a maturity of ninety days or less from the date of acquisition which are also subject to insignificant risk of changes in their fair value.

(u) Derecognition of financial instruments

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

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

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 either discharged, cancelled, or expired.

(v) Zakat and income tax

Zakat and Income Taxes are accrued and included in other liabilities and charged directly to retained earnings as required by SAMA Circular No. 381000074519 issued in April 2017.

(w) Employees' incentive and savings plans

The Bank offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("the Plan"). This Plan has been approved by SAMA. Under the terms of the Plan, employees are granted shares which vest over a four-year period. The cost of the Plan is measured by the value of the shares on the date purchased and recognized over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee share option schemes are recorded by the Bank at fair value at grant date. The shares acquired for the share option schemes are recorded at cost and are presented as a deduction from shareholders' equity as adjusted for any transaction costs, dividends, and gains or losses on sales of such shares.

The Group also offers to its employees an Employee Contributory Share Option Plan. The Plan entitles eligible employees to acquire shares in the Bank based on a pre-determined subscription price at the beginning of the Plan period. Over a two-year period, employees contribute to the purchase of the shares through monthly payroll deductions. At the end of the subscription period, according to the Plan, employees are granted the subscribed shares. Should the share price at the end of the subscription period fall below the subscription price, the employees are reimbursed for the difference between the share price and the subscription price.

In addition, the Group grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Group and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan.

(x) Other employees' benefits

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

The liability for the Group's employee's post-employment end of service benefits is determined based on an actuarial valuation conducted by an independent actuary, taking into account the provisions of the Saudi Arabian Labor and Workman's Law. The liability for other long-term employees' benefit plans are also based on an actuarial valuation conducted by an independent actuary taking into account the respective terms of the individual benefit plans.

(y) Asset management services

The Group offers asset management services to its customers, which include management of certain investment funds in consultation with professional investment advisors. The Group's share of these funds is included in available for sale investments and fees earned are included in fee income from banking services, net.

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

(z) Non-interest based banking products

In addition to conventional banking, the Group offers to its customers certain non-interest based banking products, which are approved by its Shariah Board.

High level definitions of non-interest based products include:

i. Murabaha – an agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.
ii. Istisna'a – an agreement between the Group and a customer whereby the Group sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.
iii. Ijarah – an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

All non-special interest based banking products are accounted for in conformity with the accounting policies described in these consolidated financial statements.

4. Cash and balances with SAMA

Cash and balances with SAMA are summarized as follows:

	2017 SAR '000	2016 SAR '000
Cash on hand	725,972	881,498
Reverse repurchase agreements with SAMA	1,282,000	1,220,000
Other balances with SAMA	(76,739)	7,077
Subtotal (Note 28)	1,931,233	2,108,575
Statutory deposit with SAMA	3,332,205	3,575,763
Total	5,263,438	5,684,338

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

5. Due from banks and other financial institutions

Due from banks and other financial institutions are summarized as follows:

	2017 SAR '000	2016 SAR '000
Current accounts	913,181	401,900
Money market placements	2,599,892	1,900,393
Total	3,513,073	2,302,293

The credit quality of due from banks and other financial institutions is managed using data from reputable external credit ratings agencies. The average S&P rating for the portfolio is an investment grade of "A" for 2017 and 2016.

6. Investments, net

(a) Available for sale investment securities are classified as follows:

	2017 SAR '000			2016 SAR '000		
	Domestic	International	Total	Domestic	International	Total
Fixed rate securities	9,196,031	7,761,445	16,957,476	7,202,134	7,984,702	15,186,836
Floating rate securities	1,465,551	2,573,706	4,039,257	1,851,318	3,228,178	5,079,496
Total commission earning investments	10,661,582	10,335,151	20,996,733	9,053,452	11,212,880	20,266,332
Equities	453,794	54,919	508,713	945,860	71,887	1,017,747
Mutual funds	212,530	–	212,530	167,815	–	167,815
Total available for sale	11,327,906	10,390,070	21,717,976	10,167,127	11,284,767	21,451,894
Allowance for impairment	–	(4,000)	(4,000)	–	(4,000)	(4,000)
Available for sale, net	11,327,906	10,386,070	21,713,976	10,167,127	11,280,767	21,447,894

Investments include SAR 3.0 billion (2016: SAR 4.4 billion), which have been pledged under repurchase agreements with other financial institutions. The market value of these investments is SAR 3.0 billion (2016: SAR 4.4 billion). See Note 19 (d).

The net cost of the available for sale investment securities before allowance for impairment as of December 31, 2017 is SAR 21.5 billion (2016: SAR 20.9 billion).

6. Investments, net (Continued)

(b) The composition of available for sale investments is as follows:

	2017 SAR '000			2016 SAR '000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**11,025,277**	**5,932,199**	**16,957,476**	9,518,103	5,668,733	15,186,836
Floating rate securities	**2,116,001**	**1,923,256**	**4,039,257**	2,770,765	2,308,731	5,079,496
Total commission earning investments	**13,141,278**	**7,855,455**	**20,996,733**	12,288,868	7,977,464	20,266,332
Equities	**449,151**	**59,562**	**508,713**	942,110	75,637	1,017,747
Mutual funds	**212,530**	**–**	**212,530**	167,815	–	167,815
Total available for sale	**13,802,959**	**7,915,017**	**21,717,976**	13,398,793	8,053,101	21,451,894
Allowance for impairment	**–**	**(4,000)**	**(4,000)**	–	(4,000)	(4,000)
Available for sale, net	**13,802,959**	**7,911,017**	**21,713,976**	13,398,793	8,049,101	21,447,894

The unquoted securities above are principally comprised of Saudi Government Development Bonds, and certain Saudi corporate securities. Equities reported under available for sale investments include unquoted shares of SAR 13.3 million (2016: SAR 12.4 million) that are carried at cost, as their fair value cannot be reliably measured. Mutual funds are considered as quoted in the table above as daily net asset values are published on the Saudi Stock Exchange (Tadawul).

(c) Available for sale investments, net are classified by counterparty as follows:

	2017 SAR '000	2016 SAR '000
Government and quasi-government	**12,457,770**	10,169,143
Corporate	**3,354,035**	3,116,054
Banks and other financial institutions	**5,902,171**	8,162,697
Available for sale investments, net	**21,713,976**	21,447,894

(d) The credit risk exposure of available for sale investments, net is as follows:

	2017 SAR '000	2016 SAR '000
Investment grade	**18,836,442**	17,682,772
Non-investment grade	**1,109,997**	1,012,726
Unrated	**1,046,294**	1,566,834
Subtotal	**20,992,733**	20,262,332
Equities and mutual funds	**721,243**	1,185,562
Available for sale investments, net	**21,713,976**	21,447,894

Investment grade securities generally have a minimum external rating from approved rating agencies including Standard and Poors (BBB-), Moodys (Baa3), or Fitch (BBB-). Unrated investment securities primarily include Saudi corporate securities and other private equity fund investments.

6. Investments, net (Continued)

(e) The movement of the allowance for impairment on available for sale investments is as follows:

	2017 SAR '000	2016 SAR '000
Balance at the beginning of the year	**4,000**	114,000
Impaired during the year	**108,622**	207,000
Reversals for realized losses during the year	**(108,622)**	(317,000)
Balance at the end of the year	**4,000**	4,000

(f) Other reserves classified in shareholders' equity are comprised of the following:

	2017 SAR '000	2016 SAR '000
Unrealized gains on revaluation of available for sale investments, net	**204,298**	508,059
Share of other comprehensive income of Associates	**180**	1,592
Other reserves	**204,478**	509,651

7. Loans and advances, net

(a) Loans and advances, net held at amortized cost are comprised of the following:

	2017 SAR '000				
	Overdraft	**Consumer**	**Commercial**	**Others**	**Total**
Performing loans and advances	**3,449,960**	**16,599,693**	**39,514,262**	**326,002**	**59,889,917**
Non-performing loans and advances	**404,739**	**242,195**	**126,214**	**–**	**773,148**
Total loans and advances	**3,854,699**	**16,841,888**	**39,640,476**	**326,002**	**60,663,065**
Allowance for credit losses	**(316,155)**	**(408,099)**	**(350,193)**	**(334)**	**(1,074,781)**
Loans and advances, net	**3,538,544**	**16,433,789**	**39,290,283**	**325,668**	**59,588,284**

	2016 SAR '000				
	Overdraft	Consumer	Commercial	Others	Total
Performing loans and advances	3,240,106	16,566,115	40,067,704	300,358	60,174,283
Non-performing loans and advances	854,976	214,637	–	–	1,069,613
Total loans and advances	4,095,082	16,780,752	40,067,704	300,358	61,243,896
Allowance for credit losses	(241,255)	(380,298)	(373,080)	(211)	(994,844)
Loans and advances, net	3,853,827	16,400,454	39,694,624	300,147	60,249,052

Loans and advances above include non-interest based banking products including Murabaha agreements, Istisna'a and Ijarah which are stated at an amortized cost of SAR 37.3 billion (2016: SAR 37.1 billion).

The Group in the ordinary course of lending activities holds collateral as security to mitigate credit risk on its loans and advances. The collateral includes customer deposits, financial guarantees, securities, real estate, and other assets. The collateral is managed against relevant exposures at their net realizable values. The estimated fair value of collateral held by the Group as security for total loans and advances is approximately SAR 44.7 billion (2016: SAR 44.2 billion).

The estimated fair value of collateral held by the Group as security for non-performing loans and advances as of December 31, 2017 is approximately SAR 0.6 billion (2016: SAR 1.3 billion).

7. Loans and advances, net (Continued)

(b) The movement in the allowance for credit losses is as follows:

	Overdraft, commercial and others SAR '000		
	Specific	Collective	Total
December 31, 2015 balances	240,093	321,700	561,793
Provided during the year	4,894	68,591	73,485
Bad debts written off during the year	(14,294)	(7,000)	(21,294)
Recoveries during the year	–	562	562
December 31, 2016 balances	230,693	383,853	614,546
Provided during the year	**118,026**	**(10,324)**	**107,702**
Bad debts written off during the year	**(43,126)**	**(12,440)**	**(55,566)**
Recoveries during the year	**–**	**–**	**–**
December 31, 2017 balances	**305,593**	**361,089**	**666,682**

	Consumer SAR '000		
	Specific	Collective	Total
December 31, 2015 balances	142,741	134,182	276,923
Provided during the year	141,036	31,479	172,515
Bad debts written off during the year	(156,565)	–	(156,565)
Recoveries during the year	87,425	–	87,425
December 31, 2016 balances	214,637	165,661	380,298
Provided during the year	**105,055**	**243**	**105,298**
Bad debts written off during the year	**(163,189)**	**–**	**(163,189)**
Recoveries during the year	**85,692**	**–**	**85,692**
December 31, 2017 balances	**242,195**	**165,904**	**408,099**

(c) The credit quality of loans and advances is summarized as follows:

(i) Neither past due nor impaired loans and advances, are as follows:

	2017 SAR '000	2016 SAR '000
Excellent	**5,106,586**	1,552,946
Strong	**8,270,575**	16,166,513
Average	**13,840,569**	14,654,462
Acceptable	**9,052,186**	8,668,615
Marginal	**2,209,452**	1,777,846
Watch	**76,406**	170,386
Unrated	**18,158,645**	16,474,099
Total	**56,714,419**	59,464,867

7. Loans and advances, net (Continued)

The loans and advances that are neither past due nor impaired are described as follows:

Excellent – leader in a stable industry. Better than peers' financials and cash flows. Has access to financial markets under normal market conditions.

Strong – strong market and financial position with a history of successful performance but certain exceptions exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal conditions.

Average – moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound and within industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

Acceptable – minor weaknesses in industry or company specific risk factors. Some financial fundamentals are inferior to industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal – unfavorable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

Watch – unfavorable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances primarily consist of consumer and other retail loans with no past due balances.

(ii) Past due but not impaired loans and advances, are as follows:

	2017 SAR '000		
	Overdraft and commercial	**Consumer**	**Total**
From 1 day to 30 days	**18,957**	**336,311**	**355,268**
From 31 days to 90 days	**974,787**	**66,842**	**1,041,629**
From 91 days to 180 days	**179,280**	**–**	**179,280**
More than 180 days	**1,599,321**	**–**	**1,599,321**
Total	**2,772,345**	**403,153**	**3,175,498**

	2016 SAR '000		
	Overdraft and commercial	Consumer	Total
From 1 day to 30 days	95,695	58,590	154,285
From 31 days to 90 days	79,299	33,426	112,725
From 91 days to 180 days	60,193	–	60,193
More than 180 days	382,213	–	382,213
Total	617,400	92,016	709,416

The estimated fair value of collateral held by the Group for past due but not impaired overdraft and commercial facilities included above is SAR 5.8 billion (2016: SAR 4.4 billion).

7. Loans and advances, net (Continued)

(iii) The economic sector risk concentrations for loans and advances and allowance for credit losses are as follows:

	2017 SAR '000			
	Performing	**Non-performing**	**Allowance for credit losses**	**Loans and advances, net**
Government and quasi-government	**282,342**	**–**	**(900)**	**281,442**
Banks and other financial services	**7,701,368**	**27,065**	**(67,871)**	**7,660,562**
Agriculture and fishing	**20,081**	**–**	**(189)**	**19,892**
Manufacturing	**5,829,380**	**143,395**	**(144,277)**	**5,828,498**
Mining and quarrying	**1,120,203**	**–**	**(6,193)**	**1,114,010**
Building and construction	**4,499,483**	**148,304**	**(62,126)**	**4,585,661**
Commerce	**16,481,723**	**159,720**	**(237,166)**	**16,404,277**
Transportation and communication	**1,799,162**	**45,112**	**(46,583)**	**1,797,691**
Services	**2,303,587**	**236**	**(18,566)**	**2,285,257**
Consumer loans	**16,599,693**	**242,195**	**(408,099)**	**16,433,789**
Other	**3,252,895**	**7,121**	**(82,811)**	**3,177,205**
Total	**59,889,917**	**773,148**	**(1,074,781)**	**59,588,284**

	2016 SAR '000			
	Performing	Non-performing	Allowance for credit losses	Loans and advances, net
Government and quasi-government	306,337	–	(1,423)	304,914
Banks and other financial services	4,832,040	27,065	(60,413)	4,798,692
Agriculture and fishing	31,647	–	(227)	31,420
Manufacturing	5,942,565	1,727	(56,146)	5,888,146
Mining and quarrying	926,717	–	(6,729)	919,988
Building and construction	5,462,599	559,191	(57,187)	5,964,603
Commerce	11,205,053	202,015	(252,583)	11,154,485
Transportation and communication	1,458,815	45,112	(47,351)	1,456,576
Services	1,874,675	12,742	(32,607)	1,854,810
Consumer loans	16,566,115	214,637	(380,298)	16,400,454
Other	11,567,720	7,124	(99,880)	11,474,964
Total	60,174,283	1,069,613	(994,844)	60,249,052

8. Investments in associates

Investments in associates represent the Bank's share of investments in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting.

(a) Investments in associates include the Bank's ownership interest in associated companies in the Kingdom of Saudi Arabia, as follows:

	2017 %	2016 %
American Express Saudi Arabia ("AMEX")	**50**	50
Saudi Orix Leasing Company ("ORIX")	**38**	38
Amlak International for Finance and Real Estate Development Co. ("AMLAK")	**32**	32

AMEX is a Saudi Arabian closed joint stock company in Saudi Arabia with total capital of SAR 100 million. The principal activities of AMEX are to issue credit cards and offer other American Express products in Saudi Arabia.

ORIX is a Saudi Arabian closed joint stock company in Saudi Arabia with total capital of SAR 550 million. The primary business activities of ORIX include lease financing services in Saudi Arabia.

AMLAK is a Saudi Arabian closed joint stock company in Saudi Arabia with total capital of SAR 900 million. AMLAK offers real estate finance products and services in Saudi Arabia.

All of the Group's associates are incorporated in and operate exclusively in Saudi Arabia.

(b) The movement of investments in associates is summarized as follows:

	2017 SAR '000	2016 SAR '000
Balance at beginning of the year	**1,000,337**	939,022
Share of earnings	**131,851**	150,634
Dividends	**(98,815)**	(92,917)
Share of other comprehensive (loss) income	**(1,412)**	3,598
Write off	**(12,000)**	–
Balance at end of the year	**1,019,961**	1,000,337

(c) The Bank's share of the associates' financial statements is summarized below:

	2017 SAR '000			2016 SAR '000		
	AMEX	**ORIX**	**AMLAK**	AMEX	ORIX	AMLAK
Total assets	**393,775**	**504,807**	**1,072,234**	421,897	605,502	1,059,981
Total liabilities	**181,021**	**176,590**	**695,600**	226,629	286,874	694,807
Total equity	**212,754**	**328,217**	**376,634**	195,268	318,628	365,174
Total income	**199,774**	**57,487**	**59,177**	210,397	72,817	61,880
Total expenses	**116,237**	**38,450**	**25,807**	119,763	52,578	26,744

One of the associate companies above has a potential additional Zakat liability as of December 31, 2017. If the method of the Zakat assessment by the General Authority for Zakat and Tax is upheld through all levels of the appeal process, the Group has agreed with the associate company that it is unconditionally liable for its share amounting to approximately SAR 97.6 million (2016: SAR 63.6 million).

9. Property, equipment, and intangibles, net

Property, equipment, and intangibles net is summarized as follows:

	2017 and 2016 SAR '000					
	Land and buildings	**Leasehold improvements**	**Furniture, equipment and vehicles**	**Intangibles**	**Total 2017**	Total 2016
Cost						
Balance at the beginning of the year	991,128	130,506	419,871	228,639	1,770,144	1,715,140
Additions	17,915	15,219	48,291	26,455	107,880	55,038
Disposals	–	–	(135)	–	(135)	(34)
Balance at the end of the year	1,009,043	145,725	468,027	255,094	1,877,889	1,770,144
Accumulated depreciation and amortization						
Balance at the beginning of the year	263,795	85,560	327,397	105,792	782,544	693,576
Charge for the year	32,198	16,093	24,060	20,208	92,559	89,001
Disposals	–	–	(124)	–	(124)	(33)
Balance at the end of the year	295,993	101,653	351,333	126,000	874,979	782,544
Net book value						
As of December 31, 2017	713,050	44,072	116,694	129,094	1,002,910	
As of December 31, 2016	727,333	44,946	92,474	122,847	–	987,600

Intangibles include information technology-related assets.

10. Other assets

Other assets are summarized as follows:

	2017 SAR '000	2016 SAR '000
Customer receivables	67,442	12,912
Property, equipment, and intangibles costs pending completion	122,769	102,273
Prepaid expenses	92,601	104,287
All other assets	23,871	24,361
Total	306,683	243,833

The other asset balances as of December 31, 2016 presented above have been restated to reflect the effect of the retroactive application of the new Zakat and Income Tax policy as discussed in Notes 2, 3, 27 and 41.

11. Derivatives

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

(a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging notional amounts. For cross-currency special commission rate swaps, notional amounts, and fixed and floating special commission payments are exchanged in different currencies. The notional amounts can also vary based upon the agreed terms in the case of variable notional swaps.

(b) Forwards and futures

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

(c) Forward rate agreements

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

(d) Options

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

The derivative financial instruments utilized are either held for trading or held for hedging purposes as described below:

(a) Held for trading purposes

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

(b) Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. The risk management process involves managing the Bank's exposure to fluctuations in currency and special commission rate risks to acceptable levels as determined by the Board of Directors and within the guidelines issued by SAMA.

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

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to optimize its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions. The Bank uses forward foreign exchange contracts to also apply various hedging strategies against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission-rate exposures.

11. Derivatives (Continued)

The tables below summarize the positive and negative fair values of derivative financial instruments, together with the notional amounts, analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at each year-end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts are not indicative of the Bank's exposure to credit risk which is generally limited to the net positive fair values of derivatives, nor market risk.

The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company, the estimated value of which is included in the table below. The terms of the agreement give the Bank a put option and give the counterparty a call option that is exercisable from 2013 onwards for the remaining term of the agreement. The Bank has valued only the put option, as the call option is deemed to be out of the money. The put option, once exercised, grants the Bank the right to receive a payment in exchange for its shares one year after the exercize, based on pre-determined formulas included in the agreement.

The positive and negative fair values of derivative financial instruments as of December 31, 2016 have been adjusted to primarily reflect the netting of such amounts consistent with the December 31, 2017 presentation. Derivative financial instruments are summarized as follows:

				Notional amounts by term to maturity				
	2017 SAR '000							
	Positive fair value	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Forward foreign exchange contracts	**36,689**	**25,403**	**6,114,481**	**2,360,556**	**3,219,507**	**534,418**	**–**	**7,696,867**
Foreign exchange options	**12,407**	**12,407**	**1,484,679**	**236,697**	**398,522**	**849,460**	**–**	**1,501,408**
Commission rates swaps	**154,306**	**56,431**	**12,270,252**	**–**	**–**	**11,270,499**	**999,753**	**10,991,357**
Held as fair value hedges:								
Commission rate swaps	**30,347**	**22,414**	**7,617,063**	**–**	**–**	**2,737,792**	**4,879,271**	**6,823,156**
Associated company put option	**435,421**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**669,170**	**116,655**	**27,486,475**	**2,597,253**	**3,618,029**	**15,392,169**	**5,879,024**	**27,012,788**

				Notional amounts by term to maturity				
	2016 SAR '000							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	82,847	53,125	9,464,413	3,802,674	4,028,717	1,633,022	–	6,548,332
Foreign exchange options	25,256	25,256	1,648,630	161,570	752,380	734,680	–	1,951,432
Commission rates swaps	96,297	58,094	6,788,527	–	70,000	5,998,527	720,000	5,540,097
Held as fair value hedges:								
Commission rate swaps	73,519	38,075	4,521,160	393,960	–	600,320	3,526,880	3,689,705
Associated company put option	435,421	–	–	–	–	–	–	–
Total	713,340	174,550	22,422,730	4,358,204	4,851,097	8,966,549	4,246,880	17,729,566

11. Derivatives (Continued)

The table below is a summary of the Bank's fair value hedges and hedged portfolios as of December 31, 2017 and 2016, which includes the description of the hedged items and related fair values, the nature of the risk being hedged, and the hedging instruments and related fair values.

	December 31, 2017 SAR '000					
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument use	Positive fair value	Negative fair value
Fixed commission rate investments	7,687,135	7,636,736	Fair value risk	Commission rate swaps	30,347	22,414

	December 31, 2016 SAR '000					
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument use	Positive fair value	Negative fair value
Fixed commission rate investments	4,565,447	4,063,916	Fair value risk	Commission rate swaps	73,519	38,075

The net gains during the year on hedging instruments for fair value hedges were SAR 44.4 million (2016: gains of SAR 91.2 million). The net losses on hedged items attributable to hedged risk were SAR 44.3 million (2016: losses of SAR 90.8 million). The net positive fair value of all derivatives is approximately SAR 552.5 million (2016: SAR net positive 538.8 million). Approximately 68% (2016: 71%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and 19% (2016: 19%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivative Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Group are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Group to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Bank or the counterparty. As of December 31, 2017, the net cash collateral amounts held by counterparties totals SAR 5.7 million (2016: net cash collateral held by the Bank totals SAR 46.7 million).

12. Due to banks and other financial institutions

Due to banks and other financial institutions is summarized as follows:

	2017 SAR '000	2016 SAR '000
Current accounts	9,137	4,712
Repurchase agreements [Note 19 (d)]	2,951,658	4,151,531
Money market deposits	4,648,891	4,840,473
Total	7,609,686	8,996,716

13. Customer deposits

Customer deposits are summarized as follows:

	2017 SAR '000	2016 SAR '000
Time deposits	**39,308,674**	36,677,689
Savings deposits	**2,174,702**	4,073,660
Total special commission bearing deposits	**41,483,376**	40,751,349
Demand deposits	**24,585,587**	23,955,017
Other deposits	**873,657**	933,959
Customer deposits	**66,942,620**	65,640,325

Other customer deposits include SAR 537 million (2016: SAR 535 million) of margin deposits held for irrevocable commitments.

Customer deposits above include Sharia-Compliant deposits totaling SAR 58.4 billion (2016: SAR 46.5 billion).

The above amounts include foreign currency deposits (equivalent to Saudi Arabian Riyals) as follows:

	2017 SAR '000	2016 SAR '000
Demand	**1,860,647**	1,772,546
Savings	**1,303,295**	1,390,880
Time	**6,868,199**	1,045,305
Other	**54,815**	68,159
Total	**10,086,956**	4,276,890

14. Term loans

On May 30, 2011, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was due and repaid on May 30, 2016. On June 24, 2012, the Bank entered into another five-year medium term loan facility agreement also for an amount of SAR 1.0 billion for general corporate purposes. The facility was due and repaid on September 5, 2017.

On June 19, 2016, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on June 19, 2021. On September 26, 2017, the Bank entered into another five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized on October 4, 2017 and is repayable on September 26, 2022.

The term loans bear commission at market based variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. The Bank also has not had any defaults of principal or commission on the term loans.

15. Subordinated debt

On June 5, 2014 the Bank concluded the issuance of a SAR 2.0 billion subordinated debt issue through a private placement of a Shariah compliant Tier II Sukuk in the Kingdom of Saudi Arabia.

The Sukuk carries a half-yearly profit equal to six month SIBOR plus 1.45%. The Sukuk has a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five-year period, subject to certain regulatory approvals. The Bank has not had any defaults of principal or commission on the subordinated debt.

16. Other liabilities

Other liabilities are summarized as follows:

	2017 SAR '000	2016 SAR '000
Accrued salaries and employee-related benefits	**362,188**	379,335
Accrued expenses and other reserves	**122,841**	167,833
Deferred fee income	**17,934**	7,339
Customer-related liabilities	**210,155**	251,167
Accrued Zakat and Income Tax	**80,081**	45,936
All other liabilities	**37,101**	16,108
Total	**830,300**	867,718

The other liability balances as of December 31, 2016 presented above have been restated to reflect the retroactive application of the new Zakat and Income Tax Policy and other adjustments as disclosed in Notes 2, 3, 27 and 41.

17. Share capital

As of December 31, 2017, the authorized, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2016: 700 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2017 SAR '000	**%**	2016 SAR '000	%
Saudi shareholders	**6,750,000**	**90.0**	6,300,000	90.0
Foreign shareholders:				
J.P. Morgan International Finance Limited	**562,500**	**7.5**	525,000	7.5
Mizuho Corporate Bank Limited	**187,500**	**2.5**	175,000	2.5
	7,500,000	**100.0**	7,000,000	100.0

During 2017, 50 million bonus shares were issued by the Bank increasing the issued number of shares outstanding from 700 million to 750 million shares. During 2016, 50 million bonus shares were issued by the Bank increasing the issued number of shares outstanding from 650 million shares to 700 million shares (see Note 26).

18. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 353 million has been transferred from 2017 net income (2016: SAR 264 million). The statutory reserve is not available for distribution.

19. Commitments and contingencies

(a) Legal proceedings

As of December 31, 2017, there were certain legal proceedings outstanding against the Group. No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where Management foresees the probability of an adverse outcome based on professional advice. As of December 31, 2017, the Bank's allowance for such cases totaled SAR 8.1 million (2016: SAR 25.9 million).

(b) Capital commitments

As of December 31, 2017, the Group had capital commitments of SAR 13.2 million (2016: SAR 41.1 million).

(c) Credit-related commitments and contingencies

The Group enters into certain credit-related facilities to ensure that funds are available to a customer as required.

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

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

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

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

For issued financial guarantee contracts and loan commitments, the maximum amount is allocated to the earliest period in which the guarantee could be called, as the Bank has the right to recall financial guarantee contracts and loan commitments prior to their maturity.

19. Commitments and contingencies (Continued)

(i) The contractual maturity structure for the Group's credit-related commitments and contingencies are as follows:

	2017 SAR '000				
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**782,950**	**1,050,329**	**12,395**	**–**	**1,845,674**
Letters of guarantee	**2,002,434**	**4,860,898**	**1,268,746**	**263,674**	**8,395,752**
Acceptances	**360,647**	**371,671**	**–**	**–**	**732,318**
Irrevocable commitments to extend credit	**–**	**581**	**280,281**	**99,861**	**380,723**
Total	**3,146,031**	**6,283,479**	**1,561,422**	**363,535**	**11,354,467**

	2016 SAR '000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	725,269	860,694	296,786	–	1,882,749
Letters of guarantee	1,805,418	5,359,695	1,228,370	18,972	8,412,455
Acceptances	452,592	203,499	–	–	656,091
Irrevocable commitments to extend credit	–	150,000	47,351	115,854	313,205
Total	2,983,279	6,573,888	1,572,507	134,826	11,264,500

The outstanding unused portion of commitments as of December 31, 2017 which can be revoked unilaterally at any time by the Bank, amounts to SAR 27.6 million (2016: SAR 27.8 million).

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

	2017 SAR '000	2016 SAR '000
Government and quasi-Government	**5,896,601**	6,035,415
Corporate	**4,698,100**	4,729,420
Banks and other financial institutions	**536,713**	277,564
Other	**223,053**	222,101
Total	**11,354,467**	11,264,500

(d) Assets pledged

Securities pledged under repurchase agreements with other banks include corporate, bank, and non-government bonds. The fair values of assets pledged as collateral with other financial institutions as security and the related balances of the repurchase agreements are as follows:

	2017 SAR '000		2016 SAR '000	
	Assets	**Repurchase Agreements**	Assets	Agreements Repurchase
Available for sale investments	**2,989,646**	**2,951,658**	4,419,351	4,151,531

The pledged assets presented in the above table are those financial assets that may be repledged or resold by counterparties to whom they have been transferred. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities, as well as requirements determined by exchanges on which the Bank acts as a participant.

19. Commitments and contingencies (Continued)

(e) Operating lease commitments

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

	2017 SAR '000	2016 SAR '000
Less than 1 year	49,298	30,230
1 to 5 years	100,327	60,985
Over 5 years	57,957	45,962
Total	207,582	137,177

(F) Zakat and Income Tax

Notes 8 and 27 provide information regarding the current status of the Group's Zakat and Income Tax positions.

20. Special commission income and expense

Special commission income and expense is summarized as follows:

	2017 SAR '000	2016 SAR '000
Special commission income:		
Available for sale investments	626,936	536,030
Loans and advances	2,616,813	2,453,602
Due from banks and other financial institutions	289,340	210,977
Total	3,533,089	3,200,609
Special commission expense:		
Customer deposits	862,028	1,094,748
Due to banks and other financial institutions	496,407	313,561
Term loans	58,964	52,668
Subordinated debt	73,630	67,576
Total	1,491,029	1,528,553

21. Fee income from banking services, net

Fee income from banking services, net is summarized as follows:

	2017 SAR '000	2016 SAR '000
Fee income:		
– Share trading and fund management	139,368	130,035
– Trade finance	92,034	91,715
– Corporate and retail finance	174,352	180,260
– Other banking services	128,227	91,984
Total fee income	533,981	493,994
Fee expense:		
– Custodial services	80,572	65,161
– Other banking services	41,252	13,329
Total fee expense	121,824	78,490
Fee income from banking services, net	412,157	415,504

22. Dividend income

Dividend income is summarised as follows:

	2017 SAR '000	2016 SAR '000
Dividend income from available for sale equity investments	19,749	27,543

23. Gains on investments, net

Gains on investments, net are summarised as follows:

	2017 SAR '000	2016 SAR '000
Gains on available for sale investments, net	49,130	57,851
Associated company put option gains	–	87,261
Total gains on investments, net	49,130	145,112

24. Compensation and related governance and practices

As required by SAMA, the following table summarises the Group's employee categories defined in accordance with SAMA's rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2017 and 2016.

		2017 SAR '000			
			Variable Compensation Paid		
Category	**Number of employees**	**Fixed compensation paid**	**Cash**	**Shares**	**Total**
Senior executives requiring SAMA no objection	19	35,130	11,272	4,322	15,594
Employees engaged in risk taking activities	131	54,903	10,437	2,446	12,883
Employees engaged in control functions	231	57,263	6,500	2,642	9,142
Other employees	1,190	230,382	25,262	7,933	33,195
Outsourced employees	54	8,141	1,126	92	1,218
Totals	1,625	385,819	54,597	17,435	72,032
Variable compensation accrued		73,540			
Other employee benefits and related expenses		119,746			
Total salaries and employee-related expenses		579,105			

		2016 SAR '000			
			Variable Compensation Paid		
Category	Number of employees	Fixed compensation paid	Cash	Shares	Total
Senior executives requiring SAMA no objection	20	36,237	18,067	6,990	25,057
Employees engaged in risk taking activities	132	58,114	14,831	4,813	19,644
Employees engaged in control functions	232	54,746	9,301	5,305	14,606
Other employees	1,219	230,346	32,081	13,809	45,890
Outsourced employees	58	8,697	1,665	194	1,859
Totals	1,661	388,140	75,945	31,111	107,056
Variable compensation accrued		96,672			
Other employee benefits and related expenses		106,989			
Total salaries and employee-related expenses		591,801			

The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which consists of five board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation and remuneration of members of the Board of Directors, and overseeing the Bank's employee compensation system's design.

24. Compensation and related governance and practices (Continued)

The Committee is also responsible to recommend to the Board of Directors the approval of the Bank's Compensation Policy and any amendments thereto, to ensure that the Bank's remuneration policies are in compliance with SAMA guidelines and the Financial Stability Board's (FSB) Principles on compensation, to periodically review the Bank's remuneration and compensation policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Remuneration and Compensation Policy is designed to attract, retain and motivate high performing and high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives, which is monitored/measured via a robust performance management system. The grant of the variable component of the reward, both cash and shares, is strictly dependent on the achievement of set targets and level of achievements and the Bank's overall performance. Higher achievements will warrant a better performance rating and higher variable compensation. The Balanced Scorecard concept is used as a performance management tool and performance objectives are typically categorised into four segments including financial, customer, process, and people.

Financial and non-financial metrics are also used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, quality assurance, employee development and engagement, workforce diversity, sustainable business practices, lending guidelines, internal controls, compliance with regulations, and business systems and processes. Effective risk management is also emphasized to maintain a strong and secure operating platform. A Risk Appetite Framework Policy has been established and compliance with the annual Risk Appetite Statement is key to all remuneration decisions including variable pay arrangements.

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Variable remuneration is linked to long-term value creation and risk horizons. It is also based on individual, business segment, and Bank performance criteria. Accordingly, for certain variable remunerations, a portion of the incentive earned for the annual performance bonus program and the employee stock grant plan program are deferred in line with long-term risk realization. The vesting is subject to clawback mechanisms.

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

The total amount of compensation paid to key management for the year ended December 31, 2017 was SAR 50.7 million (2016: SAR 61.3 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2017 was SAR 6.0 million (2016: SAR 3.9 million).

The total end of service payments made for all employees who left their employment with the Group during the year ended December 31, 2017 totaled SAR 20.5 million (2016: SAR 17.6 million). These payments were made to 150 beneficiaries (2016: 149). The highest payment to a single individual in 2017 was SAR 1.8 million (2016: SAR 0.9 million).

25. Basic and diluted earnings per share

Basic and diluted earnings per share for the year ended December 31, 2017 and 2016 are calculated by dividing the net income for the year by 750 million shares, after giving effect to the bonus shares issued in 2017 (see Note 26). As a result, basic and diluted earnings per share for the year ended December 31, 2016 have been retroactively adjusted to reflect the issuance of the bonus shares.

26. Dividends

In 2016, the Board of Directors proposed a cash dividend of SAR 350.0 million equal to SAR 0.50 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 70.0 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each fourteen shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an Extraordinary General Assembly Meeting held on 20 Rajab, 1438 H (corresponding to April 17, 2017). The net dividends were paid and the bonus shares were issued to the Bank's shareholders thereafter.

In 2015, the Board of Directors proposed a cash dividend of SAR 487.5 million equal to SAR 0.75 per share, net of Zakat to be withheld from the Saudi shareholders totaling SAR 47.0 million. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each thirteen shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an Extraordinary General Assembly Meeting held on 26 Jumada II, 1437 (corresponding to April 4, 2016). The net dividends were paid and the bonus shares issued to the Bank's shareholders thereafter.

Any future cash dividends to the Saudi and non-Saudi shareholders will be paid after deducting Zakat and any unreimbursed income tax as described in Notes 27 and 41.

27. Zakat and income tax

A summary of the net effect on other assets, other liabilities, retained earnings, proposed dividends, and total equity resulting from the retroactive application of the new Zakat and Income Tax Policy described in Notes 2 and 3 as of December 31, 2016 is summarized in Note 41.

The cumulative Zakat attributable to the Saudi shareholders charged to retained earnings through December 31, 2017 amounts to approximately SAR 108.2 million or SAR 0.16 per share (2016: the cumulative Zakat was approximately SAR 62.9 million or SAR 0.10 per share).

The cumulative income tax attributable to the non-Saudi shareholders net of foreign shareholder reimbursements charged to retained earnings through December 31, 2017 is approximately SAR 41.9 million (2016: SAR 25.7 million). There is no unreimbursed income tax for the years prior to 2016.

The Bank has filed the required Tax and Zakat and Income Tax returns with the Government Authority for Zakat and Tax which are due on April 30 each year, through the year ended December 31, 2016.

The Bank's Zakat and Income Tax calculations and corresponding accruals and payments for Zakat and Income Tax are based on the ownership percentages disclosed in Note 17.

The Bank has received final assessments for additional Zakat, Income tax, and withholding tax totaling approximately SAR 277 million relating to the Bank's 2003 to 2009 Zakat, Income tax, and withholding tax filings. Also refer to Note 8 to these consolidated financial statements for pending Zakat assessments related to an associate company. The Bank has also received partial assessments for additional Zakat totaling approximately SAR 383 million relating to its 2010, 2011, and 2013 Zakat filings.

These final and partial assessments include approximately SAR 573 million in Zakat assessments which are primarily due to the disallowance of deductions for certain long-term investments from the Zakat base of the Bank.

The Bank, in consultation with its professional Tax and Zakat advisors, has filed appeals for the above final and partial assessments with the General Authority for Zakat and Tax, and while management is confident of a favorable outcome on the basis of the appeals filed, it is awaiting responses and final decisions from the appeal and other available processes. Accordingly, no provisions for these amounts have been made in the Bank's consolidated financial statements as of December 31, 2017.

Further assessments, if any, for the years 2012, 2014, 2015, and 2016 are yet to be raised by the General Authority for Zakat and Tax. However, if the deductions for certain long-term investments from the Zakat base of the Bank are disallowed for these years, in line with the assessments already made, it would result in a significant additional Zakat exposure. This remains an industry wide issue and disclosure of such amounts might affect the Bank's position in this matter.

28. Cash and cash equivalents

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

	2017 SAR '000	2016 SAR '000
Cash and balances with SAMA excluding statutory deposit (Note 4)	**1,931,233**	2,108,575
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**3,513,073**	2,274,077
Total	**5,444,306**	4,382,652

29. Operating segments

Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance.

Performance is measured based on segment profit as management believes that this indicator is the most relevant in evaluating the results of certain segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by management.

The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated income statement. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in the Kingdom of Saudi Arabia.

The Group's reportable segments are as follows:

- **Retail banking:** Loans, deposits, and other credit products for individuals and small to medium-sized businesses.
- **Corporate banking:** Loans, deposits and other credit products for corporate and institutional customers.
- **Treasury and investments:** Money market, investments, and other treasury services.
- **Business partners:** Investments in associates and related activities.
- **Asset management and brokerage:** Dealing, managing, advising, and custody of securities services.
- **Other:** Support functions, special credit, and other management and control units.

Commission is charged to operating segments based on funds transfer price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits (FTP net transfers). All other segment income is from external customers.

29. Operating segments (Continued)

(a) The segment information provided to the Board of Directors which includes the reportable segments for the Group's total assets and liabilities of December 31, 2017 and 2016, its total operating income, total operating expenses, and net income for the years then ended, are as follows:

	2017 SAR '000						
	Retail Banking	**Corporate Banking**	**Treasury and Investments**	**Business Partners**	**Asset Management and Brokerage**	**Other**	**Total**
Total assets	27,699,853	35,564,170	27,350,413	1,019,961	404,088	1,757,734	93,796,219
Total liabilities	50,538,379	7,974,977	20,010,872	97	41,785	951,042	79,517,152
Net special commission income	352,031	1,532,197	72,564	–	15,981	69,287	2,042,060
FTP net transfers	657,258	(768,223)	230,052	(99,082)	–	(20,005)	–
Net FTP contribution	1,009,289	763,974	302,616	(99,082)	15,981	49,282	2,042,060
Fee income from banking services, net	112,300	263,623	51,979	–	71,725	(87,470)	412,157
Other operating income (loss)	49,821	43,440	207,086	–	(1,433)	(93,248)	205,666
Total operating income (loss)	1,171,410	1,071,037	561,681	(99,082)	86,273	(131,436)	2,659,883
Direct operating expenses	371,695	67,270	28,420	1,560	77,283	–	546,228
Indirect operating expenses	256,634	170,511	85,941	–	–	–	513,086
Impairment charges	96,990	116,010	106,000	–	2,622	–	321,622
Total operating expenses	725,319	353,791	220,361	1,560	79,905	–	1,380,936
Income (loss) from operating activities	446,091	717,246	341,320	(100,642)	6,368	(131,436)	1,278,947
Share in earnings of associates	–	–	–	131,851	–	–	131,851
Net income	446,091	717,246	341,320	31,209	6,368	(131,436)	1,410,798
Property, equipment, and intangibles additions	21,019	45	–	–	1,949	84,867	107,880
Depreciation and amortization	49,303	1,129	165	–	3,289	38,673	92,559

	2016 SAR '000						
	Retail Banking	Corporate Banking	Treasury and Investments	Business Partners	Asset Management and Brokerage	Other	Total
Total assets	28,418,146	35,602,348	25,997,312	1,000,337	340,633	1,688,635	93,047,411
Total liabilities	47,560,355	8,539,382	22,762,374	97	(16,390)	868,051	79,713,869
Net special commission income	271,741	1,437,731	49,535	–	18,428	(105,379)	1,672,056
FTP net transfers	519,550	(626,047)	207,091	(98,580)	–	(2,014)	–
Net FTP contribution	791,291	811,684	256,626	(98,580)	18,428	(107,393)	1,672,056
Fee income from banking services, net	130,625	217,657	35,537	–	67,180	(35,495)	415,504
Other operating income (loss)	80,789	84,462	228,607	43,631	2,437	(121,620)	318,306
Total operating income (loss)	1,002,705	1,113,803	520,770	(54,949)	88,045	(264,508)	2,405,866
Direct operating expenses	381,785	69,171	24,814	2,954	78,396	–	557,120
Indirect operating expenses	240,815	159,058	81,644	–	–	11,905	493,422
Impairment charges	146,050	96,350	210,600	–	–	–	453,000
Total operating expenses	768,650	324,579	317,058	2,954	78,396	11,905	1,503,542
Income loss from operating activities	234,055	789,224	203,712	(57,903)	9,649	(276,413)	902,324
Share in earnings of associates	–	–	–	150,634	–	–	150,634
Net income	234,055	789,224	203,712	92,731	9,649	(276,413)	1,052,958
Property, equipment, and intangibles additions	18,204	696	1	–	487	35,650	55,038
Depreciation and amortization	47,024	1,371	194	–	4,664	35,748	89,001

29. Operating segments (Continued)

(b) The Group's credit exposure by business segment is as follows:

	2017 SAR '000						
	Retail Banking	**Corporate Banking**	**Treasury and Investments**	**Business Partners**	**Asset Management and Brokerage**	**Other**	**Total**
Consolidated statement of financial position assets	**26,529,441**	**35,561,073**	**26,731,760**	**–**	**245,531**	**230,299**	**89,298,104**
Commitments and contingencies	**3,349,767**	**2,571,639**	**293,785**	**–**	**–**	**–**	**6,215,191**
Derivatives	**–**	**–**	**2,147,021**	**–**	**–**	**–**	**2,147,021**
Totals	**29,879,208**	**38,132,712**	**29,172,566**	**–**	**245,531**	**230,299**	**97,660,316**

	2016 SAR '000						
	Retail Banking	Corporate Banking	Treasury and Investments	Business Partners	Asset Management and Brokerage	Other	Total
Consolidated statement of financial position assets	27,200,287	36,010,672	24,505,043	–	233,722	380,133	88,329,857
Commitments and contingencies	4,474,555	3,381,861	198,477	–	–	–	8,054,893
Derivatives	–	–	2,364,845	–	–	–	2,364,845
Totals	31,674,842	39,392,533	27,068,365	–	233,722	380,133	98,749,595

Consolidated statement of financial position credit exposure is comprised of the carrying value of consolidated statement of financial position assets excluding cash on hand, property, equipment and intangibles, investments in associates, investments in equities and mutual funds, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are also included in the table above.

30. Credit risk

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-consolidated statement of financial position financial instruments, such as loan commitments. The Group assesses the probability of default of counterparties using internal rating tools. The Group also uses the external ratings of major rating agencies, where available.

The Group has a comprehensive Board approved framework for managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Group seeks to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are routinely monitored. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken. The Group assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when several counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

30. Credit risk (Continued)

The Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations, businesses, or economic sectors. Economic sector risk concentrations are provided in Note 7 (c) iii.

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between performing and impaired portfolios and allocates portfolio provisions and specific provisions, respectively. The Group determines each individual borrower's grade based on specific objective and subjective financial and business assessments criteria covering debt service, profitability, liquidity, capital structure, industry, management quality, and company standing. The Group conducts a quality classification exercise over all of its existing borrowers and the results of this exercise are validated by the independent Risk Management Unit established for that purpose. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products, external economic environment, emerging best practices, and regulatory guidance. Information on the credit quality for loans and advances is provided in Notes 7 (c) i and 7 (c) ii.

The Group, in the ordinary course of lending activities, also takes collateral as security to mitigate credit risk on loans and advances. The collateral includes primarily time, demand and other cash deposits, financial and contract guarantees, local and international equities, real estate, and other fixed assets. The collateral is held mainly against commercial and similar loans and is managed against relevant exposures at their net realizable value. Management monitors the market value of collateral, requests additional collateral in accordance with underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group also seeks additional collateral from counterparties when impairment indicators are observed. Information on collateral held is included in Notes 7 (a) and 7 (c) i.

The economic sector risk concentration for loans and advances is provided in Note 7 (c) iii.

The debt securities included in the investment portfolio are due mainly from corporates, banks, financial institutions, and sovereigns, and an analysis of investments by type of counterparty and credit risk exposure is disclosed in Note 6 (c) and Note 6 (d).

The credit quality of due from banks and other financial institutions is provided in Note 5.

The information on credit risk relating to derivative instruments is provided in Notes 11 and 29 (b).

The information on credit risk relating to commitments and contingencies is included in Notes 19 and 31 (a).

The information on the Group's credit exposure by business segment is provided in Note 29 (b).

The information on total credit risk exposure and their relative risk weights is provided in Note 36.

31. Geographical concentration

(a) The distribution by geographical region for assets, liabilities, and for commitments, contingencies, and derivatives is as follows:

	2017 SAR '000						
	Kingdom of Saudi Arabia	**Other GCC and Middle East**	**Europe**	**North America**	**South East Asia**	**Other Countries**	**Total**
Assets							
Cash and balances with SAMA	5,263,438	–	–	–	–	–	5,263,438
Due from banks and other financial institutions	1,144,360	1,056,389	712,083	588,246	–	11,995	3,513,073
Investments, net	11,601,267	6,624,978	1,256,792	1,776,248	–	454,691	21,713,976
Positive fair values of derivatives	93,152	99,671	476,347	–	–	–	669,170
Loans and advances, net	59,588,284	–	–	–	–	–	59,588,284
Investments in associates	1,019,961	–	–	–	–	–	1,019,961
Property, equipment and intangibles, net	1,002,910	–	–	–	–	–	1,002,910
Other real estate	718,724	–	–	–	–	–	718,724
Other assets	306,683	–	–	–	–	–	306,683
Total	80,738,779	7,781,038	2,445,222	2,364,494	–	466,686	93,796,219
Liabilities							
Due to Banks and other financial institutions	4,673,295	937,177	1,998,186	–	–	1,028	7,609,686
Customer deposits	66,942,620	–	–	–	–	–	66,942,620
Negative fair values of derivatives	41,772	31,241	43,593	49	–	–	116,655
Term loans	2,014,823	–	–	–	–	–	2,014,823
Subordinated debt	2,003,068	–	–	–	–	–	2,003,068
Other liabilities	830,300	–	–	–	–	–	830,300
Total	76,505,878	968,418	2,041,779	49	–	1,028	79,517,152
Credit-related Commitments and contingencies	10,177,284	126,436	697,889	35,280	28,530	289,048	11,354,467
Maximum credit exposure (stated at credit equivalent amounts):							
Commitments and contingencies	5,464,530	96,312	402,873	23,985	23,244	204,248	6,215,192
Derivatives	846,655	497,852	771,842	–	–	30,672	2,147,021

31. Geographical concentration (Continued)

	2016 SAR '000						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances with SAMA	5,684,338	–	–	–	–	–	5,684,338
Due from banks and other financial institutions	1,491,192	437,359	247,166	41,512	–	85,064	2,302,293
Investments, net	10,167,127	7,617,419	1,029,818	2,181,777	–	451,753	21,447,894
Positive fair values of derivatives	204,126	105,903	403,311	–	–	–	713,340
Loans and advances, net	60,249,052	–	–	–	–	–	60,249,052
Investments in associates	1,000,337	–	–	–	–	–	1,000,337
Property, equipment and intangibles, net	987,600	–	–	–	–	–	987,600
Other real estate	418,724	–	–	–	–	–	418,724
Other assets	243,833	–	–	–	–	–	243,833
Total	80,446,329	8,160,681	1,680,295	2,223,289	–	536,817	93,047,411
Liabilities							
Due to Banks and other financial institutions	4,140,098	1,918,954	2,937,197	–	–	467	8,996,716
Customer deposits	65,640,325	–	–	–	–	–	65,640,325
Negative fair values of derivatives	49,948	25,914	98,688	–	–	–	174,550
Term loans	2,032,187	–	–	–	–	–	2,032,187
Subordinated debt	2,002,373	–	–	–	–	–	2,002,373
Other liabilities	867,718	–	–	–	–	–	867,718
Total	74,732,649	1,944,868	3,035,885	–	–	467	79,713,869
Credit-related Commitments and contingencies	10,114,215	161,232	226,779	478,848	49,053	234,373	11,264,500
Maximum credit exposure (stated at credit equivalent amounts):							
Commitments and contingencies	6,992,018	137,704	196,229	477,128	41,895	209,919	8,054,893
Derivatives	709,369	334,784	1,320,692	–	–	–	2,364,845

Credit equivalent amounts of commitments and contingencies reflect the amounts that result from translating these amounts into the risk equivalent of loans, using credit conversion factors prescribed by SAMA. The credit conversion factor is intended to capture the potential credit risk related to the exercise of that commitment. The credit equivalent amounts of derivatives are also derived using credit conversion factors prescribed by SAMA, which are applied to the notional amounts outstanding.

(b) The distribution by geographical concentration of non-performing loans and advances and allowance for credit losses as of December 31, 2017 and 2016 are entirely in the Kingdom of Saudi Arabia.

32. Market risk

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

(a) Market risk-trading book
The Board of Directors has set limits for the acceptable level of risks in managing the trading book. The Group currently has trading book exposures in foreign exchange contracts and commission rate swaps.

(b) Market risk-banking book
Market risk on the banking book mainly arises from commission rate risk, liquidity risk, currency risk, and equity price risk.

(i) Commission rate risk

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Group's consolidated income statement or shareholders' equity. The reasonably possible change is estimated based on the relevant commission rate movements during the last five years (2013-2017) (2016: 2012-2016). A positive effect shows a potential net increase in the consolidated income or shareholders' equity, whereas a negative effect shows a potential net reduction in consolidated income or shareholders' equity.

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of December 31, 2017 and 2016, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as of December 31, 2017 and 2016 for the effect of assumed changes in commission rates. The sensitivity of shareholders' equity is analyzed by maturity of the asset or swap. The entire banking book exposures are monitored and analyzed by currency and relevant sensitivities and are disclosed in SAR thousands. For presentation purposes in the tables below, short-term fixed rate deposit liabilities are treated as variable rate deposits.

		2017 SAR '000	**2017 Sensitivity of equity SAR '000**				
Commission rate	**Increase (decrease) in basis**	**Sensitivity of net special commission income**	**6 months or less**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Saibor	+45/-117	-84,303/+219,186	–	–	-16,892/+43,919	-70 /+181	-16,962/+44,100
Libor	+69/-78	-78,446/+88,678	-248/+281	-1,278/+1,445	-113,017/+127,755	-256,684/+290,165	-371,227/+419,646
Euribor	+164/-4	+2,404/-59	–	–	–	–	–

		2016 SAR '000	2016 Sensitivity of equity SAR '000				
Commission rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
Saibor	+33/-129	-61,315/+239,686	–	–	-13,916/+54,339	-68,996/+269,714	-82,912/+324,053
Libor	+25/-52	-13,804/+28,712	-762/+1,584	-863/+1,793	-29,523/+61,407	-67,678/+140,771	-98,826/+205,555
Euribor	+161/-5	+1,728/-54	–	–	–	–	–

32. Market risk (Continued)

The Group manages exposure to the effects of various risks associated with fluctuations in prevailing levels of market special commission rates on its financial position and cash flows. The Board of Directors also sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored by the Treasury Unit.

The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through special commission rate risk management strategies.

The tables below summarize the Group's exposure to special commission rate risks. Included in the tables are the Group's assets and liabilities 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-commission bearing	Total
Assets						
Cash and balances with SAMA	1,282,000	–	–	–	3,981,438	5,263,438
Due from banks and other financial institutions	3,513,073	–	–	–	–	3,513,073
Investments, net	3,539,678	969,361	9,624,849	6,862,845	717,243	21,713,976
Positive fair values of derivatives	–	–	–	–	669,170	669,170
Loans and advances, net	31,404,945	16,178,859	11,213,993	790,487	–	59,588,284
Investments in associates	–	–	–	–	1,019,961	1,019,961
Property, equipment, and intangibles, net	–	–	–	–	1,002,910	1,002,910
Other real estate	–	–	–	–	718,724	718,724
Other assets	–	–	–	–	306,683	306,683
Total	39,739,696	17,148,220	20,838,842	7,653,332	8,416,129	93,796,219
Liabilities and equity						
Due to banks and other financial institutions	5,211,784	2,388,765	–	–	9,137	7,609,686
Customer deposits	26,329,670	15,458,517	–	–	25,154,433	66,942,620
Negative fair values of derivatives	–	–	–	–	116,655	116,655
Term loans	2,014,823	–	–	–	–	2,014,823
Subordinated debt	3,068	2,000,000	–	–	–	2,003,068
Other liabilities	–	–	–	–	830,300	830,300
Total equity	–	–	–	–	14,279,067	14,279,067
Total	33,559,345	19,847,282	–	–	40,389,592	93,796,219
Special commission rate sensitivity – On-balance sheet	6,180,351	(2,699,062)	20,838,842	7,653,332	(31,973,463)	–
Special commission rate sensitivity – Off-balance sheet	9,312,785	358,000	(4,291,638)	(5,379,147)	–	–
Total special commission rate sensitivity gap	15,493,136	(2,341,062)	16,547,204	2,274,185	(31,973,463)	–
Cumulative special commission rate sensitivity gap	15,493,136	13,152,074	29,699,278	31,973,463	–	–

32. Market risk (Continued)

	2016 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with SAMA	1,220,000	–	–	–	4,464,338	5,684,338
Due from banks and other financial institutions	2,274,077	28,216	–	–	–	2,302,293
Investments, net	5,148,250	1,753,482	5,414,222	7,950,379	1,181,561	21,447,894
Positive fair values of derivatives	–	–	–	–	713,340	713,340
Loans and advances, net	31,328,046	17,245,322	11,021,516	654,168	–	60,249,052
Investments in associates	–	–	–	–	1,000,337	1,000,337
Property, equipment, and intangibles, net	–	–	–	–	987,600	987,600
Other real estate	–	–	–	–	418,724	418,724
Other assets	–	–	–	–	243,833	243,833
Total	39,970,373	19,027,020	16,435,738	8,604,547	9,009,733	93,047,411
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,297,004	2,695,000	–	–	4,712	8,996,716
Customer deposits	24,225,747	16,749,020	–	–	24,665,558	65,640,325
Negative fair values of derivatives	–	–	–	–	174,550	174,550
Term loans	32,187	2,000,000	–	–	–	2,032,187
Subordinated debt	2,373	2,000,000	–	–	–	2,002,373
Other liabilities	–	–	–	–	867,718	867,718
Total equity	–	–	–	–	13,333,542	13,333,542
Total	30,557,311	23,444,020	–	–	39,046,080	93,047,411
Special commission rate sensitivity – on-balance sheet	9,413,062	(4,417,000)	16,435,738	8,604,547	(30,036,347)	–
Special commission rate sensitivity – off-balance sheet	5,405,288	(1,278,088)	(600,320)	(3,526,880)	–	–
Total special commission rate sensitivity gap	14,818,350	(5,695,088)	15,835,418	5,077,667	(30,036,347)	–
Cumulative special commission rate sensitivity gap	14,818,350	9,123,262	24,958,680	30,036,347	–	–

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

32. Market risk (Continued)

(ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board of Directors has set limits on currency positions, which are monitored daily. Hedging strategies are also used to ensure that positions and market risks are maintained within the limits.

The table below shows the currencies to which the Group has a significant exposure as of December 31, 2017 and 2016, on its banking book assets and liabilities and forecasted cash flows. The table depicts the effect of a reasonably possible movement of the currency rates against the SAR based on historical currency rate movements, with other variables held constant, on the consolidated income (due to the change in the fair value of the currency sensitive banking book assets and liabilities). The reasonably possible change is estimated based on the relevant foreign exchange rate movements during the last five years (2013-2017) (2016: 2012-2016). A positive effect shows a potential net increase in the consolidated income, whereas a negative effect shows a potential net reduction in consolidated income.

Currency Exposures as of December 31, 2017	**Change in currency rate in %**	**Effect on net income SAR '000**
USD	**+0.31/-0.04**	**+4,290/-576**
EUR	**+18.15/-12.08**	**-359/+239**
GBP	**+29.88/-8.74**	**-332/+97**

Currency Exposures as of December 31, 2016	Change in currency rate in %	Effect on net income SAR '000
USD	+0.29/-0.09	+1,337/-431
EUR	+25.89/-6.13	+2/-0
GBP	+26.69/-10.54	+23/-9

(iii) Currency position

The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	2017 Long/(short) SAR '000	2016 Long/(short) SAR '000
US Dollar	**1,404,006**	466,961
Euro	**(1,978)**	(8)
Pound Sterling	**(1,112)**	86
Japanese Yen	**207**	185
U A E Dirham	**34,072**	15,337
Others	**11,780**	3,951

32. Market risk (Continued)

(iv) Equity price risk

Equity price risk refers to the risk of a decrease in fair values of equities and mutual funds in the Group's available for sale investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual investments.

The following table depicts the effect on the Group's investments in equities and mutual funds from a reasonably possible change in relevant indices, with other variables held constant, and the related effect on the Group's shareholders' equity. The reasonably possible changes in relevant indices are estimated based on the relevant indices movements during the last five years (2013-2017) (2016: 2012-2016). A positive effect shows a potential increase in consolidated shareholders' equity, whereas a negative effect shows a potential decrease in consolidated shareholders' equity.

	As of December 31, 2017		As of December 31, 2016	
Market indices	**Change in equity price %**	**Effect in SAR '000**	Change in equity price %	Effect in SAR '000
TADAWUL	**+66.59/-19.07**	**+374,290/-107,163**	+76.22/-14.39	+771,274/-145,606
Unquoted	**+5.00/-5.00**	**+232/-232**	+5.00/-5.00	+75/-75

33. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources, and assets are managed with liquidity in perspective. Management therefore maintains a healthy balance of cash, cash equivalents, and readily marketable securities as of part of its high liquid assets. Management also monitors the asset and liability maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset Liability Committee. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the Asset Liability Committee. In addition, the Group's liquidity coverage ratio and net stable funding ratio are each monitored regularly to be in line with SAMA guidelines. The Group also conducts regular liquidity stress testing under a variety of scenarios covering both normal and more severely stressed market conditions.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Group maintains a statutory deposit with SAMA equal to 7% (2016: 7%) of total demand deposits and 4% (2016: 4%) of saving and time deposits. In addition to the statutory deposit, the Group also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and balances with SAMA, Saudi Government Development Bonds, or other assets which can be converted into cash within a period not exceeding 30 days. The Group has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 100% of the nominal value of bonds held.

33. Liquidity risk (Continued)

(a) Contractual maturity profile of assets and liabilities

The tables below summarize the contractual maturity profile of the Group's assets, liabilities, and shareholders' equity as of December 31, 2017 and 2016. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Group's deposit retention history. The amounts disclosed for derivatives, and commitments and contingencies are not indicative of future payment obligations.

	2017 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/on demand	Total
Assets						
Cash and balances with SAMA	1,282,000	–	–	–	3,981,438	5,263,438
Due from banks and other financial institutions	2,599,892	–	–	–	913,181	3,513,073
Investments, net	167,690	913,956	12,787,002	7,128,085	717,243	21,713,976
Positive fair values of derivatives	–	669,170	–	–	–	669,170
Loans and advances, net	22,895,597	16,579,152	16,516,921	3,596,614	–	59,588,284
Investments in associates	–	–	–	–	1,019,961	1,019,961
Property, equipment, and intangibles	–	–	–	–	1,002,910	1,002,910
Other real estate	–	–	–	–	718,724	718,724
Other assets	–	306,683	–	–	–	306,683
Total	26,945,179	18,468,961	29,303,923	10,724,699	8,353,457	93,796,219
Liabilities and shareholders' equity						
Due to banks and other financial institutions	5,211,784	2,388,765	–	–	9,137	7,609,686
Customer deposits	24,154,968	15,458,517	–	–	27,329,135	66,942,620
Negative fair values of derivatives	–	116,655	–	–	–	116,655
Term loans	14,823	–	2,000,000	–	–	2,014,823
Subordinated debt	3,068	–	2,000,000	–	–	2,003,068
Other liabilities	–	830,300	–	–	–	830,300
Total equity	–	–	–	–	14,279,067	14,279,067
Total	29,384,643	18,794,237	4,000,000	–	41,617,339	93,796,219
Derivatives, commitments, and contingencies	5,743,285	9,901,507	16,953,591	6,242,558	–	38,840,941

33. Liquidity risk (Continued)

	2016 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/on demand	Total
Assets						
Cash and balances with SAMA	1,220,000	–	–	–	4,464,338	5,684,338
Due from banks and other financial institutions	1,872,177	28,216	–	–	401,900	2,302,293
Investments, net	1,260,469	1,433,082	9,054,430	8,518,352	1,181,561	21,447,894
Positive fair values of derivatives	–	713,340	–	–	–	713,340
Loans and advances, net	23,461,139	17,114,015	16,673,368	3,000,530	–	60,249,052
Investments in associates	–	–	–	–	1,000,337	1,000,337
Property, equipment, and intangibles, net	–	–	–	–	987,600	987,600
Other real estate	–	–	–	–	418,724	418,724
Other assets	–	243,833	–	–	–	243,833
Total	27,813,785	19,532,486	25,727,798	11,518,882	8,454,460	93,047,411
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,297,004	2,695,000	–	–	4,712	8,996,716
Customer deposits	20,152,087	12,957,005	3,792,015	–	28,739,218	65,640,325
Negative fair values of derivatives	–	174,550	–	–	–	174,550
Term loans	32,187	1,000,000	1,000,000	–	–	2,032,187
Subordinated debt	2,373	–	2,000,000	–	–	2,002,373
Other liabilities	–	867,718	–	–	–	867,718
Total equity	–	–	–	–	13,333,542	13,333,542
Total	26,483,651	17,694,273	6,792,015	–	42,077,472	93,047,411
Derivatives, commitments, and contingencies	7,341,484	11,424,985	10,539,055	4,381,706	–	33,687,230

For presentation purposes in the tables above, the Group's demand, savings, and certain other deposits amounting to approximately SAR 27.3 billion as of December 31, 2017 (2016: SAR 28.7 billion) are included under the "No fixed maturity/on demand column".

Assets available to meet all the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection, loans and advances to banks, and loans and advances to customers. The Group regularly monitors the maturity profile to ensure adequate liquidity is maintained. The cumulative maturities of commitments and contingencies is disclosed in Note 19 c (i) of these consolidated financial statements.

(b) Analysis of financial liabilities by remaining undiscounted maturities

The tables below summarize the estimated maturity profile of the Group's financial liabilities as of December 31, 2017 and 2016 based on contractual undiscounted future repayment obligations. As special commission payments up to the contractual maturities are included in the tables, the totals do not match the amounts included in the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date that the Group could be required to pay and the tables do not reflect the expected cash flows indicated by the Group's deposit retention history.

33. Liquidity risk (Continued)

The undiscounted maturity profile of financial liabilities is as follows:

	2017 SAR '000					
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity/on demand**	**Total**
Due to banks and other financial institutions	5,220,677	2,405,068	–	–	9,137	7,634,882
Customer deposits	24,213,393	15,608,078	–	–	27,329,135	67,150,606
Negative fair values of derivatives	–	116,655	–	–	–	116,655
Term loans	30,473	46,950	2,046,950	–	–	2,124,373
Subordinated debt	21,068	54,000	2,186,000	–	–	2,261,068
Total	29,485,611	18,230,751	4,232,950	–	27,338,272	79,287,584
Derivatives	105,406	285,975	998,144	141,978	–	1,531,503
Total	29,591,017	18,516,726	5,231,094	141,978	27,338,272	80,819,087

	2016 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/on demand	Total
Due to banks and other financial institutions	6,313,730	2,723,634	–	–	4,712	9,042,076
Customer deposits	20,233,703	13,166,908	4,099,168	–	28,739,218	66,238,997
Negative fair value of derivatives	–	174,550	–	–	–	174,550
Term loans	50,687	1,033,917	1,166,500	–	–	2,251,104
Subordinated debt	21,423	57,150	2,190,500	–	–	2,269,073
Total	26,619,543	17,156,159	7,456,168	–	28,743,930	79,975,800
Derivatives	86,773	211,503	675,606	109,223	–	1,083,105
Total	26,706,316	17,367,662	8,131,774	109,223	28,743,930	81,058,905

34. Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 principal market for the asset or liability. The Group uses the hierarchy disclosed in Note 2 (d) (ii) for determining and disclosing the fair value of financial instruments.

The following table shows an analysis of financial assets and liabilities recorded at fair value as of December 31, 2017 and 2016 by level of the fair value hierarchy:

	2017 SAR '000			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Derivative financial instruments	–	233,749	435,421	669,170
Available for sale financial investments	13,821,026	7,379,684	513,266	21,713,976
Total	13,821,026	7,613,433	948,687	22,383,146
Financial liabilities:				
Derivative financial instruments	–	116,655	–	116,655
Total	–	116,655	–	116,655

	2016 SAR '000			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Derivative financial instruments	–	277,919	435,421	713,340
Available for sale financial investments	13,398,792	7,520,053	529,049	21,447,894
Total	13,398,792	7,797,972	964,470	22,161,234
Financial liabilities:				
Derivative financial instruments	–	174,550	–	174,550
Total	–	174,550	–	174,550

The value obtained from any relevant valuation model may differ with a transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as "day one profit and loss". It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated income statement without reversal of deferred day one profits and losses.

The total amount of the changes in fair value recognized in the income statement for the year ended December 31, 2017 which was estimated using valuation models, is a loss of SAR 0.7 million (2016: a gain of SAR 88.5 million).

Level 2 available for sale financial investments include debt securities which are comprised of Saudi corporate and bank securities, and Saudi Arabian Government securities. These securities are generally unquoted. In the absence of a quoted price in an active market, these securities are valued using observable inputs such as yield information for similar instruments or last executed transaction prices in securities of the same issuer or based on indicative market quotes. Adjustments are also considered as part of the valuations when necessary to account for the different features of the instruments including difference in tenors. Because the significant inputs for these investments are observable, the Bank categorizes these investments within Level 2.

34. Fair values of financial assets and liabilities (Continued)

Level 2 derivative financial instruments include various derivatives contracts including forward foreign exchange contracts, foreign exchange options, and commission rate swaps. These derivatives are valued using widely recognized valuation models. The most frequently applied valuation techniques include the use of forward pricing standard models using present value calculations and well-recognized Black – Scholes option pricing models. These models incorporate various market observable inputs including foreign exchange rates, forward rates, and yield curves, and are therefore included within Level 2.

Level 3 available for sale financial investments include Gulf Cooperation Council Government securities, and also investments in hedge funds, private equity funds, and asset-backed securities. These securities are generally not quoted in an active market, and therefore are valued using indicative market quotes from an issuer/counter party or valued at cost in the absence of any such alternative reliable indicative estimate.

Level 3 derivative financial instruments include the embedded derivative put option arising from an existing master agreement entered into by the Bank relating to its investment in an associated company (see Note 11). For purposes of determining the fair value of the put option, the Bank uses a well-recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. These other inputs may require Management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

Should the significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 141.2 million (2016: SAR 107.7 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 53.9 million (2016: SAR 57.4 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and could increase or decrease by approximately SAR 30.5 million (2016: SAR 30.5 million) due to estimating the fair value of the underlying investment.

In all respects, the Bank's significant estimates are based on experience and judgement relevant to each input, and in all cases, due care is taken to ensure that the inputs are conservative to ensure that the estimation of fair value is reasonable in the circumstances. However, any amounts which may be realized in the future may differ from the Bank's estimates of fair value.

The following table summarizes the movement of the Level 3 fair values for the years ended December 31, 2017 and 2016:

	2017 **SAR '000**	2016 SAR '000
Fair values at the beginning of the year	**964,470**	888,392
Net change in fair value	**896**	87,543
Investments purchased	**920**	4,522
Investments sold	**(17,599)**	(15,987)
Fair values at the end of the year	**948,687**	964,470

34. Fair values of financial assets and liabilities (Continued)

The following table summarizes the estimated fair values of financial assets and financial liabilities as of December 31, 2017 and 2016 that are not carried at fair value in the consolidated financial statements, along with the comparative carrying amounts for each.

December 31, 2017	**Carrying values SAR '000**	**Estimated fair values SAR '000**
Financial assets:		
Due from banks and other financial institutions	**3,513,073**	**3,513,073**
Loans and advances, net	**59,588,284**	**61,454,199**
Total	**63,101,357**	**64,967,272**
Financial liabilities:		
Due to banks and other financial institutions	**7,609,686**	**7,609,686**
Customers deposits	**66,942,620**	**65,964,590**
Term loans, net	**2,014,823**	**2,014,823**
Subordinated debt, net	**2,003,068**	**2,003,068**
Total	**78,570,197**	**77,592,167**

December 31, 2016	Carrying values SAR '000	Estimated fair values SAR '000
Financial assets:		
Due from banks and other financial institutions	2,302,293	2,302,293
Loans and advances, net	60,249,052	62,155,329
Total	62,551,345	64,457,622
Financial liabilities:		
Due to banks and other financial institutions	8,996,716	8,996,716
Customers deposits	65,640,325	64,762,600
Term loans, net	2,032,187	2,032,187
Subordinated debt, net	2,002,373	2,002,373
Total	78,671,601	77,793,876

The estimated fair values of loans and advances, net are calculated using market-based discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual loan portfolio. The estimated fair values of customers' deposits are calculated using market-based discounted cash flow models of individual deposit classes using the weighted average estimated maturities of each individual deposit class. These fair value estimates are considered as Level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the consolidated financial statements at fair value are not significantly different from the carrying values. The fair values of term loans, subordinated debt, and due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contractual rates, and because of the short duration of due from and due to banks.

35. Related party transactions

In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA such as rules on large exposures of banks. During 2014, SAMA issued an update to its Principles of Corporate Governance for banks operating in Saudi Arabia which specifies the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's Related Party Identification and Disclosure of Transactions Policy complies with the Guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These Guidelines include the following definitions of related parties:

- Management of the Bank and/or members of their immediate family;
- Principal shareholders of the Bank and/or members of their immediate family;
- Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, and members of the Bank Management that require a no objection approval from SAMA.

Immediate family members include parents, spouses, and offspring and whom either a principal shareholder or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

35. Related party transactions (Continued)

(a) The balances as of December 31, 2017 and 2016, resulting from such transactions included in the consolidated financial statements are as follows:

	2017 SAR '000	2016 SAR '000
Management of the Bank and/or members of their immediate family:		
Loans and advances	**88,334**	91,614
Customer deposits	**227,848**	316,326
Tier I Sukuk	**2,000**	–
Commitments and contingencies	**1,880**	–
Principal shareholders of the Bank and/or members of their immediate family:		
Due from banks and other financial institutions	**12,241**	33,429
Loans and advances	**126,214**	596,477
Customer deposits	**10,416,049**	10,924,783
Subordinated debt	**700,000**	700,000
Commitments and contingencies	**372,991**	2,789,005
Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting:		
Loans and advances	**596,117**	1,022,467
Customer deposits	**104,094**	49,378
Commitments and contingencies	**106,317**	616,984
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:		
Customer deposits and other liabilities	**152,572**	129,507

(b) Income and expense pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	2017 SAR '000	2016 SAR '000
Management of the Bank and/or members of their immediate family:		
Special commission income	**3,093**	3,643
Special commission expense	**34**	36
Fee income from banking services	**20**	11
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission income	**42,671**	11,983
Special commission expense	**27,039**	24,907
Fee income from banking services	**4,219**	4,219
Rent and premises-related expenses (Building rental)	**7,758**	7,726
Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting:		
Special commission income	**8,736**	3,830
Special commission expense	**9**	–
Fee income from banking services	**5,607**	5,223
Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank:		
Special commission expense	**–**	324
Board of Directors and other Board committee member remuneration	**5,414**	5,507

The total amount of compensation charged or paid to management personnel during the year is included in Note 24.

36. Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored by the Group's Management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the requirement of 9.875%.

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

The following table summarizes the Bank's Pillar I risk-weighted assets (RWA), Tier I and Tier II capital, and capital Adequacy Ratio percentage. The RWA, Tier I capital, Tier I and Tier II capital amounts as of December 31, 2016 presented below have been restated to reflect the effect of the retroactive application of the new Zakat and Income Tax Policy and other adjustments as disclosed in Note 41. The Tier I and Tier I plus Tier II ratios have also been adjusted accordingly.

	2017 SAR '000	2016 SAR '000
Credit Risk RWA	**75,882,891**	78,900,047
Operational Risk RWA	**4,605,140**	4,294,667
Market Risk RWA	**1,897,923**	605,492
Total Pillar – I RWA	**82,385,954**	83,800,206
Tier I Capital	**14,260,772**	13,315,247
Tier II Capital	**2,526,993**	2,549,514
Total Tier I & II Capital	**16,787,765**	15,864,761
Capital Adequacy Ratio		
Tier I Ratio	**17.31%**	15.89%
Tier I + Tier II Ratio	**20.38%**	18.93%

As of December 31, 2017 and 2016, the RWA, Tier I and Tier II capital, and Capital Adequacy Ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III.

The following additional disclosures are required under the Basel III framework:

- Pillar III, Qualitative Disclosures (Annually)
- Pillar III, Quantitative Disclosures (Semi-annually)
- Capital Structure (Quarterly)
- Liquidity Coverage Ratio (Quarterly)
- Leverage Ratio (Quarterly)

These disclosures are made available to the public on the Bank's website within the prescribed time frames as required by SAMA.

37. Asset management and brokerage services

The Group offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totaling SAR 6,816 million (2016: SAR 5,135 million). This includes funds managed under Shariah approved portfolios amounting to SAR 2,150 million (2016: SAR 1,408 million).

38. Employee stock option shares and employee end of service benefits

(a) The Group has an Employee Stock Grant Plan outstanding at the end of the year. Significant features of the Plan are as follows:

Grant dates: January 1, 2013, 2014 and 2016

Maturity dates: Between 2017 and 2018

Vesting period: 4 years per plan

Vesting conditions: Participating employees to remain in service

Method of settlement: Shares

Cost to participating employees: SAR 3.93 to SAR 4.29 per share

The stock option shares outstanding as of December 31, 2017 and 2016 have a weighted average contractual life of between one and three years. The stock option shares are granted only under a service condition with no market linked condition.

The following table summarizes the movement in the number of stock option shares for the years ended December 31, 2017 and 2016:

	2017	2016
Stock option shares at the beginning of the year	**3,749,248**	6,306,766
Shares vested during the year	**(1,592,318)**	(2,018,012)
Withdrawals during the year	**(320,214)**	(539,506)
Stock option shares at the end of the year	**1,836,716**	3,749,248

The stock option shares at the beginning of each year have been retroactively adjusted to give effect to the issuance of bonus shares by the Bank.

In 2017, the Bank vested 50% of the shares granted in January 2013, 25% of the shares granted in January 2014, and 25% of the shares granted in January 2016, equivalent to 1,592,318 shares, for a total estimated cost of SAR 21.6 million.

In 2016, the Bank vested 50% of the shares granted in January 2012, 25% of the shares granted in January 2013, and 25% of the shares granted in January 2014, equivalent to 2,018,012 shares, for a total estimated cost of SAR 36.4 million.

The Group also has an Employee Contributory Share Option Plan outstanding at the end of the year. The following table summarizes the movement in the number of subscribed shares for the years ended December 31, 2017 and 2016:

	2017	2016
Subscribed shares at the beginning of the year	**4,210,139**	1,364,884
Shares subscribed during the year	**–**	3,972,734
Shares granted during the year	**–**	(559,535)
Withdrawals during the year	**(478,964)**	(567,944)
Subscribed shares at the end of the year	**3,731,175**	4,210,139

The subscribed shares at the beginning of each year have been retroactively adjusted to give effect to the issuance of bonus shares by the Bank.

38. Employee stock option shares and employee end of service benefits (Continued)

In connection with the Group's Employee Stock Grant Plan and Employee Contributory Share Option Plan, the Group purchases shares for the respective share vesting and subscription requirements. The following table summarizes the movement in the cost of the shares acquired by the Group net of the share based provision movement:

	Cost of shares SAR '000	Share based provisions SAR '000	Total SAR '000
Balances December 31, 2015	(95,294)	38,539	(56,755)
Cost of shares acquired	(58,206)	–	(58,206)
Share based provision and vesting/granting movement, net	54,810	(2,733)	52,077
Balances December 31, 2016	**(98,690)**	**35,806**	**(62,884)**
Cost of shares acquired	**(17,574)**	**–**	**(17,574)**
Share based provision and vesting/granting movement, net	**33,818**	**(11,629)**	**22,189**
Balances December 31, 2017	**(82,446)**	**24,177**	**(58,269)**

(b) The Group operates end of service benefit plans for its employees based on prevailing Saudi Labor Laws. Accruals are made in accordance with actuarial valuations using a projected unit credit method while the benefit payments are discharged as and when the benefit payments are due.

The amounts recognized in the consolidated statement of financial position which are included in other liabilities and the corresponding movement in the actuarial obligation during the years ended December 31, 2017 and 2016 is as follows:

	2017 SAR '000	2016 SAR '000
Actuarial obligation at the beginning of the year	**171,291**	182,643
Current and prior period service cost	**32,316**	44,699
Benefits paid	**(20,528)**	(17,596)
Effect of changes in actuarial assumptions	**3,193**	(38,455)
Actuarial obligation at the end of the year	**186,272**	171,291

The current and prior period service cost amounts above primarily include costs for employees' current period service plus prior year service costs adjusted for any current year salary increments.

The effect of changes in actuarial assumptions for the year ended December 31, 2017 is primarily related to an increase in the assumption for future salary increments. The effect of changes in actuarial assumptions for the year ended December 31, 2016 are primarily related to an increase in the discount factor.

The principal actuarial assumptions used in the calculation of the actuarial obligations as of December 31, 2017 and 2016 are as follows:

	2017	2016
Discount rate	**8.42%**	8.86%
Expected rate of salary increment	**3.00%**	Nil
Normal retirement age	**60**	60

Should the above actuarial assumptions change in the future, the actuarial obligation could be higher or lower than the December 31, 2017 amount.

38. Employee stock option shares and employee end of service benefits (Continued)

The table below illustrates the sensitivity of the actuarially determined obligation as of December 31, 2017 to the discount rate (8.42%), and the salary increment rate (3%):

	Impact on actuarially determined obligation Increase (Decrease)		
	Change in assumption %	Increase in assumption SAR '000	Decrease in assumption SAR '000
Base Scenario			
Discount rate	10	(81,394)	94,510
Salary increment rate	10	89,833	(85,239)

The above sensitivity analyses is based on a change in a single assumption holding other assumptions constant.

The approximate expected maturity analysis of the undiscounted actuarially determined obligation as of December 31, 2017 is as follows:

	2017 SAR '000
Less than one year	**15,696**
One to two years	**12,973**
Two to five years	**27,940**
Over five years	**198,427**
Total	**255,036**

The weighted average duration of the actuarially determined obligation is approximately 20.67 years.

39. Tier I Sukuk

The Group completed the establishment of a Shari'a compliant Tier I Sukuk Program (the Program) in 2016. The Program has been approved by the Group's regulatory authorities and shareholders. On November 21, 2016, the Bank issued SAR 500 million under the Program. On June 6, 2017, the Bank issued another SAR 285 million under the same Program.

The Tier I Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Group classified under equity. However, the Group has the exclusive right to redeem or call the Tier I Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Program.

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

40. Prospective changes in the International Financial Reporting Framework

(a) The following standards or amendments to existing standards have been issued but not yet adopted by the Group, as their effective date for adoption is on or after January 1, 2018. These standards and amendments to existing standards are summarized below:

- IFRS 9 – “Financial Instruments” applicable from January 1, 2018 will replace IAS 39 by changing the classification of financial assets, and by building models using internal and external data. The Group will recognize loss allowances based on expected credit loss models considering forward-looking information. Setting a framework with detailed policies and controls including roles and responsibilities will be implemented. It also incorporates revised requirements for hedge accounting that will allow entities to better reflect their risk management activities in their Financial Statements.
- IFRS 15 – “Revenue from Contracts with Customers” applicable from January 1, 2018 presents a five-step model to determine when to recognize revenue, and at what amount. The application of this standard could have a significant impact on how and when revenue is recognized (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments), with new estimates and judgements, and the possibility of revenue recognition being accelerated or deferred.
- IFRS 16 – “Leases” applicable from January 1, 2019 sets out the new requirements of lease accounting for lessees and lessors. 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 an on-balance sheet accounting model.
- Amendments to IFRS 2 – “Share-based Payments”, which is applicable for periods beginning on or after January 1, 2018 covers the measurement of cash-settled share based payments, the classification of share-based payments settled net of any tax withholdings, and the accounting for a modification of a share-based payment from cash settled to equity settled.

The Bank is currently assessing the implication and effects of adopting IFRS 15 and IFRS 2 on January 1, 2018, although Management does not believe the adoption of IFRS 15 and IFRS 2 will have a material impact on the Group’s consolidated financial statements. The Bank is also currently assessing the implication and effects of adopting IFRS 16 on January 1, 2019. The Bank will be adopting IFRS 9 on January 1, 2018, the expected effect of which is described below:

(b) In July 2014, the International Accounting Standards Board (the IASB) issued IFRS 9 – “Financial Instruments”, the standard that will replace IAS 39 effective from January 1, 2018. The Group has considered IFRS 9 as a significant project and therefore set up a multidisciplinary implementation team with members from Credit Risk, Modeling, Finance, Information Technology, Operations, and the respective businesses to achieve a successful and robust implementation. The project has been managed by the Chief Financial Officer and the Chief Risk Officer.

(i) Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the Group’s business model) and their contractual cash flow characteristics. These factors determine whether financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL). The combined effect of the application of the business model and the contractual cash flow characteristic tests may result in some differences in the classification of financial assets measured at amortized cost or fair value compared with IAS 39.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The majority of the Bank’s debt instruments that are currently classified as available for sale will satisfy the conditions for classification as FVOCI and hence there will be an insignificant change in the accounting for these assets except for the new Expected Credit Loss requirements.

40. Prospective changes in the International Financial Reporting Framework (Continued)

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. The derecognition rules have been transferred from IAS 39 "Financial Instruments: Recognition and Measurement", and have not been changed. The Bank does not expect any impact on its financial liabilities and derecognition accounting policy.

Based on the Bank's assessment of its financial assets and expectations around changes to the consolidated statement of financial position composition, the Bank also expects that the overall impact of any change from the application of IFRS 9 will not be significant in relation to the Bank's consolidated statement of financial position or results of operations.

(ii) Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, with the objective of creating a stronger link with the Bank's risk management strategy, and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, the requirements of IFRS 9 do not explicitly address macro hedge accounting strategies. As a result, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. Based on the analysis completed to date, the Bank expects to exercise the accounting policy choice to continue with IAS 39 hedge accounting.

(iii) Impairment

The Group will recognize impairment allowances based on an Expected Credit Loss (ECL) model on financial assets that are not measured at FVTPL. The impairment losses will primarily include allowances for loans and other advances, investments that are measured at amortized cost or at FVOCI (other than equity investments), due from banks and other financial institutions, financial guarantees, and credit commitments. No impairment loss will be recognized on equity investments under the ECL model.

The Group intends to categorize its financial assets into the following three stages in accordance with IFRS 9 methodology as follows:

- **Stage 1** Performing assets. Financial assets that are not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on a twelve-month ECL.
- **Stage 2** Underperforming assets. Financial assets that have significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on a life time ECL.
- **Stage 3** Impaired assets. Financial assets that are deemed to be impaired for which the Bank will recognize the impairment allowance based on a life time ECL or an individual assessment of the exposure.

The Group will consider forward-looking information in its assessment of significant deterioration in credit risk since origination as well as in the measurement of ECLs. The forward-looking information will include various elements including macroeconomic factors (e.g., unemployment, GDP growth, inflation, profit rates, and other prices) and internal economic forecasts or other forecasts obtained through external sources. To evaluate a range of possible outcomes, the Group intends to formulate various scenarios in the future. For each scenario, the Group will derive an ECL and apply a probability weighted approach to determine the ECL allowance.

The Group's work to date has covered performing an assessment of the population of financial instruments impacted by the classification and measurement requirements and developing an ECL methodology to support the calculation of the ECL allowance. Specifically, during 2017 the Bank conducted business model assessments and financial instrument's contractual cash flow analysis, developed its approach for assessing a significant increase in credit risk, incorporating forward-looking information including macro economic factors, and prepared the required IT systems and process architecture. The Group has performed end to end parallel runs based on 2017 data to assess procedural readiness.

The Group is now in the final phase of implementation, which includes various levels of validation.

40. Prospective changes in the International Financial Reporting Framework (Continued)

(iv) Expected impact

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

According to the transitional provisions for initial application of IFRS 9, the Bank is required to recognize any difference between the previous carrying amounts of financial assets under IAS 39 and the carrying amounts under IFRS 9 at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings. Accordingly, the effect is expected to result in a reduction in the carrying value of financial assets by less than one percent and a reduction in total equity from four percent to five percent.

The Group's Tier I plus Tier II ratios will also be impacted by IFRS 9 primarily from the one-time adjustment to retained earnings, and an increase in specific credit impairment provisions related to Stage 2 and Stage 3 financial assets net of the corresponding effect of the increase in such specific reserves on risk-weighted assets. Based on the balances as of December 31, 2017, the expected impact on the Bank's Tier I plus Tier II ratios considering transitional arrangements would be an estimated reduction of less than one percent.

The estimated decrease in total equity includes the impact of both balance sheet classification and measurement changes and the increase to the ECL allowance compared to the impairment allowance as of December 31, 2017 under IAS 39. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Group could vary significantly from this estimate. The Group continues to refine models, methodologies and controls, and is monitoring developments in regulatory rule-making. Although parallel runs were carried out in 2017, the new systems and associated controls in place have not been operational for an extended period of time. As a result, the Group has not finalized full testing and assessment of all controls over its systems and changes to its governance framework. All estimates are based on the Group's current interpretation of the requirements of IFRS 9 and industry guidance.

Gains or losses realized on the sale of equity instruments classified as FVOCI will no longer be transferred to the income statement on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings. During the year ended December 31, 2017, SAR 31.8 million of such gains were recognized in the consolidated income statement in relation to the disposal of equity investments.

The new standard also introduces extended disclosure requirements and changes in presentation.

The Group believes that implementation of IFRS 9 may result in greater volatility in impairment charges as compared to the existing methodology which is governed by IAS 39 and the prevailing SAMA Guidelines. As a result, the application of IFRS 9 may impact the Group's future profitability as well as its regulatory capital structure and capital planning.

(v) Governance and controls

The Group's governance structure and controls is currently under implementation in line with an IFRS 9 Guidance document applicable to Saudi banks. These Guidelines call for establishing a Board approved IFRS 9 Governance Framework Policy with the IFRS 9 program policies and controls including roles and responsibilities and a management level ECL Committee.

The Group will have a centrally managed IFRS 9 program sponsored by the Bank's Chief Financial Officer and Chief Risk Officer and will include subject matter experts on methodology, data sourcing and modeling, IT processing, and reporting.

41. Effect of the retroactive application of the new Zakat and Income Tax Policy and other adjustments

A summary of the effect of the retroactive application of the new Zakat and Income Tax Policy and effect of other adjustments made to the consolidated statement of financial position as of December 31, 2016 is summarized below:

		Previously reported SAR '000	Adjustments SAR '000	Adjusted SAR '000
Assets				
Cash and balances with SAMA		5,684,338	–	5,684,338
Due from banks and other financial institutions		2,302,293	–	2,302,293
Investments, net		21,447,894	–	21,447,894
Positive fair values of derivatives	(b)	1,914,717	(1,201,377)	713,340
Loans and advances, net		60,249,052	–	60,249,052
Investments in associates		1,000,337	–	1,000,337
Property, equipment, and intangibles, net		987,600	–	987,600
Other real estate		418,724	–	418,724
Other assets	(a)	356,543	(112,710)	243,833
Total assets		94,361,498	(1,314,087)	93,047,411
Liabilities				
Due to banks and other financial institutions		8,996,716	–	8,996,716
Customer deposits		65,640,325	–	65,640,325
Negative fair values of derivatives	(b)	1,424,927	(1,250,377)	174,550
Term loans		2,032,187	–	2,032,187
Subordinated debt		2,002,373	–	2,002,373
Other liabilities	(a), (c)	721,782	145,936	867,718
Total liabilities		80,818,310	(1,104,441)	79,713,869
Equity				
Share capital		7,000,000	–	7,000,000
Statutory reserve		4,210,000	–	4,210,000
Other reserves		509,651	–	509,651
Retained earnings	(a), (b), (c)	966,421	(139,646)	826,775
Proposed dividends	(a)	420,000	(70,000)	350,000
Shares held for employee options, net		(62,884)	–	(62,884)
Shareholders' equity		13,043,188	(209,646)	12,833,542
Tier I Sukuk		500,000	–	500,000
Total equity		13,543,188	(209,646)	13,333,542
Total liabilities and equity		94,361,498	(1,314,087)	93,047,411

41. Effect of the retroactive application of the new Zakat and Income Tax Policy and other adjustments (Continued)

(a) The effect of the application of the new Zakat and Income Tax Policy resulted in an adjustment to other assets, other liabilities, and proposed dividends in 2016, with a corresponding net reduction to total equity of SAR 159 million (2015: SAR 156 million).

(b) The positive and negative fair values of derivatives in 2016 totaling SAR 1.25 billion (2015: SAR 0.8 billion) were adjusted to comply with the unit of account and the offsetting principle for financial instruments to conform to the current year presentation with no effect on total equity. Certain changes were also made to fair value models to correct certain valuation assumptions which resulted in an increase in the positive fair values of derivatives totaling SAR 49 million in 2016 (2015: SAR 69 million) with a corresponding increase in total equity by the same amounts.

(c) Other liabilities in 2016 were adjusted by SAR 100 million (2015: SAR 79.7 million) to reflect the prior year effect of a correction in an actuarial method to estimate certain employee-related liabilities with a corresponding decrease to total equity by the same amount.

The Group has made these adjustments to the opening balances of 2016 as the impact on the consolidated income statement for the year 2016 was not considered material. Accordingly, these adjustments had no material impact on the net income and corresponding basic and diluted earnings per share amounts reported for the years ended December 31, 2016 and 2015.

42. Board of Directors' approval

The consolidated financial statements were authorized for issue by the Board of Directors on 04 Jumada II, 1439H, corresponding to February 20, 2018.

Auditors' Report

KPMG Al Fozan & Partners
Certified Public Accountants

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

Opinion

We have audited the consolidated financial statements of The Saudi Investment Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as of December 31, 2017, the consolidated income statement; and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 42.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as modified by 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 ("ISAs") as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of the most significance in our audit of the consolidated financial statements of the current year. 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:

The key audit matters	How the matters were addressed in our audit
Loan impairment As of December 31, 2017, the gross loans and advances were Saudi Riyals (SAR) 60.7 billion against which impairment provisions of SAR 1,075 million were recorded. These include impairment against specific loans and collective impairment recorded on a portfolio basis through the use of models. We considered this as a key audit matter as the Group makes complex and subjective judgments and makes assumptions to determine the impairment against credit losses as at each reporting date.	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. We tested a sample of loans and advances, including loans that had not been identified by management as potentially impaired, to form our own assessment as to whether impairment events had occurred and to assess whether impairment had been identified and recorded on a timely basis.

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

The key audit matters	How the matters were addressed in our audit
In particular, the determination of impairment provisions against loans and advances includes: o The identification of impairment events and methods and judgments used to calculate the impairment against specific loans and advances; o The use of assumptions underlying the calculation of collective impairment for portfolios of loans and advances, and the use of models to make those calculations; and o An assessment of the Group's exposure to certain industries affected by economic conditions. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(k) for loans and advances and note 2(d)(i) which contains the disclosure of significant accounting estimates relating to impairment of loans and advances, note 7(b) which contains the disclosure of impairment against loans and advances and note 3(l)(i) which explains the impairment assessment methodology used by the Group.*	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. For individually assessed loans, we also selected a sample of loans for industries adversely affected by the economic conditions to evaluate management's impairment assessment for such loans. For the collective impairment model, we tested the appropriateness of assumptions and the calculations within the model.
Fee income from banking services, net The Group charges loan-processing fees upfront to the customers and recognizes the same within fee income. Such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, should be an adjustment to the effective yield of loan financing. However, due to a large volume of transactions with mostly insignificant fee amounts, adjustments to the effective yield is made by the management based on certain thresholds and assumptions. We considered this as a key audit matter since the use of thresholds and assumptions could result in material over / under-statement of fee income and special commission income. *Refer to the summary of significant accounting policies note 3(h) to the consolidated financial statements.*	We assessed the design and implementation and tested the operating effectiveness of the key controls over the consistent application of the threshold. We evaluated the assumptions used and thresholds established by the Group to record the fee income on financing. We obtained management's assessment of the impact of the use of thresholds and assumptions on fee income, and: o traced the historical and current year data used by management to source documents on a sample basis; and o considered management's estimation of the impact of the use of thresholds and assumptions on the recognition of fee income.

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

Valuation of investments held as available for sale	
Available for sale investments comprise a portfolio of debt, equity and other investments. These instruments are measured at fair value with the corresponding fair value change recognized in other comprehensive income. The fair value of certain available for sale investments, which are not traded in an active market, are determined through the application of valuation techniques. These techniques often involve the exercise of judgment by management and the use of assumptions and estimates. Estimation uncertainty exists for those instruments not traded in an active market and where the internal modelling techniques use: o significant observable valuation inputs (i.e. level 2 instruments); and o significant unobservable valuation inputs (i.e. level 3 instruments) Estimation uncertainty is particularly high for level 3 instruments. The valuation of the Group's available for sale investments in level 2 and level 3 categories was considered a key audit matter given the degree of complexity involved in valuing these financial instruments and the significance of the judgments and estimates made by the management. In the Group's accounting policies, management has described the key sources of estimation involved in determining the fair value of level 2 and level 3 financial instruments and in particular when the fair value is established using a valuation technique due to the complexity of the instruments or due to the lack of availability of market based data. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(j)(i), note 34 which explains the investment valuation methodology used by the Group and note 2(d)(ii) which explains critical judgments and estimates for fair value measurement.*	We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for performing valuations of investments classified as available for sale. We performed an assessment of the methodology and the appropriateness of the valuation models and inputs used to value level 2 available for sale investments through involving our expert. We have also checked the impairment of level 3 financial instruments. We tested the valuation of a sample of these investments and assessed the key inputs used in the valuation such as the expected cash flows, risk free rates and credit spreads by benchmarking them with external data.

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

<table>
<tr><td>Impairment of investments held as available for sale</td><td></td></tr>
<tr><td>
As of December 31, 2017, the Group had investments held as available for sale of SAR 21.7 billion. These investments are comprised of equities, corporate and sovereign bonds and Sukuk, which are subject to the risk of impairment in value due to either adverse market situations and / or liquidity or other constraints faced by the issuers.
For assessing the impairment of equities, management monitors the volatility of share prices and uses the criteria of significant or prolonged decline in 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 debt instruments such as corporate and sovereign bonds / Sukuk, management considers them to be impaired when there is evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.
We considered 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 the following notes to the consolidated financial statements: summary of significant accounting policies note 3(l)(ii) for the accounting policy relating to the impairment of financial assets, note 2(d)(iii) for impairment of available-for-sale equity and debt investments, and notes 30 and 32 for the disclosures of credit and market risks respectively.
</td><td>
We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for identifying a significant or prolonged decline in the fair value of equities and/or any impairment indications for corporate and sovereign bonds / Sukuk.
For equity investments, we assessed the appropriateness of the management's criteria for determining a significant or prolonged decline in the value of investments and on a sample basis;

Evaluated the basis for determining the costs and fair value of investments;
Tested the costs and valuations of investments; and
Considered the price fluctuations / movements during the holding period to determine if the investment meets the significant or prolonged criteria.

For corporate and sovereign bonds / Sukuk, on a sample basis, we assessed the creditworthiness of counterparties to consider any defaults based on the terms and conditions of the issuance of these bonds / Sukuk.
</td></tr>
</table>

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

Valuation of derivatives The Group has entered into commission rate swaps, foreign exchange forward contracts and foreign exchange options which are over the counter (OTC) derivatives and hence, the valuation of these derivatives is subjective as it takes into account a number of assumptions. The Group utilizes these derivatives for trading and fair value hedge accounting purposes. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements. We considered this as a key audit matter as there is complexity and subjectivity involved in determining the valuation where modelling techniques are used. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(e) which explains derivative financial instruments and hedge accounting, note 11 which discloses the derivative positions and note 34 which explains the fair values of financial assets and liabilities.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuations of derivatives including testing of relevant controls covering the fair valuation processes for derivatives. We selected a sample of derivatives and: o Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; o Checked the accuracy and appropriateness of the key inputs to the valuation models; and o Involved our valuation expert to perform an independent valuation of the derivatives and compared the results with management's valuation.
Valuation of associated company put option The Group's derivatives as of December 31, 2017 includes a put option with a positive fair value of SAR 435 million (note 11). This put option is embedded within the agreement (the Agreement) with the other shareholder in an associated company and gives the Group an option to sell its share in the associated company to the other shareholder based on a strike price determined in accordance with the Agreement. In accordance with the Group's accounting policy, this put option is segregated from the Agreement and is measured at its fair value.	We inspected the agreement to obtain an understanding of the principal terms of the put option. We considered the put option valuation performed by independent consultants engaged by management and assessed the methodology and key assumptions with the independent consultants. We also involved our expert to assess the reasonableness of the valuation of the associated company put option at the reporting date.

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

The Group uses an option pricing model to fair value the put option which requires certain inputs which are not observable in the current market place. These inputs include historical results of the associated company and other inputs which require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. This is considered as a key audit matter as the valuation of this put option, as mentioned above, requires management to exercise judgment in determing the fair value of the put option. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(e) which explains the accounting policy for derivative financial instruments and hedge accounting, note 11 which explains the put option positions and note 34 to the consolidated financial statements which explains the valuation methodology used by the Group.*	
Zakat The Bank has received claims from the General Authority of Zakat and Tax (GAZT) for the years from 2003 to 2011 and 2013 raising additional demands aggregating to SAR 660 million. These additional demands mainly arose, as the GAZT considered certain assets as non-deductible for the purpose of the computation of the Zakat base which consequently would increase the Zakat liability. The Bank, in consultation with its professional Zakat and Income Tax advisor, has filed appeals for the above assessments with the GAZT. The appeal proceedings are underway at various levels of the appellate forums available to the Bank and hence the ultimate outcome of the matter cannot be determined at this stage.	 We reviewed the correspondence between the Bank and the GAZT and the Bank's Zakat and Income Tax advisor. We held meetings with those charged with governance and management to obtain updates on the Zakat matter and the results of their interactions with the GAZT. We also assessed the appropriateness of the disclosures, in light of the facts and circumstances of the claims.

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

The assessments for the years 2012, 2014, 2015, and 2016 are yet to be raised by the GAZT. However, if certain assets are disallowed for computation of Zakat base, in line with the assessments finalized by the GAZT for the years referred to above, it would result in significant additional Zakat exposure to the Group. This remains an industry-wide issue and disclosure of which might affect the Group's position in this matter. The treatment of certain items in the Zakat calculation (resulting in additional demands) is uncertain until resolved with the GAZT. Consequently, management makes judgments about the incidence and quantum of Zakat liabilities which are subject to the future outcome of assessments by the GAZT. The Bank recognizes provisions when a reliable estimate can be made 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 benefits will be required to settle the obligation. The Group currently considers that the outflow of resources is remote and has accordingly not provided for the additional liability and has disclosed the related contingency in note 27 to the consolidated financial statements. We considered this as a key audit matter as this matter is subjective and the amounts claimed by the GAZT are material. *Refer to the following notes to the consolidated financials: summary of significant accounting policies note 3(v) for the accounting policy relating to Zakat and income taxes and note 27 for the related disclosures for Zakat and Income Tax.*	

Other Information

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

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

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

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

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

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

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as modified by SAMA for the accounting of Zakat and Income Tax, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association, and for such internal control as the Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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6 Jumada'II 1439H
22 February 2018

Annexes

The information contained herein is of a supplementary nature and will be useful to be referenced when reading the rest of the Report.

Branch Network

Riyadh

Al Kharj Branch
Kharj

Al Nassim Branch
Riyadh

Al Rawabi Branch
Riyadh

Al-Aqeeq Branch
Riyadh

Al-Rahmania Branch*
Riyadh

Al-Rowda Branch
Riyadh

AL-Wadi Branch*
Riyadh

Badiah Branch
Riyadh

Ghadeer Branch
Riyadh

Ghurnatah Branch
Riyadh

Head Office Branch*
Riyadh

Khurais Road Branch
Riyadh

King Fahed District Branch
Riyadh

Malaz Branch*
Riyadh

Nuzha Branch
Riyadh

Rayyan Branch
Riyadh

Shifa Branch
Riyadh

Suwidi Branch
Riyadh

Takhassussi Branch
Riyadh

Woroud Branch
Riyadh

Makkah

Al Taif Branch*
Al Taif

Al-Bawadi Branch
Jeddah

AlJamia Branch
Jeddah

Al-Azizia Branch*
Makkah

Jeddah Branch
Jeddah

Makkah Branch
Makkah

Malik Branch
Jeddah

Pr. Majeed Street Branch
Jeddah

Pr. Sultan Branch
Jeddah

Al-Safa Branch*
Jeddah

Eastern

Al-Ahssa Branch
Al-Ahssa

Al-Khobar Branch
Al-Khobar

Aryan Branch
Dammam

Dammam Branch*
Dammam

Hafer Albaten Branch
Hafer Albaten

Hafof Branch
Al-Ahssa

Jubail Branch
Jubail

Qateef Branch
Qateef

Qurtuba Branch*
Al-Khobar

Uhod Branch
Dammam

Qassim

Buraidah Branch
Buraidah

Onizah Branch*
Onizah

Hail

Hail Branch
Hail

Tabuk

Tabuk Branch
Tabuk

Asir

Abha Branch
Abha

Khamis Mushait Branch*
Khamis Mushait

Madina

Madina Branch*
Madina

Najran

Najran Branch
Najran

Jezan

Jezan Branch
Najran

**Branches with Ladies Sections*

GRI 102-55

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102-17	Mechanisms for advice and concerns about ethics	29, 69	Corporate Governance, Institutional Capital
Governance			
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102-22	Composition of the highest governance body and its committees	22-23, 26-28	Board of Directors, Corporate Governance
102-23	Chair of the highest governance body	22, 26	Board of Directors, Corporate Governance
102-24	Nominating and selecting the highest governance body	26-27	Corporate Governance
102-25	Conflicts of interest	26	Corporate Governance
102-35	Remuneration policies	93	Employee Capital
102-36	Process for determining remuneration	93	Employee Capital
Stakeholder engagement			
102-40	List of stakeholder groups	50-52	Stakeholders
102-41	Collective bargaining agreements	–	No collective bargaining agreements entered in to as per prevalent laws
102-42	Identifying and selecting stakeholders	50-52	Stakeholders
102-43	Approach to stakeholder engagement	52-54	Stakeholders
102-44	Key topics and concerns raised	52-54	Stakeholders

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102-47	List of material topics	55-56	Materiality
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102-52	Reporting cycle	6	About this Report
102-53	Contact point for questions regarding the report	7	About this Report
102-54	Claims of reporting in accordance with the GRI Standards	7	About this Report This Report has been prepared in accordance with the GRI Standards; Core option
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GRI 200: Economic			
GRI 201: Economic performance 2016			
103-1	Management approach	45-47	Strategic Framework
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201-1	Direct economic value generated and distributed	59-64	Financial Capital
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201-3	Defined benefit plan obligations and other retirement plans	125-126	Board of Directors' Report
201-4	Financial assistance received from government	–	No financial assistance received from the Government
GRI 202: Market presence 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
202-2	Proportion of senior management hired from the local community	94, 96	Employee Capital
GRI 203: Indirect economic impacts 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
203-1	Infrastructure investments and services supported	10-11, 46-47	The Saudi Investment Bank, Strategic Framework
203-2	Significant indirect economic impacts	10-11, 46-47	The Saudi Investment Bank, Strategic Framework
GRI 204: Procurement practices 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
204-1	Proportion of spending on local suppliers	91	Business Partner Capital
GRI 205: Anti-corruption 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
205-1	Operations assessed for risks related to corruption	36	Compliance

GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
205-2	Communication and training about anti-corruption policies and procedures	69, 91	Institutional Capital, Business Partner Capital
205-3	Confirmed incidents of corruption and actions taken	–	No incidents of corruption reported
GRI 300: Environmental			
GRI 301: Materials 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
301-1	Materials used by weight or volume	107	Social and Environmental Capital
GRI 302: Energy 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
302-1	Energy consumption within the organisation	104-105	Social and Environmental Capital
302-3	Energy intensity	104-105	Social and Environmental Capital
302-4	Reduction of energy consumption	104-105	Social and Environmental Capital
GRI 303: Water 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
303-1	Water withdrawal by source	105	Social and Environmental Capital
GRI 305: Emissions 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
305-1	Direct (Scope 1) GHG emissions	104	Social and Environmental Capital
305-2	Energy indirect (Scope 2) GHG emissions	104	Social and Environmental Capital
305-4	GHG emissions intensity	104	Social and Environmental Capital
GRI 306: Effluents and waste 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
306-1	Water discharge by quality and destination	105	Social and Environmental Capital
306-2	Waste by type and disposal method	105, 107	Social and Environmental Capital
GRI 307: Environmental compliance 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
307-1	Non-compliance with environmental laws and regulations	–	No non-compliance with environmental laws and regulations reported
GRI 308: Supplier environmental assessment 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
308-1	New suppliers that were screened using environmental criteria	91	Business Partner Capital

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GRI 400: Social			
GRI 401: Employment 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
401-1	New employee hires and employee turnover	94-95	Employee Capital
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	96	Employee Capital
401-3	Parental leave	96	Employee Capital
GRI 403: Occupational health and safety 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	100	Employee Capital
GRI 404: Training and education 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
404-1	Average hours of training per year per employee	97	Employee Capital
404-2	Programs for upgrading employee skills and transition assistance programs	97	Employee Capital
404-3	Percentage of employees receiving regular performance and career development reviews	97	Employee Capital
GRI 405: Diversity and equal opportunity 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
405-1	Diversity of governance bodies and employees	94-95	Employee Capital
405-2	Ratio of basic salary and remuneration of women to men	95	Employee Capital
GRI 406: Non-discrimination 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
406-1	Incidents of discrimination and corrective actions taken	101	Employee Capital
GRI 408: Child labour 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
408-1	Operations and suppliers at significant risk for incidents of child labour	–	No operations and suppliers at significant risk for incidents of child labour reported
GRI 409: Forced or compulsory labour 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	–	No operations and suppliers at significant risk for incidents of forced or compulsory labour reported

GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
GRI 412: Human rights assessment 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
412-2	Employee training on human rights policies or procedures	100	Employee Capital
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	100	Employee Capital
GRI 413: Local communities 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
413-1	Operations with local community engagement, impact assessments, and development programs	10-11, 108-110	The Saudi Investment Bank, Social and Environmental Capital
413-2	Operations with significant actual and potential negative impacts on local communities	–	No operations with significant actual and potential negative impacts on local communities reported
GRI 414: Supplier social assessment 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
414-1	New suppliers that were screened using social criteria	91	Business Partner Capital
GRI 417: Marketing and labelling 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
417-2	Incidents of non-compliance concerning product and service information and labelling	–	No incidents of non-compliance concerning product and service information and labelling reported
417-3	Incidents of non-compliance concerning marketing communications	–	No incidents of non-compliance concerning marketing communications reported
GRI 418: Customer privacy 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	–	No complaints concerning breaches of customer privacy and losses of customer data reported
GRI 419: Socio-economic compliance 2016			
103-1	Management approach	45-47	Strategic Framework
103-2	Implementation	45-47	Strategic Framework
103-3	Performance	45-47	Strategic Framework
419-1	Non-compliance with laws and regulations in the social and economic area	–	No incidents of non-compliance concerning marketing communications reported

Glossary of Key Islamic Finance Terms

A

Ajr: commission or fee charged for services

Akar: instalment sale to invest in property
Financing to give customers an opportunity to invest in property with repayment to the Bank in the form of instalments over a period of time.

B

Bai al Arboon: down payment sale
A sale agreement in which a down payment is provided in advance as part payment towards the price of the commodity for reserving the commodity. The down payment is forfeited if the buyer does not return to take the commodity and the seller is entitled to sell the commodity.

Bai Al Ajel: deferred payment sale
A sale on a deferred payment basis. Equipment or goods are sold by the Bank to the client for an agreed lump sum price which includes the profit required by the Bank without disclosing the cost. The client may pay by instalments within a pre-agreed period, or in a lump sum.

Bai Inah: sale and buy-back
The sale and buy-back of an asset for a higher price than that for which the seller originally sold it. The seller immediately buys back the asset just sold on a deferred payment basis at a price higher than the original price. This can be seen as a loan in the form of a sale.

E

Eirad: credit facilities granted against assignment of an income stream for a specific period

F

Fiqh: Islamic jurisprudence

G

Gharar: uncertainty
One of three fundamental prohibitions in Islamic finance (the other two being Riba and Maysir). Gharar is a concept that covers certain types of haram uncertainty whereby one or more parties stand to be deceived through ignorance of an essential element in the contract. Gambling is a form of Gharar because the gambler is ignorant of the result of the gamble. The prohibition on Gharar is often used as the grounds for criticism of conventional financial practices such as short selling, speculation and derivatives.

H

Halal: lawful, permissible

Haram: unlawful, forbidden
Activities, professions, contracts and transactions that are explicitly prohibited by the Quran or the Sunnah.

Hawala: bill of exchange, remittance
A contract which allows a debtor to transfer his debt obligation to a third party who owes the former a debt. The mechanism of Hawala is used for settling international accounts by book transfers, thus obviating the need for a physical transfer of cash.

I

Ijara: leasing
A lease agreement whereby a bank or financier buys an item for a customer and then leases it to him over a specific period, thus earning profits for the Bank by charging rental. The duration of the lease and the fee are set in advance. During the period of the lease, the asset remains in the ownership of the lessor (the Bank), but the lessee has the right to use it. After the expiry of the lease agreement, this right reverts to the lessor.

Ijara Thumma Bai: leasing to purchase
The same principle governing an Ijara contract, but at the end of the lease period the lessee buys the asset for an agreed price through a purchase contract.

Ijarah wa Iqtina: buy-back leasing

Istisnaa: advance purchase of goods or buildings
A contract of acquisition of goods by specification or order, where the price is paid in advance, or progressively in accordance with the progress of a job. For example, to purchase a yet to be constructed house, payments would be made to the builder according to the stage of work completed. This type of financing, along with Salam, is used as a purchasing mechanism, and Murabaha and Bai Al Ajel are for financing sales.

K

Kafalah: guarantee
Sharia principle governing guarantees. It applies to a debt transaction in the event of a debtor failing to pay.

M

Maysir: gambling
One of three fundamental prohibitions in Islamic finance (the other two being Riba and Gharar). The prohibition on Maysir is often used as grounds for criticism of conventional financial practices such as speculation, conventional insurance and derivatives.

Mudaraba: trust financing, profit sharing
An investment partnership, whereby the investor (the Rab al mal) provides capital to the entrepreneur (the mudarib) in order to undertake a business or investment activity. While profits are shared on a pre-agreed ratio, losses are born by the investor alone. The mudarib loses only his share of the expected income.

The investor has no right to interfere in the management of the business, but he can specify conditions that would ensure better management of his money. In this way Mudaraba is sometimes referred to as a sleeping partnership.

A joint Mudaraba can exist between investors and a bank on a continuing basis. The investors keep their funds in a special fund and share the profits before the liquidation of those financing operations that have not yet reached the stage of final settlement. Many Islamic investment funds operate on the basis of joint Mudaraba.

Mudarib: entrepreneur in a Mudaraba contract
The entrepreneur or investment manager in a Mudaraba who puts the investor's funds in a project or portfolio in exchange for a share of the profits. A Mudaraba is similar to a diversified pool of assets held in a discretionary asset management portfolio.

Murabaha: cost-plus financing
A form of credit in which the bank buys an item and sells it to the customer on a deferred basis. The price includes a profit margin agreed by both parties. Repayment, usually in instalments, is specified in the contract.

The legality of this financing technique has been questioned because of its similarity to Riba. However, the modern Murabaha has become a popular financing technique among Islamic banks, used widely for consumer finance, real estate and the purchase of machinery and for financing short-term trade.

Musharaka: joint venture, profit and loss sharing
An investment partnership in which all partners are entitled to a share in the profits of a project in a mutually agreed ratio. Losses are shared in proportion to the amount invested. All partners to a Musharaka contribute funds and have the right to exercise executive powers in that project, similar to a conventional partnership structure and the holding of voting shares in a limited company.

This equity financing arrangement is widely regarded as the purest form of Islamic financing. The two main forms of Musharaka are:

- Permanent Musharaka: an Islamic bank participates in the equity of a project and receives a share of the profit on a pro rata basis. The length of contract is unspecified, making it suitable for financing projects where funds are committed over a long period.
- Diminishing Musharaka: this allows equity participation and sharing of profits on a pro rata basis, and provides a method through which the bank keeps on reducing its equity in the project, ultimately transferring ownership of the asset to the participants. The contract provides for payment over and above the bank's share in the profit for the equity held by the bank. Simultaneously the entrepreneur purchases some of the bank's equity, progressively reducing it until the bank has no equity and thus ceases to be a partner.

Mutajara: an asset financing mechanism with deferred payment
A financing agreement whereby the bank purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price, thus making the client a debtor to the bank for the sale amount and for the period agreed in the contract.

Q

Qard Hasan: benevolent loan
A loan contract between two parties for social welfare or for short-term bridging finance. Repayment is for the same amount as the amount borrowed. The borrower can pay more than the amount borrowed so long as it is not stated by contract.

R

Riba: interest
An increase, addition, unjust return, or advantage obtained by the lender as a condition of a loan. Any risk-free or “guaranteed” rate of return on a loan or investment is Riba. Riba in all its forms is prohibited in Islam.

In conventional terms, Riba and “interest” are used interchangeably, although the legal notion extends beyond mere interest.

S

Sharia: Islamic jurisprudence

Sukuk: Islamic bond
An asset-backed bond which is structured in accordance with Sharia and may be traded in the market. A Sukuk represents proportionate beneficial ownership in the underlying asset, which will be leased to the client to yield the return on the Sukuk.

T

Takaful: Islamic insurance
Based on the principle of mutual assistance, Takaful provides mutual protection of assets and property and offers joint risk-sharing in the event of a loss by one of the participants. Takaful is similar to mutual insurance in that members are the insurers as well as the insured. Conventional insurance is prohibited in Islam because its dealings contain several haram elements, such as Gharar and Riba.

Tawarruq: reverse Murabaha
In personal financing, a client with a genuine need buys an item on credit from the bank on a deferred payment basis and then immediately resells it for cash to a third party. In this way, the client can obtain cash without taking out an interest-based loan.

U

Ujrah: fee
The financial charge for using services, or Manfaat (wages, allowance, commission, etc.).

W

Waqf: charitable trust

Z

Zakat: religious tax
An obligatory contribution which every wealthy Muslim is required to pay to the Islamic state, or to distribute amongst the poor. According to Islam, Zakat – the third pillar of Islam – purifies wealth and souls. Zakat is levied on cash, cattle, agricultural produce, minerals, capital invested in industry and business.

Corporate Information

Name
The Saudi Investment Bank

Commercial registration
1010011570

Registered logo
البنك السعودي للاستثمار
The Saudi Investment Bank

Legal form
The Saudi Investment Bank (the Bank), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, (corresponding to June 23, 1976) in the Kingdom of Saudi Arabia.

Stock exchange listing
The shares of the Bank are listed on the Saudi Stock Exchange (Tadawul)

Stock code: 1030

Auditors
PricewaterhouseCoopers
KPMG Al Fozan & Partners

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Subsidiary companies and joint venture associate companies

Name of Subsidiary	Country of operation	Country of establishment
Alistithmar for Financial Securities and Brokerage Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Investment Real Estate Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Investment First Company Limited	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
SAIB Markets Limited Company	Kingdom of Saudi Arabia	Cayman Islands

Name of Associate	Country of operation	Country of establishment
American Express (Saudi Arabia)	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Orix Leasing Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Amlak International for Finance and Real Estate Development Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia

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This is an Integrated Annual Report

Prepared using the Smart Integrated Reporting Methodology™ of Smart Media The Annual Report Company, this report captures the essence of the IIRC <IR> Framework and the GRI Standards.

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