بنك البلاد
Bank Albilad

Annual Report 2016

Kingdom of Saudi Arabia
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Content

In the Name of Allah,
Most Gracious, Most Merciful

May Your Souls Rest in Peace

Custodian of the Two Holy Mosques
Salman bin Abdulaziz Al Saud
May Allah Protect Him

His Royal Highness
Muhammad bin Nayef bin Abdulaziz Al Saud
Crown Prince and Deputy Prime Minister
May Allah Protect Him

His Royal Highness
Mohammad bin Salman bin Abdulaziz Al Saud
Deputy Crown Prince and Second Deputy Prime Minister Minister of Defense
May Allah Protect Him

Vision

To be the preferred choice of genuine Islamic banking solutions

Mission

To strive initiatives and innovation to provide our banking services on a genuine Islamic basis to meet the ambitions of our stakeholders: clients, employees and shareholders

Core Values

- Initiative and Innovation
- Care and Partnership
- Trust and Accountability

Dr.
Abdulrahman bin Ibrahim AlHumaid
Chairman of the Board
Chairman of the Executive Committee

Mr.
Saud bin Mohammed Alfaiz
Board member
Chairman of the Risk Committee

Mr.
Nasser bin Mohammed AlSubeaei
Vice Chairman of the board
Member of the Executive Committee

Mr.
Fahad bin Abdullah Bindekhayel
Board member
Member of the Executive Committee

Mr.
Abdulrhman Bin Mohammed Ramzi Addas
Board member
Chairman of the Nominations & Compensations Committee
Chairman of the Compliance and Governance Committee

Mr.
Ahmed bin Abdulrahman Alhussan
Board member
Chairman of the Audit Committee

Mr.
Khalid bin Abdulaziz AlMukairin
Board Member
Member of Executive Committee
Member of Nomination and Remuneration Committee

Mr.
Khalid bin Suleiman Aljasser
Board Member

Engg.
Omar bin Saleh Babaker
Board member
Member of the Nominations &
Compensations Committee

Mr.
Khalid bin Abdulrahman Al-Rajhi
Board member
Member of the Executive Committee

Mr.
Fahad Abdullah Alkassim
Board member
Member of the Risk Committee

Speech of the Chairman of the Board

In The Name of Allah Most Gracious Most Merciful

Praise be to Allah, and prayers and peace be upon the Messenger of Allah and his family and companions. Then, in my name and on behalf of the Board of Directors, I am pleased to present to the shareholders of the Bank the Annual Report for the fiscal year 2016, which shows the overall performance of the Bank, details the results of its main activities and clarifies the financial position, shareholders' equity and financial statements for the year ended 31 December 2016.

With the help of God and his gratitude and then the efforts of the staff, the bank has been able to achieve positive financial and operational results and a healthy growth during the year ending on 31/12/2016. The financial and monetary policy pursued by the government played the main role in strengthening the capability of Bank AlBilad and Saudi Banks in general to strengthen their financial position, increase their ability to deal with risks and maintain a high and stable financial solvency level.

During the past year and as a result of the good performance of the Bank during the past years, the Bank increased its capital to SAR 6 Billion by distributing bonus shares of one share for every five shares after obtaining the approval of the Extraordinary General Assembly held on 11/04/2016. The Board of Directors of the Bank recommended the increase in capitalto enhance its solvency and to retain the Bank's resources in operating activities. The Bank has successfully completed the issuance and launch of secondary sukuk with Saudi Riyals as special launch within the Kingdom of Saudi Arabia, valuing SAR 2 Billion (SAR 2,000,000,000) during the third quarter of 2016, with ten-year maturity period in addition to the Bank's right to repurchase (refund) these sukuk after five years. The Bank intends to increase the capital base of the Bank in accordance with the requirements of Basel 3. During the past year, the Bank has also updated and developed its five-year strategy 2017-2021 AD that was approved by the Board of Directors in accordance with the latest developments in the market and the banking arena. The Board also monitors its implementation in a periodic manner. An integrated governance system and mechanisms have been developed to follow up the implementation of these strategic plans. In addition to allowing a number of qualified and efficient bank's young employees to take up executive and leadership roles in the Bank as well as attracting qualified professionals who possess outstanding expertise in all fields.

It is worth mention that the Board of Directors decided at the end of the first quarter of 2016 AD to appoint Mr. Abdulaziz Bin Mohammed Al-Onizan, (who has long banking experience in the banking business in a number of Saudi banks, during which he held several leadership positions; the last of which was the Chief Business Officer of Bank Albilad), as CEO, replacing the former CEO and current board member Mr./ Khalid Bin Sulaiman Al Jasser who, since joining the Bank in 2009 and during the past seven years, has made a significant effort to grow the Bank's business and maximize its positive results.

In addition to the financial results achieved, we, in the Board of Directors, have also adopted a generating societal gains efforts, and paying our due regard to the social responsibility. The Bank has adopted several community initiatives that have strengthened its role in the service of society and our work will continue in this regard in recognition of the Bank's social responsibility.

On behalf of the Board of Directors, Executive Management and all employees of the Bank, I have the honor to pay appreciation and respect to the Custodian of the Two Holy Mosques King Salman bin Abdulaziz, Crown Prince His Royal Highness Prince Muhammed bin Nayef and deputy Crown Prince His Royal Highness Prince Mohammed bin Salman, May Allah protect and care for them, since they privately provided the banking sector with continuous support and generous care, and extends to all governmental and private institutions, mainly the Saudi Arabian Monetary Authority (SAMA), the Ministry of Finance, the Ministry of Commerce and Investment, and the Capital Market Authority. I would also like to express thanks in my name and the name of the board of directors and Executive Management to His Highness the Chairman and members of the Bank's Sharia Board for their efforts to ensure that the Bank complies with Shariah standards in all its services and to achieve the vision of the Board of Directors and its shareholders that the bank should be a pioneer in the Islamic finance. I would like to extend thanks to shareholders, partners and valued customers of Bank Albilad for their trust in the bank, as well as the employees of the Bank , Albilad ambassadors, who work every day in a hard sincere and professional manner, they were and still the main reason - after the reconciliation of Allah Almighty – behind the steady growth and good results we achieved and achieving, in addition to our full confidence that they will spare no effort and will not stop at this point, but they will work hard to achieve further progress and growth within the following years, Allah willing.

In conclusion, I would like to express my thanks and appreciation for your confidence in the Bank's management and employees. I am so honored to meet you at the Annual General Meeting of the General Assembly to respond to any inquiry regarding the contents of this report.

The success comes only from Allah.

Your brother / Abdul Rahman bin Ibrahim Al - Hamid

Doctor
Abdul Rahman bin Ibrahim Al-Humaid

Speech of the Chief Executive Officer

Dear Bank AlBilad Stakeholders,
Peace be upon you

For Bank Albilad, 2016 was a very good year despite very challenging market conditions. We made significant progress in growing our core revenues. The Bank continued to execute its strategy of building the Retail Banking business to complement its strengths in Corporate and Financial Markets.

In 2016, Bank AlBilad achieved a Net Income of SAR808 Million, 3% higher than previous year as Income from Investing and Financing Assets jumped 21.3% to SAR 1.4 Billion, while Total Operating Income rose by 13%. On the other hand, Total Operating expenses, grew by 18.5% led by an increase in provisions. In addition, we are continuously investing in technology to make it easy for the customer to open an account, to apply for products, improve overall customer journey, thereby achieving high level of customer satisfaction.

Net financing increased by 6% to SAR36 Billion. Financing growth, driven mainly by consumer financing grew by 8.3%. Total assets expanded by 5% to SAR54 Billion.

During the year, the Bank issued a capital-boosting Sukuk in the amount of SAR2 Billion to support the Bank's capital base to be in line with Basel III standards.

2016 also witnessed the introduction of various products and services such as the Tamayuz Diamond and Tamayuz Gold for our most important customers in Retail, the Albilad Soft Token application for free, Mukafaat AlBilad loyalty program, Medad Control, and Ijarah Real Estate Finance. We have also improved the Albilad Business Net features, our electronic banking platform serving Corporate and Commercial clients.

Our market leading position in the remittance business was further boosted with the launch of the Western Union online money transfer service via AlBilad Net providing customers with easier and more convenient way of sending money overseas - to 400,000 agent locations in more than 200 countries worldwide.

In 2016, Corporate Banking Group has also developed a variety of Shariah-compliant products and programs designated for the Small and Medium Enterprises (SMEs) segment which will definitely support the Kingdom's 2030 Vision goals and aspirations of increasing SMEs contribution to GDP from 20% to 35%.

We saw a more extensive rationalization effort of our Branch network taking place in 2016 with three (3) new openings, three (3) relocations and four (4) consolidation of operations. We also started launching Sales Centers in key cities.

With regard to ATMs and alternative channels, we have completed the upgrade of our ATMs network to a more recent operating system including a new incident monitoring system. Moreover, the refocusing of ATM sites to reach our clients and to achieve optimum performance is in progress per plan. Cash Acceptance Machines (CAMs) are also being expanded in certain Branches to migrate over- the-counter cash transactions to machines and to provide alternative channels for serving our clients. In addition, we have progressed well with our Point of Sale (POS) expansion program. Other enhancements in the alternative channel front include the upgrade of our IVR considerably reducing Call Center voice interface thus, allowing agents to focus more on quality time serving the customers.

2016 also marked the year, we started the full-pledged implementation of new our brand image which can now be prominently seen in Branches signage and Drive-up ATMs.

We also spent the year developing our people. We invested heavily in training. We enhanced our recruitment and talent retention through programs designed to upgrade our employees' technical, sales, customer service, behavioral and leadership skills. We recognized talents through our Staff Recognition Programs.

Based on our Board of Directors direction towards strengthening the Bank's role in Corporate Social Responsibility (CSR), the Bank has assigned a CSR Committee to look into social responsibility initiatives. As a result, the Bank has successfully contributed in several CSR activities in 2016 benefiting various institutions.

In 2017, we will Insha'Allah strive as Bank Albilad ambassadors to sustain our growth trajectory and achieve better results. We will aim to be the Bank providing the best and widest selection of Islamic banking solutions. We will carry on developing high quality, sophisticated and diversified products and services as well as convenient round-the-clock banking electronic services.

Our strength is our people. Therefore, we will continue attracting the best qualified personnel, which represents the real capital of the Bank.

Last but not the least, initiatives and efforts to help communities will remain as one of our foremost principles in promoting our role in the field of social responsibility.

Finally, I would like to thank our Board of Directors, our stakeholders, our customers, our business partners, and Albilad Ambassadors for their continued support and most important of all, the Saudi Arabian Monetary Authority for implementing prudent monetary policies supporting the banking sector.

May Allah Bless Us All

Abdulaziz Mohammed Alonaizan

Mr.
Abdulaziz Mohammed Alonaizan

And the challenge for success continues steadily in God's will

Shareholders of Bank Albilad

Peace, mercy and blessings of Allah be upon you,

The Board is pleased to submit to Bank Albilad shareholders the annual report on the Bank's performance and its subsidiaries, main activities and achievements for the fiscal year ended on the 31st of December 2016.

Operational Results:

SAR 808 Million

The year's net income has reached SAR 808 M for 2016, with an increase of 2.5 % from 2015. The reason behind this rising is the increase in the total operating income up to 13% amounting to SAR 2,594 M; this came because of the increase in the net profit of Finance and Investment Assets Portfolio by 21.3% amounting SAR 1,410 M.

SAR 1,785 Million

In addition, the total operating expenses increased by 18.5% reaching SAR 1,785 M; this came as a result of the increase in the provisions reserved for the Finance and Investment Portfolio in addition to Other General And Administrative Expenses Clause.

Total operating income for the past five years
(in Millions of Saudi riyals)

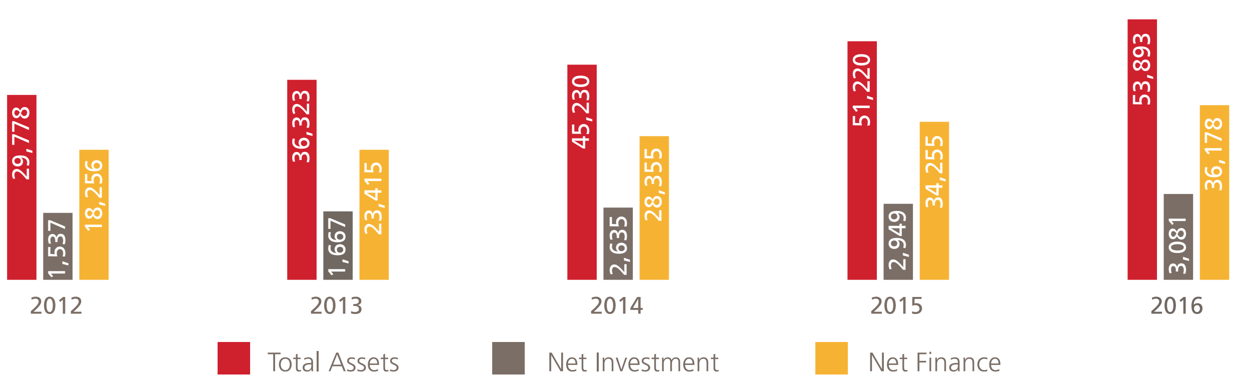
Net income attributable to shareholders of the Bank for the past five years
(in Millions of Saudi riyals)

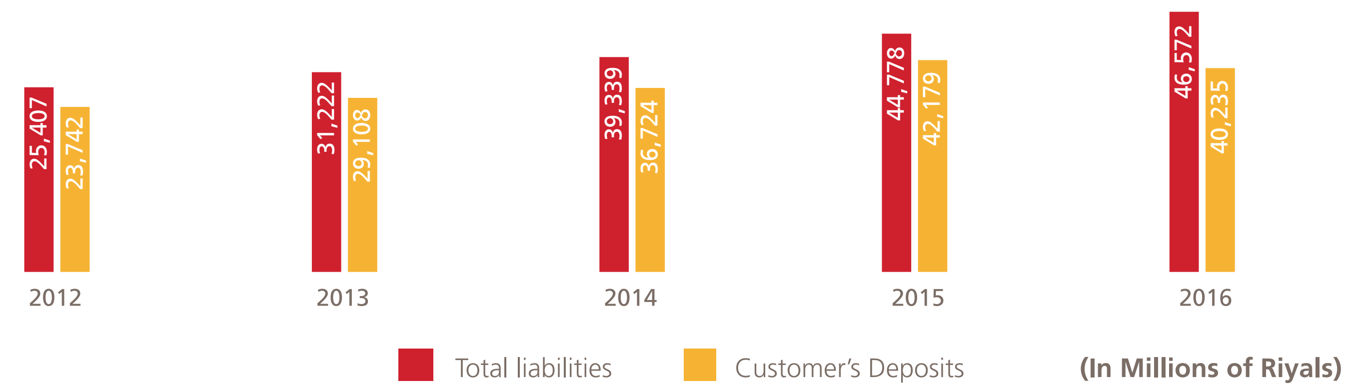
Financial Position:

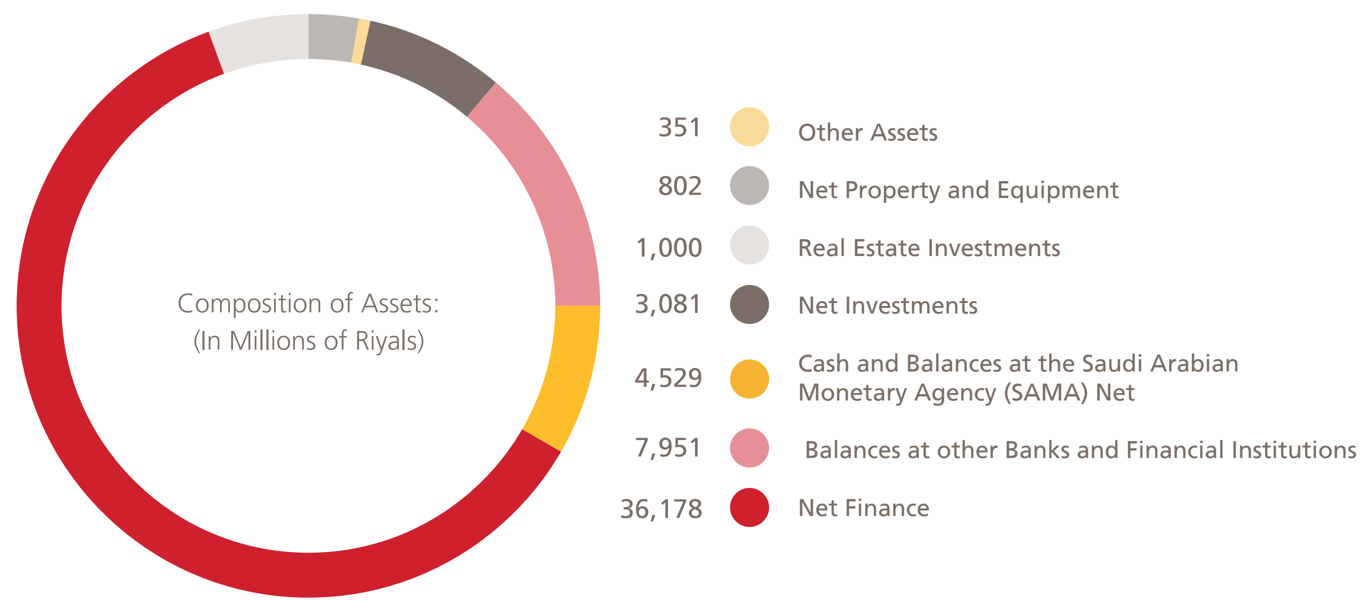
SAR 53,893 Million

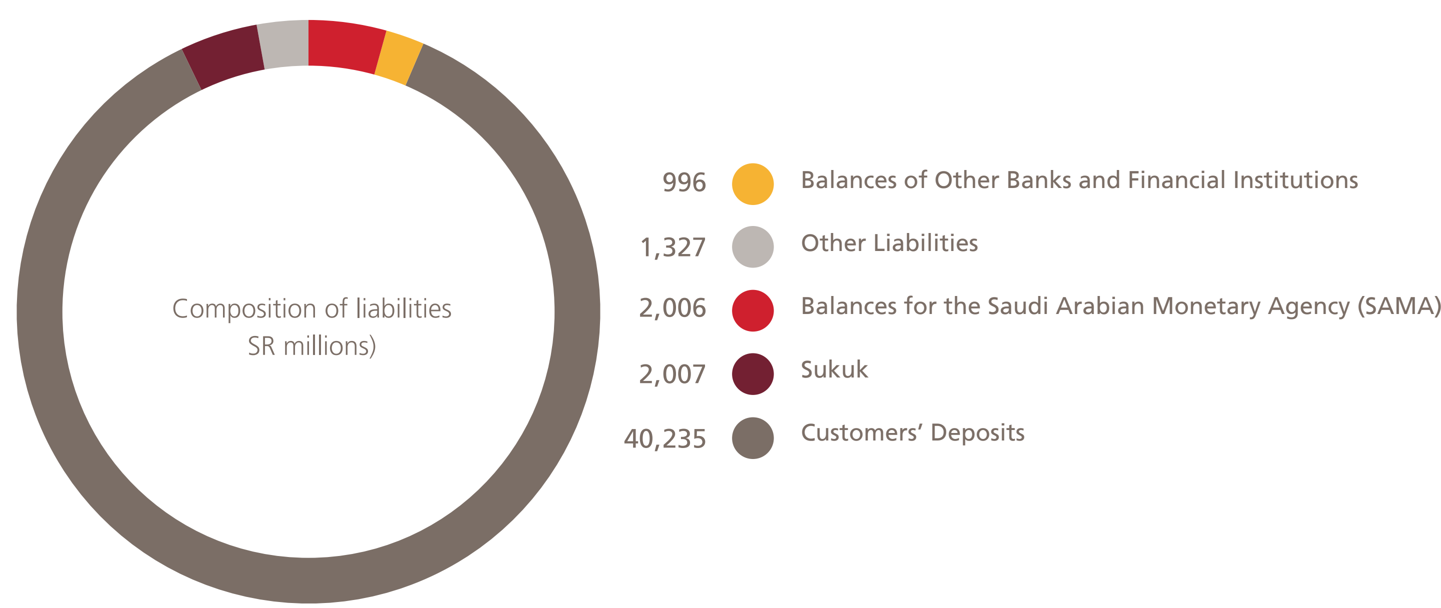
The Bank's total assets by the end of 2016 amounted SAR 53,893 M; this represented an increase by 5.2% from last year. Furthermore, the customers' deposits reached SAR 40,235 M by the end of the current year, recording a decline of SAR 1,945 M compared to the previous year by 4.6%. In addition, the net financing portfolio has also risen to SAR 36,178 M by the end of 2016, compared to SAR 34,255 M from the previous year, i.e. an increase by 5.6%.

(Millions of riyals)





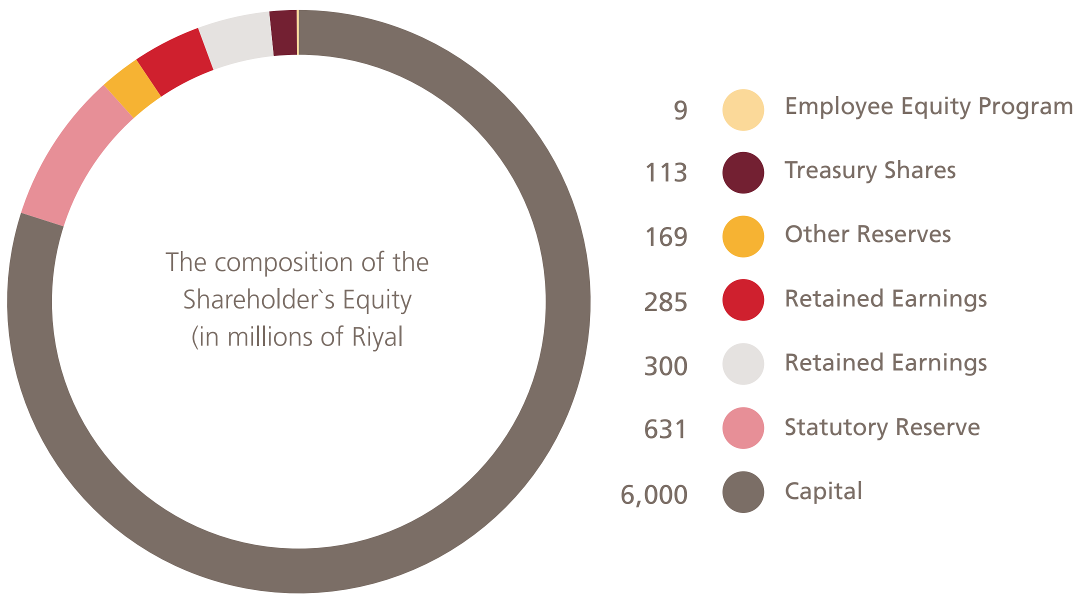




Shareholders' Equity:

SAR 7,281 Million

The shareholders' equity amounted to 7,281 million Saudi riyals by the end of 2016, compared to 6,442 million Saudi riyals at the end of 2015 by increase of 13%; whereas the number of issued common shares was nearly 600 million shares. The Capital Adequacy Rate (CAR) has reached 20.5% by the end of 2016 compared to the minimum requirement of 8%. The Bank achieved a return on average assets amounted to 1.54%, while the return on average shareholders 'equity amounted to 11.7%, and the earnings per share amounted to 1.35 riyals per share.



Financial comparisons

A) The following is an analysis for the most important clauses of the Consolidated Statement of Financial Position

(In Millions of Saudi Riyals)

	2016	2015	2014	2013	2012
Net Investments	**3,081**	2,949	2,635	1,667	1,537
Net Finance	**36,178**	34,255	28,355	23,415	18,256
Total Assets	**53,893**	51,220	45,230	36,323	29,778
Customers' Deposits	**40,235**	42,179	36,724	29,108	23,742
Total Liabilities	**46,572**	44,778	39,339	31,222	25,407
Total Shareholders' Equity	**7,281**	6,442	5,891	5,101	4,371

B) The following is an analysis of the most important clauses of the Consolidated Income Statement

(In Millions of Saudi Riyals)

	2012	2013	2014	2015	2016
Net Income from Investment and Finance Assets	840	947	1,019	1,162	**1,410**
Net Fees and Commissions Income	645	666	719	779	**817**
Net Foreign Currency Exchange Gains	234	245	293	317	**311**
Total Operating Income	1,737	1,917	2,097	2,295	**2,594**
Reversal of the provision for Murabaha Goods	-	(5)	-	-	**-**
Impairment	-	-	-	13	**47**
Provision for the Impairment of Available-for-Sale	275	175	(8)	79	**191**
Net Provision/ Reversal of Provision of Finance	1,168	1,188	1,233	1,506	**1,785**
Impairment	373	-	-	-	**-**
Total Operating Expenses	942	729	864	788	**809**
Non-Operating Gains					
Year's Net Income					
	942	729	864	788	**808**
Return to:	-	-	-	-	**1**
Bank Shareholders	942	729	864	788	**809**
Non-Controlling Interest					
Year's Net Income					

Geographical Analysis of the Revenues of the Bank and its Subsidiaries:

Analysis of total revenues by region

(In Millions of Saudi Riyals)

	Central	Western	Eastern	Total
Total Revenues for 2016	**1,633**	566	395	2,594

Most of the revenues of the Bank and its subsidiaries are mainly realized from the activities within the Kingdom of Saudi Arabia, and the Bank has no branches or subsidiary companies or institutions working outside Saudi Arabia.

Applicable Accounting Standards:

In the preparation of its consolidated financial statements, Bank Albilad follows accounting standards for financial institutions issued by the Saudi Arabian Monetary Authority (SAMA), in addition to the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS). The Bank prepares its consolidated financial statements to comply with the Banking Control Law and the Companies System in Saudi Arabia.

It should be noted that the Capital Market Authority (CMA) has issued a circular, which stresses the need of the Companies' Boards to include at once the details of the International Accounting Standards application plan in the Board's report for the fiscal years 2015 and 2016, and that is after their adoption by the Saudi Organization for Certified Public Accountants in the financial statements prepared for fiscal periods starting from or after the 1st of January 2017. In addition to the plan implementation stages and the extent of the Company's readiness to apply the International Accounting Standards on the 1st of January 2017.

As the bank already follows the International Accounting Standards when preparing its consolidated financial statements, it has no plans regarding what has been stated in the aforementioned circular.

The most important awards and achievements:

The Bank has achieved numerous awards, most notably:

Bank Albilad ranked 25th in the list of the top 100 Saudi companies for 2016 issued by **Al Eqtisadiah newspaper.**

Ranked first from Bursa Malaysia for commodities trading: the Treasury division received the Best Foreign Commodity Dealer Award provided by Bursa Malaysia.

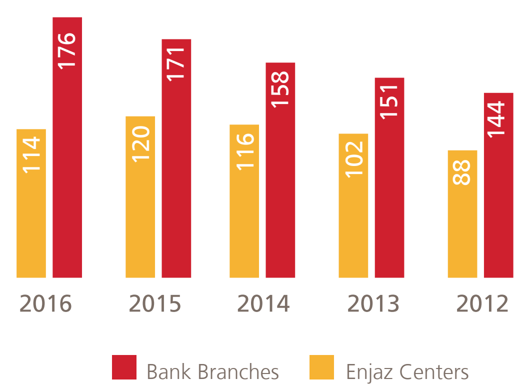
Obtain the best local fund in the Middle East granted by Thomson Reuters Lepper, in recognition of the performance of Amwal Fund, which invests in Islamic banks and financial institutions.

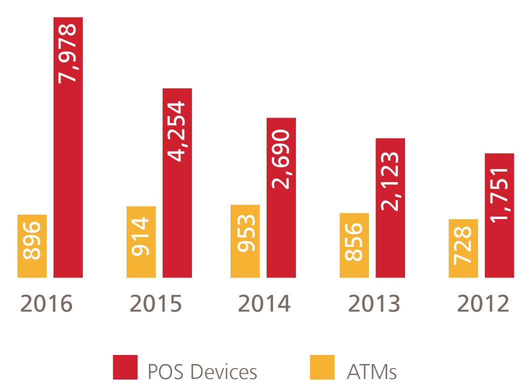
Bank Strategy and Future Plans:

Un Confirmation to the Bank's continuous commitment to its corporate norms, and accordance with the current economic changes, Bank's Board of Directors has updated the strategy approved since 2013 during 2016 and extended it for the next five years (2017-2021). The strategic trends were revised, taking into account the expected investment opportunities and accepted risk levels to achieve the bank's vision and objectives of increasing its market share, achieving growth in revenues and net profits and increasing its capital base. The strategic plans aimed to expand the base for customers of the business sector with different segments, raising the quality standards of services provided to them and releasing new products and modern and secure services that fit their aspirations. The strategy also included increasing the efficiency of the Bank's banking and financial channels, raising productivity in general by improving the efficiency of the procedures, performance of branch and spreading it, ATM locations and the development of technical and operational infrastructure.

Expansion of Banking Services:

During 2016, the spread of branches was reconsidered and 6 new branches were closed, so the number of working branches became 114 branches. Furthermore, 5 Enjaz centers were opened, bringing the number of remittance centers to 176 centers by the end of 2016. In the e-banking field, the number of working devices has reached 896 devices at the end of 2016; and 3,724 devices have also been added to the POS during the year 2016, bringing the number of devices to 7978 devices at the end of 2016.





Social Responsibility:

Bank Albilad believes that its social responsibility is: "a moral, religious and legal commitment by the bank to the community to achieve solidarity and cooperation and contribute to the formation and protection of the interests of its members and increase its progress and welfare and preserve and maintain the environment and achieve comprehensive and sustainable development".

As Bank Albilad believe, as being a leading Islamic bank, in it's role and responsibility to the community, ethical, religious and legal commitment from the principles of Islamic Sharia, and to the implementation of the duty of solidarity and cooperation, the Bank has endeavored to reflect its vision and mission not only through its services, banking and financial products, but also by its sustainable commitment to serve its society in different ways to contribute to achieve and protect the interests of its individuals and increase its development and welfare, maintaining the environment and achieve the sustainable and comprehensive development throughout the country. The Bank has not only taken the social responsibility of the community as a fundamental pillar of its policies, plans and strategic decisions, but also involved it in its daily operations and activities, by enhancing the internal awareness of its employees of the social responsibility and follow best practices to be applied; so the social responsibility would be in the Bank's culture and the environment of its commitment.

For that, the Bank has adopted a new policy for social responsibility approved by the General Assembly, taking into account relevant best practices and relevant international and local standards, as well as its social responsibility implementation on the ground by introducing and supporting community, environmental and sustainable development initiatives, programs and projects and adoption of ethical and socially responsible investment.

The following are the most noticeable Bank Albilad initiatives in 2016 in social responsibility:

Sponsoring Generations of Grace Conservation Program in cooperation with the Association "Eta'am", which aims to educate young people about importance of preserving blessings and reducing waste.

Supporting the charitable institution to care for the mosques of the roads "Msajidona" with three vehicles to facilitate the institution task in the maintenance and cleanliness of road mosques.

Organizing a recreational event for orphaned children in cooperation with Charity Committee for Orphans Care "Ensan" on the occasion of International Day of orphans.

Supporting patients in need of various medical devices in cooperation with the Patients Friends Committee in Riyadh.

Providing medical and educational tools and equipment for the blind to facilitate their day-to-day work in cooperation with Blind Charity Association (Roya).

Distributing food baskets to families in need during the holy month of Ramadan.

Distributing copies of the Banking sign language dictionary (banking terms in sign language), compiled by Bank Albilad to serve the deaf persons with special needs; this is considered the first banking terms dictionary in sign language in the middle east.

Providing an equipped ambulance to "Tahoor Association" for the care and support of cancer patients.

Providing winter clothes for students of general education in the northern areas coinciding with the entry of the winter.

Establishing a campaign for employees for blood donation for patients in need at Al Imam Abdulrahman Al Faisal Hospital in Riyadh.

Sponsoring martyrs of duty championship of football in Riyadh's private schools, which was honoring the sons of martyrs of duty and providing a large number of valuable gifts to them.

Greetings of the wounded soldiers stationed at the southern border at Eid al-Fitr, where the wounded soldiers were visited in the military hospital in the south by the Director of the southern area branches and a number of ambassadors, who gave congratulations on Eid al-Fitr to a large number of wounded heroes of the southern border and gave them bouquets of roses and chocolate.

Establishing a recreational event for the children of martyrs of duty and honoring them during the Abha Shopping Festival 2016 sponsored by the bank.

Participating in the program of the Ministry of Education "Your Job and Your Scholarship" to employ a number of graduates of the program in the bank after they received their university degree.

Establishing "Albilad Research Chair for Electronic Commerce" in cooperation with the Saudi Electronic University, which aims to achieve the scientific leadership and success in the field of research and development of applications and tools in e-commerce, as well as to identify the circumstances and nature of appropriate growth in building electronic systems that serve the electronic commercial transactions and has more technical safety and easier for the community to handle.

Sponsoring the print of books on Sharia standards studies for Islamic banking transactions in cooperation with the Accounting and Auditing Organization for Islamic Financial Institutions (IAOIFI).

Organizing visits to postgraduate students specialized in the Islamic economy and Islamic banking to the headquarters of Bank Albilad to learn about the practical aspect of applying Islamic banking standards in the various sectors of the bank.

Conducting an information campaign on real estate finance issues based on the principles of the Islamic economy by publishing short videos on each issue.

Bank Subsidiaries:

The Bank has three subsidiaries as follows:

Company Name	Establishment Date	Main Activity	Capital	Main State for its Operations	Country of Incorporation	Ownership Rate
Albilad Investment Company	20th of November 2007	Perform investment services and assets management activities represented in the dealing, organization, management, counseling and maintenance of securities	200 Million Saudi Riyals Riyadh,	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	100%
Albilad Real Estate Company Ltd.	17th of September 2006	Carry out registration procedures related to real estate guarantees received by the Bank from its customers	500 Thousand Saudi Riyals	Riyadh, Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	100%
Makkah Hospitality Fund	12 October 2016	Acquisition of real estate in order to distribute returns to shareholders through the leasing of these properties and with the aim of increasing the capital through the sale of real estate later	200 million Saudi Riyals	Makkah, Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	80%

The Consolidated Financial Statements of the group include the Financial Statements of the Bank and its subsidiaries, namely, Albilad Investment Company, the Albilad Real Estate Company, and Makkah Hospitality Fund, collectively referred to as the "Group"

Company Name	Establishment Date	Main Activity	Authorized capital	Paid-up Capital	Main State for its Operations	Country of Incorporation	Ownership rate
Bayan Credit Information Company	28 December 2015	The Company provides credit information services, valuation services, credit valuation and consulting for companies and businesses.	100 Million Saudi Riyals	50 Million Saudi Riyals	Riyadh, Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	15%

Groups, business sectors and key activities of the Bank and its subsidiaries:

The bank and its subsidiaries practice the following activities:

Personal Banking Activity (Retail)	Includes services and products provided to individuals, such as deposits, finance for individuals, remittances and foreign exchange.
Corporate Banking Activity:	Includes services and products provided to financial companies and legal person customers, such as deposits, finance and business services to customers.
Treasury Activity	Includes Capital Market, trade and the provision of treasury services.
Investment and Brokerage Services Activity	Includes investment management services and assets management activities associated with the services of handling, management, arrangement, counseling and maintenance of securities.

The following is a summary of the work of Banks Groups and business sectors its subsidiaries:

Retail Banking Division

During the year 2016, the business was developed by launching several products and services, including flexible mortgage finance (Murabaha), real estate financing in the form of leasing, educational financing and additional financing in cooperation with the Real Estate Development Fund and personal finance for mortgage; in addition to signing several real estate marketing agreements with several companies.

in addition to launching Number of credit cards and new prepaid products and services beside the existing products and services that are currently provided such as accounts and its associated services, finance (personal, real estate, and auto), prepaid credit cards, customer relationship management, ATM services, POS, safe deposit boxes, "Albilad Maak" service, and currency exchange service; in addition to providing guaranties, telephone banking service, service payment, deposit,

withdrawal, private banking, currency exchange, and internal and external remittances.

The customer service was also developed through social media, so that the service is provided to the customers 24 hours a day through the staff at the call center.

In 2017, Personal Banking (Retail) will continue to work to expand customers base and development of revenues by introducing new products that meet the desires of its customers, and it also aims to expand in developing advanced and modern methods to attract and recruit its customers to meet their current and future aspirations.

Enjaz Division:

In 2016, Enjaz division has witnessed a good growth rate; as it has achieved a remarkable growth during the year 2016, becoming one of the most important service providers of remittances and currency exchange in the Kingdom. The confidence of Enjaz's customers comes as a reflection to what the Sector had witnessed from continued development for transfer channels, and development of systems in order to keep pace with the global technological development; In addition to expanding the network of correspondents by contracting with major banks around the world, to the bank had increased the geographical spread of its centers of which amounted to 176 centers by the end of 2016.

Corporate Banking division:

During 2016, the Bank continued to diversify and enhance the electronic services provided to customers to reach the highest level of services and state of the art technologies in addition to a high levels of safety. One of the Bank's most important interests is to pay special attention to SMEs, as the Bank has launched a number of financing products. Through the year, significant portion of the initiatives and products are completed and will be launched in 2017 as an important platform for the development of the Bank's business and to enhance its market position, achieve maximum customer satisfaction and achieve the highest returns for its shareholders.

Treasury Sector:

During 2016, the Treasury Sector entered into multiple investments, either through entering the capital markets or participating in the various local and international investment portfolios. It focused on expanding long-term investment, increasing and diversifying sources of income, in addition to increasing market share and raising the level of customers service in addition to risk management.

The sector is currently managing its operations through various products, such as direct investment products, an Islamic product alternative for traditional deposits and implementing direct investment with customers through Murabaha transactions by global commodity markets. It also provides foreign spot exchange products, as well as Albilad account , an investment account based on the principle of Mudaraba, which is Sharia compliant.

90% is the ratio of Saudi employees

Since its inception, the company interested in its professional performance and keenness to provide the best job opportunities for citizens. The percentage of Saudi employees by the end of 2016 is about 90%.

Albilad Investment Company:

Al Bilad Investment Company was established in 2007 with the approval of the Capital Market Authority of Saudi Arabia, its headquarters is in Riyadh and has a capital of SAR 200,000,000, which is the investment arm of the Bank

Albilad Investment Company's vision is represented in becoming the best investment company for meeting the aspirations of its customers in the individuals and business sectors, and its employees and shareholders. Its mission lies in providing investment solutions based on the lenient Islamic Sharia principles.

Albilad Investment Company performs its activity independently in all areas of investment and investment banking services, including investment banking and corporate finance. It manages assets such as investment funds, private portfolios, brokerage, securities and custody.

Since its inception, the company interested in its professional performance and keenness to provide the best job opportunities for citizens. The percentage of Saudi employees by the end of 2016 is about 90%.

During 2016, a number of investment banking services were added, such as debt arrangement, restructuring services, Merge and Acquisition services, parallel market listing services and real estate advisory services. The company has also developed the Securities Services Department to provide leading services and products such as asset saving services for real estate funds and private equity funds, as well as providing custody services for listed equity funds, instruments services (instruments holders and payment manager services) and IPO services by acting as an IPO Manager. A sophisticated system has been selected to help increase productivity and reduce the error factor, which reflected on strengthening of the customer base. During the fiscal year 2016, the volume of assets under preservation increased from SAR 6.4 BN to SAR 10.2 BN, a 62% increase over the previous year. As a result of these developments, Albalid Bank has obtained a license to provide service of Secretary of the independent conservation of deliberate

Al Bilad Finance launched the (Murabaha) margin financing product in conjunction with the launch of its automated system, which will allow financing and deliberate in investment and real estate funds, deliberate and subscription of priority rights over the internet, preparing and configure the system to start trading in the parallel market once it is adopted.

Albalid Bank was able during 2016 to create three new real estate funds, bringing the number of real estate funds from one fund to four real estate funds.

In addition, a new trading system (X-Stream INET) has been developed, which was approved by Tadawul company, which is one of the latest trading systems developed by NASDAQ. This system enables customers to open investment accounts, finance, trading in stocks, investment funds and real estate, and trading priority rights through the Internet.

Albilad Capital has given great importance to its social responsibility. It has launched a research base on the main companies and sectors in the Saudi stock market that meets the needs of investment managers and local and international funds, as well as economic reports on the Saudi economy. The company's research department conducts several seminars and economic meetings in the main chambers of commerce in order to raise awareness and economic culture to inform the public about the economic and regulatory changes in the Saudi market.

Brief of financial results of Bank Albilad and its subsidiaries (the Group) as on 31 December 2016:

2016 In thousands of Saudi Riyals	Personal Banking Sector (Retail)	Corporate Sector	Treasury Sector	Investment and Brokerage Services Sector	Others	Total
Total Assets	18,343,093	22,537,142	11,480,857	227,406	1,304,093	53,892,591
Capital Expenditure	53,956	973	(182)	869	51,190	106,806
Total Liabilities	25,620,006	8,180,533	9,436,781	15,932	3,318,534	46,571,786
Income from Investment and Finance Assets	525,058	990,957	247,173	9,283	-	1,772,471
Return on deposits and financial liabilities	(79,554)	(12,862)	(241,195)	-	(29,015)	(362,626)
Pot financing	31,505	(316,576)	151,489	-	133,582	-
Net Income from Investment and Finance Assets	477,009	661,519	157,467	9,283	104,567	1,409,845
Net Fees and Commissions Income and others	823,661	134,288	94,492	83,662	47,862	1,183,965
Net Provision for the Finance Impairment Losses	1,300,670	795,807	251,959	92,945	152,429	2,593,810
Provision for the Impairment of Available-for-Sale	26,659	164,555	-	-	-	191,214
Investments	-	-	-		47,183	47,183
Depreciations	85,741	7,557	1,300	1,729	-	96,327
Total Operating Expenses	1,209,845	405,446	58,736	61,822	48,938	1,784,787
Year's Net Income	90,825	390,361	193,223	31,123	103,491	809,023
Return to:	90,825	390,361	193,223	31,123	102,191	807,723
Bank Shareholders	-	-	-	-	1,300	1,300
Non-controlling share	90,825	390,361	193,223	31,123	103,491	809,023
Year's Net Income						

The Consolidated Financial Statements include the Financial Statements of the Bank and its subsidiaries, mainly, Albilad Investment Company, Albilad Real Estate Company, and Makkah Hospitality Fund collectively referred to as the "Group"

Current and Future Risks:

The Bank may be exposed through its activities to current and future risks, which is an essential part of the nature of the Bank's business. These risks are monitored and managed by the Bank's Risk division that is responsible for the management of credit risk, market risk, operational risk and information security, in addition to complying with the requirements of the Basel Committee and the IT governance. A complete description of these risks has been stated in the clarifications attached with the consolidated financial statements from 29 to 31 as accompaniment to the Board of Directors' report. The most important of which are the following:

During 2016, the Risk Management division worked in a manner that contributes to the effectiveness of the risk management system, in addition to achieving good applications and practices, and ensuring that the Bank's actions achieve an appropriate balance between the return and the expected risk.

The framework of the Risk Management division relies on three pillars, which are the sound principles for risk management, the organizational structure and the risk control and measurement processes, which conform to the banking activities to ensure the maintenance of an acceptable level for these risks. Furthermore, the function of Risk Management division is independent and separate from the business divisions of the Bank, based on SAMA's instructions and guidelines and Basel Committee instructions;

as the Bank developed frameworks for defining, measuring and managing risks and defined the function of the Risk Management as a separate management from the business divisions. The Banking Risk Management Process includes different types of banking risks such as credit risk, liquidity risk, operational risk and market risk. The Bank also reviews the Risk Management systems and policies periodically to adapt to the changes in markets and products to reach the best international banking practices:

A) Credit Risk:

The credit risk is one of the most important risks assumed by the Bank, as the Bank is exposed to credit risk through its finance and investment, and the credit risk's work is divided into multiple units operating under one system in accordance with the approved credit policies and procedures.

- **Measurement of Credit Risk Degree:** The Bank works on measuring the degree of credit risk for the purpose of reaching the maximum quantity and quality measurement degree to determine the credit risk degree faced by the Bank. Furthermore, Bank Albilad uses an assessment system prepared by Moody's Corporation to assist in the internal assessment of the credit risk degree for corporate customers and private banking customers to measure the probability of default, the size of the amounts that are likely to be defaulted, and the losses resulting from defaults. The Bank is constantly striving to develop the internal assessment methods for the risk degree for the customers; as the Bank has assessment forms to evaluate customers of small and medium enterprises and customers with high solvency aside from the form for corporate customers; to give a more accurate and fair assessment.
- **Credit Risk Controls and Mitigations**: The Bank follows several methods to mitigate the credit risk degree to acceptable limits, and from the most important methods is conducting analytical studies on the future data to measure the possibility of the customer's payment of his obligations. The credit approvals are carried out by several credit committees composed of executive members in the Bank or through Board-level committees in proportion to the degree of credit risk and the size of credit facilities for each competent authority. In addition, the Bank meets the guarantees in exchange for the facilities whenever the need arises, and the Bank goes for the most liquid, organizational and enforceable guarantees; as the forms of the existing guarantees in the Bank vary in exchange for the credit facilities, for example: cash cover, mortgage of some investments and assets for the Bank or mortgage/reservation of some commercial and residential real estate assets, and the presence of a security in exchange for the facilities, whether personal or financial security or a third party security; noting that the granting of finance for individuals is based on finance programs that include the transfer of the customer's wage to the Bank. It is taken into account not to allow the presence of credit concentration in the credit portfolio, in addition to ensuring the conformity of the size of credit exposure with the controls stated in this regard, whether for the exposure with a certain authority or a certain sector (activity).
- **Monitoring and Reports:** A comprehensive credit review of the financial and credit position is carried out for all corporate and private banking customers who receive finance to ensure the continuity of the customer's activity and his financing need and the continuance of a proper functioning credit relationship, in addition to reviewing the reports of the customers' through frequent visits throughout the year. Corporate customers who have high credit risk rates are considered and rated on the list of customers who require special supervision; as this credit exposure is monitored and pursued accurately and carefully to reduce the shrinking of this credit exposure properly and in a semiannually manner. The portfolio of the individual customers, who obtain credit facilities for consumption purposes, and the credit cards are followed up with on a comprehensive basis through the assessment of the criteria established for this portfolio for each segment individually. The Bank calculates the credit provisions in the Bank's financial statements and record in accordance with the applicable International Financial Reporting Standards (IFRS) for accounts that are likely to achieve losses, in the presence of indicators implying the need to carry out these provisions, which may affect the expected cash flows from these assets or investments. The Bank is also preparing a comprehensive monthly report for the status of the Bank's portfolio, containing an analysis of the credit concentrations analysis to be reviewed and supervised by senior management of the Bank.
- **Market Risk:** Most of the banks' works are exposed to market risks; as to positive or negative results, resulting in a gain or loss for the Bank; furthermore, the sudden and high fluctuations in prices may affect the liquidity of the Bank in addition to the Bank's financing ability. There are main risks from the market faced by the Bank and they are as follows: Return Rate Risk or Profit Rate Risk: The return rate risk or the profit rate risk are known as the potential impact on the Bank's profitability as a result of the changes in the rates of returns on the market, and the price changes often occur either due to overall market movements, the sourceor certain reasons for the borrower. Foreign Exchange Risk:

Return Rate Risk or Profit Rate Risk: The return rate risk or the profit rate risk are known as the potential impact on the Bank's profitability as a result of the changes in the rates of returns on the market, and the price changes often occur either due to overall market movements, the sourceor certain reasons for the borrower. **Foreign Exchange Risk:** The risk resulting from the impact of the fluctuations in the currency exchange rates on the existing currency centers at the Bank. Share Investment Risks: The risks resulting from fluctuations in share prices and thus the impact on the Bank's profitability and the shareholders' equity. In general, the objective of the Market Risk Management for the Bank is to manage and control exposures to market risks in order to increase the revenues within the approved policies for market risk and the Bank's acceptable risk level. The sources of exposure to market risks for the Bank are divided into:

Trading Portfolios: The exposure to market risks in the trading portfolio in foreign currencies arises due to meeting the requirements of the Bank and its customers from foreign currencies.

Non-Trading Portfolios: The exposure to market risks in the non-trading portfolios primarily arises due to the lack of conformity of the assets and its maturity dates with the maturity dates of the liabilities, and the impact of the price changes with the implementation of the re-investment operations.

B) Liquidity Risk:

The liquidity risk is considered one of the most important risks faced by the banking sector in general or a specific bank in particular; taking into account the likelihood of the Bank's inability to meet the financing requirements at a reasonable cost (liquidity finance risk), or its inability to liquidate its positions at a reasonable speed, while maintaining the appropriate price (market liquidity risk).

- **Governance of Market Risk and Liquidity Risk:** Market Risk Management is working on developing limitations and control for the extent of the compliance thereto by applying policies and limitations approved by the Board of Directors; and the Assets and Liabilities Committee (ALCO) is considered responsible for managing the market risk at the strategic level under the delegated authority.

  The limitations of the portfolios Bank Albilad products and risk types are specified based on the size of the liquidity in the market, the credit risks associated with it, the implemented analysis and the extent of using the limitations. The Market Risk Management Sector is classified as an independent regulatory management responsible for implementing the market risk policies effectively, and it is also responsible for the development of the methods and methodologies of the Market Risk Management in the Bank, the measurement mechanisms and the behavioral assumptions for liquidity and investment, in addition to the immediate reporting of any violations of the established limits to the Senior Management, in accordance with the strict mechanisms and procedures approved and certified by the Board of Directors, along with the regular reporting of the exposure to market risks and the violations of the limitations to the Asset and Liabilities Committee and the Board of Directors.

  The Bank works on diversifying the financing sources in order to reduce exposure to liquidity risks; which results in reducing the degree of concentration and maintaining an acceptable level of assets for liquidation; in addition to developing a number of policies and standards for Liquidity Risk Management, as well as providing an emergency plan in line with the best practices issued by the Basel Committee regarding Liquidity Risk Management. The policies and procedures regarding Liquidity Risk Management are reviewed periodically and subjected to the approval of the Assets and Liabilities Committee and the Board of Directors. Furthermore, there are additional control factors that often work on maintaining the level of market risk exposure within acceptable readiness levels in the event of adverse events (such as stress tests and procedures for approving new products); as the periodic receipt of the stress tests results determines the impact of the changes in the profit rates, the foreign currency exchange rates and other risk factors on the Bank's profitability, capital adequacy, and liquidity. The results of the stress tests are sent periodically to the Executive Management and the Board of Directors to evaluate the potential financial impact in the event of extraordinary events.

C) Operational Risk:

Operational risk are known as the risk of loss resulting from inadequate or failed internal operations, individuals, technical systems or external events, and the definition includes the legal risk and excludes the strategic risk and the reputational risk. Operational risks are collateral risks inherent in all the Bank's products activities, operations, and IT systems, which are caused by internal factors, unlike the credit risks and the market risks that arise from external factors. Taking into account the above, Bank Albilad has adopted a strategy that relies on the active participation of the Senior Management in managing this type of risk; because of its impact on the various activities of the Bank; as the Bank is constantly trying to work on reducing the effects of the operational risk to achieve the Bank's strategic objectives through the following:

- Analyze and assess the objectives and sub-activities and work on reducing the exposure to operational risk.
- Identify the operational risks in the current and new products, activities, operations and IT systems through the use of the following operational risk management tools: Calculation of the operating losses in order to identify the regulatory gaps that led to these losses and working on developing the corrective actions to reduce their recurrence in the future; the assessment of the collateral risks inherent in the various activities of the Bank and the applicable regulatory elements to address the risks, and the collection of key risk indicators in order to monitor and control the level of exposure to the operational risk as an initial warning before the risk occurs.
- A proactive initiative from the Bank's Management to address the operational risks.
- An independent and continuous assessment of the regulatory elements, policies, procedures and performance of the Bank's activities.
- Ensure compliance with the regulators' instructions and the international standards in the Operational Risk Management.
- Providing the Executive Management and the Board of Directors with periodic reports on the results of the risk assessment and the operational losses suffered by the Bank and its corrective actions.

Compliance with Regulations and Laws:

Bank AlBilad is committed to abide by legal, ethical and professional laws and regulations as a fundamental pillar of its orientation, policies, plans and strategic decisions. The Bank is committed to all relevant laws, regulations and controls, and all issued by the regulatory and supervisory authorities such as the Saudi Arabian Monetary Authority (SAMA), the Capital Market Authority (CMA) and the Ministry of Trade and Investment and others, including the relevant approved international standards.

The Bank's Commitment Sector is keen on developing its instruments and refining its capabilities in order to achieve the desired objectives and implement the adopted strategy which contributes to the elimination of all illegal transactions and to ensure the Bank's compliance with all relevant regulations, instructions and requirements of the Saudi Arabian Monetary Authority (SAMA), in particular, to improve the efficiency of Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) laws and to participate in the training and sensitization of the Bank's staff in the field of AML/CFT.

Internal Audit:

Internal Audit is an independent and objective function reporting directly to the Audit Committee of the Board of Directors. It aims to provide reasonable assurance to the Audit Committee and the Bank's Senior Management on the adequacy and effectiveness of the Internal Audit System by applying a systematic approach to evaluating and improving the effectiveness of governance, risk and control management. The internal audit sector follows the risk-based audit methodology in the planning and implementation of audit work. It also follows up on correcting the observations contained in the audit reports to ensure that they are implemented according to the schedule and procedures established to ensure the integrity of the internal controls. The internal audit sector relies on the continuous development of its staff to upgrade their capabilities. The sector shall also ensure that the internal audit standards are applied through the quality assurance program covering all internal audit activities.

Internal Audit System:

The Bank's Executive Management is responsible for establishing an appropriate and effective Internal Audit System, including policies, procedures and processes prepared under the supervision of the Board of Directors to achieve the Bank's strategic objectives.

Accordingly, an integrated system of internal control has been established as recommended by the regulatory and supervisory authorities. It begins with the general framework of governance in the bank, which defines the roles and responsibilities assigned to the Board of Directors and its committees, as well as other administrative committees so as to ensure appropriate control at the bank level. All groups, departments and managements of the Bank are making concerted and integrated efforts to improve the control environment through continuous development and review of policies and procedures to reduce any abuses and to prevent and correct any deficiencies in the Internal Audit System.

In addition to control work made by the risk group and compliance sector, internal audit is a separate line of defense about executive management, and involves the evaluation of the effectiveness of the Internal Audit System, including adherence to policies and procedures. Audit shall be reported including weaknesses points in the Internal Audit System as well as corrective procedures are submitted to the Audit Committee and to the Senior Executive Management. The Audit Committee monitors the adequacy and effectiveness of the Internal Audit System to reduce risks and protect the interests of the Bank.

Based on the ongoing internal audit assessment results during 2016, the Bank Management believes that the current internal audit system is sufficient, functioning effectively and is regularly monitored. Nevertheless, the Management continuously seeks to strengthen the Internal Audit System. The Board of Directors believes that the Internal Audit System is adequately designed and implemented effectively and that there are no control gaps or material weaknesses in the Bank's business for 2016. This is based on reasonable assurance by the Board of the design integrity and effectiveness of the Internal Audit System application. Any Internal Audit System, no matter how well designed and effective, cannot provide absolute assurance in this regard.

Shariah Division:

Out of Bank Albilad's policy, in which it stipulated the Bank's commitment to the Islamic Sharia provisions, and to achieve this purpose, the General Assembly of the Bank has selected the members of the Sharia Board and agreed to its regulations, which states its independence from the Bank, and the most notable highlights in this regulation are as follow:

1. The Bank does not apply any product, contract or agreement without the consent of the Shariah Board.
2. The Shariah Board's decisions are binding on the Bank with all its managements and subsidiaries.
3. The Shariah Board and the Shariah Sector participate in the product development process, in accordance with the Shariah provisions.
4. The Shariah Board and the Shariah division contribute in spreading awareness of Islamic banking.

The Shariah Board consists of six members from scholars and specialists proficient in the jurisprudence of financial transactions and the economy, namely:

His Excellency Sheikh Abdullah Bin Suleiman Al Manea	(Board's Chairman)
His Excellency Sheikh Prof. Dr. Abdullah Bin Mohamed Al Mutlaq	(Deputy)
His Eminence Sheikh Prof. Dr. Abdullah Ibn Musa Al-Amar	(Member)
His Eminence Sheikh Dr. Muhammad Ibn Saud Al-Osaimi	(Member)
His Eminence Sheikh Prof. Dr. Abdul Aziz bin Fauzan Al-Fawzan	(Member)
His Eminence Sheikh Prof. Dr. Yusuf Al-Shubaili	(Member)

A preparatory committee emerges from the Shariah Board consisting of Some of the virtuous members of the Shariah Division, and the Preparatory Committee exercises the powers provided thereto by the Shariah Board, and has several tasks, most notably: Studying the subjects received from the Bank in order to be submitted to the Shariah Board to reach a decision; studying the Shariah inquiries related to the financial and banking matters received from the Bank's employees and customers and providing guidance in this regard; and studying the initial ideas for products and providing guidance in this regard. In 2015, six (6) Shariah Board meetings, and twenty three (23) Preparatory Committee meetings were held.

The Shariah division of the Bank, through the Shariah Studies and Research Management; as the Shariah Studies and Research Management prepares the subjects received by the Shariah Board, and prepares the necessary studies and research, in addition to participating in the development of Islamic banking products and their clearances; furthermore, the Shariah Studies and Research Management is the link between the Shariah Board and the Bank's managements, and it effectively contributes to spreading awareness of Islamic banking in the Bank. Whereas the Shariah Supervisory Management works on verifying the Bank's commitment to the decisions of the Shariah Board by implementing supervisory field visits to audit all the Bank's business on a regular basis.

Finance and Issued Instruments

In the course of its normal transactions, the Bank exchanges finance with banks and the Saudi Arabian Monetary Authority (SAMA).

On 30 August 2016, the Bank issued 2,000 instruments certificates of capital appreciation of 1 million Saudi Riyals per instrument, payable quarterly on 29 February, 30 May, 30 August and 30 November for each year until 30 August 2026, the date on which such instruments are due.

The Bank may exercise the redemption option on or after August 30, 2021, if certain conditions are met in accordance with the provisions of its Prospectus. The Bonds may also be redeemed if certain other conditions are met in accordance with the provisions contained in the above Prospectus. The Bank has not failed to make payments (profits) due during the year.

Capital Increase Recommendation:

Increase the Bank's capital from 5,000 million Saudi Riyals to 6,000 million Saudi Riyals

The Board of Directors, at its meeting held on 11/04/2016, recommended the Bank's Extraordinary General Assembly to issue bonus shares at the rate of one bonus share for every five shares owned by the Bank's shareholders as at the date of the General Assembly's meeting in order to increase the Bank's capital from 5,000 million Saudi Riyals to 6,000 million Saudi Riyals. Bonus shares will be issued with a capitalization amounting 468 million Saudi Riyals from retained earnings and 532 million Saudi Riyals from the statutory reserve, to increase the number of existing shares from 500 million shares to 600 million shares after taking the necessary approvals from the Supervisory Authorities.

The shareholders approved the issue of bonus shares by one share for every four shares owned in the Extraordinary General Assembly held on April 14, 2015 to raise the bank's capital from 4,000 million Saudi Riyals to 5,000 million Saudi Riyals.

The bonus shares were issued by capitalization of 995.6 million Saudi Riyals of retained profits and 4.4 million Saudi Riyals transferred from the statutory reserve to increase the number of existing shares after issuing the bonus shares from 400 million shares to 500 million shares after taking the necessary approvals from the supervisory authorities.

Basic and diluted profits per share for the twelve months ended on 31 December 2016 and 2015 were calculated by dividing the net income for the two periods by the number of shares amounting to 600 million shares retroactively to reflect the effect of the increase in the number of shares as a result of the award of bonus shares.

Profit Distribution Policy:

The distribution of the Bank's annual net profits, which are determined after deducting all the general expenses and other costs and the preparation of the necessary precautions to face questionable debts, investment losses and contingent liabilities that the Board deems necessary in conformity with the provisions of the Banking Control Law and the directives of the Saudi Arabian Monetary Authority (SAMA), are as follows:

- The amounts needed to pay the Zakat due on the shareholders are calculated, and the Bank pays these amounts to the competent authorities.
- At least twenty five percent (25%) of the remaining net profit will be carried over after deducting the Zakat to the statutory reserve, so that the mentioned reserve will be at least equal to the paid-up capital.
- An amount not less than five percent (5%) of the paid-up capital is allocated from the remaining profits after deducting the statutory reserve and the Zakat; in order to be distributed to the shareholders, according to the Board's proposal and is decided by the General Assembly. If the remaining profit rate accrued to shareholders is not enough to pay this percentage, the shareholders cannot claim to pay them during the year or the following years, and the General Assembly is not allowed to decide the distribution of a percentage of the profits exceeding what is proposed by the Board of Directors.
- After allocating the amounts mentioned in the channels (1, 2, and 3), the remainder would be used as by the Board of Directors recommendation and by the General Assembly decision.

In December 2016, the Board of Directors recommended payment of a cash dividends of SAR 300 M (0.5 per share). This recommendation will be presented to the General Assembly at its next meeting.

Details	2016 (In Thousands of Saudi Riyals)
Net income of the year payable to the Bank's shareholders	808
Amount transferred to statutory reserve	202
Zakat transferred from retained profits to other reserves *	144
Proposed cash dividend	300

* Zakat paid by the Bank on behalf of shareholders for previous years.

Board of Directors:

The Board of Directors consists of eleven members, elected at the Regular General Assembly held on 04/07/1437AH, corresponding to 11/04/2016, for a period of three years commencing from 10/04/1437AH (according to Umm al-Qura calendar), corresponding to 17/04/2016, and ending on 12/08/1440AH (according to Umm al-Qura calendar) corresponding to 16/04/2019.

Names and titles of the Board Members:

S. No.	Name	Position	Status
1	Dr. Abdul Rahman bin Ibrahim Hamid	Chairman	Non-Executive
2	Nasser Bin Mohammed Al-Subaie	Deputy-Chairman	Non-Executive
3	Saud bin Mohammed al-Fayez	Member	Independent
4	Abdul Rahman bin Mohammed Ramzi Addas	Member	Independent
5	Fahad bin Abdullah bin Dakhil	Member	Non-Executive
6	Khaled bin Abdulaziz Al-Mukairin	Member	Non-Executive
7	Eng. Ahmed bin Abdulaziz Al-Ohaly	Member	Independent
8	Eng. Omar bin Saleh Babiker	Member	Independent
9	Khalid bin Suleiman Al - Jasser	Member	Independent
10	Fahd bin Abdullah al-Qasim	Member	Independent
11	Khalid bin Abdul Rahman Al Rajhi	Member	Non-Executive

Major Stakeholders:

The Bank's major stakeholders are the ones who own more than 5% of the shares as the case at the end of trading on (31/12/2016), as follows:

S.No.	Shareholder Name	Percentage (%)
1	Mohammed Ibrahim Al-Subaie & Sons Company	19.10
2	Abdullah Ibrahim Al-Subaie Investment Company	11.14
3	Khaled Abdurahman Saleh Al-Rajhi	10.55
4	Abdulrahman Abdulaziz Saleh Al-Rajhi	6.57
5	Mohammed Saleh Hamza Sirfi	5.09

The Bank adopted the aforementioned balance data based on the bank records of the Saudi Stock Exchange (Tadawul) by the end of trading on 31/12/2016.

General Assemblies held during the year 2016

Bank Albilad held one assembly meeting for its shareholders during the fiscal year 2016, which is the seventh extraordinary general assembly held on 04 Rajab 1437 AH (corresponding to 11 April 2016), which included increasing the bank capital from 5,000 million Saudi Riyals to 6,000 million Saudi Riyals by granting one bonus share for every 5 existing shares and the election of the Board of Directors in its current session.

Attendance Record of Board of Directors for the Seventh Extraordinary General Assembly Meeting:	
Name	**Attendance**
Dr. Abdul Rahman bin Ibrahim Hamid	✓
Nasser Bin Mohammed Al-Subaie	✓
Dr. Ibrahim bin Abdul Rahman Al-Barrak	✓
Abdul Rahman bin Mohammed Ramzi Addas	✓
Eng. Abdulmohsen bin Abdullatif Alissa	Didn’t attend
Fahad bin Abdullah bin Dakhil	✓
Eng. Ahmed bin Abdulaziz Al-Ohaly	✓
Khaled bin Abdulaziz Al-Mukairin	✓
Ahmed bin Abdulrahman Al-Hosan	✓
Khalid Bin Abdulrahman Al-Rajhi	✓
Khalid bin Abdullah Al-Subaie	Didn’t attend

Board Meetings Attendance Record:

Meetings of the previous session of the Board ended on 16/04/2016, (3) meetings held during the first four months of 2016.

		Date of the Meeting		
S.No.	**Member Name**	**01/01/2016**	**08/02/2016**	**11/04/2016**
1	Dr. Abdul Rahman bin Ibrahim Hamid	✗	✓	✓
2	Nasser Bin Mohammed Al-Subaie	✓	✓	✓
3	Dr. Ibrahim bin Abdul Rahman Al-Barrak	✓	✓	✓
4	Abdul Rahman bin Mohammed Ramzi Addas	✓	✓	✓
5	Eng. Abdulmohsen bin Abdullatif Alissa	✓	✓	✗
6	Fahad bin Abdullah bin Dakhil	✓	✓	✓
7	Eng. Ahmed bin Abdulaziz Al-Ohaly	✓	✗	✓
8	Khaled bin Abdulaziz Al-Mukairin	✓	✓	✓
9	Ahmed bin Abdulrahman Al Hossan	✓	✓	✓
10	Khalid Bin Abdulrahman Al-Rajhi	✓	✓	✓
11	Khalid bin Abdullah Al-Subaie	✓	✗	✗

Attendee	✓
Absentee	✗

In order to enhance its role, the Board of Directors has met at its current session 6 times during 2016. The attendance record of these meetings is as follows:

	Date of the Meeting					
Member Name	**17/04/2016**	**09/06/2016**	**22/06/2016**	**05/09/2016**	**18/12/2016**	**28/12/2016**
Dr. Abdul Rahman bin Ibrahim Hamid	✓	✓	✓	✓	✓	✓
Nasser Bin Mohammed Al-Subaie	✓	✓	✓	✓	✓	✓
Saud bin Mohammed al-Fayez	✓	✓	✗	✓	✗	✓
Abdul Rahman bin Mohammed Ramzi Addas	✓	✓	✓	✓	✓	✓
Fahad bin Abdullah bin Dakhil	✓	✓	✓	✓	✓	✓
Khaled bin Abdulaziz Al-Mukairin	✓	✓	✓	✓	✓	✓
Ahmed bin Abdulrahman Al-Hosan	✓	✓	✓	✓	✓	✓
Eng. Omar bin Saleh Babiker	✓	✓	✓	✓	✓	✓
Khalid bin Suleiman Al - Jasser	✓	✓	✗	✓	✓	✓
Fahd bin Abdullah al-Qasim	✓	✓	✓	✓	✓	✓
Khalid Bin Abdulrahman Al-Rajhi	✓	✓	✓	✗	✓	✓

Attendee	✓
Absentee	✗

Members participating in the Board Member of other joint stock companies:

Member Name	Company Name	Status
Dr. Abdul Rahman bin Ibrahim Hamid	Saudi Vitrified Clay Pipe Company (SVCP)	Board Member
	Mohammed Abdulaziz Al Rajhi & Sons Company - Al Rajhi Holding	Board Member
	Mohammad Ibrahim Al-Subaie & Sons Investment Company (MASIC)	Board Member
	Obeikan Investment Group Company	Board Member
	Dur Hospitality Company	Board Member
	Al-Argan Projects Company	Board Member
Nasser Bin Mohammed Al-Subaie	Akwan Real Estate Company	Board Member
	Mohammad Ibrahim Al-Subaie & Sons Investment Company (MASIC)	Board Member
Abdul Rahman bin Mohammed Ramzi Addas	Diyar Al Khayyal Real Estate Development Company	Chairman of Board of Directors/ Partner
Fahd bin Abdullah bin Dakhil	Albilad Capital	Board Chairman
Khaled bin Abdulaziz Al-Mukairin	Al-Maktaba Marketing Company	Board Chairman
Eng. Omar bin Saleh Babiker	Al Ahlia Cooperative Insurance Company	Board Member
	East Asia Agricultural Investment Company	Board Member
Khalid bin Sulaiman Al-Jasser	Albilad Capital	Board Member
Fahd bin Abdullah Al Qasim	Savola Group	Board Member
	Jarir Company	Board Member
	Dur Hospitality Company	Board Member
	Dallah Health Company	Board Member
	Abdullatif Alissa Group Holding Company	Board Member
	Fahad Abdullah Al Kassem and Sons for Trading and Investment Co	Chairman of Board of Directors/ Partner
	Saudi Heritage Hospitality Company	Board Member (Representative of DOR)
	Dr Mohamed Rashid Al Fagih and Company	Board Member
	Naqel Company	Board Member (Representative of Saudi Post)
	Rakeen Najd International Company	Board Member/Partner
Khalid Bin Abdulrahman Al-Rajhi	Saudi Cement Company	Chairman of Board of Directors
	Saudi United Cooperative Insurance Company (Wala'a)	Board Member Chairman of the Investment Committee Member of the Executive Committee
	Takween Advanced Industries Company	Board Member Chairman of Nominations and Remuneration Committee
	Tanami Holding Compan	Board Member
	Albilad Capital	Board Member

The Balance of the Board Members Shares, their Spouses and their Minor Children:

The number of the Board members' shares, their spouses and their minor children by the end of December 2016 compared to the end of December 2015:

S.N	Stakeholder Name	December 2016	December 2015	Net Change	Change Rate %
1	Dr. Abdul Rahman bin Ibrahim Hamid	1,999	1,666	333	20%
2	Nasser Bin Mohammed Al-Subaie (and those he support)	2,064,842	1,720,702	344,140	20%
3	Saud bin Mohammed al-Fayez	2,400	0	2,400	100%
4	Abdul Rahman bin Mohammed Ramzi Addas	3,998	3,332	666	20%
5	Fahad bin Abdullah bin Dakhil	1,500	1,250	250	20%
6	Khaled bin Abdulaziz Al-Mukairin (and those he support)	959,880	758,066	201,814	26.6%
7	Ahmed bin Abdulrahman Al-Hosan	1,500	1,250	250	20%
8	Eng. Omar bin Saleh Babeker	1,900,989	0	1,900,989	100%
9	Khalid bin Suleiman Al - Jasser	659,210	414,823	244,387	58.9%
10	Fahd bin Abdullah al-Qasim	1,440	0	1,440	100%
11	Khalid Bin Abdulrahman Al-Rajhi	63,277,420	44,451,564	18,825,856	42.4%

*** The increase in the majority of Board members' shares is due to distribution of watered stock as a result of the increase in bank capital during the year 2016.**

The Balance of Senior Executives Shares, their Spouses and their Minor Children:

The balance of shares of senior executives, their spouses and their minor children by the end of December 2016 compared to the end of December 2015:

S.N	Name	December 2016	December 2015	Net Change	Change Rate %
1	Abdulaziz bin Mohammed Al-Anizan	64,766	-	64,766	100%
2	Mossadak Ajaz	4,806	-	4,806	100%
3	Jawhar Iqbal Sheikh	4,981	-	4,981	100%
4	**Total Number of Shares**	**74,591**	**-**	**74,591**	**100%**

Remunerations and Compensations

Remunerations, compensations and disclosure process thereof shall be set out under the Companies Law, and as per the "Regulations and Regulatory Procedures concerning the Listed Joint Stock Companies, that were issued in implementation of the Companies Law on 17/10/2016 and as amended on 24/02/2017", which require the disclose the remuneration policies, and the mechanisms to identify them, the rules, principles and regulations of SAMA and CMA.

The Bank shall also adhere to its disclosure policy under the disclosure requirements in the Board of Directors' report in paragraph (11.4.2.31.). The following are details of the expenses, remunerations and wages paid to the Board members and senior executives:

Determining the remunerations, allowances and other benefits to be paid to the Board members and its sub-committees:

Amount in Thousands of Saudi Riyals	Board of Directors Members	Chairman and Members of the Executive Committee	Chairmen of Committees affiliated to the Board	Board Members participating in the membership of the remaining Board committees	External Members of the Board Committees
Fixed Remuneration	360	140	140		120
Attendance allowance of sessions	3	5	3	3	3
Other	All actual expenses for attending the Committee meetings in accordance with the policy	All actual expenses for attending the Committee meetings in accordance with the policy	All actual expenses for attending the Committee meetings in accordance with the policy	All actual expenses for attending the Committee meetings in accordance with the policy	All actual expenses for attending the Committee meetings in accordance with the policy

- If the Board Member is chairing more than one committee, the Chairman of the Committee shall be entitled to an amount of SAR 140,000.
- In the event of absence of any member of the external committees from the meetings of the relevant Committee, an amount that commensurate with the percentage of his absence shall be deducted from his annual bonus.

Details of Remuneration, salaries, allowances and other compensation paid to Board of Directors and Senior Executives:

The Statement in Thousands of Saudi Riyals	Non-Executive Board members	Independent Board Members	Seven Senior Executives, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO)
Wages and Compensations	-	-	13,132
Periodic and Annual Allowances and Remunerations	3,125	2,355	9,894
Total:	**3,125**	**2,355**	**23,026**

Board Committees:

The Board Committees carry out their tasks and responsibilities based on the governance documents approved by the Board or The General Assembly, as the case may be, which determine their powers and working procedures. These committees were formed for a period of three years with the formation of the Board of Directors starting from 10/04/1437AH (according to Umm al-Qura calendar), corresponding to 17/04/2016 and ending on 12/ 08/1440AH (according to Umm al-Qura calendar), corresponding to 16/04/2019.

Accordingly, the Board of Directors set up five committees emerging from the Board, and their membership was formed by the Board members, independent members from outside the Bank from experts and specialists, and an executive member, which are as follows:

Executive Committee:

The Committee's responsibilities are represented in ensuring the effectiveness of the decision-making process at its highest levels in order to achieve the Bank's objectives with all flexibility and according to the set schedule; in addition to assisting the Board of Directors in assuming its responsibilities and activating its role in promoting, following-up and implementing the strategy to support the effective performance, review and monitoring of the Bank's business on a regular basis, along with making necessary recommendations. At the same time, the Committee is also responsible for discussing issues that need in-depth review and detailed study before being submitted to the Board for adjudication and issuing a final decision in this regard; in addition to any other tasks delegated or assigned by the Board.

The Committee at its previous session, which ended on 16/04/2016, held (4) meetings during the first four months of 2016. The session consisted of (6) executive and non-executive members including the Chairman of the Committee and the CEO of the Bank, namely:

S.N.	Members of the Committee's Previous Session	Status	Attendance
1	Dr. Abdul Rahman bin Ibrahim Hamid	Board Chairman – Committee Chairman	4
2	Nasser Bin Mohammed Al-Subaie	Deputy Board Chairman – Committee Member	4
3	Khaled bin Abdulaziz Al-Mukairin	Board Member – Committee Member	4
4	Khalid Bin Abdulrahman Al-Rajhi	Board Member – Committee Member	4
5	Abdul Rahman bin Mohammed Ramzi Addas	Board Member – Committee Member	4
6	Khalid Bin Suleiman Al Jasser	Chief Executive Officer (former) (CEO) – Committee Member as of March 2016	3
7	Abdulaziz bin Mohammed Al-Anizan	Executive Chairman (current) – Committee Member as of March 2016	1

(*) The current CEO of the Bank, Mr. Abdulaziz bin Mohammed Al-Anizan, has completed the rest of the previous session of the Committee following the resignation of Mr. Khalid Bin Sulaiman Al-Jasser, former CEO. After the Board has restructured its subsidiary committees, including the Executive Committee, at its current session, which began on 17/04/2016, the Committee held 10 meetings during the remaining period of 2016. The present session of the Committee consists of six members, five of which are non-executive members and the other one is an executive member, namely:

S.N.	Members of the Committee's Current Session	Status	Attendance
1	Dr. Abdul Rahman bin Ibrahim Hamid	Board Chairman – Committee Chairman	9
2	Nasser Bin Mohammed Al-Subaie	Deputy Board Chairman – Committee Member	8
3	Khaled bin Abdulaziz Al-Mukairin	Board Member – Committee Member	7
4	Fahd bin Abdullah bin Dakhil	Board Member – Committee Member	10
5	Khalid Bin Abdulrahman Al-Rajhi	Board Member – Committee Member	9
6	Abdulaziz bin Mohammed Al-Anizan	CEO - Committee Member	9

Nomination and Remuneration Committee:

The Committee's responsibility is represented in recommending to the Board the nomination for the Board membership and the annual audit of the appropriate skills required for Board membership, in addition to reviewing the structure, forming the Board of directors from time to time, making recommendations regarding the strengths and weaknesses of the Board members and giving suggestions to them. It also checks the convening of the Board's regular meetings on a regular basis and ensures the independence of the independent members on a yearly basis, and the absence of any conflicting interests; in addition to selecting the remuneration and incentives policy for the members of the Board and the Executive Management, following up with the matters relating to the structure of posts and human resources, and making recommendations to the Board of Directors.

The Nomination and Remuneration Committee held (6) meetings in 2016 as follow:

- The Committee in its previous session, which ended on 16/04/2016 held (3) meetings during the first four months of 2016. The current session of the Nomination and Remuneration consists of five members; i.e. three members from the Board of Directors, a member from outside the Bank

S.N.	Members of the Committee's Previous Session	Status	Attendance
1	Abdul Rahman bin Mohammed Ramzi Addas	Board Member – Committee Chairman	3
2	Nasser Bin Mohammed Al-Subaie	Board Member – Committee Member	3
3	Khaled bin Abdulaziz Al-Mukairin	Board Member – Committee Member	3
4	Khaled Bin Saleh Al-Hathal	Board Member – Committee Member	2
5	Dr. Fahad Ibn Musa Al Zahrani	Executive – Committee Member	3

- The Committee held (3) meetings during the remaining period of 2016 after the Board of Directors, at its current session which started on 17/04/2016, restructured its subsidiary committees, including the Nomination and Remuneration Committee. The current session of the Committee consists of (5) Members, i.e. three members of the Board of Directors and two members from outside the Board and the Bank, namely:

S.N.	Members of the Committee's Previous Session	Status	Attendance
1	Abdul Rahman bin Mohammed Ramzi Addas	Board Member – Committee Chairman	3
2	Khaled bin Abdulaziz Al-Mukairin	Board Member – Committee Member	3
3	Eng. Omar bin Saleh Babiker	Board Member – Committee Member	3
4	Khaled Bin Saleh Al-Hathal	Independent Member from outside the Board	2
5	Bashar ibn Zakaria al-Mishal	Independent Member from outside the Board	2

Risk Committee:

The main purpose of the Risk Committee is to provide advice and consultation to the Board on the current and future overall plans and strategies regarding the Bank's capacity and ability to bear risks; in addition to supervising the enforcement of the Bank's Executive Management for such plans and strategies. In general, the Committee works on assisting the Board in overseeing all the activities and decisions related to the Risk Management at the Bank, such as assisting the Board in performing the management tasks regarding the market and credit risks, the investment, financial and operational risks and the liquidity and reputational risks; in addition to any tasks or responsibilities that may be assigned to it temporarily by the Board of Directors without prejudice with the tasks and responsibilities of the other Board committees. The Committee's responsibility is represented in overseeing the risk level at the Bank to ensure that the work is carried out within the approved risk limits and to ensure that the Bank has adequate policies and procedures adopted by the competent authority; in addition to reviewing the Bank's internal policies and submitting them to the Board of Directors for approval; along with adopting the distribution of the acceptable credit risks, meeting the fiduciary responsibilities and all the risks approved by the Board of Directors, conducting periodic audit and assessment for the risk limits and the new products risks, ensuring the compliance with the instructions of the regulatory authorities and applying the appropriate control systems.

At its previous session, which ended on 16/04/2016, the Committee held two meetings during the first quarter of 2016, consisting of (3) members, i.e. two members of the Board of Directors and an independent member from outside the Bank. namely:

S.N.	Members of the Committee's Previous Session	Status	Attendance
1	Fahd bin Abdullah bin Dakhil	Board Member – Committee Chairman	2
2	Dr. Ibrahim bin Abdulrahman Al-Barrak	Board Member – Committee Member	2
3	Saud bin Mohammed Al Fayez	Independent Member from outside the Board	2

The Board of Directors at its current session restructured its susbsidiry committees, which began on 17/04/2016, the committee held (3) meetings during the remainder of 2016. The current session of the committee consists of (3) members, i.e. two members of the Board of Directors and an independent member from outside the Bank. namely:

S.N.	Members of the Committee's Current Session	Status	Attendance
1	Saud bin Mohammed Al Fayez	Board Member – Committee Chairman	3
2	Fahd bin Abdullah bin Dakhil	Board Member – Committee Member	2
3	Mohammed bin Suleiman Al - Hjailan	Independent Member from outside the Board	3

Compliance and Governance Committee:

The Committee's responsibility is to supervise, strengthen and maintain the highest standards of corporate governance and that is by ensuring, on behalf of the Board of Directors, the proper compliance with the corporate governance practices in all activities undertaken by the Bank. In addition to the above, the Committee bears the responsibility of ensuring the Bank's commitment to all the Saudi and international legislations, regulations and rules related to its activities, and conducts an annual review of the public governance framework and the relevant mechanisms; in addition to reviewing the regulations of the Board committees and the Executive Management and making recommendations to the Board in this regard, along with monitoring and ensuring that the Bank's possession of sufficient mechanisms to identify cases of conflict of interest in operational activities. Furthermore, the Committee adopts the annual program of the Compliance Sector and the annual report submitted to the regulatory authorities; in addition to following-up with the adequacy and effectiveness of the Compliance division regarding the implementation of the Compliance policy and manual, along with reviewing the periodic and annual reports, and ensuring the effective correction of any identified gaps or violations.

In order to fulfill its role, the Committee held four (4) meetings during 2016:

The current session of the Compliance and Governance Committee consists of (3) members; i.e. one member from the Board of Directors and two external independent specialist members, and the Committee held one meeting:

S.N.	Members of the Committee's Current Session	Status	Attendance
1	Abdul Rahman bin Mohammed Ramzi Addas	Board Member – Committee Chairman	4
2	Adib bin Mohammed Abanme	Independent Member from outside the Board	4
3	Abdel Fattah Ibn Ibrahim Al-Tawil	Independent Member from outside the Board	4

Audit Committee:

The Audit Committee's responsibility is represented in overseeing the Internal Audit Sector, reviewing the audit plan and procedures, the audit reports and the corrective actions; in addition to nominating external auditors for the Bank, determining their fees, supervising their activities and reviewing their plan; along with reviewing their notes regarding the financial statements, discussing and approving the interim and annual financial statements, auditing the accounting policies used by the Bank, assessing the extent of regulatory controls application , supervising the special projects, auditing the management reports, submitting reports to the Board, reviewing the accuracy of the procedures of the financial disclosure operation and all the other regulatory acts that fall under the Committee, in accordance with the Bank's Corporate Governance Manual.

- The Committee held (3) meetings during the first four months of 2016, The current session of the Audit Committee consists of four members, i.e. the Committee Chairman, who is one of the Bank's Board members and three independent external members from specialists, namely:

S.N.	Members of the Committee's Previous Session	Status	Attendance
1	Ahmed bin Abdulrahman Al-Hosan	Board Member – Committee Chairman	3
2	Dr. Ahmed Abdullah Al-Moghames	Independent Member from outside the Board	3
3	Suleiman Nasser Al-Hattlan	Independent Member from outside the Board	3
4	Yusuf Ahmed Al-Bureshaid	Independent Member from outside the Board	3

- The Committee held (4) meetings during the remaining period of 2016, after the Board has restructured its subsidiaries Committee, in its current session which began on 17/04/2016, including The Audit Committee. The current session consists of four members, i.e. the Committee Chairman, who is one of the Bank's Board members and three specialized members from outside the board, namely:

S.N.	Members of the Committee's Current Session	Status	Attendance
1	Ahmed bin Abdulrahman Al-Hosan	Board Member – Committee Chairman	4
2	Dr. Ahmed Abdullah Al-Moghames	Independent Member from outside the Board	4
3	Suleiman Nasser Al-Hattlan	Independent Member from outside the Board	4
4	Hamad bin Mohammed Al-Kanhal	Independent Member from outside the Board	4

Sanctions Imposed on the Bank and its Subsidiaries by the Supervisory Authorities:

During the year 2016, fines were imposed on the Bank and its subsidiaries as a result of the operational business, and they have been addressed. The following are the fines imposed on the Bank by the supervisory authorities:

Supervisory Authorities	Number of Fines	Total Fines (In Million Saudi riyals)
Saudi Arabian Monetary Authority (SAMA)	14	2
The Ministry of Municipal and Rural Affairs (SAMIRAD) and the General Authority for Civil Aviation (GACA)	149	1

Sanctions Imposed on the Bank and its Subsidiaries by the Supervisory Authorities:

S.N.	Nature of the Contract	Relevant Party Name	Contract Duration	Annual Contract Value (In Saudi Riyals)
1	Lease contract of an ATM in Riyadh, owned by Mohammad Ibrahim Al-Subaie & Sons Company.	Board Member. Nasser Bin Mohammed Al-Subaie	From 03/07/2015 to 20/07/2025	100,000
2	Lease contract of the Injaz Center in Dwadmi Governorate, owned by Mohammad Ibrahim Al-Subaie & Sons Company	Board Member. Nasser Bin Mohammed Al-Subaie	From 05/12/2016 to 04/12/2026	174,790
3	Lease contract of Injaz Center Second Industrial in Riyadh owned by Mohammad Ibrahim Al-Subaie & Sons Company.	Board Member. Nasser Bin Mohammed Al-Subaie	From 06/04/2016 to 05/04/2026	472,000
4	Lease contract for the site of the Albilad Investment Company; i.e. the two offices no. (103) and (104); located on King Fahd Road in Riyadh (Smart Tower), and owned by Khaled bin Abdulaziz Al-Mukairin & Sons Holding Company.	Board Member .Khaled bin Abdulaziz Al-Mukairin –	From 01/01/2013 to 31/12/2017	2,376,000
5	Lease contract for the site of the Albilad Investment Company; i.e. the two offices no. (101) and (102); located on King Fahd Road in Riyadh (Smart Tower), and owned by Khaled bin Abdulaziz Al-Mukairin & Sons Holding Company.	Board Member .Khaled bin Abdulaziz Al-Mukairin –	From 08/08/2016 to 31/12/2019	1,168,200
6	Lease contract of the Injaz Center in Al-Khafji Governorate, owned by Abdulrahman bin Saleh Al Rajhi.	Board Member . Khalid bin Abdul Rahman Al Rajhi	From 08/08/2016 to 31/12/2019	150,000
7	Lease contract of an ATM No (26) in Some Cities of the Kingdom, owned by Arabian Centres Company Limited.	Board Member. Khaled Bin Sulaiman Al Jasser - (as CEO of Arabian Centres Company Limited)	From 09/07/2013 to 15/05/2018	2,792,400
8	Lease contract for the site of the Albilad's Al- Khobar – Aqrabiya Branch owned by Abdullah Ibrahim Al-Subaie Real Estate Company	Former Board Member Khalid bin Abdullah Al-Subaie during the period of membership from 01/01/2016 until 16/04/2016.	From 13/11/2014 to 12/11/2024	2,090,600
9	Lease contract for the site of Albilad's Medina – Sultana Branch, owned by Abdullah bin Ibrahim bin Mohammed Al-Subaie	Former Board Member Khalid bin Abdullah Al-Subaie during his membership from 01/01/2016 to 16/04/2016.	From 01/04/2005 to 31/03/2017	650,000
10	Lease contract of the Main Injaz Center in Yanbu City, owned by Abdulrahman bin Abdulaziz bin Saleh Al Rajhi.	Abdulrahman bin Abdulaziz bin Saleh Al Rajhi, (as a senior shareholder)	From 09/08/2015 to 08/08/2025	180,000
11	Lease contract of Branch of the Albilad's Khubaib in Buraidah City, owned by Abdulrahman bin Abdulaziz bin Saleh Al Rajhi.	Abdulrahman bin Abdulaziz bin Saleh Al Rajhi, (as a senior shareholder)	From 01/06/2015 to 31/05/2025	400,000
12	Lease contract of Branch of the Albilad main in Dammam City, owned by Abdulrahman bin Abdulaziz bin Saleh Al Rajhi.	Abdulrahman bin Abdulaziz bin Saleh Al Rajhi, (as a senior shareholder)	From 15/09/2010 to 14/9/2025	500,000

The Group deals with the relevant parties during the course of its regular work. These dealing are subject to the restrictions set out in the Governance Documents approved by the Board of Directors, which are in line with the instructions and regulations of governess and its principles issued by supervisory authorities such as the SAMA and CMA.

On the other hand, Senior shareholders are those who own 5% or more of the Bank's issued capital; and the Senior Management Personnel are these individuals, including the Managing Director, who have the authority and responsibility to carry out the planning, direction and supervision of the Bank's activities, whether directly or indirectly.

The nature and balances of these transactions for the two years ended on the 31st of December are as follows:

A- The Balances of the Board Members and Other Senior Shareholders, in addition to the Companies Affiliated to them and the Investment Funds Managed by the Group:

Details	2016 (In Thousands of Saudi Riyals)
Finance	
Deferred Sale	1,126,699
Participation	16,376
Contingent Undertakings and Commitments	
Contingent Undertakings and Commitments	90,642
Deposits	
On Demand	84,728
Albilad Account (Speculation)	2,611
Others	5,750

B. The Balances of the Senior Management Personnel and the Companies Affiliated to them:

Details	2016 (In Thousands of Saudi Riyals)
Finance	
Installment Sales	9,381
Deposits	
On Demand	5,707
Albilad Account (Speculation)	5,326

C- The Group's Investment Funds:

This clause represents the existing balances at the Group's investment funds as on the 31st of December:

Details	2016 (In Thousands of Saudi Riyals)
Customers' Deposits	196
Investments	47,164

D- Revenues and Expenses:

The following is an analysis of the revenues and expenses related to the transactions with the relevant parties, which are listed in the consolidated income statement for the two years ended on the 31st of December:

Details	2016 (In Thousands of Saudi Riyals)
Revenues	
Finance Income	39,699
Net Fees and Commissions Income and others	626
Net Fees and Commissions Income and others –	
Albilad Investment Funds	11,790
Expenses	
Albilad Account (Speculation)	16
Rents of Buildings	11,054
Remuneration of Board Members	5,480

The Balances of the Senior Management Personnel and the Companies Affiliated to them:

Details	2016 (In Thousands of Saudi Riyals)
Revenues	
Finance Income	100
Expenses	
Albilad Account (Speculation)	16

The following is a statement of the total compensation paid to the Senior Management Personnel during the year:

Details	2016 (In Thousands of Saudi Riyals)
Benefits for Employees	96,905

33. Capital Adequacy:

The Group's objectives when managing the capital are to comply with the capital requirements set by the Saudi Arabian Monetary Authority (SAMA) to maintain the Group's ability to continue its work, in accordance with the continuity principle and the maintenance of a strong capital base. The Group's Management monitors the capital adequacy and the use of regulatory capital.

The instructions of the Saudi Arabian Monetary Authority (SAMA) requires the maintenance of a minimum level of regulatory capital, and the ratio of the total regulatory capital to the risk-weighted assets must be at or exceeding the agreed minimum of 8% .

The Group monitors the capital adequacy using the ratios stated by the Saudi Arabian Monetary Authority (SAMA); and by which the capital adequacy is measured by comparing the eligible capital clauses for the Group with the assets listed in the consolidated statement of financial position and the potential liabilities using the risk-weighted assets to show its relative risks.

The Saudi Arabian Monetary Authority (SAMA) issued the guidelines and frameworks for capital restructuring, according to the recommendations of the Basel III Committee, which took effect as of the 1st of January 2013. According to the frameworks of the Basel III Committee, the Group's consolidated risk-weighted assets, the total capital and the relevant ratios were calculated on a consolidated basis for the Group.

The following table summarizes the Group's first pillar for the risk-weighted assets, the core capital, the supplementary capital and the capital adequacy ratio:

Details	2016 (In Thousands of Saudi Riyals)
Credit Risk-Weighted Assets	42,831,321
Operational Risk-Weighted Assets	4,340,692
Market Risk-Weighted Assets	991,676
Total First Pillar for Risk-Weighted Assets	**48,163,689**
Core Capital	7,320,805
Supplementary Capital	2,532,325
Total of Core Capital and Supplementary Capital	**9,853,130**
Capital Adequacy Ratio	
Core Capital Ratio	15.20%
Ration of Core Capital and Supplementary Capital	20.46%

Means for Communication with Shareholders:

Pursuant from the Bank's keen on strengthening its relationship with shareholders and all investors and customers, and in its belief in the principle of disclosure and transparency and the importance of information to investors, the Bank's Board of Directors considers the transparency as one of the Bank's important principles, which works on its application, and it is from the governance principles that work on ensuring fair treatment for all shareholders and determining the responsibility of the Board of directors towards the Bank and its shareholders; and so the Bank follows the regulations, standards and guidelines of the Saudi Arabian Monetary Fund (SAMA) and the Capital Market Authority (CMA), and the Basel Committee's recommendations on corporate governance. The Bank provides comprehensive information on all of its activities and business within the annual report and the brief financial statements published in the local newspapers, and on the Tadawul website and the Bank's website (www.bankalbilad.com), which contains additional information and news about the Bank. Furthermore, The Bank takes specific note of the inquiries received from the shareholders and responding to them, in addition to encouraging shareholders to attend the annual General Assembly meetings that discuss the Bank's business.

Interests in the category of shares entitled to voting

There is no interest that benefits the individuals (other than the issuing Board of Directors, the senior executives, and their spouses and minor children) in the category of the shares entitled to voting, and the Bank must be informed about these rights

Waiver of interests by shareholders, board members or senior employees

- There are no arrangements or agreements with any Board members or senior executives to waive any wages, remunerations or compensations.
- There are no arrangements or agreements with any of the shareholders to waive any rights in profits

Accrued Regulatory Payments:

Details	2016
Legal Zakat (1)	25.0
General Organization for Social Insurance (2)	6.2

- Legal Zakat – the Zakat statement will be provided by the bank for the fiscal year 2016 during the first quarter of 2017, and the Zakat accrued for the fiscal year 2016, amounting to 25 million Saudi Riyals (2015: 20.6 million Saudi Riyals) will be paid along with the Zakat statement.
- The receivables of the General Organization for Social Insurance, amounting to 6.2 million Saudi Riyals (2015: 6.8 million Saudi Riyals), will be paid in January 2017.

Zakat:

The Bank provided its Zakat statements to the Department of Zakat and Income Tax (DZIT) and paid Zakat for the financial years from 2006 until 2015, during the current year, the Bank paid zakat differences amount to 58 million Saudi Riyals for the Zakat assessment for the year, knowing that the Bank has submitted an objection for this payment to the Board of Grievances.

The Bank received the Zakat assessment for the years from 2007 until 2014, then It appealed against these Zakat assessment and the procedure taken by Department of Zakat and Income. This appeals are still pending with the concerned committees.

Zakat assessment for 2015 and 2016 has not been made by the Department of Zakat and Income.

Human Resources and Saudization:

At the end of 2016, the number of Bank employees has reached 3,441 employees compared to 3,499 employees by the end of 2015, the Saudization percentage was 83% of the total personnel. Furthermore, the Bank prepared and implemented specialized training courses for new employees including graduates of universities and management institutes, and it has also prepared development courses for all employees; as the number of training opportunities for the Bank employees has reached 3,259 training opportunities. Human resources sector complies with high professional and ethical standards by its competent management.

End-of-Service Gratuity:

The gratuities accrued to the Bank employees are calculated at the end of their service, according to the Saudi Labor Law, and they are included in the other liabilities section in the Consolidated Statement of Financial Position.

Employees Share Program:

The Bank provides its qualified employees with incentive programs that are paid based on the shares (programs) and supported by the Saudi Arabian Monetary Authority (SAMA). Under the terms of this program, the Bank grants shares to qualified employees, and they will be kept as part of their annual remunerations.

The cost of these programs is measured based on the fair value at the shares' grant date, and the cost of the programs is recognized throughout the period during which the service requirement is fulfilled, which ends with the date on which the concerned employees are entitled to the granting of the shares (maturity date).

The cumulative expenses, which are calculated under these programs from the preparation date of all the financial statements until the maturity date, show the extent of the maturity date, and the best Bank estimates for the number of shares that will be granted at the end. The amount charged or restricted on the consolidated income statement for a year represents the movement in the cumulative expense registered at the beginning and end of that year. After obtaining the approval of the Saudi Arabian Monetary Authority (SAMA), the Bank entered into an agreement with a neutral third party to retain the shares involved in the program, in addition to the benefits accrued from these shares. The important benefits of the program are as follows:

Details	2016 (In Thousands of Saudi Riyals)
Grant Date	21 June 2016
	25% 1 January 2017
Maturity Date	25% 1 January 2018
	50% 1 January 2019
Number of Shares Granted on the Grant Date	483,477
Share price on the Grant Date (Saudi Riyals)	24.07
The Value of the Shares Granted on the Grant Date (in Thousands of Saudi Riyals)	11,637
Maturity Period	3 years
Grant Condition	Completion of Service Period
Payment Method	Shares

The following is a statement of the movement in the number of shares for the Employees Share Program during the year:	2016
At the beginning of the year	1,129,439
Shares Granted during the year	483,477
Waivered	(332,598)
Disbursed	(457,672)
At the end of the year	822,646

These shares were granted with an essential condition; which is the completion of the service period and it is not linked to the market conditions.

Governance and Transparency:

The Bank's Board of Directors is committed to provide a growing shareholder value over the long term, and it appreciates the role of an effective governance system in achieving sustainable growth, and that is achieved through the formulation of strategic objectives and translating them into appropriate work programs, and working on their achievement with a commitment to the transparency and disclosure standards. Based on the requirements and decisions of the regulatory authorities represented in the Saudi Arabian Monetary Authority (SAMA) and the Capital Market Authority (CMA), and given the awareness and belief of the Bank's Board of Directors and its Executive Management in the importance of governance, the Board of Directors has adopted the Bank's corporate governance documents, including the Corporate Governance Manual, its annexes and a group of related policies; in full conformity with the Companies Law, Governance Regulation and Principles and all Regulations issued by the relevant Regulatory Authority as well as the Bank's Articles of Association.

Bank's corporate governance is a system of rules, practices and operations used in guiding the Bank, including mechanisms to regulate the relationship between the Board of Directors, the Executive Management, shareholders and stakeholders, where special regulations and procedures are applied to facilitate decision making and transparency in order to protect the rights of shareholders and stakeholders and achieve justice and transparency in the financial and business environment. The Bank's corporate governance is based on fair treatment on the basis of equality between the interests of the various concerned parties, including shareholders, management, customers, suppliers or government agencies (including Regulatory Authority), and all community sectors. The Board of Directors and the Executive Management stresses the need to adhere to the governance controls as an effective method to develop the concepts of effective transparency, integrity and control, and achieving high professional performance, Thus enhancing the confidence of the above mentioned stakeholders locally, regionally and internationally. This report demonstrates the extent to which the Bank complies with the terms and conditions of corporate governance.

One of the most prominent achievements in this regard during the year 2016, the Board of Directors of the Bank and the General Assembly's approval of amendments and updates to the governance documents including the regulations, policies and manual, as well as documents and policies complementing them in consistency with the latest regulations contained in the Companies Law, the Corporate Governance Regulations issued by the CMA and the main principles of bank governance issued by SAMA, whose first update was issued on March 2014, and the others relevant regulation. The Board and its committees follow up with the Executive Management to ensure its commitment in the application of all that is stipulated by these regulations and policies permanently and effectively.

Compliance with Corporate Governance Regulations

The Bank's Board of Directors works according to the Corporate Governance Regulation issued by the Capital Market Authority (CMA) on 12/11/2006, and modified by the CMA Board's decision on 16/03/2010, in addition to all that is stipulated by the General Principles of Bank Governance issued by the Saudi Arabian Monetary Authority (SAMA), whose first update was issued on March 2014; along with the Bank's corporate governance documents and its annexes and policies.

The Bank has committed itself to the application of the clauses of the Corporate Governance Regulation issued by the (CMA), with the exception of the following clauses:

Article	Paragraph	Paragraph	Reasons for Non-Application
Sixth (Voting Rights)	D	Investors from people with legal status, who act on behalf of others, such as investment funds, must disclose their policies in the voting and their actual voting in their annual reports, as well as disclosing how to deal with any essential conflicts of interest that may affect the exercise of fundamental rights for their investments.	The Article does not apply to Bank Albilad; as the Bank cannot compel investors with legal status to do so.
Twelfth (The Formation of the Board of Directors	I	No person with legal status, who is entitled to appoint his representatives on the Board, according to the Companies System, can vote on the selection of other members of the Board of Directors	The Article does not apply to Bank Albilad; as there aren't any people with legal status.

The Board's Statements:

The Bank's Board of Directors confirms the following:

- The accounting records were prepared properly.
- The Internal Audit System was prepared on a sound basis and implemented effectively.
- There is no doubt in the Bank's ability to continue its activity.

Report of the Bank's Auditors

The Bank's auditors have submitted an unqualified audit report on the Bank's consolidated financial statements for the current fiscal year.

External Auditors:

In the General Assembly meeting held on the 04th of Rajab 1437 AH, corresponding to the 11th of April 2016, M/S Price Waterhouse Cooper Office and the Ernst & Young Office and their Partners have been appointed as external auditors for the Bank for the fiscal year 2016. As for the year 2017, the auditors will be appointed at the meeting of the General Assembly scheduled to be held in the early second quarter 2017, with Allah's willing.

In conclusion, the Board of Directors, the Chief Executive Officer and all the Bank employees are honored to extend their deepest thanks and appreciation to the Custodian of the Two Holy Mosques King Salman bin Abdulaziz Al Saud, may Allah protect him; and the Crown Prince and Minister of Interior Prince Mohammed bin Nayef bin Abdulaziz Al Saud; and the Deputy Crown Prince, the Second Deputy Prime Minister and the Minister of Defense, His Royal Highness Prince Mohammed bin Salman bin Abdul Aziz, may Allah protect him. We also thank the Ministry of Finance, the Ministry of Trade and Industry, the Saudi Arabian Monetary Authority (SAMA) and the Capital Market Authority (CMA) for the help, support and encouragement received by the Banks and Financial Institutions Sector.

The Board is pleased to express its thanks and appreciation to all shareholders and customers for their precious support and trust. The Board also thanks the bank ambassadors of employees for their constant and sincere efforts to develop and improve performance and achieve the Bank's purposes and their desired objectives.


بنك البلاد
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The Consolidated Income Statement

For the two years ended on the 31st of December 2016 and 2015

	Clarifications	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Assets			
Cash and Balances at the Saudi Arabian Monetary Authority (SAMA)	4	4,528,825	4,602,121
Net Balances at Other Banks and Financial Institutions	5	**7,950,844**	8,382,657
Net Investments	6	**3,080,945**	2,948,935
Net Finance	7	**36,178,387**	34,254,623
Net Property and Equipment	8	**802,424**	792,084
Real estate investment	9	**1,000,000**	-
Other Assets	10	**351,166**	239,990
Total Assets		**53,892,591**	51,220,410
Liabilities and Shareholders' Equity			
Liabilities			
Balances of SAMA		**2,006,214**	-
Balances of Other Banks and Financial Institutions		**996,391**	1,421,652
Customers' Deposits	11	**40,234,715**	42,179,460
Bonds	12	**2,007,047**	-
Other Liabilities	13	**1,327,419**	1,177,059
Total Liabilities	14	**46,571,786**	44,778,171
Shareholders' Equity			
Capital	15	6,000,000	5,000,000
Statutory Reserve	16	630,997	961,066
Other Reserves	18	**169,201**	(11,712)
Retained Earnings		**285,188**	591,317
Proposed Cash Dividends		**300,000**	-
Treasury Shares		**(113,207)**	(113,758)
Employee Equity Program Reserves	37	**8,720**	15,326
Total Shareholders' Equity		**7,280,899**	6,442,239
Non-Controlling Equity		**39,906**	-
Total Equity		**7,320,805**	6,442,239
Total Liabilities and Equity		**53,892,591**	51,220,410

The attached clarifications from number (1) to number (39) are an integral part of these consolidated financial statements.

The Consolidated Income Statement

For the two years ended on the 31st of December 2016 and 2015

	Clarifications	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Income			
Income from Investment and Finance Assets	20	1,772,471	1,238,839
Return on Deposits and Financial Liabilities	21	**(362,626)**	(76,445)
Net Income from Investment and Finance Assets		**1,409,845**	1,162,394
Net Fees and Commissions Income	22	**816,720**	779,220
Net Foreign Currency Exchange Gains		**311,175**	316,994
Dividend income		**6,805**	9,647
Net Non-Trading Investment (Losses) / Gains		**1,759**	(197)
Other Operating Income	23	**47,506**	26,562
Total Operating Income		**2,593,810**	2,294,620
Expenditure			
Salary and other Employee related Benefits	24	**902,222**	853,106
Rent and premises expense		**250,461**	224,825
Depreciations	8	**96,327**	101,187
Other General and Administrative Expenses		**297,380**	235,278
Net Impairment Charge /(Reversal of Provision) for Financing	7 (B)	**191,214**	78,693
Impairment charge on Available-for-Sale Investments	6 (B)	**47,183**	13,108
Total Operating Expenses		**1,784,787**	1,506,197
Year's Net Income		**809,023**	788,423
Income to:			
Bank shareholders		**807,723**	788,423
Non-Controlling Equity		**1,300**	-
Net Year Income		**809,023**	788,423
Basic and diluted earnings per share Share (in Saudi Riyal)	25	**1.35**	1.31

The attached clarifications from number (1) to number (39) are an integral part of these consolidated financial statements.

The Consolidated Income Statement

For the two years ended on the 31st of December 2016 and 2015

	Clarifications	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Year's Net Income		809,023	788,423
Other Comprehensive Income Items: Items that can be recycled back to consolidated statement of income in subsequent periods/have been recycled in the current year - Available-for-Sale Financial Assets	18		
• **Net Changes in Fair Value**		(8,432)	(47,795)
• Net Amounts Transferred to the Consolidated Income Statement		(1,759)	197
• Impairment charge on Available-for-Sale Investments		47,183	13,108
Total Other Comprehensive Income		36,992	(34,490)
Income to:		846,015	753,933
Bank shareholders		844,715	753,933
Non-Controlling Equity		1,300	-
Net Year Income		846,015	753,933

The attached clarifications from number (1) to number (39) are an integral part of these consolidated financial statements.

The Consolidated Income Statement

For the two years ended on the 31st of December 2016 and 2015

2016

In Thousands of Saudi Riyals **Returns of Bank Shareholders**

Balance at the Beginning of the Year	Clarifications	Capital	Statutory Reserve	Other Reserves	Retained Earnings	Proposed Cash Dividends	Treasury Shares	Employee Equity Program	Total	Non-Controlling Equity	Total Equity
Changes in the Shareholders' Equity for the Year		5,000,000	961,066	(11,712)	591,317	-	(113,758)	15,326	6,442,239		6,442,239
Net Changes in Fair Value of Available for- Sale Investments				(8,432)					(8,432)		(8,432)
Net Transfers to the Consolidated Income Statement.				(1,759)					(1,759)		(1,759)
The Impairment charge on Available-for-Sale Investments				47,183					47,183		47,183
Net Income recognized Directly in Shareholders' Equity				36,992					36,992		36,992
Year's Net Income					807,723				807,723	1,300	809,023
Total Comprehensive Income for the Year				36,992	807,723				844,715	1,300	846,015
Proposed Cash Dividends	17				(300,000)	300,000					
Issuance of Bonus Shares	17	1,000,000	(532,000)		(468,000)						
Treasury shares							551		551		551
Employee Equity Program Reserve	37							(6,606)	(6,606)		(6,606)
Zakat	19			143,921	(143,921)						
Transfer to the Statutory Reserve	16		201,931		(201,931)						
Non-Controlling Equity resulting of consolidation										38,606	38,606
Balance at the End of the Year		6,000,000	630,997	169,201	285,188	300,000	(113,207)	8,720	7,280,899	39,906	7,320,805

The attached clarifications from number (1) to number (39) are an integral part of these consolidated financial statements.

The Consolidated Income Statement

For the two years ended on the 31st of December 2016 and 2015

2015

In Thousands of Saudi Riyals

Returns of Bank Shareholders

Balance at the Beginning of the Year	Clarifications	Capital	Statutory Reserve	Other Reserves	Retained Earnings	Proposed Cash Dividends	Treasury Shares	Employee Equity Program	Total	Non-Controlling Equity	Total Equity
Changes in the Shareholders' Equity for the Year		4,000,000	768,403	22,778	1,195,557	-	(110,705)	15,320	5,891,353		5,891,353
Net Changes in Fair Value of Available for- Sale Investments				(47,795)					(47,795)		(47,795)
Net Transfers to the Consolidated Income Statement.				197					197		197
The Impairment charge on Available-for-Sale Investments				13,108					13,108		13,108
Net Income recognized Directly in Shareholders' Equity				(34,490)					(34,490)		(34,490)
Year's Net Income					788,423				788,423		788,423
Total Comprehensive Income for the Year				(34,490)	788,423				753,933		753,933
Proposed Cash Dividends	17				(200,000)				(200,000)		(200,000)
Issuance of Bonus Shares	17	1,000,000	(4,443)		(995,557)				-		-
Treasury shares							(3,053)		(3,053)		(3,053)
Employee Equity Program Reserve	37							6	6		6
Transfer to the Statutory Reserve	16		197,106		(197,106)			-	-		-
Non-Controlling Equity resulting of consolidation										-	
Balance at the End of the Year		**5,000,000**	**961,066**	**(11,712)**	**591,317**	**-**	**(113,758)**	**15,326**	**6,442,239**	**-**	**6,442,239**

The attached clarifications from number (1) to number (39) are an integral part of these consolidated financial statements.

The Consolidated Income Statement

For the two years ended on the 31st of December 2016 and 2015

	Clarifications	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Operating Activities:			
Year's Net Income		809,023	788,423
Adjustment to reconcile Net Income to the Net Cash from / (Used in)			
Operating Activities:			
Net Gains /(Losses) on Non-Trading investment		(1,759)	197
Net Gains from disposal of Property and Equipment		(917)	(66)
Depreciations	8	96,327	101,187
Net impairment charge/ (Reversal of impairment) for Financing	7 (B)	191,214	78,693
Impairment charge on Available-for-Sale Investments	6 (B)	47,183	13,108
Employee Equity Program		6,431	8,267
From Operating Profit before Changes in the Operating Assets & Liabilities		1,147,502	989,809
Net (Increase) / Decrease in Operating Assets:			
Statutory Deposit at the Saudi Arabian Monetary Authority (SAMA)		96,888	(150,244)
Due from Banks and Financial Institutions maturing after Ninety Days from the Date of Acquisition		828,154	772,331
Commodity Murabaha with the Saudi Arabian Monetary Authority (SAMA) maturing after Ninety Days from the Date of Acquisition		358,715	(1,102,066)
Finance		(2,114,978)	(5,978,045)
Other Assets		(111,176)	(51,335)
Net (Increase) / Decrease in Operating Liabilities:			
Due to Saudi Arabian Monetary Authority (SAMA)		2,006,214	-
Due to Banks and Financial Institutions		(425,261)	230,634
Customers' Deposits		(1,944,745)	5,455,718
Other Liabilities		150,360	(246,742)
Net Cash used in the Operating Activities		(8,327)	(79,940)
Investment Activities:			
Purchase of Non-Trading Investments		(743,592)	(662,349)
Proceeds from the Sale of Non-Trading Investments		544,507	402,964
Real Estate Investment		(1,000,000)	
Purchase of Property and Equipment		(106,806)	(94,994)
proceeds from Sale of Property and Equipment		1,055	158
Net Cash used in Investment Activities		(1,304,836)	(354,221)
Financing Activities:			
Issuing Bonds		2,007,047	-
Purchasing the Shares of the Employee Equity Program		(12,486)	(11,314)
Paid Dividends	17	-	(200,000)
Non-Controlling Equity		38,606	-
Net Cash generated from (used in) Finance Activities		2,033,167	(211,314)
(Decrease) / Increase in Cash and Cash Equivalents		720,004	(645,475)
Cash and Cash Equivalents at the Beginning of the Year		8,066,276	8,711,751
Cash and Cash Equivalents at the End of the Year	26	8,786,280	8,066,276
Income received from Investing and Financial Assets		1,697,624	1,182,807
Return Paid on Deposits and Financial Liabilities		348,648	74,474
Supplemental Non-Cash Information:			
Total of Other Comprehensive Income		36,992	(34,490)
Issuance of Bonus Shares	17	1,000,000	1,000,000

The attached clarifications from number (1) to number (39) are an integral part of these consolidated financial statements.


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1. General

A. Establishment and Work

Bank Albilad (the Bank) was established as a Saudi joint stock company in Saudi Arabia, and its establishment was licensed by the Royal Decree number M/48 on the 21st of Ramadan 1425 AH (corresponding to the 4th of November 2004), according to the decision of the Council of Ministers No. (258) on the 18th of Ramadan 1425 (corresponding to the 1st of November 2004)

The Bank works under the commercial registration no. 1010208295 on the 10th of Rabia Al- Awal 1426 AH (corresponding to the 19th of April 2005), and the address of the Bank's head office is as follows:

Bank Albilad (the Bank) was established on the **21st of Ramadan 1425 AH (corresponding to the 4th of November 2004**

1425
2004

Bank Albilad
P.O. Box 140
Riyadh 11411
Saudi Arabia

The consolidated financial statements include the financial statements of the Bank and its affiliated companies, which are Albilad Investment Company, Albilad Real Estate Company and Makkah Hospitality Fund; "collectively referred to as the «Group»". Both of Albilad Investment Company and Albilad Real Estate Company are 100% under bank Albilad ownership, whereas The Group owns 80% of Makkah Hospitality Fund, which is managed by AlBilad Capital. All Group companies were founded in Saudi Arabia.

The purposes of the Group are to engage in all banking, finance and investment business through a variety of tools and products compatible with the Shariah Islamic Law, the Bank Establishment contract and the provisions of the Banking Control Law. The Bank provides these services through 114 bank branches (2015: 120 bank branches) and 176 exchange and remittance centers (2015: 171 exchange and remittances centers) in the Kingdom of Saudi Arabia.

178 Exchange and Remittance branches (Enjaz) 2016

151 banking branches 2016

B. Shariah Board

The Bank established a legitimate authority ("Shariah Board") to ensure the compatibility of all the Bank's business with the adopted provisions and their directions.

2. Basis of Preparation

A. Compliance Statement

The consolidated financial statements are prepared in accordance with the accounting standards for the Commercial Banks, promulgated by the Saudi Arabian Monetary Authority (SAMA), in addition to the International Financial Reporting Standards (IFRS) and the interpretations issued by the IFRS Interpretations Committee. Furthermore, the Bank prepares its consolidated financial statements in line with the requirements of the Banking Control Law and the Companies System in Saudi Arabia, in addition to the Bank's Establishment contract.

B. Measurement and Presentation Principles

The consolidated financial statements are prepared in accordance with the historical cost principle, except for the available-for-sale investments, which are measured at fair value.

The Group presents its own consolidated statement of the financial position based on the liquidity. An analysis has been provided regarding the redemption or payment operations within 12 months from the date of preparation of the (circulated) financial statements, and for more than a year after the date of preparation of the financial statements (non-circulated) in the clarification no. 31.

C. Functional Currency and Presentation Currency

These consolidated financial statements are presented in Saudi Riyals, which is the main currency of the Group. The financial statements presented in Saudi Riyals are approximated to the nearest thousand, unless otherwise noted.

D. Significant Accounting Estimates and Provisions

The preparation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) requires the use of certain significant accounting estimates and assumptions that could affect the registered amounts of assets and liabilities. Furthermore, the Management is also required to use its estimates regarding the accounting policies implementation for the Group. These estimates, assumptions and provisions are assessed on an ongoing basis based on past experience and other factors, including the professional consultations and expectations of future events that are believed to be reasonable under the circumstances. The important clauses, in which the Management uses the estimates and assumptions, or those in which the provisions are exercised, consist of the following:

1. Impairment losses in Finance

The Group reviews its finance portfolio in order to assess the private and collective impairment on a periodic basis. In order for the Group to be able to determine whether it should record the impairment losses or not, the Group uses the estimates and provisions to determine if there is any observable data that indicates an impairment that can be measured in the estimated future cash flows. The Manual includes an observable data indicating a reverse change in the status of payment by a group of borrowers.

When estimating the cash flows, the Management uses the estimates based on the finance previous experience, which is characterized by similar credit risks and an objective evidence of a similar impairment, as stated in the portfolio when estimating the cash flows. The methodology and assumptions used to assess the amounts and timing of future cash flows are reviewed regularly to reduce any differences between the estimated and actual losses.

2. Fair Value Measurement

The Group measures the financial instruments at fair value on the date of each consolidated statement of financial position.

Fair value is the price that will be received upon the sale of assets or paid to transfer liabilities under a statutory transaction between the traders in the market on the measurement date. The fair value measurement is based on the assumption that the transaction of the assets sale or liabilities transfer has been carried out either:
In the main market for the assets or liabilities, or
In the most beneficial markets available for assets and liabilities, in the absence of major market.

The main market or the most beneficial markets must be available to the Group.

The fair value of the assets or liabilities is measured on the basis of the assumptions used by the market traders when pricing the assets or liabilities; and on the assumption that they are seeking to achieve better economic benefit to them.

The Group uses the appropriate pricing methods according to the circumstances, and sufficient data is provided in this regard to measure the fair value, by increasing the use of observable inputs and minimizing the non-observable inputs. All the assets and liabilities measured at fair value or disclosed in the consolidated financial statements are classified within the below hierarchy for fair value, based on the material minimum inputs to measure the fair value as a whole:

1 **First Level:** The price traded on active financial markets for the same assets and liabilities (without amendment).

2 **Second Level:** The assessment methods that are considered as material minimum inputs to measure the observable fair value, whether directly or indirectly.

3 Third Level: The assessment methods that are considered as material minimum inputs to measure the no observable fair value.

3. Rating the Held - to - Maturity Investments

The Group follows the guidelines set forth in the International Accounting Standard No. (39) when rating non-derivative financial assets with fixed payments, or that can be determined, which have a specified maturity date, as "Held - to - Maturity Investments". When carrying out these provisions, the Group evaluates its intention and ability to hold such investments until the maturity date, except in some special circumstances, such as selling them on a date close to the maturity date or with an immaterial amount; only then the Group must rerate all the investments held until the maturity date as available-for-sale investments.

4. Impairment in the Value of Shares and Investment Instruments Available for Sale

On the preparation date of all financial statements, the Management carries out the provisions when reviewing the impairment in the value of the available-for-sale investments; this includes making sure whether the substantial or continuous impairment in the fair value reduces the investments cost. The estimate is formed to ascertain whether the impairment in the investments' fair value is «substantial» or «continuous». When conducting the assessment to determine whether the impairment is substantial, the impairment in the fair value is assessed compared to the original cost on the date of the initial recognition. When conducting the assessment to determine whether the impairment is continuous, the impairment is assessed compared to the period in which the fair value is less than the original cost on the date of the initial recognition.

When making the estimates, the Group evaluates, among other factors, the average changes in investment prices, the deterioration of the investee's financial position, the industry and sector performance, the changes in technology, and the cash flows from operating and finance activities.

The Group reviews the investments in the instruments classified as available for sale on the preparation date of all financial statements to ensure the presence of impairment in their value. This requires giving estimates similar to the applicable ones regarding the assessment of corporate finance individually.

5. Specifying the Control over the Investee Companies:

The control indicators mentioned in the clarification no. 3 (B) are subject to the Management's provisions, which can have a significant impact on the Group's share in securitization tools and investment funds.

The Group operates as a manager for many investment funds. Specifying the Group's possibility to exercise control over an investment fund is usually carried out by focusing on the overall assessment of the Group's economic interests in the fund (which consists of any registered commissions and expected management fees) and the investors' rights in dismissing the Fund Manager. As a result, the Group acts as an agent for investors in all cases, and therefore these funds were not standardized; Except for Makkah Hospitality Fund, which is declared that the Group controls it (for more details, kindly refer to Note 1 (A).

6. The Allocations of Obligations and Charges

The Group receives legal claims against it through its normal work cycle. When making the allocations, the Management makes estimates about the possibility of sparing an allocation in exchange for the claims. The expiry date of the legal claims and the amount to be paid is uncertain. The timing and cost ultimately depend on the applicable regulatory procedures.

7. Financial Services Fees

The Management determined levels to prove the fees of processing finances as an amendment of actual profit rate. Amounts under these levels shall not be capitalized as it do not have significant effect.

3. Summary of the Main Accounting Policies

The accounting policies used in preparing the consolidated financial statements are shown below:

A) Changes in Accounting Policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with the accounting policies used in the preparation of the consolidated annual financial statements for the year ended on the 31st of December 2015, except in pursuing the following new standards and the amendments to the existing standards below, which has no significant impact on the Group's consolidated financial statements for the current or previous period, and it is expected to have an inconsequential impact on the future periods:

- **Amendments to current standards:**
  - **Amendments to IFRS 10 – "Consolidated Financial Statements", IFRS 12 – "Disclosure of Interests in Other Entities" and IAS 28 – "Investments in Associates",** applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.
  - **Amendments to IFRS 11 – "Joint Arrangements",** applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – "Business Combinations" and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operation retains joint control.
  - **Amendments to IAS 1 – "Presentation of Financial Statements",** applicable for annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to:

    - The materiality requirements in IAS 1
    - That specific line items in the statement(s) of profit or loss and other comprehensive income ("OCI") and the statement of financial position may be disaggregated
    - That entities have flexibility as to the order in which they present the notes to financial statements
    - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

- **Amendments to IAS 16 – "Property, Plant and Equipment" and IAS 38 – "Intangible Assets",**
  Applicable for annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

- **Amendments to IAS 27 – "Separate Financial Statements",**
  Applicable for annual periods beginning on or after 1 January 2016, allows an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

- **Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments is as follows:**

  - IFRS 5 – "Non-current Assets Held for Sale and Discontinued Operations", amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
  - IFRS 7 – "Financial Instruments: Disclosures" has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
  - IAS 19 – "Employee Benefits" – amendments clarify that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

B) Basis of the consolidation of the Consolidated Financial Statements

The consolidated financial statements include the financial statements of the Bank and its affiliated companies. The financial statements of the affiliated companies are prepared for the same fiscal year for the Bank using similar accounting policies.

The affiliated companies are enterprises controlled by the Group. The Group controls an enterprise when faced by its matters and it has rights to obtain different revenues from its relationship with the investee company and has the ability to affect the revenues through the exercise of its power on the investee company. The financial statements of the affiliated companies are consolidated in the consolidated financial statements from the date of the transfer of control over these companies, and the consolidation is stopped starting from the date of the renunciation of exercising such control.

The Bank has full shares in the Albilad Investment Company and the Albilad Real Estate Company founded in the Kingdom of Saudi Arabia; while the Group own 80% of Makkah Hospitality Fund, which is managed by AlBilad Capital.

The main activity of the Albilad Investment Company is represented in the provision of trading services, management, organization, counseling, and safekeeping of the bonds, in accordance with the Capital Market Authority (CMA).

The main activity of the Albilad Real Estate Company is represented in the safekeeping of assets provided as guarantees from the Bank Albilad's customers.

The main activity of Makkah Hospitality Fund is represented in providing the investors with dividends and capital growth for the medium and long range period through the sale and purchase of real estate in Makkah.

These consolidated financial statements were prepared using similar accounting policies and assessment methods for the transactions and other events according to similar circumstances.

In particular, the Group controls the investee company only when the following is available for the Group:

1. The exercise of power over the investee company (The availability of the right which provides the Group with the ability to direct the relevant activities of the investee companies).
2. The exposure to risk; and the Group has the right to obtain different revenues from its relationship with the investee company.
3. The ability to influence the revenues of the investee company.

When the Group does not have the majority rights in the investee companies, which entitles it to vote thereon, the Group takes into account all the relevant facts and circumstances to determine whether or not to exercised its power over the investee company, which include:

1. Contractual arrangements with the other owners of the voting rights.
2. Rights arising from other contractual arrangements.
3. The Group's voting rights and potential voting rights granted by the equity instruments such as shares.

The Group re-assesses 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 of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Non-Controlling Equity represents a part of net income (loss) and non-owned subsidiary net assets – directly or indirectly – by the bank in Makkah Hospitality Fund, and shall be presented separately in the Consolidated Income Statement and within the equity in the Consolidated Financial Position separated from Bank Shareholders' Equity. Any losses of Non-Controlling Equity in any subsidiary shall be distributed to the Non-Controlling Equity, even if it resulted in making its balance as shortage.

Non-Controlling Equity Transactions, which do not lead to losing control, shall be considered as equity operations, i.e. as an operation with owners in their capacity as owners. It shall be recorded in the equity the difference between fair value of paid consideration and the purchased possessed share in the fair value of subsidiary net assets; in addition to registering the profits or losses of excluding the Non-Controlling Equity.

Non-Controlling Equity shall be settled later in the Group share in changes in subsidiaries equity after the acquisition date.

The straddling shares between the Group's companies, and any income or expense arising from the nested transactions are excluded when preparing the Consolidated Financial Statements. The unrealized losses are excluded in the same manner in which the unrealized gains are excluded, to the extent that there is no proof of the impairment in the value.

C) The Trade Date

All the regular operations relating to the purchase and sale of financial assets are primarily recognized or derecognized on the trade date; i.e. the date when the Group becomes a party in the contractual provisions of the instrument. The regular operations relating to the purchase and sale of financial assets require the delivery of assets within the time frame established by the regulations or custom prevailing in the market.

All the assets and other financial liabilities are recognized on the trade date; i.e. the date on which the Group becomes a party in the contractual provisions of the instrument.

D) Foreign Currencies

The Group's consolidated financial statements are presented in Saudi Riyal, which is also the functional currency of the Bank. Transactions carried out in foreign currencies are converted into Saudi Riyals at the exchange rates prevailing on the date of the transactions. Furthermore, the balances of the cash assets and liabilities registered in foreign currencies are converted into Saudi Riyals at the end of the year at the exchange rates prevailing on the preparation date of the consolidated financial statements.

The realized and unrealized gains and losses from the conversion operations are registered in the consolidated income statement.

E) Financial Instruments Clearing

The financial assets and liabilities are cleared and the net is included in the consolidated statement of financial position when there is a statutory binding right, and when the Group intends to settle assets with liabilities on a net basis, or sell the assets and pay the liabilities simultaneously.

Clearing cannot be carried out for the revenues and expenses in the consolidated income statement unless it is required or permitted by any accounting standard or interpretations, as shown in the Group's accounting policies.

F) Balances of Other Banks and Financial Institutions

Originally, the balances of other banks and financial institutions are measured at fair value and subsequently measured at amortized cost.

G) Investments

Originally, all the investment bonds are recognized at fair value, which represents the paid amount, inclusive of the purchase expenses regarding investments, except for the investments, whose fair value are listed in the income statement. Transaction costs, if any, are not added to the fair value measurement during the initial recognition for the investments, whose fair value is listed in the income statement.

The bonus and the deduction are amortized based on the actual revenue, and included in the consolidated income statement.

The fair value of the bonds, which are traded in the regular financial markets, is determined based on the prices traded in the market when the work is finished on the preparation date of the financial statements. The fair value of the assets under management and the investments in mutual funds is determined based on the declared net asset value, which is close to the fair value.

The fair value of bonds not traded in the market is determined by conducting a reasonable estimate for the fair value based on the current market value for the other similar instruments more or less, or based on the expected cash flows or all that regards these bonds from the net relevant assets. If the fair value cannot be determined from the active financial markets, it will be recognized at cost.

After the initial recognition of the different categories of the investment bonds, any subsequent transfers were allowed between different investment categories, and that is in case of the fulfillment of certain conditions. Each category of different investments is determined at the end of the next fiscal period in accordance with the principles set forth in the following paragraphs:

1. Investments whose Fair Value is Listed in the Income Statement

Investments are classified in this category as «Held for Trading Investments)) or «Investments whose Fair Value is Listed in the Income Statement during the first recognition. The investments classified as «Held for Trading Investments) are mainly purchased for the purpose of sale or repurchase for short-term periods, and they are registered in the consolidated statement of financial position at fair value. Changes in fair value are included in the net income / loss of trading.

Investments classified as «Investments whose Fair Value is Listed in the Income Statement) by the Management in the case of meeting the standards and principles mentioned in the International Accounting Standard no. (39), (except for the investments of the assets not traded in an active market, whose fair value cannot be reliably measured).

The investments whose fair value is listed in the consolidated statement of financial position are registered at fair value, and any changes in fair value are listed in the consolidated income statement for the year in which these changes arise. The transaction costs, if any, are not added to fair value measurement during the initial recognition for the investments whose fair value are listed in the income statement. The income from finance, investments and dividends from financial assets are recognized at its fair value in the income statement as "Trading Income" or "Income from Financial Instruments whose Fair Value is Listed in the Income Statement" in the consolidated income statement

Rerating

The investments whose fair value is listed in the income statement cannot be rerated after their initial recognition; except for the non-derivative financial instruments whose fair value is listed in the income statement, and apart from those rated as investments whose fair value is listed in the income statement during their initial recognition; as it is allowable to rerate them from this category (i.e. commercial category) in the case of their non-acquisition for the purpose of selling or repurchasing in a short period, and meeting the following conditions:

- If the financial asset meets the requirements of the finance and receivables definitions, when it is no longer required to rerate the financial assets as held for trading during the initial recognition, it is permitted to rerate it when the enterprise has the intention and ability to maintain the financial assets in the foreseeable future or until the maturity date.
- If financial asset does not meet the requirements of the finance and receivables definitions, they can be rerated outside the category of investments held for trading, and that is in the «rare» cases only.

2. Available-for-Sale Investments

Available-for-sale investments are shares, instruments and investment funds not rated as held-to-maturity or finance investments or as investments whose fair value is listed in the income statement. The Group intends to hold them for an indefinite period, which may be sold to meet the liquidity requirements or to face the changes in the profit rates, the foreign exchange rates, and the share prices.

Originally, the investments rated as «Available-for-Sale Investments» are recognized at fair value, inclusive of the spinoff transactions' costs directly related thereto, and they are subsequently measured at fair value with the exception of the non-traded shares whose fair value cannot be reliably determined; will be registered at cost. Unrealized gains or losses arising from changes in their fair value are directly recognized in the other comprehensive income until the reasons for the recognition of such investments or their depreciation cease to exist; and then the accumulated profit or loss, previously recognized in the other comprehensive income, is shown in the consolidated income statement.

The income from investments and finance is recognized in the consolidated income statement based on the actual revenue. Dividends are recognized in the consolidated income statement when the Group is entitled to the dividends.

The foreign exchange gains or losses from available-for-sale debt securities are recognized in the consolidated income statement.

Available-for-sale securities can be rerated to «Other Investments held at Amortized Cost» in case of meeting the requirements of the «Other Investments held at Amortized Cost» definition, and when the Group has the intention and ability to maintain the financial assets in the foreseeable future or until the maturity date.

3. Held - to - Maturity Investments

Investments with fixed payments, or that can be determined and have a specified maturity, which the Group has a positive intention and ability to hold until their maturity date, are rated as held to maturity investments. Originally, the held-to-maturity investments are recognized at fair value, inclusive of the direct and spin-off transaction costs, and are subsequently measured at the amortized cost, minus the provision of the impairment in its value. The amortized cost is calculated after taking into account any deduction or bonus when purchasing by using the actual rate of return, and any gain or loss from these investments is listed in the consolidated income statement when the reasons for the recognition of such investments or their depreciation cease to exist.

Investments rated as "Held-to-Maturity" cannot be resold or rerated without affecting the ability of the Group to use this rating.

That sale or rerating operations carried out in any of the following conditions will not affect the Group's ability to use this rating:

- The sale or rating operations that are carried out on a date close to the maturity date, and the changes in the commission rates prevailing in the market will not have a significant impact on the fair value.
- The sale or rating operations after the Group has fully collected the original amount of the asset.
- The sale or rating operations for isolated non-recurring events, which are beyond the Group's control and cannot be reasonably predicted.

4.Other Investments Held at Amortized Cost

The investments with fixed payments or that can be determined and not traded on an active financial market are rated as «Other Investments Held at Amortized Cost». These investments are carried at amortized cost using the actual rate of return method, minus the provision of the impairment in its value. Any gain or loss from these investments is listed in the consolidated income statement when the reasons for the recognition of such investments or their depreciation cease to exist.

D) Finance

Finance consists of credit sale, installment sale, participation and leasing issued or purchased by the Group. It is originally recognized at fair value, including the holding expenses, and it is subsequently measured at amortized cost, minus any written off amounts and the provision of impairment in value, if any. The finance is recognized when the cash is paid to the borrowers, and is derecognized when the customers pay their obligations, or when the finance is sold or written off, or when all the benefits and risks associated with the ownership are transferred.

- **Credit Sale and Installment Sale:** It represents a finance contract based on Murabaha, through which the Group purchases goods or an asset and then sell it to the customer based on his promise to purchase. The selling price consists of the cost plus agreed profit margin. The credit sale is a custom product for the corporate finance, while the installment sale product is dedicated to finance individuals.
- **Closed-End Leasing:** It is an agreement in which the Group is a lessor, who buys or creates the leased asset, according to the request and the specifications of the customer (lessee) based on his promise to lease the asset for a specified period agreed upon. The lease contract can be terminated by transferring the ownership of the leased asset to the lessee at the expiration of the lease term.
- **Participation:** An agreement between the Group and the customer to participate in carrying out a specific investment project or to own a certain property, which ends up with the customer's ownership of all the investment or property. The profit or loss is divided according to the terms of the agreement.

E) Impairment of the Financial Assets:

1. Finance and Investments Held at Amortized Cost

At the date of preparing the financial statements, an assessment is conducted to determine whether there is objective evidence regarding an impairment of an asset or a group of financial assets. In the event that such evidence exists, the estimated recoverable value is determined for that asset, and any losses resulting from this impairment is recognized by the changes in its book value based on the Net Present Value (NPV) for the expected future cash flows.

The Group ensures that there is evidence of impairment in the finance and investments held at amortized cost on a private or collective basis.

If the financial asset is uncollectible, it is written off from the provision for impairment or charged directly on the consolidated income statement. The financial assets are written-off only after exhausting all possible means of collection, and after determining the loss amount.

If a decline occurred in the amount of the impairment loss later on, the decline is objectively due to an event occurring after the impairment (for example, an improvement in the debtor's credit rating), and then the entry of the loss amount, which has been previously recognized, is reversed by settling the decline provision account. The reversal of entry is recognized in the consolidated income statement under the provision for credit losses impairment.

The finance, whose conditions are being renegotiated, is not considered as a late payment, but is treated as a new finance. The policies and procedures for rescheduling are placed according to the indicators or standards, indicating that the payment process is likely to continue. The finance impairment assessment continues individually or collectively using the original actual rate of return for finance.

The finance is usually renegotiated either as a part of an ongoing relationship with the customer or to counter negative changes in the borrower's conditions. Renegotiation could lead to extending the maturity date or reimbursement programs, whereby the Group grants the modified commission rate to the defaulting customer. This can lead to the persistence in considering the asset as «late payment» and «impaired», because the reimbursement of the commission and the original amount, which has been renegotiated, would not recover the original book value for the finance. In some cases, renegotiation leads to the conclusion of a new agreement, and is considered as «new finance».

The Group also ensures that there is an impairment on a collective level. The collective provision is formed according to the following standards and grounds: When there is impairment in the internal or external credit rating level of the borrower or a group of borrowers; the current economic conditions in which the borrower operates; and the previous default cases.

2. Available-for-Sale Investments

For investments in instruments rated as available-for-sale investments, the Group conducts an assessment individually to ensure that there is an impairment by using the same applicable standard concerning the financial assets held amortized cost. The impairment amount represents the cumulative losses measured by the difference between the amortized cost and the current fair value, minus the impairment loss, which represents the value previously recognized in the consolidated income statement.

If an increase in the investments in instruments occurs later on, this increase is objectively due to a credit event occurring after the impairment's recognition in the consolidated income statement, the impairment losses are reversed through the consolidated income statement.

As for the investments in the shares and investment funds held as available-for-sale, the significant or prolonged impairment in the fair value, which is less than the cost, represents an objective evidence for impairment. The impairment losses cannot be reversed through the consolidated income statement as long as the assets are recognized in the record, which means that any increase in the fair value after registering the impairment can only be recognized within the equity. Upon derecognition, any accumulated gains or losses that have been previously acknowledged are included in the equity in the consolidated income statement.

J) Revenue Recognition

1. Income from Investment and Financial Assets and Return on Financial Liabilities

The income from the investment and financial assets and return on financial liabilities are recognized in the consolidated income statement using the actual return on the current balances throughout the contract period.

The actual rate of return calculation takes into account all the contractual terms of the current instrument, which include fees (Above certain level), transaction costs, and deductions that are an integral part of the actual rate of return and do not include future financial losses. The transaction costs are the object costs directly related to the acquisition of the financial assets and liabilities.

2. Fees and Commissions Income

The fees and commissions, which are an integral part in the calculation of the actual rate of return, are included in the measurement of the relevant assets.

The fees and commissions, which are an integral part in the calculation of the actual rate of return on the financial assets and liabilities, are recognized when providing the relevant services as follows:

- Portfolio management fees, administrative advisory fees and other services are recognized according to the relevant service contracts, usually on relative time basis.
- The fees, which are received from the Asset Management, the Wealth Management, the Financial Planning and Custody Services and other similar services provided during a period of time throughout the period in which they are providing services, are recognized
- The fees associated with the performance or the fees components are recognized when meeting the performance standards.
- The recognition of the compliance fees can be deferred to grant finance that may be withdrawn, in addition to other credit fees (including incidental costs), and its recognition as a settlement for the actual return on finance. In cases where it is not expected that the finance-related obligations will lead to the use of finance, the compliance fees are recognized to grant finance using the straight-line method throughout the compliance period.
- Other fees and commissions expenses are mainly related to the transaction and service fees, and are recorded as expenses upon completion of transaction receipt of the service.

3. Foreign Currency Exchange Gains (Losses)

The gains (losses) on foreign currency exchange are recognized according to what has been explained in the accounting policy relating to the foreign currency exchange above.

4. Dividends

The dividends from the shares investments are recognized when confirming the Group entitlement of their receipt, and that is when being approved by the shareholders.

5. Gains (Losses) on Investments held for Non-Trading

The unrealized gains / losses arising from changes in fair value are recognized in the other comprehensive income until the investments are derecognized or impaired, and then the accumulated gains/ losses previously recognized in other comprehensive income are circulated in the consolidated income statement.

K) Derecognition of Financial Instruments

The financial asset (or a part thereof, or part of a group similar financial assets) is derecognized at the end of the contractual rights to receive cash flows regarding these financial assets or when transferring assets; the transport is eligible to derecognition.

In cases where the indications show that the Group transferred the ownership of a financial asset, the recognition is derecognized when the Group substantially transfers all the risks and benefits associated with the ownership of the asset. In cases where risks and benefits substantially associated with the ownership of the asset have not been transferred or maintained, the recognition will be derecognized only if the Group gives up its control over the asset. The Group registers the assets or the liabilities separately in case of obtaining rights or maintaining the obligations arising from these operations.

The financial liabilities (or part thereof) are derecognized only when they are exhausted, that is when the obligations specified in the contract are implemented, canceled or expired.

L) Zakat and Withholding Tax

Under the zakat and income tax regulations in Saudi Arabia, the Zakat is an obligation on the Saudi shareholders. Zakat is calculated on the Saudi shareholders› share in the ownership rights or net income using the bases set forth under the zakat regulations.

Zakat is not charged on the Group's consolidated income statement, as it is deducted from the dividends to Saudi shareholders.

The withholding tax is deducted from the payments to non-resident suppliers for provided services and purchased goods, in accordance with the tax regulations applicable in Saudi Arabia and paid directly to the Department of Zakah and Income Tax (DZIT) per month.

M) Financial Guarantees

During the normal work cycle, the Group provides financial guarantees that include documentary credits, guarantees and acceptances. The financial guarantees are originally recognized in the other liabilities in the consolidated financial statements at fair value, which represents the value of the received bonus. After the initial recognition, the Group›s obligations towards each guarantee are measured by the amortized bonus, or the best estimate for the expenses required for repaying any financial guarantee arising from the guarantees, whichever is higher. The increase in the obligations concerned with the financial guarantees is recognized in the consolidated income statement under the « Net Provision for the Finance Impairment », and the received bonus is recognized in the consolidated income statement under «Net Fees and Commissions Income « using the straight-line method throughout the guarantee period.

N) Provisions

Provisions are recognized when the Group has a current or expected obligation as a result of past events; this obligation is likely to be paid off and it can be reliably estimated. Provisions are reviewed on the date of each consolidated financial statement, and they can be modified to reflect the best current estimate.

O) Accounting of Lease Contracts

1. When the Group is the Lessee

Lease Contracts, which did not transfer to the Group all the risks and benefits regarding the asset's ownership, are rated as operating leases. As a result, all the lease contracts concluded by the Group are regarded as operating leases.

Payments under the operating leases are charged on the consolidated income statement using the straight-line method throughout the lease term. If the lease is terminated before the expiry of its duration, any fines (after deducting the expected rental income, if any) that must be paid to the lessor is recognized as an expense during the period in which the contract is terminated.

The Group evaluates the arrangements unrelated to leases, such as outsourcing contracts and others to determine if they contain the lease element, in order to be calculated separately.

2. When the Group is the Lessor

When transferring assets under a closed-end leasing contract, the current value of the lease payments is recognized as receivables and disclosed under «Finance». The difference between the total receivables and the present value of the receivables is recognized as unearned return. The lease income is recognized throughout the period of the lease contract using the net investment method, which shows a fixed periodic rate of return.

The assets subject to the operating leases contracts are included in the consolidated financial statements as «Property and Equipment». The income from operating leases are recognized using the straight- line method (or as appropriate) throughout the lease term.

P) Cash and Cash Equivalents

For the purposes of preparing the consolidated cash flow statement, the cash and cash equivalents are defined as the amounts included in the cash, balances and Murabaha at the Saudi Arabian Monetary Authority (SAMA), with the exception of the statutory deposit. It also includes the balances with other banks and financial institutions, which are entitled within three months or less from the date of acquisition, and are subject to insignificant changes in their fair value.

Q) Property and Equipment

The property and equipment are recognized at cost, less depreciation and impairment, if any. The cost of property and equipment are depreciated or amortized using the straight-line method throughout the estimated useful lives of the assets as follows:

Buildings	33 years
Leased Buildings Improvements	The lease term or the useful life (10 years), whichever is shorter
Equipment, Furniture and Vehicles	4 to 6 years
Computer Hardware and Software	5 years

On the preparation date of the consolidated financial statements, the remaining estimated value and the useful lives of the assets are reviewed and then amended, if necessary.

The gains and losses arising from the sale are calculated by comparing the sale proceeds with the book value, and these gains or losses are included in the consolidated income statement. All assets are audited to ensure the existence of an impairment, and that is when events or changes in circumstances indicate the inability to recover the book value. The book value is directly reduced to the recoverable value if the asset's book value exceeds the recoverable value.

R) Real Estate Investments

Real estate investments held for the purpose of obtaining a lease or for increasing capital or both of them are classified as real estate investments. Real estate investments are measured at cost, inclusive transaction costs. Transaction costs include ownership transfer fees and professional fees for legal services and initial lease commissions in order to prepare the property to be in an operational status. The book value includes the cost of replacing a part of the current real estate investments on the date on which the cost is incurred, unless the recognition conditions are satisfied.

After initial recognition, real estate investments are carried at cost less accumulated depreciation and impairment and are reviewed, on the date of preparing the financial statements, to ensure impairment. The profits of these investments are disclosed when the real estate investments are sold.

The estimated useful life of real estate investments is 40 years, starting from the date of use such properties.

S) Financial Liabilities

Originally, all customers' deposits, balances of other banks and financial institutions, and other financial liabilities are recognized at fair value and subsequently measured at amortized cost.

T) Investment Management Services

The Group provides investment services to its customers through its affiliated company, which includes managing some investment funds in consultation with professional investment advisors. The Group's share is included in these funder under the available-for-sale investments, while disclosing the fee income earned from managing such funds within transactions with relevant parties.

The assets held at the Secretariat or the Agency are not considered as assets for the Group, and therefore are not included in the consolidated financial statements.

U) Revenues Excluded from the Consolidated Financial Statements

From time to time, the Bank's Shariah Board ensures the application of legitimate decisions. In case of recognizing the revenues accidentally or inadvertently, the Board of Directors will, at the request of the Bank's Chief Executive Officer, agree to exclude these revenues from the Group's revenues and dispose of them permanently.

V) Employee Equity Program

The Bank provides its qualified employees with incentive programs that are paid based on the shares (programs) and supported by the Saudi Arabian Monetary Authority (SAMA). Under the terms of this program, the Bank grants shares to qualified employees, and they will be kept as part of their annual remunerations.

The cost of this program is measured based on the fair value on the share's grant date.

The cost of the programs is recognized throughout the period during which the service requirement is fulfilled, which ends with the date on which the concerned employees are entitled to the granting of the shares (maturity date). The cumulative expenses, which are calculated under these programs from the preparation date of all the financial statements until the maturity date, show the extent of the maturity date, and the best Bank estimates for the number of shares that will be granted at the end. The amount charged or restricted on the consolidated income statement for a year represents the movement in the cumulative expense registered at the beginning and end of that year.

After obtaining the approval of the Saudi Arabian Monetary Authority (SAMA), the Bank entered into an agreement with a neutral third party to retain the shares involved in the program, in addition to the benefits accrued from these shares.

W) Treasury shares

Treasury shares are registered at cost and are shown as a discounted amount of equity, after being adjusted by transaction costs, dividends and profits or losses on the sale of such shares.

After purchase, these shares are recognized at an amount equal to the paid amount.

The Bank purchases these shares after obtaining the approval of the Saudi Arabian Monetary Authority (SAMA) in order to discharge its obligations under the incentive programs for payments calculated based on the shares.

X) Employee End-of-Service Gratuity

Provision of End-of-Service Gratuity is calculated based on actuarial basis, which are prepared by an actuarial expert. The actuarial assessment is performed taking into account Saudi labor law.

4. Cash and Balances at the Saudi Arabian Monetary Authority (SAMA)

	Clarifications	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Statutory Deposit	1-4	**2,412,213**	2,509,101
Cash on Hand		**1,518,636**	1,473,037
Other Balances	2-4	**597,976**	619,983
Total		**4,528,825**	4,602,121

4.1 According to the Banking Control Law and the instructions issued by the Saudi Arabian Monetary Authority (SAMA), the Bank is required to maintain a statutory deposit for the Saudi Arabian Monetary Authority at percentages specified by the cheque account, savings, term deposits and other deposits calculated at the end of each month. The statutory deposit with the Saudi Arabian Monetary Authority (SAMA) is not available to finance the Bank's daily operations, and therefore is not part of the cash and cash equivalents.

4.2 The statutory deposit in the cash management account at SAMA contains the amount of 325 million Saudi Riyals (2015: 570 million Saudi Riyals).

5. Net Balances at Other Banks and Financial Institutions

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
On Demand	**467,716**	424,791
Murabaha on Goods	**7,574,051**	8,048,789
Provision for Impairment in the Murabaha on Goods	**(90,923)**	(90,923)
Total	**7,950,844**	8,382,657

Credit quality of balances with banks and other financial institutions is managed by external credit rating agencies.

The schedule below shows credit quality by rating:

Rating	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Excellent	5,714,178	8,018,557
Very good	2,236,666	273,147
Unclassified	-	90,953
	7,950,844	8,382,657

6. Net Investments

A) Investments are formed as of the 31St of December as follows:

In Thousands of Saudi Riyals	Note	2016 Within the Kingdom		Outside the Kingdom		Total
		Traded	Non – Traded	Traded	Non - Traded	
Available-for-Sale Investments		130,320	157,500	-	-	287,820
Shares	6 (B)	279,365	-	-	-	279,365
Investments Funds		250,791	470,644	47,747	-	769,182
Instruments		660,476	628,144	47,747	-	1,336,367

Held at Amortized Cost Investments	Note	2016 Within the Kingdom		Outside the Kingdom		Total
		Traded	Non – Traded	Traded	Non - Traded	
Murabaha on Goods at the Saudi Arabian Monetary Authority (SAMA)		-	1,744,578	-	-	1,744,578
Total		660,476	2,372,722	47,747	-	3,080,945

In Thousands of Saudi Riyals	Note	2015 Within the Kingdom		Outside the Kingdom		Total
		Traded	Non – Traded	Traded	Non - Traded	
Available-for-Sale Investments		151,041	157,500	-	-	308,541
Shares	6 (B)	236,909		-	-	236,909
Investments Funds		253,991	297,568	48,704	-	600,263
Instruments		641,941	455,068	48,704	-	1,145,713

Held at Amortized Cost Investments	Note	2016 Within the Kingdom		Outside the Kingdom		Total
		Traded	Non – Traded	Traded	Non - Traded	
Murabaha on Goods at the Saudi Arabian Monetary Authority (SAMA)		-	1,803,222	-	-	1,803,222
Total		641,941	2,258,290	48,704	-	2,948,935

(B) The movement of the Impairment provision in the value charged on the consolidated income statement is summarized as follows:

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Balance at the Beginning of the Year	13,108	-
Amount Charged during the Year	47,183	13,108
Balance at the End of the Year	60,291	13,108

(C) The following is an analysis of the investment according to credit quality:

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Sovereign	1,744,578	1,803,222
First class investments	298,538	302,695
Shares, investment funds and others	1,037,829	843,018
Total	3,080,945	2,948,935

(D) The following is an analysis of the investment according to other parties:

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Companies	1,330,268	1,138,833
Other Banks and Financial Institutions	6,099	6,880
Saudi Arabian Monetary Authority (SAMA)	1,744,578	1,803,222
Total	3,080,945	2,948,935

(E) The Available-for-Sale Investments include non-traded shares amounting to 157.5 million Saudi Riyals (2015: 157.5 million Saudi Riyals) registered at cost; as the Management believes that the cost of these investments is close to their fair value. The Management also believes that the cost of Murabaha on goods at the Saudi Arabian Monetary Authority (SAMA) is close to its fair value.

7. Net Finance

A) Registered at Amortized Cost

In Thousands of Saudi Riyals	2016				
	Credit Sale	Installment Sale /Leasing	Participation	Leasing	Total
Performing finance	**22,667,228**	**12,671,433**	**1,158,166**	**180,086**	**36,676,913**
Non- performing finance	**252,995**	**162,518**	**91,612**	**-**	**507,125**
Total	**22,920,223**	**12,833,951**	**1,249,778**	**180,086**	**37,184,038**
Provision for Impairment	**(687,644)**	**(209,865)**	**(105,446)**	**(2,696)**	**(1,005,651)**
Net finance	**22,232,579**	**12,624,086**	**1,144,332**	**177,390**	**36,178,387**

In Thousands of Saudi Riyals	2015				
	Credit Sale	Installment Sale /Leasing	Participation	Leasing	Total
Performing finance	20,812,829	11,708,958	1,863,143	219,157	34,604,087
Non- performing finance	263,462	139,024	112,276	-	514,762
Total	21,076,291	11,847,982	1,975,419	219,157	35,118,849
Provision for Impairment	(536,762)	(191,000)	(132,614)	(3,850)	(864,226)
Net finance	20,539,529	11,656,982	1,842,805	215,307	34,254,623

B) Provision of Finance Impairment:

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Balance at the Beginning of the Year	**864,226**	825,099
Amount Charged during the Year	**262,375**	120,970
Amounts Written Off during the Year	**(49,789)**	(39,566)
Previously Reserved Recovered Amounts	**(71,161)**	(42,277)
Balance at the End of the Year	**1,005,651**	864,226

(C) The Finance Credit Quality

The finance has been rated into the following categories:

1) Non-Delinquent Payments that were not impaired

In Thousands of Saudi Riyals	Credit Sale		Installment Sale / Leasing		Participation		Leasing		Total	
Rating	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Excellent	**3,954,779**	5,188,166	**-**	-	**333,866**	656,883	**-**	-	**4,288,645**	5,845,049
Good	**4,422,040**	5,556,446	**-**	-	**406,845**	448,322	**-**	-	**4,828,885**	6,004,768
Satisfactory	**9,485,549**	3,646,611	**-**	-	**142,645**	279,421	**180,086**	219,157	**9,808,280**	4,145,189
Acceptable Risk	**4,291,385**	5,668,540	**-**	-	**258,631**	407,475	**-**	-	**4,550,016**	6,076,015
Under Surveillance	**296,124**	363,516	**-**	-	**-**	-	**-**	-	**296,124**	363,516
Total Corporate Finance	**22,449,877**	20,423,279	**-**	-	**1,141,987**	1,792,101	**180,086**	219,157	**23,771,950**	22,434,537
Retail Finance - Satisfactory			**12,272,572**	11,445,895					**12,272,572**	11,445,895
Total									**36,044,522**	33,880,432

Excellent

A strong financial position with high liquidity, capital, revenues and cash flows, and excellent capacity for reimbursement

Good

A good financial position with good liquidity, capital, revenues and cash flows, and good capacity for reimbursement

Satisfactory

It is an acceptable financial position with acceptable liquidity, capital, revenues and cash flows, and good capacity for reimbursement. The credit quality is satisfactory for all individual finance.

Acceptable Risks

An acceptable financial position but inconsistent, however, it has an acceptable capacity for reimbursement.

Under Surveillance

Cash flow problems may lead to a delay in the payment of profits / installments. Facilities require continuous monitoring; however, the Management believes that it will pay all the installments.

2) Analysis of the Portfolio's Age (Delinquent Payments that were not impaired):

In Thousands of Saudi Riyals	2016				
	Credit Sale	Installment Sale /Leasing	Leasing	Participation	Total
1-30 days	209,051	321,423	-	15,695	546,169
31- 90days	8,301	77,437	-	484	86,222
Total	217,352	398,860	-	16,179	632,391
Guarantees Fair Value	294,464	86,852	-	6,002	387,318

In Thousands of Saudi Riyals	2015				
	Credit Sale	Installment Sale /Leasing	Leasing	Participation	Total
1-30 days	314,419	204,854	-	63,812	583,085
31- 90days	75,131	58,208	-	7,231	140,570
Total	389,550	263,062	-	71,043	723,655
Guarantees Fair Value	2,489,668	25,798	-	111,095	2,626,561

It represents the total amount of performing finances, non-delinquent finance balances that were not impaired, and the delinquent ones that were not impaired.

3) The Finance Credit Quality (Individually Impaired Finance):

The table below shows the total finance balances that have been impaired individually, and the fair value of the related guarantees held by the Bank as on the 31st of December:

In Thousands of Saudi Riyals	2016				
	Credit Sale	Installment Sale /Leasing	Leasing	Participation	Total
Finance Balances Impaired Individually	252,995	507,125	91,612	-	162,518
Fair Value for Guarantees	202,004	596,063	367,036	-	27,023

In Thousands of Saudi Riyals	2015				
	Credit Sale	Installment Sale /Leasing	Leasing	Participation	Total
Finance Balances Impaired Individually	514,762	112,276	-	139,024	263,462
Fair Value for Guarantees	545,290	321,968	-	11,791	211,531

D) Guarantees

The Bank, through its normal work cycle concerning its finance activities, retains the guarantees to reduce the credit risk.

The guarantees mostly include deposits, financial guarantees, local shares and real estates. The guarantees are primarily kept in exchange for personal commercial and real estate credit facilities, and they are managed in exchange for the balances related to its net sale value.

E) The following is an analysis of the finance concentrations risks and its relevant provisions of impairment, according to economic sectors:

In Thousands of Saudi Riyals	2016			
	Performing Finance	Non-Performing Finance	Provisions for Impairments	Net Finance
Commercial	4,414,769	195,980	(235,450)	4,375,299
Industrial	4,248,322	32,243	(85,005)	4,195,560
Building and Constructions	7,572,156	52,626	(179,120)	7,445,662
Transport and Communication	588,989	-	(3,932)	585,057
Electricity & water & Gas& health Services	373,664	-	(1,870)	371,794
Services	2,236,429	3,198	(37,679)	2,201,948
Agriculture and Fish	797,830	-	(64,026)	733,804
Mines and Mining	17,517	-	(85)	17,432
Personal	12,703,669	162,518	(209,865)	12,656,322
Others	3,723,568	60,560	(188,619)	3,595,509
Total	36,676,913	507,125	(1,005,651)	36,178,387

In Thousands of Saudi Riyals	2015			
	Performing Finance	Non-Performing Finance	Provisions for Impairments	Net Finance
Commercial	4,071,951	101,744	(161,020)	4,012,675
Industrial	4,447,959	135,947	(132,374)	4,451,532
Building and Constructions	6,686,319	74,698	(182,695)	6,578,322
Transport and Communication	487,798	-	(8,569)	479,229
Electricity & water & Gas& health Services	494,469	-	(8,686)	485,783
Services	2,467,705	224	(43,573)	2,424,356
Agriculture and Fish	498,286	-	(8,753)	489,533
Mines and Mining	-	-	-	-
Personal	11,708,957	139,024	(191,000)	11,656,981
Others	3,740,643	63,125	(127,556)	3,676,212
Total	34,604,087	514,762	(864,226)	34,254,623

F) Debtors of the Leasing Contracts

	2016 In Thousands of Saudi Riyals		2015 In Thousands of Saudi Riyals	
	Individuals	Companies	Individuals	Companies
Total Receivables from Finance Leasing:				
Less than One Year	359,594	181,770	240,445	220,670
From One Year to Five Years	186,427	-	266,754	-
More than Five Years	1,614	-	10,444	-
Unearned Revenue from Finance Leasing	(105,050)	(1,684)	(59,782)	(1,513)
Net Receivables from Finance Leasing	442,585	180,086	457,861	219,157

8. Net Property and Equipment

In Thousands of Saudi Riyals	In Thousands of Saudi Riyals					
	Lands and Buildings	Leased Buildings Improvements	Equipment, Furniture and Vehicles	Computer Hardware and Software	Total 2016	Total 2015
Cost						
At the Beginning of the Year	457,231	569,275	283,771	358,117	1,668,394	1,577,719
Additions during the Year	-	18,461	50,268	38,077	106,806	94,994
Exclusions	-	-	(1,607)	(830)	(2,437)	(4,319)
On the 31st of December	457,231	587,736	332,432	395,364	1,772,763	1,668,394
Accumulated Depreciation						
At the Beginning of the Year	2,300	356,952	221,951	295,107	876,310	779,350
Amount Charged for the Year	657	36,316	29,773	29,581	96,327	101,187
Exclusions	-	-	(1,469)	(829)	(2,298)	(4,227)
On the 31st of December	2,957	393,268	250,255	323,859	970,339	876,310
Net Book Value						
On the 31st of December 2016	454,274	194,468	82,177	71,505	802,424	
On the 31st of December 2015	454,931	212,324	61,820	63,009		792,084

The aforementioned leased buildings improvements include the work in progress amounting to 35.1 million Saudi Riyals as on the 31st of December 2016 (2015: 46.7 million Saudi Riyals).

9. Real estate investment

As at 31 December 2016, real estate investment represents the cost of properties in Mecca, which aims to provide investors with dividends and capital growth over the medium and long term. This real estate investment emerged as a result of consolidating the financial statements of Makkah Hospitality Fund which is managed by AlBilad Investment Company, a subsidiary controlled by the Group.

10. Other Assets

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Prepaid Rents	51,191	48,446
Down Payments to Suppliers	55,796	47,735
Accrued Management Fees	41,574	39,496
Others	202,605	104,313
Total	351,166	239,990

11. Balances at Other Banks and Financial Institutions

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
On Demand	62,758	83,491
Direct Investments	933,633	1,338,161
Total	996,391	1,421,652

12. Customers' Deposits

	Clarifications	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
On Demand	1-12	26,974,543	28,502,322
Direct Investment		6,496,933	9,452,440
Albilad Account (Speculation)		5,937,828	3,326,469
Others	2-12	825,411	898,229
Total		40,234,715	42,179,460

12.1 The demand deposits include foreign currency deposits amounting to 594 million Saudi Riyals (2015:282 million Saudi Riyals).

12.2 Other deposits include insurance in exchange for irreversible obligations amounting to 825 million Saudi Riyals (2015: 895 million Saudi Riyals), and they include margin accounts, the margin on the foreign currencies amounts to 52 million Saudi Riyals (2015: 57 million Saudi Riyals).

13. Instruments

On 30 August 2016, the Bank issued 2,000 Sukuk certificates of SAR 1 million per instrument, payable quarterly on 29 February, 30 May, 30 August and 30 November each year until 30 August 2026, which is the maturity date of these instruments. The Bank is entitled to exercise the redemption option on 30 August 2021 or after this date if certain conditions are met in accordance with the provisions contained in its its prospectus. Instruments may also be redeemed if other conditions are met in accordance with the provisions of the abovementioned prospectus. There were no default by the bank with regard to the payments (dividends) accrued throughout the year. The distribution of the expected dividends of instruments is based on the base price of three months plus a margin of 2%.

14. Other Liabilities

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Payables	559,217	536,055
Accrued Expenses	304,502	275,447
Others	463,700	365,557
Total	1,327,419	1,177,059

15. Capital

The declared and issued capital, which is fully paid to the Bank, consists of 600 million shares, the value per share is 10 Saudi Riyals (2015: 500 million shares, the value per share is 10 Saudi Riyals).

16. Statutory Reserve

Article no. 13 of the Banking Control Law in Saudi Arabia requires the transfer of at least 25% of the annual net income to the statutory reserve, so that the balance of this reserve will be equal to the paid-up capital of the Bank. Therefore, 202 million Saudi Riyals (2015: 197 million Saudi Riyals) have been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

17. Dividends and Capital Increase

On 28 December 2016, The Board of Directors recommends paying cash dividends of 300 million Saudi Riyals, at the rate of 0.5 Saudi riyals per share. These dividends are subject to the final approval of the next General Assembly Meeting.

In the Extraordinary General Assembly Meeting held on 11 April 2016, shareholders have approved the issuance of bonus shares at the rate of one share per five owned shares, the matter which lead to an increase in the Bank's capital from 5,000 million Saudi Riyals to 6,000 million Saudi Riyals. Furthermore, bonus shares were issued by capitalizing an amount 468 million Saudi riyals from retained earnings, and 532 million Saudi Riyals were transferred from the statutory reserve in accordance with the approval of the supervisory authorities; bringing the number of outstanding shares after the issuance of the bonus shares from 500 million to 600 million shares.

At its meeting held on 8 January 2015, the Board of Directors approved a dividend of SAR 200 million for the year 2014 at SAR 0.5 per share. The Board of Directors also recommended the issue of bonus shares at a rate of one share for every four owned shares. This recommendations was approved at a meeting of the Extraordinary General Assembly held on April 14, 2015, resulting into in an increase in capital from SAR 4,000 million to SAR 5,000 million. The bonus shares were issued by capitalizing SAR 995.6 million of retained earnings and transferring SAR 4.4 million from the statutory reserve after taking the necessary approvals from the supervisory authorities; bringing the number of outstanding shares after issuing the bonus shares from 400 million shares to 500 million shares.

Basic and diluted earnings per share for the twelve months ending on 31 December 2016 and 2015 were calculated by dividing the net income for the two periods by the number of shares amounting to 600 million shares to reflect the effect of the increase in the number of shares as a result of the decision to retroactively grant the bonus shares.

18. Other Reserves

Other reserves represent the net of unrealized gains / (losses) from the reassessment of the available-for-sale investments, and Zakat paid on behalf of shareholders to the General Authority of Zakat and Income Tax (GAZT). This reserve is not available for distribution to shareholders.

The movement of the other reserves is summarized as follows:

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Balance at the beginning of the year	**(11,712)**	22,778
Net changes in fair value of available-for-sale investments.	**(8,432)**	(47,795)
Amounts transferred to the consolidated income statement	**(1,759)**	197
Provision for impairment of available-for-sale investments	**47,183**	13,108
Net movement throughout a year	**36,992**	(34,490)
Zakat	**143,921**	-
Balance at the end of the year	**169,201**	(11,712)

19. Contingent Undertakings and Commitments

A. Lawsuits

There were lawsuits against the Bank as on the 31st of December 2016. Provisions were formed to meet some of these lawsuits, based on the advice of the Bank's legal counselors.

B. Capital Commitments

The Bank's capital commitments as on the 31st of December 2016 has reached 131 million Saudi Riyals (2015: 94 million Saudi Riyals), regarding the improvements to the leased buildings and the purchase of equipment.

C. Contingent Undertakings and Commitments Regarding Credit

The main purpose of these instruments is to ensure the provision of funds to customers upon request. The letters of guarantee and the letters of credit for reimbursement, which are considered as guarantees irreversible by the Group, in.

The event that a customer cannot fulfill his obligations to other parties carry the same credit risk carried by the finance. As for cash requirements under the letters of credit and the letters of guarantee, they are far below the obligated amount; as the Group did not expect the third party to withdraw funds under the agreement.

The letters of credits, which are written undertakings by the Group on behalf of the customer, allows the third party to withdraw funds with a specific ceiling, according to special terms and conditions usually guaranteed by the cargos of its goods, and therefore carry less risk.

Acceptances represent the Group's undertakings to pay the bills of exchange drawn by the customers. The Group expects that most of the acceptances will be provided before being reimbursed by the customer.

The commitments for granting credit represent the unused portion of the credit mainly granted in the form of finance, and as guarantees and letters of credit. With regard to the credit risk related to the commitments for granting credit, it is likely that the Group will be subject to a loss of an amount equal to the unused commitments; however, the amount of contingent loss that cannot be reasonably estimated is expected to be much less than the total unused commitments since most commitments for granting credit require customers to maintain specific credit standards. The total of outstanding unused commitments does not necessarily represent the future cash requirements, because many of these commitments may expire or be terminated without providing the necessary finance.

(1) The following are the contractual entitlements in exchange for meeting the Group's contingent undertakings and commitments:

2016 In Thousands of Saudi Riyals	Less than 3 months	From 3 months to a year	From a year to 5 years	More than 5 years	Total
Letters of Credit	**198,678**	**634,673**	**62,381**	**-**	**895,732**
Letters of Guarantee	**210,483**	**2,184,562**	**1,719,423**	**127,464**	**4,241,932**
acceptances	**137,527**	**79,905**	**-**	**-**	**217,432**
Commitments for Granting irreversible credit	**-**	**-**	**1,633,518**	**-**	**1,633,518**
Total	**546,688**	**2,899,140**	**6,988,614**	**127,464**	**6,988,614**

2015 In Thousands of Saudi Riyals	Less than 3 months	From 3 months to a year	From a year to 5 years	More than 5 years	Total
Letters of Credit	101,471	256,116	118,101	-	475,688
Letters of Guarantee	369,747	1,732,269	1,491,507	106,510	3,700,033
acceptances	385,144	61,814	7,453	-	454,411
Commitments for Granting irreversible credit	-	-	1,400,739	-	1,400,739
Total	856,362	2,050,199	3,017,800	106,510	6,030,871

The unused portion of the commitments, which can be cancelled at any time by the Group and listed as on the 31st of December 2016, amount to 5.6 billion Saudi Riyals (2015: 4.3 billion Saudi Riyals).

(2) Contingent Undertakings and Commitments according to the Other Parties:

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Companies	**6,091,729**	5,727,081
Financial Institutions	**827,039**	229,597
Others	**69,846**	74,193
Total	**6,988,614**	6,030,871

D. Obligations related to Operating Lease Contracts

The following is an analysis of the minimum future lease payments under the irreversible operating lease contracts concluded by the Group as a lessee:

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Less than One Year	**159,975**	118,989
From One Year to 5 Years	**437,183**	376,912
More than 5 Years	**357,884**	338,760
Total	**955,042**	834,661

E. Zakat

The Bank provided its Zakat statements to the Department of Zakat and Income Tax (DZIT), and paid zakat amounting to SAR 166 million for the fiscal years 2006 to 2015 and received the assessments for the years from 2007 to 2014, resulting in additional claims amounting to SAR 561.1 million. The Department of Zakat and Income Tax (DZIT) has excluded long-term investments and added long-term financing to the Zakat basis. The Bank challenged the basis on which additional Zakat claims were established before the Supreme Tax Committee. Management expects that the result of the above challenge will be in favor of the Bank and accordingly no provision in this respect has been set apart in this consolidated financial statements.

The final assessments of 2015 and 2016 have not yet issued by the DZIT. Based on the final assessments conducted by the DZIT for the above years, if long-term investments are excluded and long-term financing is added to the Zakat basis, this will result in fundamental additional zakat claims, which remains a matter of interest to the banking sector in general.

During the year, the Bank paid an additional SAR 58 million in connection with the assessment of 2006.

20. Incomes from Investment and Finance Assets

Investments and Balances at Other Banks and Financial Institutions	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Income of Murabaha on Goods at:		
- Saudi Arabian Monetary Authority (SAMA)	**28,275**	5,863
- Other Banks and Financial Institutions	**210,098**	72,991
Instruments Income	**18,083**	9,813
Finance Income		
Credit Sale	**997,593**	674,013
Installment Sale	**452,273**	406,411
Leasing	**3,217**	4,163
Participation	**62,932**	65,585
Total	**1,772,471**	1,238,839

21. Return on Deposits and Financial Liabilities

Return on balances for other banks and financial institutions	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Deposits	**46,611**	5,259
- Albilad Account (Speculation)	**47,255**	8,624
- Direct Investment	**239,745**	62,562
- Instruments	**29,015**	
Total	**362,626**	76,445

22. Net Fees and Commissions Income

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Fees and Commissions Income		
Remittance Fees	**486,830**	477,684
ATMs and Points of Sale (POS)	**191,517**	155,836
Management Fees for Granting Facilities	**87,862**	78,448
Letters of Credit and Guarantees	**42,154**	46,782
Management Fees (Investment Funds and Others)	**47,476**	43,083
Brokerage Commission Fees	**31,895**	41,383
Documents Safekeeping Fees	**39,260**	39,273
Others	**56,974**	42,460
Total Fees and Commissions Income	**983,968**	924,949
Fees and Commissions Expenses		
ATMs and Points of Sale (POS)	**130,559**	111,616
Brokers' Fees	**3,052**	4,762
Remittance Fees	**4,846**	2,990
Others	**28,791**	26,361
Total Fees and Commissions Expenses	**167,248**	145,729
Net Fees and Commissions Income	**816,720**	779,220

23. Other Operating Income

	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Recovered Written Off Debts	**25,948**	25,035
Others	**21,558**	1,527
Total	**47,506**	26,562

24. Employees' Wages and Benefits

The table below summarizes the applicable compensation policy, which includes fixed and variable compensations paid to employees during the two years ended on the 31st of December, in addition to their payment methods:

	Number of Employees		Fixed Compensations		Paid Variable Compensations					
					Cash		Shares		Total	
			In Thousands of Saudi Riyals		In Thousands of Saudi Riyals					
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Senior executives (whose appointment require the approval of the Saudi Arabian Monetary Authority "SAMA")	**16**	12	**18,305**	20,498	**4,598**	8,104	**6,106**	4,840	**10,704**	12,944
Employees carrying out activities that contain risks	**267**	249	**80,628**	71,273	**3,616**	7,950	**1,609**	1,117	**5,225**	9,067
Employees performing Regulatory tasks.	**265**	256	**70,529**	65,844	**6,057**	6,674	**1,110**	716	**7,168**	7,390
Other Employees	**2,893**	2,982	**392,273**	380,340	**19,139**	23,131	**2,513**	1,588	**21,653**	24,719
Employees with External Contracts	**374**	385	**59,124**	52,387	**21**		-		**21**	
Total	**3,815**	3,884	**620,859**	590,342	**33,431**	45,859	**11,338**	8,261	**44,771**	54,120
Accrued Variable Compensations			**49,243**	35,337						
Other Employees Benefits			**232,120**	227,427						
Total of Employees' Wages and Benefits			**902,222**	853,106						

Benefits and Compensation of Employees

1. Quantitative Disclosure

The categories of employees are divided according to the following division. Each category is addressed in detail below:

A) Senior Executives (whose appointment require approval of SAMA):

Includes all employees whose appointment require prior approval from SAMA, such as: CEO, Business Executive Officer, Operations Executive Officer, Risk Executive Officer, Financial Executive Officer, Director General of Internal Audit Sector, Director of Compliance Sector and so on.

B) Employees carrying out risky activities risks:

This category compromises of various work sectors of the Bank, such as: Corporate, Retail Banking, Treasury, Private Banking, etc. They are responsible for implementation and application of the Bank's business strategy.

C) Employees carrying out supervisory duties:

This category includes sectors that do not carry out activities involving risks, but perform supervisory functions such as risk, compliance, internal audit, treasury operations, finance, accounting, etc.

D) Other staff

All ordinary employees except for those included under clauses (a) to (c).

E) Employees with external contracts

This includes staff working in different entities, who provide full-time services to the Bank and perform non-significant business. These tasks do not require any supervisory activities and do not involve risks.

2. Qualitative disclosure

The Bank has established a compensation policy based on the instructions issued by the Saudi Arabian Monetary Authority "SAMA" and the directions issued by the Global Financial Stability Board (FSB) and the Basel Committee on Banking Supervision. The Board of Directors has adopted this policy. Furthermore, the Board has formed the Nomination and Compensation Committee, this Committee consists of five members; the President and two other members are considered as independent members and they oversee the implementation of the policy.

The Committee oversees the design and operation of the compensation system and it prepares and reviews the compensation policy on a regular basis; in addition to assessing their effectiveness in line with the practices in the banking industry.

Policy Objectives:

The Compensation Policy ("Policy") has set the instructions regarding the fixed and variable compensations that will be paid to the Group's employees. The scope of this policy includes all the elements of compensation, the accreditation and reporting methods, the stock options, the remuneration and its deferment … etc.

The Policy aims to ensure that the compensation is subject to evaluate the financial performance assessment and they are totally tied to various risks. The Bank's senior executives are eligible for the variable compensations based on the risk-adjusted net income, which takes into account the potential and present significant risks to ensure the preservation of financial efficiency and minimize the potential future losses.

Compensations Structure:

The Bank's compensation structure was determined by comparing it with the appropriate practices used in the Banking Sector, and it includes the fixed and variable compensation. The variable compensations are designed to retain senior executives and accrued over three years.

A. Fixed Compensations

It represents salaries or wages in line with the market and includes the basic wage, housing, transport and fixed allowances, pursuant to the employees' contracts.

B. Variable Compensations

Taking into account the risks related to the Bank's performance and the assessment of the concerned employees' performance, all these factors are periodically assessed, and the results are shared with the beneficiaries, under which the incentives are announced at the end of each accounting period; including the stock options that may eventually be accrued.

Performance Management System:

All staff performance is assessed by following a balanced point-based system; taking into account the financial factors and considerations related to customers, operations and employees, and linking it with the relevant staff performance.

25. Profits of the Main and Reduced Share

The profit of the main and reduced share for the two years ended on the 31st of December 2016 and 2015 are calculated by dividing the year's net income for the year attributable to shareholders by 600 million shares, so as to show, in retrospect, the change in the number of shares, which increased as a result of the issuance of bonus shares.

26. Cash and Cash Equivalents:

	Clarifications	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Cash in the fund	4	**1,518,636**	1,473,037
Balances with other banks and financial institutions (accrued within 90 days from the date of acquisition)		**6,369,598**	5,973,256
Held- to- Maturity Investments (accrued within 90 days from the date of acquisition)		**300,070**	-
Balances at the Saudi Arabian Monetary Authority "SAMA" (with the exception of the statutory reserve)	4	**597,976**	619,983
Total		**8,786,280**	8,066,276

27. Sectoral Information

The Bank determines the operating sectors based on customer groups, on the basis of the internal reports concerning the elements and components that form the Group, which are reviewed on an ongoing basis by the Asset and Liability Management Committee and the main decision-makers in the Group in order to allocate resources to the sectors and assess their performance. The Group practices its main activity in the Kingdom of Saudi Arabia.

There were no change based on categorization or based on the profit or loss measures since 31 December 2015.

For administrative purposes, the Group consists of five operating sectors as follows:

Individual Sector (Retail)	Includes services and products provided to individuals, such as deposits, finance for individuals, remittances and foreign exchange.
Corporate Sector	Includes services and products provided to financial companies and institutions, such as deposits, finance and business services to customers.
Treasury Sector	Includes Capital Market, trade and the provision of treasury services.
Investment and Brokerage Services Sector	Includes investment management services and assets management activities associated with the services of handling, management, arrangement, counseling and maintenance of securities
Others	It includes all the other supporting sectors

All transactions between the operational sectors mentioned above are in accordance with the terms and conditions of the adopted internal pricing system. The expenses of the supporting sectors and the public administration are distributed to other operating sectors in accordance with the approved standards.

(1) The following is an analysis of the Group's total assets and liabilities, the total operating income and expenses and the net income (loss) for the two years ended on the 31st of December 2016 and 2015 for each of the operating sectors:

2016 In Thousands of Saudi Riyals	Individuals Sector (Retail)	Corporate Sector	Treasury Sector	Investment & Brokerage Services Sector	Others	Total
Total Assets	18,343,093	22,537,142	11,480,857	227,406	1,304,093	53,892,591
Capital Expenditure	53,956	973	(182)	869	51,190	106,806
Total Liabilities	25,620,006	8,180,533	9,436,781	15,932	3,318,534	46,571,786
Income from Investment and Finance Assets	525,058	990,957	247,173	9,283	-	1,772,471
Return on deposits and financial liabilities	(79,554)	(12,862)	(241,195)	-	(29,015)	(362,626)
Finance Basis	31,505	(316,576)	151,489	-	133,582	-
Net Income from Investment and Finance Assets	477,009	661,519	157,467	9,283	104,567	1,409,845
Net Fees and Commissions Income and others	823,661	134,288	94,492	83,662	47,862	1,183,965
Total Operating Income	1,300,670	795,807	251,959	92,945	152,429	2,593,810
Net Provision for the Finance Impairment Losses	26,659	164,555	-	-	-	191,214
Provision for the Impairment of Available-for-Sale Investments	-	-	-		47,183	47,183
Depreciations	85,741	7,557	1,300	1,729	-	96,327
Total Operating Expenses	1,209,845	405,446	58,736	61,822	48,938	1,784,787
Year's Net Income	90,825	390,361	193,223	31,123	103,491	809,023
Return to						
Bank Shareholders	90,825	390,361	193,223	31,123	102,191	807,723
Uncontrolled equity	-	-	-	-	1,300	1,300
Year's Net Income	90,825	390,361	193,223	31,123	103,491	809,023

(1) The following is an analysis of the Group's total assets and liabilities, the total operating income and expenses and the net income (loss) for the two years ended on the 31st of December 2016 and 2015 for each of the operating sectors:

2015 In Thousands of Saudi Riyals	Individuals Sector (Retail) Individuals	Corporate Sector	Treasury Sector	Investment & Brokerage Services Sector	Others	Total
Total Assets	15,818,492	22,793,027	10,582,126	430,947	1,595,818	51,220,410
Capital Expenditure	66,743	148	57	2,221	25,825	94,994
Total Liabilities	24,928,550	7,881,401	10,791,161	148,753	1,028,306	44,778,171
Income from Investment and Finance Assets	440,973	709,200	84,923	3,743	-	1,238,839
Return on deposits and financial liabilities	(8,240)	(384)	(67,821)	-	-	(76,445)
Finance Basis	19,938	(110,768)	50,622	-	40,208	-
Net Income from Investment and Finance Assets	452,671	598,048	67,724	3,743	40,208	1,162,394
Net Fees and Commissions Income and others	795,184	135,516	94,401	70,855	36,270	1,132,226
Total Operating Income	1,247,855	733,564	162,125	74,598	76,478	2,294,620
Net Provision for the Finance Impairment Losses	65,777	12,916	-	-	-	78,693
Provision for the Impairment of Available-for-Sale Investments	-	-	-	-	13,108	13,108
Depreciations	93,217	5,436	1,085	1,449	-	101,187
Total Operating Expenses	1,110,973	284,049	49,541	46,732	14,902	1,506,197
Year's Net Income	136,882	449,515	112,584	27,866	61,576	788,423
Return to						
Bank Shareholders	136,882	449,515	112,584	27,866	61,576	788,423
Uncontrolled equity	-	-	-	-	-	-
Year's Net Income	136,882	449,515	112,584	27,866	61,576	788,423

2) The following is an analysis of the credit risks of each operating sector:

2016 In Thousands of Saudi Riyals	Individual Sector (Retail)	Corporate Sector	Treasury Sector	Total
Total Assets	**12,624,086**	**23,554,301**	**10,456,604**	**46,634,991**
Contingent Undertakings and Commitments	**-**	**3,657,416**	**-**	**3,657,416**

2016 In Thousands of Saudi Riyals	Individual Sector (Retail)	Corporate Sector	Treasury Sector	Total
Total Assets	11,656,981	22,597,642	10,786,142	45,040,765
Contingent Undertakings and Commitments	-	3,103,069	-	3,103,069

Credit risks faced by the Group include balances at other banks and financial institutions, investments and finance. The credit risk also includes the credit equivalent of potential undertakings and commitments in accordance with the regulations of the Saudi Arabian Monetary Authority.

28. Financial Risks Management

The Group's activities are exposed to a number of financial risks, which are assessed through analysis, assessment, approval and management of some risk degrees or a number of risks. The Group aims to achieve an appropriate balance between the risks and the revenues, minimize the negative effects on its financial performance, and increase the shareholders' benefit.

The Group's credit risk policies, procedures and regulations were designed to identify and analyze the risks, and develop the appropriate tools to reduce and control these risks. The Group constantly reviews the risk management policies and regulations to reflect any changes in the markets, products and the best new practices.

The Board of Directors decided to establish a Risk and Compliance Committee to monitor the Group's total risk management operation. The Committee is also responsible for developing a risk strategy; along with applying the rules, frameworks, policies and restrictions. Its responsibility also includes the risk management decisions and monitoring the risk level. The Risk and Compliance Committee issues its report on a regular basis and submits it to the Board of Directors.

29. Credit Risks

The Group manages credit risks, which is represented in a party's inability to meet its commitments regarding a financial instrument; leading to the other party's incurrence of financial losses. The Group is exposed to credit risk mainly in finance and investment activities. Furthermore, there are credit risks related to financial instruments outside the statement of financial position, such as letters of credit and letters of guarantee, commitments for granting finance.

The Group assesses the probability of default by other parties using internal rating tools. The Group also uses the rating degrees issued by foreign rating agencies, when available.

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The Group is trying to reduce the credit risks by monitoring credit exposures, minimizing transactions with specific parties, and conducting continuous assessment for the credit solvency of other parties. The Group's credit risks policies have been prepared; as they work on identifying the risks and developing the appropriate limits to monitor risks and comply with the limits. The actual exposures are monitored and compared with the limits established on a daily basis. In addition to monitoring the credit limits, the Group manages the exposures to credit risks associated with commercial activities by concluding main clearing agreements and entering into guarantee arrangements with other parties within the proper conditions, and by reducing the duration of exposure.

Credit risk concentration occurs when a number of parties carry out similar activities or business in the same geographical area, or have similar economic characteristics, which may affect all their abilities to meet their contractual obligations just as much as when there is any change in the economic or political circumstances or otherwise.

Credit risk concentration indicates the relative sensitivity of the Group's performance towards the developments affecting a particular industry or a particular geographic location.

The Group seeks to manage its exposure to credit risks through diversification, in order to ensure that no concentration of risks will occur in terms of individuals or groups of customers in certain areas, or within specific operation activities, and it also resorts to obtain the necessary guarantees where appropriate. The Group also seeks to obtain more guarantees from the other parties as soon as the impairment indicators of the relevant facilities become clear.

The Management requests more guarantees under the concerned agreements, and it also follows up with the market value of the guarantees obtained during its review of the adequacy of the finance impairment provision.

The Group regularly reviews the risk management policies and systems; as it reflects the changes in the markets products and the best new practices.

The investments analysis according to other parties has been shown in Clarification 6 (D). As for Finance, refer to Clarification 7; and for the contingent undertakings and commitments, refer to Clarification 19. For information about the maximum credit for exposure to credit risk at the Group according to the operating sectors, refer to Clarification 27 (B).

A) Geographic Concentration

(1) The following is a geographic concentration of the main categories of the assets and liabilities, the contingent undertakings and commitments and their credit risks as on the 31st of December:

2016 In Thousands of Saudi Riyals	Kingdom of Saudi Arabia	Other GCC countries and the Middle East Region	Europe	North America	South America	Southeast Asia	Other Countries	Total
Assets								
Cash and Balances at the Saudi Arabian Monetary Authority (SAMA)	4,528,825	-	-	-	-	-	-	4,528,825
- Cash in the Fund	1,518,636	-	-	-	-	-	-	1,518,636
- Balances at the Saudi Arabian Monetary Authority (SAMA)	3,010,189	-	-	-	-	-	-	3,010,189
Balances at other banks and financial institutions	3,631,585	3,894,954	109,779	161,736	-	97,968	54,822	7,950,844
- On demand	-	43,411	109,779	161,736	-	97,968	54,822	467,716
- Murabaha on Goods	3,631,585	3,851,543	-	-	-	-	-	7,483,128
Net Investments	3,024,900	47,747	8,298	-	-	-	-	3,080,945
- Available-for-sale Investments	1,280,322	47,747	8,298	-	-	-	-	1,336,367
- Investments held at amortized cost	1,744,578	-	-	-	-	-	-	1,744,578
Net Finance	36,178,387	-	-	-	-	-	-	36,178,387
- Retail Finance	12,624,086	-	-	-	-	-	-	12,624,086
- Corporate Finance	23,554,301	-	-		-	-	-	23,554,301
Net Property and Equipment	802,424	-	-	-	-	-	-	802,424
Real Estate Investment	1,000,000	-	-	-	-	-	-	1,000,000
Other Assets	350,742	424	-	-	-	-	-	351,166
Total	49,516,863	3,943,125	118,077	161,736	-	97,968	54,822	53,892,591
Liabilities								
Balances at the Saudi Arabian Monetary Authority (SAMA)	2,006,214	-	-	-	-	-	-	2,006,214
Balances of Other Banks and Financial Institutions	727,153	145,854	-	-	-	93,897	29,487	996,391
- On demand	-	33,228	-	-	-	43	29,487	62,758
- Direct Investments	727,153	112,626	-	-	-	93,854	-	933,633
Customers' Deposits	40,234,715	-	-	-	-	-	-	40,234,715
- On demand	26,974,543	-	-	-	-	-	-	26,974,543
- Direct Investment	6,496,933	-	-	-	-	-	-	6,496,933
- Albilad Account (Speculation)	5,937,828	-	-	-	-	-	-	5,937,828
- Others	825,411	-	-	-	-	-	-	825,411
Instruments	2,007,047	-	-	-	-	-	-	2,007,047
Other liabilities	1,327,419	-	-	-	-	-	-	1,327,419
Total	46,302,548	145,854	-	-	-	93,897	29,487	46,571,786
Contingent Undertakings and Commitments								
Letters of Credit	895,732	-	-	-	-	-	-	895,732
Letters of Guarantee	4,241,932	-	-	-	-	-	-	4,241,932
Acceptances	217,432	-	-	-	-	-	-	217,432
Commitments for Granting Irreversible Credit	1,633,518	-	-	-	-	-	-	1,633,518
	6,988,614	-	-	-	-	-	-	6,988,614
Credit Risks (shown by the Credit Equivalent) for Contingent Undertakings and Commitments	3,657,416	-	-	-	-	-	-	3,657,416

2015 In Thousands of Saudi Riyals	Kingdom of Saudi Arabia	Other GCC countries and the Middle East Region	Europe	North America	South America	Southeast Asia	Other Countries	Total
Assets								
Cash and Balances at the Saudi Arabian Monetary Authority (SAMA)	4,602,121	-	-	-	-	-	-	4,602,121
- Cash in the Fund	1,473,037	-	-	-	-	-	-	1,473,037
- Balances at the Saudi Arabian Monetary Authority (SAMA)	3,129,084	-	-	-	-	-	-	3,129,084
Balances at other banks and financial institutions	5,223,260	2,754,035	132,083	118,187	-	68,665	86,427	8,382,657
- On demand	-	19,429	132,083	118,187	-	68,665	86,427	424,791
- Murabaha on Goods	5,223,260	2,734,606	-	-	-	-	-	7,957,866
Net Investments	2,900,231	48,704						2,948,935
- Available-for-sale Investments	1,097,009	48,704						1,145,713
- Investments held at amortized cost	1,803,222							1,803,222
Net Finance	34,254,623	-	-	-	-	-	-	34,254,623
- Retail Finance	11,656,982	-	-	-	-	-	-	11,656,982
- Corporate Finance	22,597,641	-	-	-	-	-	-	22,597,641
Net Property and Equipment	792,084	-	-	-	-	-	-	792,084
Real Estate Investment	-	-	-	-	-	-	-	-
Other Assets	239,567	423						239,990
Total	48,011,886	2,803,162	132,083	118,187	-	68,665	86,427	51,220,410
Liabilities								
Balances of Other Banks and Financial Institutions	1,313,158	87,868	231			1,292	19,103	1,421,652
- On demand	-	62,865	231	-	-	1,292	19,103	83,491
- Direct Investments	1,313,158	25,003	-		-			1,338,161
Customers' Deposits	42,179,460	-	-	-	-	-	-	42,179,460
- On demand	28,502,322	-	-	-	-	-	-	28,502,322
- Direct Investment	9,452,440	-	-	-	-	-	-	9,452,440
- Albilad Account (Speculation)	3,326,469	-	-	-	-	-	-	3,326,469
- Others	898,229	-	-	-	-	-	-	898,229
Instruments	-	-	-	-	-	-	-	-
Other liabilities	1,177,059	-	-	-	-	-	-	1,177,059
Total	44,669,677	87,868	231	-	-	1,292	19,103	44,778,171
Contingent Undertakings and Commitments								
Letters of Credit	475,688	-	-	-	-	-	-	475,688
Letters of Guarantee	3,700,033	-	-	-	-	-	-	3,700,033
Acceptances	454,411	-	-	-	-	-	-	454,411
Commitments for Granting Irreversible Credit	1,400,739	-	-	-	-	-	-	1,400,739
	6,030,871	-	-	-	-	-	-	6,030,871
Credit Risks (shown by the Credit Equivalent) for Contingent Undertakings and Commitments	3,103,069	-	-	-	-	-	-	3,103,069

Credit equivalent amounts reflect amounts resulting from the conversion of contingent undertakings and commitments to credit risk factors handled by the finance agreements using the Credit Conversion Factor (CCF) specified by the Saudi Arabian Monetary Authority "SAMA". The Credit Conversion Factor is used to cover contingent credit risks as a result of the Group's fulfillment of its obligations.

(2) The following is the geographical distribution of the Available-for-sale investments, financial assets and Murabaha on goods whose value has decreased and provisions for impairment:

2016 In Thousands of Saudi Riyals	Kingdom of Saudi Arabia	Other GCC countries and the Middle East Region	Europe	North America	South America	Southeast Asia	Other Countries	Total
Non-Working Finance	507,125	-	-	-	-	-	-	507,125
Provision for Finance Impairment	1,005,651	-	-	-	-	-	-	1,005,651
Available-for-sale investments and Murabaha on goods whose value has decreased	102,182	90,923	-	-	-	-	-	193,105
Provision for impairment of investments and Murabaha on Goods	47,183	90,923	-	-	-	-	-	138,106

2015 In Thousands of Saudi Riyals	Kingdom of Saudi Arabia	Other GCC countries and the Middle East Region	Europe	North America	South America	Southeast Asia	Other Countries	Total
Non-Working Finance	514,761	-	-	-	-	-	-	514,761
Provision for Finance Impairment	864,226	-	-	-	-	-	-	864,226
available-for-sale investments and Murabaha on goods whose value has decreased	33,302	90,923	-					124,225
Provision for impairment of investments and Murabaha on Goods	13,108	90,923	-					104,031

30. Market Risks

Market risks are the risks related to fluctuations in the fair value of future cash flows of financial instruments due to changes in the market, such as the return rate, the foreign currency exchange rates and share prices.

A) Return Rate Risks

The return risks are risks resulting from the fluctuation of future cash flows of financial instruments due to changes in the return rate prevailing in the market. The Group has no substantial exposures to the effects of changes in the return rate prevailing in the market on the future cash flows; because a large part of the financial assets and liabilities are with fixed returns and listed in the consolidated financial statements at amortized cost. In addition, a large part of the Group's liabilities is not associated with a return.

B) Foreign Currency Rates Risks

Foreign currency risks are the risks resulting from the change in the value of the financial instruments due to the fluctuation of currency exchange rates.

(1) The Group is exposed to the risks of the effects of the fluctuations in the exchange rates prevailing in the market on its financial position and cash flows, and the Group's Management sets the limits for the acceptable risk level for each currency and at an aggregate level for the currency positions by the end of the day, which are monitored daily.

The following is a summary of the Group's exposure to the risks of foreign currency exchange rates as on the 31st of December:

In Thousands of Saudi Riyals	2016		2015	
	Saudi Riyal	Foreign Currency	Saudi Riyal	Foreign Currency
Assets	12,624,086	23,554,301	10,456,604	46,634,991
Cash and Balances at the Saudi Arabian Monetary Authority (SAMA)	4,451,004	77,821	4,483,028	119,093
Net Balances at Other Banks and Financial Institutions	7,389,269	561,575	7,957,866	424,791
Net Investments	3,024,899	56,046	2,900,231	48,704
Net Finance	35,982,360	196,027	34,035,310	219,313
Real estate Investment	1,000,000	-	-	-
Other Assets	317,560	33,606	212,661	27,329
Liabilities and Shareholders' Equity				
Balances for the Saudi Arabian Monetary Authority (SAMA)	2,006,214	-	-	-
Balances of Other Banks and Financial Institutions	781,615	214,776	1,218,389	203,263
Customers' Deposits	38,655,904	1,578,811	41,626,585	552,875
Instruments	2,007,047	-	-	-
Other Liabilities	1,322,246	5,173	1,169,766	7,293
Shareholders' Equity Bank	7,281,422	(523)	6,442,239	-
Uncontrolled Equity	39,906	-	-	-

An essential part of the net foreign currency exposed by the Group is represented in U.S. dollar, whose exchange rate is fixed against the Saudi Riyal. No other foreign currency rates risks are considered essential; and therefore, the Group is not exposed to significant foreign exchange rate risks.

The Group carried out a sensitivity analysis for a year concerning the likelihood of a change in the foreign currency exchange rates, with the exception of the U.S. dollar, using the average historical foreign exchange rates, and it is shown that there was no substantial impact on the Group's net exposure to fluctuations in foreign currencies.

(2) Currency Position

The following is an analysis of the net substantial risks faced by the Bank as at the end of the year regarding the following foreign currencies:

	2016 In Thousands of Saudi Riyals Creditor (Debtor) Position	2015 In Thousands of Saudi Riyals Creditor (Debtor) Position
U.S. Dollar (USD)	(970,868)	(20,980)
Kuwaiti Dinar (KD)	3,417	(32,109)
Pakistani Rupees (PKR)	49,681	55,691
Qatari Riyal (QAR)	6,965	5,155
United Arab Emirates Dirham (AED)	19,851	36,745
Bangladeshi Taka (BDT)	11,698	16,391
Others	6,095	14,906
Total	(873,161)	75,799

C) Investment Rate Risks

The investment rate risks refer to the impairment in the fair value of shares, investment funds and instruments included in the Group's available-for-sale investments portfolio, as a result of reasonably possible changes in the market indicators levels and the value of individual investments during the year.

The following is the impact on the owned and available-for-sale investments due to reasonably possible changes in market indicators; while all other changeable clauses are remain fixed:

Type of investment	31 December 2016		31 December 2015	
	Change Percentage in the Value of Investment Rates	Impact in Thousands of Saudi Riyals	Change Percentage in the Value of Investment Rates	Impact in Thousands of Saudi Riyals
Traded	10±	70,822	10±	69,065
Non-Traded	2±	12,563	2±	9,101

31. Liquidity Risks

Liquidity risks represent the Group's inability to meet its net finance requirements. The liquidity risks can occur when there is a disturbance in the market, or a decline in the level of credit ratings, leading to a decline in some of the finance sources. To mitigate these risks, the Management has diversified finance sources, and asset management after taking into account the availability of liquidity, and the maintenance of a sufficient balance of cash and cash equivalents, and securities for immediate trading.

The Management monitors the maturity portfolio to ensure the availability of adequate liquidity. Liquidity positions are monitored daily and regular stress tests are conducted on liquidity using multiple scenarios covering normal and unusual circumstances in the market. All policies and procedures relating to liquidity are subject to review and approval by the Bank's Assets and Liabilities Committee. Daily reports covering the liquidity position of the Bank and its working subsidiaries are issued, and a brief report is regularly submitted to the Bank's Assets and Liabilities Committee including all the exceptions and actions taken.

According to the Banking Control Law and the instructions promulgated by the Saudi Arabian Monetary Authority "SAMA", the Bank maintains at SAMA a statutory deposit equivalent to 7% (2015: 7%) of the total demand deposits and 4% (2015: 4%) of the total deposits. In addition to the statutory deposit, the Bank maintains liquidity reserves of at least 20% of its deposit obligations, and this reserve consists of cash and assets that can be converted into cash within a period not exceeding thirty days.

The Bank can also obtain additional funds through special investment facilities and arrangements with the Saudi Arabian Monetary Authority "SAMA".

The table below is a summary of the maturities of the Group's assets and liabilities. The contractual maturities of the assets and liabilities are determined based on the remaining period from the date of the consolidated statement of financial position until the contractual maturity date; furthermore, the actual maturities dates as indicated by the retention date of the Group's deposits have not been taken into account. The amounts shown in the table below represent the undeducted contractual cash flows, whereas the Group manages the inherent liquidity risks based on the expected deducted cash flows.

A) The following is an analysis of the contractual maturities of assets, liabilities and shareholders' equity as on the 31st of December:

2016 In Thousands of Saudi Riyals	Within 3 Months	From 3 Months to a Year	From a Year to 5 Years	More than 5 Years	Without a Specific Maturity Date	Total
Assets						
Cash and Balances at the Saudi Arabian Monetary Authority (SAMA)	2,116,612	-	-	-	2,412,213	4,528,825
- Cash in the Fund	1,518,636	-	-	-	-	1,518,636
- Balances at the Saudi Arabian Monetary Authority (SAMA)	597,976	-	-	-	2,412,213	3,010,189
Balances at Other Banks and Financial Institutions	6,628,766	960,684	361,394	-	-	7,950,844
- On demand	467,716	-	-	-	-	467,716
- Murabaha On Goods	6,161,050	960,684	361,394	-	-	7,483,128
Net Investments	1,243,704	199,287	290,993	779,777	567,184	3,080,945
- Available-for-sale Investments	-	-	290,993	478,190	567,184	1,336,367
- Investments held at amortized cost	1,243,704	199,287	-	301,587	-	1,744,578
Net Finance	7,560,003	18,226,823	9,655,969	735,592	-	36,178,387
- Retail Finance	729,149	2,758,780	8,417,725	726,465	-	12,632,119
- Corporate Finance	6,830,854	15,468,043	1,238,244	9,127	-	23,546,268
Net Property and Equipment	-	-	-	-	802,424	802,424
Real Estate Investment	-	800,000	-	-	200,000	1,000,000
Other Assets	-	-	-	-	351,166	351,166
Total Assets	18,095,314	19,952,626	9,996,369	1,515,295	4,332,987	53,892,591
Liabilities						
Cash and Balances at the Saudi Arabian Monetary Authority (SAMA)	-	2,006,214	-	-	-	2,006,214
Balances at Other Banks and Financial Institutions	794,485	201,906	-	-	-	996,391
- On demand	62,758	-	-	-	-	62,758
- Direct Investments	731,727	201,906	-	-	-	933,633
Customers' Deposits	38,756,872	1,477,843	-	-	-	40,234,715
- On demand	26,974,543	-	-	-	-	26,974,543
- Direct Investment	5,937,828	-	-	-	-	5,937,828
- Albilad Account (Speculation)	5,019,090	1,477,843	-	-	-	6,496,933
- Others	825,411	-	-	-	-	825,411
Instruments	-	-	-	2,007,047	-	2,007,047
Other Liabilities	-	-	-	-	1,327,418	1,327,418
Total Liabilities	39,551,357	3,685,963		2,007,047	1,327,418	46,571,785
Contingent Undertakings and Commitments	546,688	2,899,140	3,415,322	127,464	-	6,988,614

2015 In Thousands of Saudi Riyals	Within 3 Months	From 3 Months to a Year	From a Year to 5 Years	More than 5 Years	Without a Specific Maturity Date	Total
Assets						
Cash and Balances at the Saudi Arabian Monetary Authority (SAMA)	2,093,020	-	-	-	2,509,101	4,602,121
- Cash in the Fund	1,473,037	-	-	-	-	1,473,037
- Balances at the Saudi Arabian Monetary Authority (SAMA)	619,983	-	-	-	2,509,101	3,129,084
Balances at Other Banks and Financial Institutions	6,747,294	1,433,062	202,301	-		8,382,657
- On demand	-	-	-	-	-	-
- Murabaha On Goods	6,747,294	1,433,062	202,301	-	-	8,382,657
Net Investments	1,803,222	-	-	600,263	545,450	2,948,935
- Available-for-sale Investments	-	-	-	600,263	545,450	1,145,713
- Investments held at amortized cost	1,803,222	-	-	-	-	1,803,222
Net Finance	7,153,852	17,129,723	9,471,864	499,184	-	34,254,623
- Retail Finance	778,573	2,543,945	8,106,883	482,505	-	11,911,906
- Corporate Finance	6,375,279	14,585,778	1,364,981	16,679	-	22,342,717
Net Property and Equipment	-	-	-	-	792,084	792,084
Real Estate Investment	-	-	-	-	-	-
Other Assets	-	-	-	-	239,990	239,990
Total Assets	17,797,388	18,562,785	9,674,165	1,099,447	4,086,625	51,220,410
Liabilities						
Balances at Other Banks and Financial Institutions	1,421,652	-	-	-	-	1,421,652
- On demand	83,491	-	-	-	-	83,491
- Direct Investments	1,338,161	-	-	-	-	1,338,161
Customers' Deposits	38,128,985	4,050,475	-	-	-	42,179,460
- On demand	28,502,322	-	-	-	-	28,502,322
- Direct Investment	3,326,469	-	-	-	-	3,326,469
- Albilad Account (Speculation)	5,401,965	4,050,475	-	-	-	9,452,440
- Others	898,229	-	-	-	-	898,229
Instruments	-	-	-	-	-	-
Other Liabilities	-	-	-	-	1,177,059	1,177,059
Total Liabilities	39,550,637	4,050,475	-	-	1,177,059	44,778,171
Contingent Undertakings and Commitments	856,362	2,050,199	3,017,800	106,510	-	6,030,871

B. The following is an analysis of financial liabilities by undedicated remaining contractual maturities as at 31 December:

2016 In Thousands of Saudi Riyals	Within 3 Months	From 3 Months to a Year	From a Year to 5 Years	More than 5 Years	Without a Specific Maturity Date	Total
Financial liabilities						
Balances at the Saudi Arabian Monetary Authority (SAMA)	-	2,020,908	-	-	-	2,020,908
Balances at Other Banks and Financial Institutions	794,574	203,716		-	-	998,290
Customers' Deposits	38,771,144	1,489,250	-	-	-	40,360,393

2015 In Thousands of Saudi Riyals	Within 3 Months	From 3 Months to a Year	From a Year to 5 Years	More than 5 Years	Without a Specific Maturity Date	Total
Financial liabilities						
Balances at Other Banks and Financial Institutions	1,422,156	-	-	-	-	1,422,156
Customers' Deposits	38,138,110	4,083,175	-	-	-	42,221,285

32. Fair Value of Financial Instruments

Fair value is the price that will be received upon the sale of assets or paid to transfer liabilities under a statutory transaction between the traders in the market on the measurement date. The fair value measurement is based on the assumption that the transaction of the assets sale or liabilities transfer has been carried out either:

- In the main market for the assets or liabilities, or
- In the most beneficial markets available for assets and liabilities, in the absence of major market.

Determining the Fair Value of Financial Instruments and the Fair Value Levels:

The Bank uses the following levels when determining and disclosing the fair value of the financial instruments:

1 **Level 1:** The price traded on active financial markets for the same tool or similar tool which accessible on measurement date

2 **Level 2:** Traded prices in active financial markets for similar assets and liabilities, or by using other assessment methods, where all its important inputs are determined according to the observable market data.

3 **Level 3:** Evaluation methods that did not identify any of its important inputs according to observable market data.

In thousands of Saudi Riyals 31 December 2016 Financial assets measured at fair value	Fair Value				
	Book Value	First Level	Second Level	Third Level	Total
Investments available for sale					
Financial assets not measured at fair value	1,336,367	708,223	-	628,144	1,336,367
Balances at Other Banks and Financial Institutions	7,950,844	-	-	7,950,844	7,950,844
Investments are heldt amortized cost	1,744,578	-	-	1,744,578	1,744,578
Net Financing	36,178,387	-	-	35,613,860	35,613,860

In thousands of Saudi Riyals 31 December 2015 Financial assets measured at fair value	Fair Value				
	Book Value	First Level	Second Level	Third Level	Total
Investments available for sale					
Financial assets not measured at fair value	1,145,713	690,645	-	455,068	1,145,713
Balances at Other Banks and Financial Institutions	8,382,657	-	-	8,382,657	8,382,657
Investments are heldt amortized cost	1,803,222	-	-	1,803,222	1,803,222
Net Financing	34,254,623	-	-	33,875,782	33,875,782

In thousands of Saudi Riyals 31 December 2016 Financial assets measured at fair value	Fair Value				
	Book Value	First Level	Second Level	Third Level	Total
Balances at the Saudi Arabian Monetary Authority (SAMA)	2,006,214	-	-	2,006,214	2,006,214
Balances at Other Banks and Financial Institutions	996,391	-	-	996,391	996,391
Customers' Deposit	40,234,715	-	-	40,234,715	40,234,715
Instrument	2,007,047	-	-	2,007,047	2,007,047

In thousands of Saudi Riyals 31 December 2016 Financial assets measured at fair value	Fair Value				
	Book Value	First Level	Second Level	Third Level	Total
Balances at Other Banks and Financial Institutions	1,421,652	-	-	1,421,652	1,421,652
Customers' Deposit	42,179,460	-	-	42,179,460	42,179,460

The fair value of financial instruments that are not measured at fair value in these consolidated financial statements is not materially different from the carrying amount included in the consolidated financial statements. The fair value of customer deposits associated with the return and investments held at amortized cost and balances with banks and other financial institutions carried at amortized cost is not significantly different from the book value included in the consolidated financial statements because the current market rates of similar instruments are not significantly different from contract prices The period for certain financial instruments, particularly balances with banks and other financial institutions or together. There is no active market for these instruments. The Group intends to realize the carrying amount of these financial instruments by making a settlement with the counterparty at its due date. Funding has been classified as Tier 3, using the expected discounted cash flow associated with the SAIBOR. See also note 7 (e).

33. Balances and Transactions with Relevant Parties

The Group deals with the relevant parties during the course of its regular work. These transactions with the relevant parties are subject to the limits stated by the Banking Control Law and approved by the Board of Directors in line with the governance instructions issued by the Supervisory Authorities in the Banking Control System and the instructions issued by the Saudi Arabian Monetary Authority (SAMA). Senior shareholders are those who own 5% or more of the Bank's issued capital; and the Senior Management Personnel are these individuals, including the Managing Director, who have the authority and responsibility to carry out the planning, direction and supervision of the Bank's activities, whether directly or indirectly. The nature and the balances of these transactions for the two years ended on the 31st of December are as follows:

A. The Balances of the Board Members and Other Senior Shareholders, in addition to the Companies Affiliated to them

In Thousands of Saudi Riyals	2016 In Thousands of Saudi Riyals	2016 In Thousands of Saudi Riyals
Finance		
Credit Sale	1,324,902	1,126,699
Participation	46,959	13,376
Contingent Undertakings and Commitments		
Contingent Undertakings and Commitments	44,228	90,642
Deposits		
On Demand	148,797	84,728
Albilad Account (Speculation)	14,481	2,611
Others	1,181	5,750

B. The Balances of the Senior Management Personnel and the Companies Affiliated to them:

In Thousands of Saudi Riyals	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Finance		
Installment Sales	9,381	**12,623**
Deposits		
On Demand	5,707	**9,001**
Albilad Account (Speculation)	5,326	**1**

C. The Group's Investment Funds:

This item represents the existing balances at the Group's investment funds as on the 31st of December:

In Thousands of Saudi Riyals	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Customers' Deposits	196	**2,689**
Investments	47,164	**29.735**

D. Revenues and Expenses:

The following is an analysis of the revenues and expenses related to the transactions with the relevant parties, which are listed in the consolidated income statement for the two years ended on the 31st of December 2015 and 2016:

The Balances of the Board Members and Other Senior Shareholders, in addition to the Companies Affiliated to them and the Investment Funds managed by the Group:

In Thousands of Saudi Riyals	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Revenues		
Finance Income	39,699	**45,736**
Net Fees and Commissions Income and others	626	**352**
Net Fees and Commissions Income and others – Albilad Investment Funds	11,790	**17,635**
Expenses		
Albilad Account (Speculation)	16	**2**
2 Rents of Buildings	11,054	**5,086**
Remuneration of Board Members	5,480	**6,302**

The Balances of the Senior Management Personnel and the Companies Affiliated to them

In Thousands of Saudi Riyals	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Revenues		
Finance Income	100	**265**
Expenses		
Albilad Account (Speculation)	16	-

The following is a statement of the total compensation paid to the Senior Management Personnel during the year:

In Thousands of Saudi Riyals	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Employees'	**96,905**	62,504

34. Capital Adequacy

The Group's objectives when managing the capital are to comply with the capital requirements set by the Saudi Arabian Monetary Authority (SAMA) to maintain the Group's ability to continue its work, in accordance with the continuity principle and the maintenance of a strong capital base.

The Group's Management monitors the capital adequacy and the use of regulatory capital. The instructions of the Saudi Albilad Bank Albilad Bank Arabian Monetary Authority (SAMA) requires the maintenance of a minimum level of regulatory capital, and the ratio of the total regulatory capital to the risk-weighted assets must be at or exceeding the agreed minimum of 8% .

The Group monitors the capital adequacy using the ratios stated by the Saudi Arabian Monetary Authority (SAMA); and by which the capital adequacy is measured by comparing the eligible capital clauses for the Group with the assets listed in the consolidated statement of financial position and the potential liabilities using the risk-weighted assets to show its relative risks.

The Saudi Arabian Monetary Authority (SAMA) issued the guidelines and frameworks for capital restructuring, according to the recommendations of the Basel III Committee, which took effect as of the 1st of January 2013. According to the frameworks of the Basel III Committee, the Group's consolidated risk-weighted assets, the total capital and the relevant ratios were calculated on a consolidated basis for the Group.

The following table summarizes the Group's first pillar for the risk-weighted assets, the core capital, the supplementary capital and the capital adequacy ratio:

In Thousands of Saudi Riyals	2016 In Thousands of Saudi Riyals	2015 In Thousands of Saudi Riyals
Credit Risk-Weighted Assets	42,831,321	39,449,578
Operational Risk-Weighted Assets	4,340,692	3,905,237
Market Risk-Weighted Assets	991,676	149,700
Total First Pillar for Risk-Weighted Assets	48,163,689	43,504,515
Core Capital	7,320,805	6,442,239
Supplementary Capital	2,532,325	467,373
Total of Core Capital and Supplementary Capital	9,853,130	6,909,612
Capital Adequacy Ratio		
Core Capital Ratio	15.20%	%14.81
% Ration of Core Capital and Supplementary Capita	20.46%	%15.88

35. Investment and Brokerage Management Services

The Group provides investment management services to its customers through its affiliated company / Albilad Investment Company. These services include managing seven investment funds (2015: seven investment funds), with assets totaling 946 million Saudi Riyals (2015:925 million Saudi Riyals). All investment funds are managed according to the Shariah rules and subjected to Shariah control on a regular basis. Some of these funds are managed in cooperation with external professional investment advisors.

The Group also manages the investment portfolios on behalf of its customers amounting to 1,644 million Saudi Riyals (2015: 7.708 million Saudi Riyals). The financial statements of these funds and the investment portfolio were not included in the Group's consolidated financial statements. The transactions between the Group and these funds are disclosed within the transactions with the relevant parties (Clarification no. 32).

36. Changes in the frameworks of the International Financial Reporting

The Group has considered not to prematurely apply the new standards that have been issued but not in force, after the accounting years of the Bank, which start on or after 1 January 2017, and the Group is currently studying its effects.

The following is a summary of new international financial reporting standards and its amendments, which take effect in the future years, which start on or after 1 January 2017:

Standard, Amendment	Requirements Summary	Applicable to annual periods beginning on or after
International Financial Reporting Standard No. (9)	Financial Instruments	1 January 2018
International Financial Reporting Standard No. (15)	Revenues from contracts concluded with customers.	1 January 2018
The amendments to International Accounting Standard No.(7)	Disclosure Initiative	1 January 2017
The amendments to International Accounting Standard No.(12)	Proof of deferred tax assets on unrealized losses	1 January 2017
amendments to the International Financial Reporting Standard no.(2)	Classification and measurement of share-based payment transactions	1 January 2018
the International Financial Reporting Standards	Lease contracts	1 January 2019

37. Employee Equity Program

The following are the important benefits for the payments program calculated based on the shares:

Standard, Amendment	2016	2015
Grant Date	**21 June 2016**	1 November 2015
Maturity Date	**25% - 1st of January 2017 25% - 1st of January 2018 50% - 1st of January 2019**	25% - 1st of January 2017 25% - 1st of January 2018 50% - 1st of January 2019
Number of Shares Granted on the Grant Date	**483,477**	479,302
Share price on the Grant Date (Saudi Riyals	**24.,7**	21,76
The Value of the Shares Granted on the Grant Date (in Thousands of Saudi Riyals)	**11,637**	8,691
Maturity Period	**3 years**	3 years
Grant Condition	**Completion of Service Period**	Completion of Service Period
Payment Method	**Shares**	Shares

The following is a statement of the movement in the number of shares for the Employee Equity Program during the year:	2016	2015
At the beginning of the year	**1,129,439**	1,041,953
Granted during the year	**483,477**	479,302
Waivered	**(332,598)**	(58,242)
Disbursed	**457,672))**	333,574))
At the end of the year	**822,646**	1,129,439

These shares were granted with an essential condition; which is the completion of the service period and it is not linked to the market conditions.

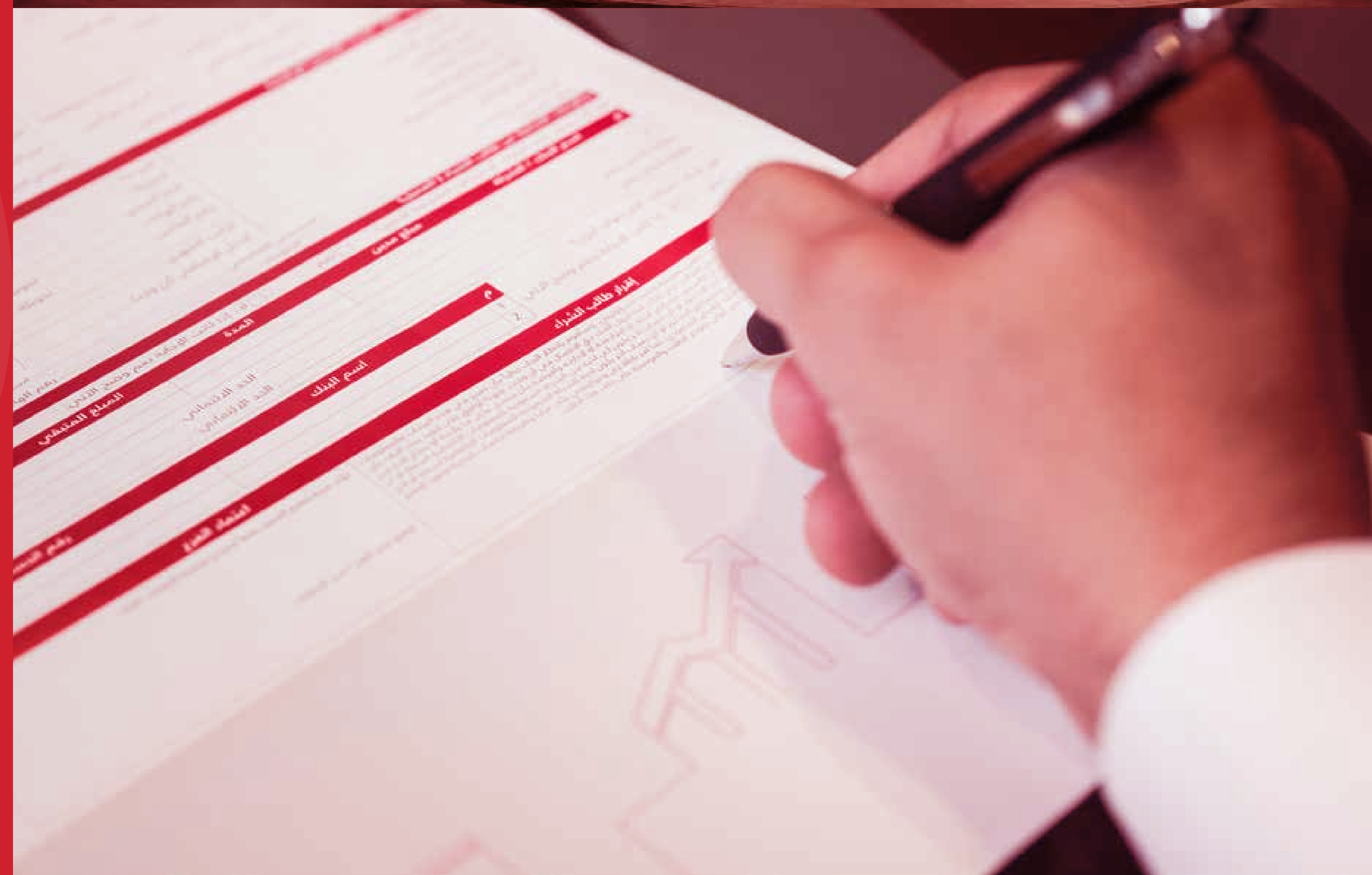
38. Comparative Figures

Some comparative figures from last year have been reclassified to conform to the current year's classification.

39. The Board's Approval of the Consolidated Financial Statements

The Board of Directors approved the consolidated financial statements on 29 Jumada al-awwal 1438 AH, corresponding to 26 February 2017.


Bank AlBilad



Qualitative and Quantitative Disclosures

	Tables and templates	Template ref.#
Part 2 – Overview of risk management and RWA	OVA – Bank risk management approach	B.1
	OV1 – Overview of RWA	B.2
Part 3 – Linkages between financial statements and regulatory exposures	LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories	B.3
	LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements	B.4
	LIA – Explanations of differences between accounting and regulatory exposure amounts	B.5
Part 4 – Credit risk	CRA – General information about credit risk	B.6
	CR1 – Credit quality of assets	B.7
	CR2 – Changes in stock of defaulted loans and debt securities	B.8
	CRB – Additional disclosure related to the credit quality of assets	B.9
	CRC – Qualitative disclosure requirements related to credit risk mitigation techniques	B.10
	CR3 – Credit risk mitigation techniques – overview	B.11
	CRD – Qualitative disclosures on banks' use of external credit ratings under the standardized approach for credit risk	B.12
	CR4 – Standardized approach – credit risk exposure and Credit Risk Mitigation (CRM) effects	B.13
Part 7 – Market risk	MRA – Qualitative disclosure requirements related to market risk	B.35
	MR1 – Market risk under standardized approach	B.37
Part 8	Operational Risk Qualitative disclosure	B.41
Part 9	Quantitative disclosure (IRRBB)	B.42

B.1 – Table OVA
Bank Risk Management Approach

Scope

Bank Albilad risk management objectives and policies are disclosed in relation to various key risks as highlighted by the board of directors.

a) Business model determination and risk profile

Bank Albilad manages several types of risk at different levels of the organization. Key types of risk are as follows:

• Credit risk:
Credit and counterparty risk is defined as the risk arising from an obligor's failure to meet all or part of its obligations. Credit and counterparty risk arises when funds are extended, committed or otherwise exposed through contractual agreements, whether reflected on/off-balance sheet.

• Market risk:
Market risk is defined as the risk arising from losses because of the market value of the Bank's assets and liabilities variation based on market conditions.

• Liquidity risk:
Liquidity risk is defined as the risk arising from losses when the bank's normal liquidity reserves remain insufficient to meet its obligations.

• Operational risk:
Operational risk the risk of is defined as the risk arising from losses owing to deficient or erroneous internal procedures, human or system errors, or external events.

b) The risk governance structure

• Credit risk:
To manage, measure, monitor and mitigate credit risk, independent credit committees exists within Bank Albilad. The committees operate under board-approved delegated limits, policies and procedures. There is a high level of executive involvement and non-executive review and oversight in the credit decision-making.

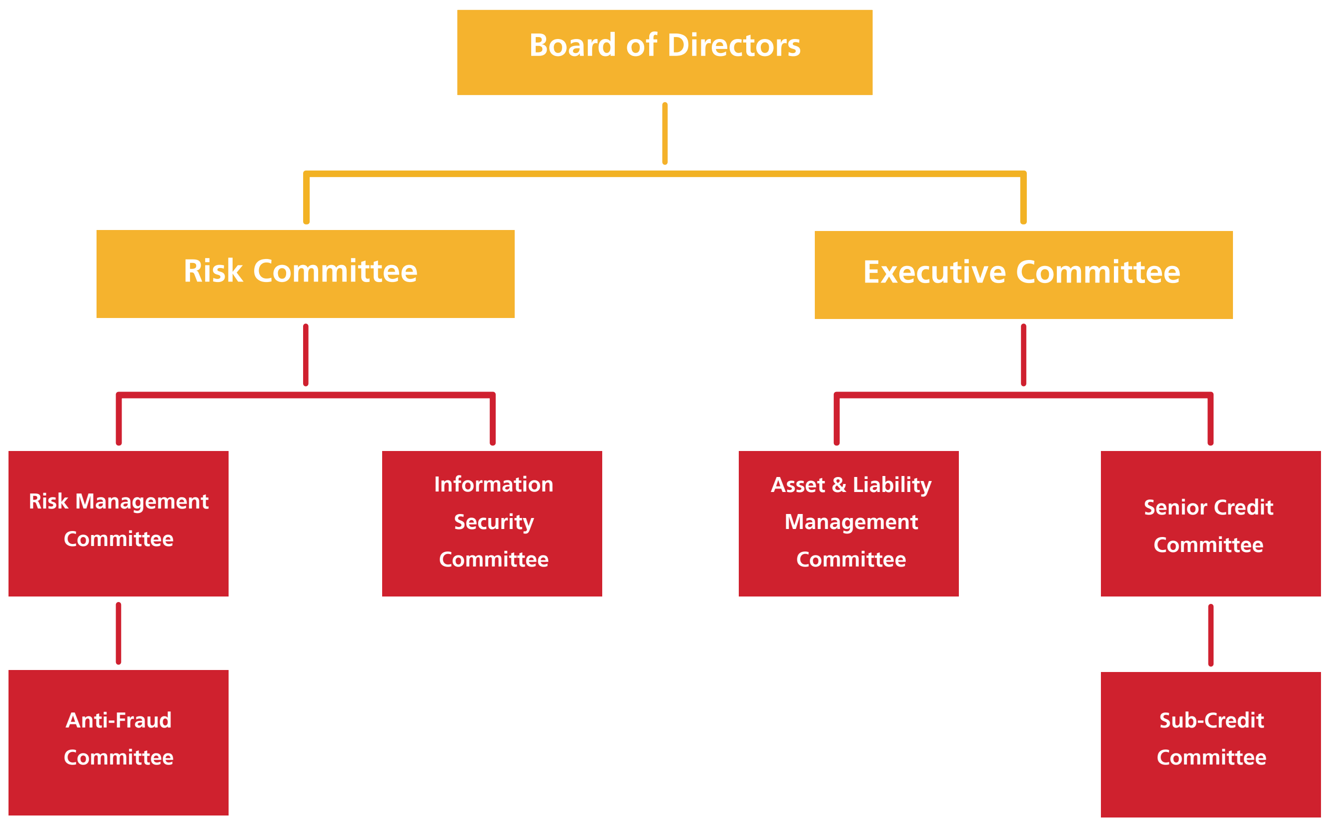
• Market and Liquidity risk:
To manage, measure and mitigate market risk, independent asset & liability committee exists within Bank Albilad. The committee operates under board-approved delegated limits, policies and procedures. Limits have been set to keep potential losses and market variation within acceptable risk tolerance levels.

• Operational risk:
To manage, measure, monitor and mitigate operation risk, independent risk committees exists within Bank Albilad. The committees operate under board-approved delegated limits, policies and procedures. Also, the governance structure relating to operational risk forms an integral part of the operational risk management framework.

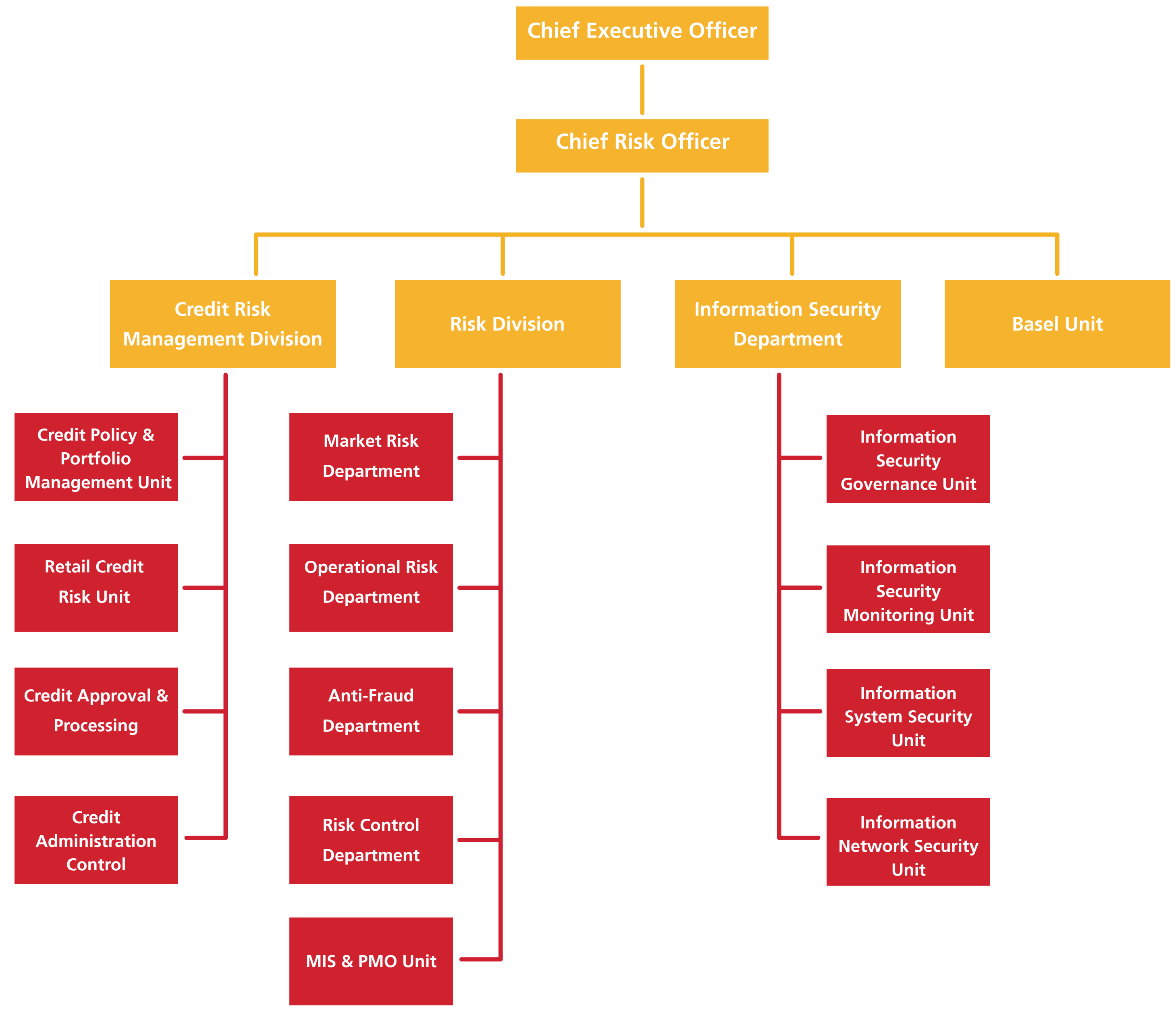
c) Channels to communicate, decline and enforce the risk culture

Bank Albilad comprehensive risk management process involves identifying, quantifying, managing and mitigating the risks associated with all business units, as well as, monitoring and controlling risk exposure through independent credit, market, liquidity and operational.

A number of committees identify and manage risk at the bank level. These committees operate and are mandated by the board and organized in the structure as shown below:



The Risk Management Divisions is organized in the structure as shown below:



d) The scope and main features of risk measurement systems

Risk Management Divisions objectives are to be the custodian of adherence to the bank risk management culture and support the long-term sustainability by providing an established, independent framework for identifying, evaluating, monitoring and mitigating risk. Furthermore, Risk Management Divisions sets, approves and monitors adherence to risk parameters and limits across the bank and ensures they are implemented and adhered to consistently, hence, to give the board reasonable assurance that the risks we are exposed to are identified and appropriately managed and controlled.

e) Process of risk information reporting provided to the board and senior management

The Risk Management Divisions receives regular reports on developments in the Bank's balance sheet structure and balance sheet movements, including its capital deployment and risk appetite. Assessment of the materiality of risks is directly linked to the board's approved risk management policies covering all key risks. Key identified risks are monitored by Risk Management Divisions to ensure that each risk is managed to an acceptable level. Moreover, key risks are reviewed and debated by senior management on a continuous basis.

Detailed performance and control metrics of these risks are reported to each independent committee meeting including, where appropriate, the results of scenario testing. Key risk types that are considered fall within the following:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

f) Qualitative information on stress testing

The Profit Rate Risk in the Banking Book (PRRBB) is quantified as a notional VaR figure or Economic Value at Risk (1 day Economic VaR at 99% Confidence Interval), which represents the Economic value of the asset / liability in stressed market conditions. All future cash flows represent earnings or payments from the point of view of the Bank. These cash flows are segregated into time period buckets by constructing a residual maturity / re-pricing schedule.

Bank Albilad conducts stress tests and scenario analyses to measure its risk of loss under unusual market conditions. Standard stress tests estimate Bank Albilad's losses if positions are exposed to profit rate shocks of up to +/- 50,100 and 200bp

Bank Albilad also conducts comprehensive stress tests of the model at regular intervals and the results are presented to the senior management. In addition, there are a number of other qualitative requirements to ensure that the model is completely up to date with respect to documentation, calculation methods and control measures.

g) The strategies and processes to manage, hedge and mitigate risks

A key component of Bank Albilad's business strategy is for risk management to support the objective of being a strong financial partner with insight and transparency in risk-taking.

The Bank's vision is to adopt best international standards and practices in risk management. Bank Albilad uses substantial resources to develop procedures and tools that support this vision. Accordingly, the Bank has built up substantial expertise in risk and capital management.

Managing risk is a process operated independently of the business units of Bank Albilad. It aims to promote a strong risk management culture through a comprehensive set of processes that are designed to effectively identify, measure, monitor and control risk exposures. The Board of Directors and senior

management are involved in the establishment of all risk processes and the periodic oversight and guidance of the risk management function. The processes are subject to additional scrutiny by independent Shariah Board as well as internal and external auditors, and the Bank's regulators, which help further strengthen the risk management practices.

• Credit risk:

Management of Credit Risk

The Bank measure and manage its credit risk by adhering to the following principles:

- Consistent standards are applied across the bank in the respective credit decision processes through the use of internal rating models for all corporate lending customers. In retail, for Behavioral scoring it has been devolved, but for Application scoring is still in the developing stages with support of consultants and currently Credit Bureau (SIMAH) Scoring is being used for few segments for financing scores.
- The approval of credit limits for counterparties and the management of its individual credit exposures must fit within the Bank's portfolio guidelines and its credit strategies, and each decision also involves a risk-versus-return analysis.
- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level.

Bank currently assigns credit approval authorities based on dual sign-off system by business and risk up to a certain level, beyond which the proposals are referred to Credit Committee's, Executive Committee and finally Board for approval.

Strategies of Credit Risk

The aims of credit risk management are:

- To maintain a strong culture of responsible lending, supported by a robust risk policy and control framework
- Implementing risk appetite; and
- To ensure independent, expert scrutiny and approval of credit risks and their mitigation.

Mitigation of Credit Risk

Bank Albilad uses a variety of financial and non-financial collateral and guarantees to mitigate the underlying credit risk in its regular lending and treasury operations. Usage of purchased protection in the form of credit derivatives is negligible at this point of time .The bank adheres to the list of acceptable collateral and credit protection provided by SAMA to all banks in the Kingdom (except gold and silver).

Broad collateral types currently used by Bank Albilad include:

- Financial Collateral
- Cash margins
- 'Customer Share' in LC Musharaka transactions
- Cash collateral for extending credit or to protect counterparty default.
- Equities of local listed shares approved by the Shariah Board of the bank for corporate lending and share trading. The list of acceptable equities is periodically reviewed by Credit Committee.
- Local and foreign, Mutual Fund units, comprising of listed companies acceptable under Shariah law.

Real Estate collateral

- Commercial Real Estate, used for securing the bank's exposure to corporate and commercial borrowers.
- Residential Real Estate, used for securing a mortgage provided to a retail customer

Guarantees

- Formal and legally enforceable guarantees received from Banks.
- Legally enforceable Personal guarantees

Others

- Assignment of proceeds for revenue generated by projects financed by Bank Albilad. Each project financed has a separately defined limit which is part of the credit limit provided to the counterparty.
- Assignment of salary account in case of individual borrowers, and each instalment to be deducted from this account at each due date

Valuation of Collaterals

The Credit Committee accepts an independent valuation of the assets being pledged before acceptance and at defined frequencies depending on the nature of collateral. The valuation is conducted by a team of independent valuation experts.

Valuation of collaterals is based on the current market value of the same. Independence of the valuation expert and shall be ensured so that the valuation is not biased to:

- Grant a higher credit limit to the borrower or
- Make a smaller quantum of provisions or
- Continue interest accrual for a problem credit.

The Risk Management Divisions ensures that the valuation method used, whether internal or external, is based on assumptions that are both reasonable and prudent and all assumptions have been clearly documented.

Collateral is valued, wherever possible, at net realizable value, defined as the current market value less any potential realization costs including but not limited to carrying costs of the repossessed collateral, legal fees or other charges associated with disposing of the collateral.

Bank Albilad aims to maintain a level of information about pledges and guarantees that is sufficient for it to regularly estimate the value thereof. The value is calculated as the amount received from a forced sale less the costs of realization, including costs for days on the market.

To some extent, the Bank receives guarantees for credit exposures. A large part of these guarantees are provided by enterprises or persons where a Divisions relationship between the borrower and the guarantor exists. Bank must evaluate the guarantor before accepting the guarantee.

• Market risk:
- Management of Market risk

Market risk concerns with profit margin rate, yield curves and prices. The market risk arises from the changes in market prices in Murabaha, yield curve, foreign exchange, commodity and equity. The bank exposure for market risk in trading book is limited to the overall exposure in foreign exchange.

- Profit Margin Risk

Profit Margin Risk in the banking book is defined as the impact of the bank's asset and liability exposures to changes in profit margin rates. It arises principally from mismatches between the future re-investment rate and their funding costs, as a result of changes in profit rates.

For the purpose of profit margin risk management, the market risk at Bank Albilad measures yield curve risk, which expresses the losses if profit margin rates changed for various terms and different currencies.

- Foreign Exchange Risk

Foreign Exchange Risk is the risk of losses on the trading and banking book positions in foreign currency because of adverse changes in exchange rates against banks exposures.

The overall potential loss is generally calculated using bank net open position as the maximum sum of long and short position currencies.

- Strategies of Market Risk

The Board of Directors has approved the limits for the market risk and liquidity risk for the Bank Albilad to be in line with the strategic risk exposure and risk appetite targets as per bank's market risk and liquidity risk policies. In addition, the Asset & Liability Committee regularly monitors and discusses issues within scope of market and liquidity risk.

Bank Albilad uses both conventional risk measures and advance risk models for measuring risk market and liquidity risk, such as, Liquidity Mis-matches, Major Depositors Concentration Limits, Loan to Deposit Ratio, Net Non-Core funding dependency ratio, Basel 3 – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), Profit rate risk, Periodic and Cumulative Gaps and Economic Value at Risk to measure its market risk and liquidity risk exposures and they are reported to:

- Board of Directors and senior management on quarterly/monthly basis;
- SAMA on quarterly basis; and
- Business units on daily basis.

Bank Albilad's Value-at-Risk model is currently used for the Pillar II calculation.

Value-at-Risk is a statistical measure of the maximum loss that the Bank may incur on its portfolios over a certain period of time at a certain confidence level. Value-at-Risk is a risk measure that quantifies potential losses under normal market conditions.
A major advantage of using the Value at Risk is that it provides a combined figure for all risk types, which facilitate the monitoring, and control of market risks. In addition it takes into account the market factors volatilities and correlations.

Certain Bank Abilad's financial instruments cannot be valued by means of prices in the market; instead they are valued on the basis of pricing models developed internally by the Bank. The Risk Management conducts independent model validation that assesses the ability of the model to price and manage the risk of a given product.

Model validation is made regularly for the new and current models. This is done to ensure that no changes have been made to the product or have taken place in the market which may have an impact on the model accuracy. In addition, continuous procedures have been established to control and validate the market prices used to value and calculate risk.

The measuring, monitoring and management reporting of market risk are reported on daily basis to the senior management and stakeholders. Current market risks are calculated and reported using in-house database.

The limits are established for the trading and banking book of the business unit and these are monitored regularly and sufficient procedures have been established to ensure any breaches of the limit is addressed by the business unit on timely basis.

The Board of Directors, the Asset/ Liability Committee, the Business and risk management stakeholders are updated regularly about the bank's market risks and material events in this area. This reporting includes follow-up on both risks within the individual categories of market risks and the overall risk measures in the form of Value-at-Risk. Similarly, risk reporting has been established for the business units authorized to take market risks.

• Liquidity risk:
The risk that the Bank may not be able to meet its obligations when due, at an acceptable market cost, is termed liquidity risk. Liquidity risk is measured by matching assets and liabilities based predefined maturity buckets.

Liquidity risk is defined as the risk of losses result from:

- Bank's funding costs increase disproportionately;
- Lack of funding prevents the Bank from establishing new business; or
- Lack of funding will ultimately prevent the Bank from meeting its obligations.

Liquidity management at Bank Albilad is based on monitoring and managing operational and structural liquidity risks in various scenarios.

The management of operational liquidity risk aims primarily at ensuring that the Bank always has sufficient liquidity in the short term to absorb such net effects of transactions made and expected. In addition to SAMA's liquidity ratio, the bank is also monitoring the Basel 3- Liquidity Coverage Ratio (LCR) as one of the indicator in assessing the potential termed liquidity risk for the bank.

Bank Albilad's liquidity risks policies are approved by the Board In addition the liquidity contingency plan has been implemented aiming to ensure that Bank Albilad is sufficiently prepared to take remedial action if an unfavorable liquidity situation is occurred.

Bank Albilad's policies have been defined with respect to how much negative funding the Bank wishes to accept. In liquidity management, the Bank distinguishes between liquidity in local, and foreign currencies.

The Risk Management has set limits for liquidity risks, which are calculated separately for local and foreign currencies. The Market Risk Department is responsible for ensuring that the Bank complies with the operational liquidity risk limits and any breaches is escalated to senior management timely.

The Key Business & Risk Units stakeholders receive reports on the Bank's liquidity risks regularly. Moreover, the Asset/Liability Committee continuously assesses developments in the Bank's liquidity and plans long-term funding.

Managing Short-Term Liquidity Risk

The management of Bank Albilad's short-term, or operational, liquidity risk aims primarily at ensuring that the Bank has an adequate liquidity buffer that is able, in the short term, to absorb the net effects of transactions already made and expected changes.

Liquidity is determined on the basis of cash flows of outstanding transactions. The calculation is made taking into account the Bank's holdings of liquid assets. In managing the short-term liquidity risk, the Bank will ensure that the liquidity reserve ratio is higher than minimum threshold established by SAMA.

Managing Long-Term Liquidity Risk

Structural liquidity risk is managed based on considerations of the Bank's long-term liquidity mismatch. The management of this risk aims to ensure that the Bank does not build up an inexpediently large future funding requirement. Determining the structural liquidity is important when the Bank plans its funding activities and pricing.

The Bank manages the structural liquidity risk on the basis of a gap report. The gap report is based on a breakdown of the Bank's assets, liabilities and off-balance sheet items by maturity. For that purpose, the Bank uses the contractually fixed maturity dates for each product.

As part of the management of the Bank's structural liquidity risk, the liquidity position in the gap report is divided into a number of variables such as foreign exchange, product, business area and organizational units. These reports reflect, among other things, that the Bank has a structural liquidity surplus dominated in local currency.

Liquidity Scenario Analysis

Bank Albilad conducts stress tests to measure the Bank's immediate liquidity risk and to ensure that the Bank has a certain response time if a crisis occurs. The stress tests estimate the structural liquidity risk in various scenarios. The scenario analyses involve bank specific crises and general market crises. In addition, the bank is monitoring the Basel 3 – Net Stable Funding Ratio (NSFR) as one of the indicator in assessing the potential structural liquidity risk for the bank.

The Bank monitors the diversification of products, currencies, maturities, concentration of major depositors and the dependency of the volatile funding from interbank market to ensure that the Bank has a funding base that will protect the Bank to the greatest possible extent if markets come under pressure.

B.2 - Template OV1

Overview of RWA (SAR '000)

		a	b	c
		RWA		Minimum Capital Requirements
		T Dec 16	T-1 Sep 16	T
1	Credit risk (excluding counterparty credit risk) (CCR)	42,831,321	42,756,334	3,426,506
2	Of which standardized approach (SA)	42,831,321	42,756,334	3,426,506
3	Of which internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	-	-	-
5	Of which standardized approach for counterparty credit risk (SA-CCR)	-	-	-
6	Of which internal model method (IMM)	-	-	-
7	Equity positions in banking book under market-based approach	-	-	-
8	Equity investments in funds – look-through approach	-	-	-
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fall-back approach	-	-	-
11	Settlement risk	-	-	-
12	Securitization exposures in banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)	-	-	-
14	Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15	Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	991,676	1,463,960	79,334
17	Of which standardized approach (SA)	991,676	1,463,960	79,334
18	Of which internal model approaches (IMM)	-		-
19	Operational risk	4,340,692	4,222,077	347,255
20	Of which Basic Indicator Approach	4,340,692	4,222,077	347,255
21	Of which Standardized Approach	-	-	-
22	Of which Advanced Measurement Approach	-	-	-
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	48,163,689	48,442,371	3,853,095

B.3 - Template LI1

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (SAR '000)

	a	b	c	d	e	f	g
			Carrying Values of Items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with SAMA	4,528,825	4,528,825	4,528,825	-	-	-	-
Due from banks and other financial institutions, net	7,950,844	7,950,844	7,950,844	-	-	-	-
Investments, net	3,080,945	3,080,945	3,080,945	-	-	-	-
Financing, net	36,178,387	36,178,387	36,178,387	-	-	-	-
Property and equipment, net	802,424	802,424	802,424	-	-	-	-
Investment property	1,000,000	1,000,000	1,000,000	-	-	-	-
Other assets	351,166	351,166	351,166	-	-	-	-
Total assets	**53,892,591**	**53,892,591**	**53,892,591**	**-**	**-**	**-**	**-**
Liabilities							
Due to SAMA	2,006,214	-	-	-	-	-	2,006,214
Due to banks and other financial institutions	996,391	-	-	-	-	-	996,391
Customers' deposits	40,234,715	-	-	-	-	-	40,234,715
Sukuk	2,007,047	-	-	-	-	-	2,007,047
Other liabilities	1,327,419	-	-	-	-	-	1,327,419
Total liabilities	**46,571,786**	**-**	**-**	**-**	**-**	**-**	**46,571,786**

B.4 - Template LI2

Main sources of differences between regulatory exposure amounts and carrying values in financial statements (SAR '000)

		a	b	c	d	f
		Total	Carrying Values of Items:			
			Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	53,892,591	53,892,591	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	53,892,591	53,892,591	-	-	-
4	Off-balance sheet amounts	6,988,614	3,749,591	-	-	-
5	Differences in valuations	-	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
10	**Exposure amounts considered for regulatory purposes**	**60,881,205**	**57,642,182**	-	-	-

B.5 - Table LIA

Explanations of differences between accounting and regulatory

a) Explanation of significant differences between the amounts in columns (a) and (b) in LI1.

There are no differences between Carrying values as reported in published financial statements and Carrying values under the scope of regulatory consolidation

b) Explanation of the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2.

Off-Balance sheet notional values are populated as total carrying/accounting value whereas credit equivalent amounts (applying conversion factors) are populated under respective regulatory framework.

c) Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used.

- Description of the independent price verification process.
- Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument).

Refer to note no. 2d & 32 of Annual Published Financial Statements

B.6 - Table CRA

General qualitative information about credit risk

a) How the business model translates into the components of the bank's credit risk profile

Bank Albilad provides Shariah based commercial banking services such as commercial finance, trade finance, consumer finance, charge cards and treasury products to all customer segments including corporates, individuals, business entities, financial institutions and government and semi-government institutions.

In a competitive pursuit of growth opportunities, bank has adopted a retail as well as wholesale focused commercial banking business model to leverage the strengths of its large branch net-work and a team of highly skilled professionals by exploiting both Retail and Corporate sectors. Bank's business model is characterised by anchoring on stable funding sources through well diversified deposit base, and high quality financing assets both on and off balance sheet.

b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits

Credit Risk is the risk of loss resulting from inability of any counterparty to fulfill its obligations to the Bank as per the agreed terms. The bank follows guidelines given in the Basel Regime in letter and spirit, and follow industry best practice in managing this risk. A Risk Appetite statement is approved by the BOD annually which forms basis for defining all risk control parameters. Risk assets portfolio is monitored closely to comply with the defined parameters. The Bank's credit policy lays emphasis on using all modern decision making tools. Accordingly the Bank has adopted a robust system of Financial Analysis and Obligor Risk Rating. This is augmented by use of a model to assess Risk Adjusted Return on (economic) Capital - RAROC. The Credit Policy defines all concentrations to manage credit risk at portfolio level, and limits are accordingly set to keep concentration levels well within the Risk Appetite approved by the BOD. All counter party limits are approved by competent levels duly authorized by the BoD to approve credit underwritings while remaining strictly in compliance with regulatory guidelines.

c) Structure and organization of the credit risk management and control function

The Credit Risk Management structure comprises of independent control functions reporting to the Chief Risk Officer. Credit Risk Division is managed under a well-defined framework of principles, organizational structure, and measurement and monitoring processes that are closely aligned with the Banks Credit Policy and Risk Appetite as articulated from time to time. While all credit proposals are initiated by relevant Businesses, these are independently processed by Credit Risk function to bring objectivity to decision making. Further, within Credit Risk function, Credit Policy, Credit Approvals, and Credit Administration are managed by independent departments to strengthen the controls. In view of the nature of the business, Retail and Consumer Credit is looked after by an independent Manager under the Credit Risk Management Division.

d) Relationships between the credit risk management, risk control, compliance and internal audit functions

Bank Albilad operates three lines of defense credit risk management model. The first line of defense is the business divisions (i.e Retail, Wholesale and Treasury) who are the "owners" of the credit risks. The second line of defense is an independent risk and control infrastructure in the form of Credit Risk Division which is part of Risk Management Group. The third line of defense is Internal Audit and Compliance Departments, which assure the effectiveness of our controls. All three lines of defense are independent of one another and accountable for maintaining structures that ensure adherence to the design principles at all levels.

e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors

Risk management function periodically reports all important risk indicators to both the Executive Management and the Board which include different concentrations in financing portfolio, non performing financing and loan loss coverage, portfolio changes under stressed scenarios, and compliance with Risk Appetite approved by the Board.

B.7 - Template CR1

Credit quality of assets (SAR '000)

		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	507,125	36,676,913	1,005,651	36,178,388
2	Debt Securities	-	773,600	-	773,600
3	Off-balance sheet exposures	-	6,988,614	-	6,988,614
4	Total	507,125	44,439,127	1,005,651	43,940,602

B.8 - Template CR2

Changes in stock of defaulted loans and debt securities (SAR '000)

		a
1	Defaulted loans and debt securities at end of the previous reporting period	521,843
2	Loans and debt securities that have defaulted since the last reporting period	58,768
3	Returned to non-defaulted status	-
4	Amounts written off	49,782
5	Other changes	(23,704)
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	507,125

B.9 - Table CRB

Additional disclosure related to the credit quality of assets

a) The scope and definitions of "past due" and "impaired" exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.

Financing is considered to be past due if contractually agreed payments of principal and/or profit remain unpaid by the borrower on the due date. For calculating regulatory capital under Standardized Approach of Basel asset class "Past Dues" is considered if any counterparty has past due for more than 90 days, or had been in "past due" but their finances were rescheduled and these rescheduled finances are under observation for cure period. Finance, or a group of finances, is impaired, and impairment losses are incurred as per IAS 39, if there is objective evidence of impairment as a result of a loss-event that occurred after the initial recognition of the asset up to the balance sheet date. To allow management to determine whether a loss-event has occurred on an individual basis, all counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in payment of principal or profit. There is no difference in accounting and regulatory definition of "past due" and "impaired".

b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.

In the normal course of business all the counterparties having full or partial exposure as past due for more than 90 days are treated as "impaired" as per guidelines contained in International Accounting Standard 39. As on reporting date of this disclosure under Pillar 3 there is no client which has past due exposures more than 90 days and has not been treated as "impaired".

c) Description of methods used for determining impairments.

Credit Risk Management in collaboration with business units regularly assess whether or not there is objective evidence that a finance, or group of finances, is impaired. While we assess the impairment for our corporate credit exposures individually, we assess the impairment of our consumer financing exposures based on delinquencies in terms of loans that are 90 days or more past due. In some finances of our consumer credit portfolio we also subjectively impair finances where delinquencies are less than 90 days past due but we consider chances of recovery as minimal.

d) The bank's own definition of a restructured exposure.

At times due to economic or legal reasons the Bank enters into a restructuring agreement with a borrower who faces, or will face, financial difficulties. This is done in order to ease the contractual obligation of the borrower for a limited period of time. A case by case approach is applied for our corporate clients considering each transaction and client specific facts and circumstances. For consumer finances we offer rescheduling for a limited period of time, in which case the total or partial outstanding or future instalments are deferred to a later point of time. However, the amount not paid, including accrued profit during this period, is re-compensated at a later point of time. Repayment options include distribution over residual tenor, a one-off payment, or a tenor extension. Restructuring / Rescheduling are restricted and depend on the economic situation of the client, our risk management strategy, and legal considerations. In case a restructuring agreement is entered into, an impairment measurement exercise is conducted, and an impairment charge is taken, if necessary.

Quantitative disclosures

Breakdown of exposures by geographical areas (SAR '000)

Portfolios	Geographic Area				
	Saudi Arabia	Other GCC & Middle East	Europe	Others countries	Total
Sovereigns and their central banks	3,010,190	-	-	-	3,010,190
Non-central government public sector entities	-	-	-	-	-
Multilateral development banks	-	-	-	-	-
Banks	3,631,585	3,894,954	109,779	314,526	7,950,844
Securities firms	-	-	-	-	-
Corporates	18,667,028	48,171	-	-	18,715,199
Regulatory retail portfolios	11,396,494	-	-	-	11,396,494
Secured by residential property	1,365,850	-	-	-	1,365,850
Secured by commercial real estate	5,972,545	-	-	-	5,972,545
Equity	2,303,465	-	8,298		2,311,763
Past-due loans	598,474	-	-	-	598,474
Higher-risk categories	-	-	-	-	-
Other assets	3,667,383	424	-	-	3,667,807
Total	50,613,014	3,943,549	118,077	314,526	54,989,166
Contingencies & Commitments stated at credit equivalents	3,817,431	551,671	-	70,182	4,439,284
Total Credit exposure stated at credit equivalents	54,430,445	4,495,220	118,077	384,708	59,428,450

Breakdown of exposures by industry sector (SAR '000)

Portfolios	Industry sector												
	Government & quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining & quarrying	Electricity, water, gas and health services	Building & construction	Commercial	Transportation & communication	Services	Consumer loans and credit cards	Others	Total
Sovereigns and their central banks	3,010,190	-	-	-	-	-	-	-	-	-	-	-	3,010,190
Non-central government public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks	-	-	-	-	-	-	-	-	-	-	-	-	7,950,844
Securities firms	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporates	10,321		797,362	4,736,359	17,517	627,798	1,599,440	4,394,200	582,709	2,219,470	-	3,730,022	18,715,199
Regulatory retail portfolios	-	-	468	9,234	-	3,449	8,170	20,569	6,279	16,959	11,305,583	25,782	11,396,494
Secured by residential property	-	-	-	-	-	-	-	-	-	-	1,365,850	-	-
Secured by commercial real estate	-	-	-				5,972,545						5,972,545
Equity	1,744,578	-	-	42,180	-	-	157,496	9,263	33,021	11,613		313,612	2,311,763
Past-due loans		90,923		32,669	-	-	52,626	195,980	-	3,198	162,518	60,559	598,474
Higher-risk categories	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	3,667,807	3,667,807
Total	4,765,089	8,041,767	797,830	4,820,441	17,517	631,247	7,790,277	4,620,012	622,010	2,251,241	12,833,951	7,797,782	54,989,165
Contingencies & Commitments stated at credit equivalents	-	623,824	10,617	457,601	637,500	92,051	1,159,315	646,315	110,786	698,746	-	2,529	4,439,284
Total Credit exposure stated at credit equivalents	4,765,089	8,665,591	808,447	5,278,042	655,017	723,298	8,949,592	5,266,328	732,796	2,949,987	12,833,951	7,800,311	59,428,450

Amounts of impaired exposures and related allowances broken down by industry (SAR '000)

Industry sector	Impaired Financing	Allowances
Government and quasi government	-	-
Banks and other financial institutions	-	-
Agriculture and fishing	-	-
Manufacturing	32,243	30,241
Mining and quarrying	-	-
Electricity, water, gas and health services	-	-
Building and construction	52,626	48,889
Commercial	195,980	187,633
Transportation and communication	-	-
Services	3,198	1,322
Consumer loans and credit cards	162,518	144,681
Others	60,559	60,559
Total	507,125	473,326
Collective impairment allowances		532,325
Total Impairment Allowances		1,005,651

Amounts of exposures break down by residual maturity (SAR '000)

Portfolios	Maturity Breakdown									
	Less than 8 days	8-30 days	30-90 days	90-180 days	180-360 days	1-3 years	3-5 years	No Maturity	Over 5 years	Total
Sovereigns and their central banks	597,976	-	-	-	-	-	-	2,412,213	-	3,010,189
Non-central government public sector entities	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
Banks	2,176,345	4,001,614	450,807	660,054	300,630	361,394	-	-	-	7,950,844
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	649,462	2,009,029	2,230,975	6,925,780	4,715,737	989,373	515,174	-	679,669	18,715,199
Regulatory retail portfolios	7,337	342,117	563,768	826,099	1,359,901	5,411,429	2,825,745	-	60,097	11,396,494
Secured by residential property	416	8,544	29,282	43,732	73,512	276,715	261,773	-	671,876	1,365,850
Secured by commercial real estate	256,326	133,191	1,555,110	1,060,035	2,914,754	48,939	4,190	-	-	5,972,545
Equity	1,243,704	-	-	-	199,287	-	-	567,185	301,587	2,311,763
Past-due loans	592,736	-	1,669	2,890	1,179	-	-	-	-	598,474
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	1,518,635	-	-	-	800,000	-	-	1,349,172		3,667,807
Total	7,042,937	6,494,495	4,831,611	9,518,590	10,365,000	7,087,851	3,606,882	4,328,570	1,713,228	54,989,165
Contingencies & Commitments stated at credit equivalents	15,352	60,765	243,419	897,134	1,036,519	1,624,071	450,868	-	111,157	4,439,284
Total Credit exposure stated at credit equivalents	7,058,289	6,555,260	5,075,030	10,415,724	11,401,519	8,711,922	4,057,750	4,328,570	1,824,385	59,428,449

Amounts of impaired exposures and related allowances broken down by geographical areas (SAR '000)

Industry sector	Impaired Financing	Allowances
Saudi Arabia	507,125	473,326
Other GCC & Middle East	-	-
Europe	-	-
North America	-	-
South East Asia	-	-
Others countries	-	-
Total	507,125	473,326
Collective impairment allowances		532,325
Total Impairment Allowances		1,005,651

Ageing analysis of accounting past-due exposures (SAR '000)

Ageing	Exposure of clients with past dues
1 to 30 days	546,169
31 to 90 days	86,222
91 to 180 days	-
Above 180 days	-
Total	632,391

Breakdown of restructured exposures between impaired and not impaired exposures (SAR '000)

	Corporate	Consumer	Total
Performing (non-impaired)	1,337,483	169,433	1,506,916
Impaired	3,152	298	3,450
Total	1,340,635	169,731	1,510,366

B.10 - Table CRC

Qualitative disclosure requirements related to credit risk mitigation techniques

a) Core features of policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting.

Financial assets and liabilities are offset, with the net amount presented in the Consolidated Balance Sheet, only if the Bank holds a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis or to realize an asset and settle the liability simultaneously. The legal right to set off the recognized amounts must be enforceable in both the normal course of business, in the event of default, insolvency or bankruptcy of both the Bank and its counterparty. In all other situations they are presented gross. When financial assets and financial liabilities are offset in the Consolidated Balance Sheet, the associated income and expense items will also be offset in the Consolidated Statement of Income, unless specifically prohibited by an applicable accounting standard. The majority of the offsetting relates to derivatives which is not the target market for Bank Albilad.

b) Core features of policies and processes for collateral evaluation and management

We regularly agree on collateral to be received from customers in contracts that are subject to credit risk. Collateral is security in the form of an asset or third-party obligation that serves to mitigate the inherent risk of credit loss in an exposure, by either substituting the borrower default risk or improving recoveries in the event of a default. While collateral can be an alternative source of repayment, it generally does not replace the necessity of high quality underwriting standards and a thorough assessment of the debt service ability of the borrower.

Broadly collateral received can be segregate into the following two types:

- Financial and other tangible collateral, which enables us to recover all or part of the outstanding exposure by liquidating the collateral asset provided, in cases where the borrower is unable or unwilling to fulfil its primary obligations. Cash collateral, securities (shares, mutual funds), collateral assignments of other claims, pledge of assets (i.e., plant, machinery etc.) and real estate typically fall into this category.
- Guarantee collateral, which complements the borrower's ability to fulfil its obligation under the legal contract and as such is provided by third parties. Guarantees from individuals, corporates and semi govt. and from govt. institutions a typically fall into this category.

Our processes seek to ensure that the collateral we accept for risk mitigation purposes is of high quality. This includes seeking to have in place legally effective and enforceable documentation for realizable and measureable collateral assets which are evaluated regularly by dedicated teams. The assessment of the suitability of collateral for a specific transaction is part of the credit decision and is undertaken in a conservative way, including collateral coverage. In this regard, we strive to avoid "wrong-way" risk characteristics where the borrower's counterparty risk is positively correlated with the risk of deterioration in the collateral value. For guarantee collateral, the process for the analysis of the guarantor's creditworthiness is aligned to the credit assessment process for borrowers.

c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (ie by guarantor type, collateral and credit derivative providers).

We use risk mitigation to optimize our corporate credit exposure and reduce potential credit losses. Concentrations within credit risk mitigations taken may occur if a number of securities or guarantors with similar economic characteristics are engaged in comparable activities with changes in economic or industry conditions affecting their ability to meet contractual obligations. We use a range of control including collateral concentration caps to monitor our credit risk mitigating activities. These also include monitoring of potential concentrations within collateral types while undertaking / approving the exposures in order to keep concentrations within acceptable levels. Bank Albilad neither participates in derivative market nor accepts credit derivatives as credit risk mitigation.

B.11 - Template CR3

Credit risk mitigation techniques – overview (SAR '000)

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	36,178,387	-	-	-	-	-	-
2	Debt securities	773,600	-	-	-	-	-	-
3	Total	36,951,987	-	-	-	-	-	-
4	Of which defaulted	507,551	-	-	-	-	-	-

B.12 - Table CRD

Qualitative disclosures on banks' use of external credit ratings under the standardized approach for credit risk

a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period

In order to calculate the regulatory capital requirements under the standardized approach, external ratings from Standard & Poor's, Moody's, and Fitch Ratings are eligible to be used as per Internal Risk Rating Policy approved by the Board of Directors of the Bank. We use ratings available to the bank from aforementioned ECAIs and there has not been any change in this respect over the reporting period.

b) The asset classes for which each ECAI or ECA is used

To calculate the regulatory capital requirements under the standardized approach, external ratings from Standard & Poor's, Moody's, Fitch Ratings are applied to all relevant exposure classes in the standardized approach. Nonetheless, Bank's corporate counterparties are mostly not rated by eligible ECAIs.

c) A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book

To determine the applicable risk weight Bank Albilad applies one assessment / rating (either issue or issuer) on the entire amount of credit risk exposure (i.e. both on principal and accrued profit) of a counterparty. Moreover, Basel guidelines for use of issue or issuer specific assessment are followed for determining the risk weight of the claim.

d) The alignment of the alphanumerical scale of each agency used with risk buckets

Credit rating is an essential part of the Bank's underwriting and credit process, and builds the basis for determination of risk acceptance on a counterparty and at portfolio level, credit decision and transaction pricing as well the determination of credit risk economic capital. Our rating analysis is based on a combination of qualitative and quantitative factors. Banks all over the world use a master scale as a means of classifying probabilities of default into grades for analytics and reporting purposes. Whilst free to derive their own master scales to suit their unique needs, Banks should aim to satisfy certain requirements when constructing their master scales including references for internal and external stakeholders to compare internal grades to common external benchmarks. Bank's 10-grade rating scale for portfolio is approximately mapped to external agency ratings as follows:

Moody's Rating	Rating S&P	Fitch Rating	Equivalent to BAB's Internal Rating	
			ORR	Description
Aaa	AAA	AAA	1	Superior
Aa1,Aa2,Aa3,A1	AA+,AA,AA-,A+	AA+,AA,AA-,A+	2	Exceptionally Strong
A2,A3,Baa1	A-,A, BBB+	A-,A, BBB+	3	Excellent
Baa2,Baa3	BBB,BBB-	BBB,BBB-	4	Very Good
Ba1,Ba2,Ba3	BB+,BB,BB-	BB+,BB,BB-	5	Good
B1,B2	B+,B,	B+,B,	6	Satisfactory
B3,Caa1,Caa2,Ca	B-,CCC+,CCC,CCC-,CC,C	B-,CCC,C	7	Watch-listed
C	D	DDD	8	Substandard
C	D	DD	9	Doubt-full
C	D	D	10	Loss

B.13 - Template CR4

Standardized approach – credit risk exposure and Credit Risk Mitigation (CRM) effects (SAR '000)

	Asset Classes	a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	3,010,190	-	3,010,190	-	-	0%
2	Non-central government public sector entities	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	7,950,844	827,039	7,950,844	623,824	2,663,513	31%
5	Securities firms	-	-				
6	Corporates	18,715,199	5,550,878	18,715,199	2,941,015	21,343,927	99%
7	Regulatory retail portfolios	11,396,494	395,606	11,393,881	28,203	8,566,562	75%
8	Secured by residential property	1,365,850	-	1,365,850	-	1,365,850	100%
9	Secured by commercial real estate	5,972,545	119,654	5,972,545	94,443	6,066,988	100%
10	Equity	2,311,763	-	2,311,763	-	567,185	25%
11	Past-due loans	598,474	95,437	37,877	62,106	108,124	108%
12	Higher-risk categories	-	-	-	-	-	-
13	Other assets	3,667,807	-	3,667,807		2,149,172	59%
14	Total	54,989,165	6,988,614	54,425,955	3,749,591	42,831,321	74%

B.14 - Template CR5

Credit risk mitigation techniques – overview (SAR ‘000)

Asset classes/ Risk weight*	a 0%	b 10%	c 20%	d 35%	e 50%	f 75%	g 100%	h 150%	i Others	j Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	3,010,190	-	-	-	-	-	-	-	-	3,010,190
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Banks	-	-	6,322,812	-	1,976,292	-	5,083	270,481		8,574,668
Securities firms	-	-		-		-		-	-	-
Corporates	-	-	246,575	-	230,054	-	21,179,585	-	-	21,656,214
Regulatory retail portfolios	-	-	-	-	-	11,422,083		-	-	11,422,083
Secured by residential property	-	-	-	-	-	-	1,365,850	-	-	1,365,850
Secured by commercial real estate	-	-	-	-	-	-	6,066,988	-	-	6,066,988
Equity	1,744,578	-	-	-	-	-	567,185	-	-	2,311,763
Past-due loans	-	-	-	-	-	-	83,701	16,282		99,983
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	1,518,635	-	-	-	-	-	2,149,172	-	-	3,667,807
Total	6,273,403	-	6,569,387	-	2,206,346	11,422,083	31,417,563	286,763	-	58,175,546

B.35 - Table MRA

Qualitative Disclosure Requirements Related to Market Risk

a) Strategies and processes of the bank:

The Board of Directors has approved the limits for the market risk and liquidity risk for the Bank Albilad to be in line with the strategic risk exposure and risk appetite targets as per bank’s market risk and liquidity risk policies. In addition, the Asset/Liability Committee regularly monitors and discusses issues within scope of market and liquidity risk.

Market risk concerns with profit margin rate, yield curves and prices. The market risk arises from the changes in market prices in Murabaha, yield curve, foreign exchange, commodity and equity. The bank exposure for market risk in trading book is limited to the overall exposure in foreign exchange. The Bank applies the Standardized Approach in calculating market risk capital charge for Pillar I and advanced risk models for Pillar II which include Value-at-Risk and Stress Testing.

Profit Margin Risk in the banking book is defined as the impact of the bank’s asset and liability exposures to changes in profit margin rates. For the purpose of profit margin risk management, the market risk at Bank Albilad measures yield curve risk, which expresses the losses if profit margin rates changed for various terms and different currencies. The limit has been established for EVE over Tier 1 Capital Charge and using repricing gap.

Foreign Exchange (FX) Risk is the risk of losses on the trading and banking book positions in foreign currency because of adverse changes in exchange rates against banks exposures. FX risk controlled by having FX Net Open Position limits and market risk capital charge for FX.

b) Structure and organization of the market risk management function:

The Board of Directors, the Asset/ Liability Committee, the Business and risk management stakeholders are updated regularly about the bank’s market risks and material events in this area. This reporting includes follow-up on both risks within the individual categories of market risks and the overall risk measures in the form of Value-at-Risk. Similarly, risk reporting has been established for the business units authorized to take market risks.

The measuring, monitoring and management reporting of market risk are reported on daily basis to the senior management and stakeholders. Ay breaches of the limit to be escalated to Treasury’s Division and senior management and closely follow up to ensure the breaches are rectified.

The limits are established for the trading and banking book of the business unit and these are monitored regularly and sufficient procedures have been established to ensure any breaches of the limit is addressed by the business unit on timely basis and is also reported to Asset/Liability Committee ALCO and BoD on periodic basis.

c) Scope and nature of risk reporting and/or measurement systems.

Bank Albilad uses both conventional risk measures and advance risk models for measuring risk market and liquidity risk, such as Liquidity Mis-matches, Major Depositors Concentration Limits, Loan to Deposit Ratio, Net Non-Core funding dependency ratio, Basel 3 – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), Profit rate risk, Periodic and Cumulative Gaps and Economic Value at Risk to measure its market risk and liquidity risk exposures and they are reported to:

- Board of Directors and senior management on quarterly/monthly basis;
- SAMA on quarterly basis; and
- Business units on daily basis

B.37 - Template MR1

Market risk under standardized approach (SAR ‘000)

	a RWA
Outright products	991,676
Interest rate risk (general and specific)	-
Equity risk (general and specific)	-
Foreign exchange risk	991,676
Commodity risk	-
Options	-
Simplified approach	-
Delta-plus method	-
Scenario approach	-
Securitization	-
Total	991,676

Bank’s FX exposure slightly decreased to SAR 991.7 million as of Dec 31, 2016 from SAR 1,077.7 million as at June 30, 2016.

B.41 - Operational risk

Operational risk

Operational risk:
As the Basel Committee defines it, operational risk is the risk of losses resulting from inefficiency, failure in implementation of procedures, personnel, systems, or external factors. To better manage operational risk, the Bank has set forth a specific strategy within a framework of policies and procedures, and aims at achieving a number of corresponding

Management of Operational risk
Objectives including:

- Supporting the Bank's objectives
- Identifying and assessing the operational risk of new products as well as current products, activities, and systems
- The total independence and continuity of assessment of procedures, monitoring controls, and performance
- Limiting operational losses and solving the causing problems at their roots

The Bank is also keen on implementing the operational risk governance mechanism through the following:

- Supervision by the Board of Directors and Senior Management.
- Forming a Risk Management Committee for supervising operational risk activities.
- Providing an accurate description of the roles and responsibilities of various operational risk management parties.
- Performing the internal auditing required for independent assessment of operational risk activities and providing reports to the Auditing Committee.

To implement the Bank's operational risk management strategy, a number of methods have been adopted to identify, assess, rectify, and monitor the Bank's various activities as follows:

Risk Self-Assessment:
Bank Albilad has applied the risk self-assessment governance policy and control elements to identify risks arising from the Bank's products, activities, and operations. Following risk identification, control elements are tested to identify the effectiveness of these elements in mitigating operational risk. The overall assessment of risk and control elements is compared to pre-defined criteria associated with the risk level and boundaries that are acceptable for achieving the targeted returns. Afterwards, the most suitable procedures are taken for enhancing the control environment. The Bank continues to provide employees with training programs that increase awareness of operational risk, thereby, increasing the effectiveness of control elements and identifying existing gaps.

Determining and Analyzing Operational Losses
The database of losses and Internal Auditing Management reports serve to supplement the risk self-assessment process and control elements and contribute to achieving better results. Albilad's system for data management of operational losses enables the Bank to collect and analyze data and incidents related to these losses – whether they're actual losses, potential losses, or near-miss losses. Risks and control gaps responsible for loss-related incidents are identified. Recommendations for enhancing the associated control elements are presented in order to manage these identified risks and raise the issue to the management-in-charge to help reduce the financial consequences as much as possible.

Key Risk Indicators
Albilad has adopted a methodology for identifying and analyzing key risk indicators. This helps in identifying the level of risk related to a certain activity or role. Assessment and control are applied throughout the duration of the risk management strategies concerning this specific activity. In addition, weakness are identified and rectified.
The Operational Risk Management methods are directly related to the periodic reporting system that aims to inform all departments and divisions with the operational risks related to their specific activities. The right feedback is sought in order to enhance the required control elements and mitigate these risks. The periodic reports also serves to support Senior Management's prospective decision-making process related to the Bank's activities.

B.42 - IRRBB

Interest Rate Risk in The Banking Book (IRRBB) (SAR '000)

a) The general qualitative disclosure requirement (paragraph 824), including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.

The Profit Rate Risk in the Banking Book (PRRBB) is quantified as a notional VaR figure or Economic Value at Risk (1 day Economic VaR at 99% Confidence Interval), which represents the Economic value of the asset / liability in stressed market conditions. All future cash flows represent earnings or payments from the point of view of the Bank. These cash flows are segregated into time period buckets by constructing a residual maturity / re-pricing schedule.

The estimated volatilities for SAIBOR / USD LIBOR will then be used to scale up the returns for each day based on the current sigma value which are then used to calculate the historical VaR. This profit rate movement is then multiplied by the cash flow and duration of the cash flow to obtain the expected impact on the portfolio.

b) The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).

Bank Albilad conducts stress tests and scenario analyses to measure its risk of loss under unusual market conditions. Standard stress tests estimate Bank Albilad's losses if positions are exposed to profit rate shocks of up to +/- 50,100 and 200bp. In 31 December 2016, the impact of Economic Value at Risk (EVE) is SAR 73,170 million to the bank capital charge under base case.

	Scenarios-Profit Rate Risk		
Base Case	Shift 50 bps	Shift 100 bps	Shift 200 bps
73,170	82,596	92,022	110,873