



BANK ALBILAD
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE THREE-MONTHS PERIOD ENDED MARCH 31, 2017**



**Independent auditors' review report on the
Interim Condensed Consolidated Financial Statements**

To the Shareholders of Bank Albilad
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Bank Albilad (the "Bank") and its subsidiaries (collectively referred to as the "Group") as of March 31, 2017, and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended, and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "*Interim Financial Reporting*" ("IAS 34") and Saudi Arabian Monetary Authority ("SAMA") guidance on accounting for zakat and tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 and SAMA guidance on accounting for zakat and tax.



Independent auditors' review report on the Interim Condensed Consolidated Financial Statements (continued)

Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in note (15) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (15) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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15 Sha'aban 1438H
(11 May 2017)



BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		March 31, 2017 SAR'000 (Unaudited)	December 31, 2016 SAR'000 (Audited) (Restated)	March 31, 2016 SAR'000 (Unaudited) (Restated)
	Notes			
ASSETS				
Cash and balances with SAMA		4,019,088	4,528,825	4,168,205
Due from banks and other financial institutions, net		8,791,861	7,950,844	8,817,438
Investments, net	6	3,744,023	3,080,945	3,001,912
Financing, net	7	38,702,049	36,178,387	37,330,648
Property and equipment, net		814,734	802,424	786,197
Investment property	8	1,000,000	1,000,000	-
Other assets		218,652	207,245	194,573
Total assets		<u>57,290,407</u>	<u>53,748,670</u>	<u>54,298,973</u>
LIABILITIES AND EQUITY				
Liabilities				
Due to SAMA		2,015,964	2,006,214	250,000
Due to banks and other financial institutions		742,580	996,391	2,290,569
Customer deposits	9	43,541,622	40,234,715	43,928,037
Sukuk	17	2,006,553	2,007,047	-
Other liabilities		1,617,754	1,352,419	1,311,092
Total liabilities		<u>49,924,473</u>	<u>46,596,786</u>	<u>47,779,698</u>
Equity attributed to equity holders of the Bank				
Share capital	14	6,000,000	6,000,000	5,000,000
Statutory reserve		630,997	630,997	429,066
Other reserves		17,152	25,280	(7,115)
Retained earnings		482,065	260,188	206,335
Proposed cash dividend		300,000	300,000	-
Proposed issuance of bonus shares		-	-	1,000,000
Treasury shares		(104,575)	(113,207)	(114,389)
Employee share plan reserve		3,135	8,720	5,378
Total equity attributed to equity holders of the Bank		<u>7,328,774</u>	<u>7,111,978</u>	<u>6,519,275</u>
Non-controlling interest		37,160	39,906	-
Total equity		<u>7,365,934</u>	<u>7,151,884</u>	<u>6,519,275</u>
Total liabilities and equity		<u>57,290,407</u>	<u>53,748,670</u>	<u>54,298,973</u>

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017 AND 2016**

	<u>Note</u>	<u>2017</u> <u>SAR'000</u>	<u>2016</u> <u>SAR'000</u>
INCOME:			
Income from investing and financing assets		482,764	396,395
Return on deposits and financial liabilities		(90,321)	(62,645)
Income from investing and financing assets, net		<u>392,443</u>	<u>333,750</u>
Fee and commission income, net		201,343	207,839
Exchange income, net		77,092	78,822
Dividend income		1,049	1,366
Gains on non-trading investments, net		5,541	1,256
Other operating income		17,028	3,959
Total operating income		<u>694,496</u>	<u>626,992</u>
EXPENSES:			
Salaries and employee related benefits		229,105	211,908
Rent and premises related expenses		61,826	63,725
Depreciation		24,913	24,470
Other general and administrative expenses		101,617	65,346
Impairment charge for financing, net		50,406	56,411
Impairment charge on available for sale investments		-	30,609
Total operating expenses		<u>467,867</u>	<u>452,469</u>
Net income for the period		<u>226,629</u>	<u>174,523</u>
Attributable to:			
Equity holders of the Bank		229,377	174,523
Non-controlling interest		(2,748)	-
Net income for the period		<u>226,629</u>	<u>174,523</u>
Basic and diluted earnings per share (attributable to ordinary equity holders of the Bank) (SAR)	16	<u>0.38</u>	<u>0.29</u>

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31 , 2017 AND 2016**

	<u>2017</u> SAR'000	<u>2016</u> SAR'000
Net income for the period	226,629	174,523
Other comprehensive income :		
Items that can be recycled back to interim consolidated statement of income in subsequent periods / have been recycled in the current period		
- Available for sale investments		
• Net changes in fair value	(2,587)	(24,756)
• Net amount transferred to interim consolidated statement of income	(5,541)	(1,256)
• Impairment charge for the period	-	30,609
Total other comprehensive on available for sale investments (loss) income	<u>(8,128)</u>	<u>4,597</u>
Total comprehensive income for the period	<u>218,501</u>	<u>179,120</u>
Attributable to:		
Equity holders of the Bank	221,249	179,120
Non-controlling interest	(2,748)	-
Total comprehensive income for the period	<u>218,501</u>	<u>179,120</u>

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**FOR THE THREE MONTHS PERIOD ENDED MARCH 31,2017**

2017 SAR' 000	Notes	Attributable to the equity holders of the Bank								Total	Non- controlling interest	Total equity
		Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed cash dividend	Proposal issuance of bonus shares	Treasury shares	Employees' share plan reserve			
Balance at the beginning of the period as reported		6,000,000	630,997	169,201	285,188	300,000	-	(113,207)	8,720	7,280,899		7,280,899
Effect of change in accounting policy	5			(143,921)	(25,000)					(168,921)		(168,921)
Balance at the beginning of the period as restated		6,000,000	630,997	25,280	260,188	300,000	-	(113,207)	8,720	7,111,978	-	7,111,978
Changes in the equity for the period												
Net changes in fair values of available for sale investments				(2,587)						(2,587)		(2,587)
Net amount transferred to interim consolidated statement of income				(5,541)						(5,541)		(5,541)
Net income recognized directly in equity				(8,128)						(8,128)		(8,128)
Net income for the period					229,377					229,377	(2,748)	226,629
Total comprehensive income for the period				(8,128)	229,377					221,249	(2,748)	218,501
Treasury shares								8,632		8,632		8,632
Employees' share plan reserve									(5,585)	(5,585)		(5,585)
Zakat for current period					(7,500)					(7,500)		(7,500)
Non-controlling interest arising on consolidation											39,908	39,908
Balance at end of the period		6,000,000	630,997	17,152	482,065	300,000	-	(104,575)	3,135	7,328,774	37,160	7,365,934

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**FOR THE THREE MONTHS PERIOD ENDED MARCH 31,2016****Attributable to the equity holders of the Bank (Restated)**

2016 SAR' 000	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed cash dividend	Proposal issuance of bonus shares	Treasury shares	Employees' share plan reserve	Total	Non- controlling interest	Total equity
Balance at the beginning of the period as reported		5,000,000	961,066	(11,712)	591,317	-	-	(113,758)	15,326	6,442,239	-	6,442,239
Effect of change in accounting policy	5				(85,255)					(85,255)		(85,255)
Balance at the beginning of the period as restated		5,000,000	961,066	(11,712)	506,062	-	-	(113,758)	15,326	6,356,984	-	6,356,984
Changes in the equity for the period												
Net changes in fair values of available for sale investments				(24,756)						(24,756)		(24,756)
Net amount transferred to interim consolidated statement of income				(1,256)						(1,256)		(1,256)
Impairment charge on available for sale investments				30,609						30,609		30,609
Net income recognized directly in equity				4,597						4,597		4,597
Net income for the period					174,523					174,523		174,523
Total comprehensive income for the period		-	-	4,597	174,523			-	-	179,120	-	179,120
Issuance of bonus shares	16		(532,000)		(468,000)		1,000,000					-
Treasury shares								(631)		(631)		(631)
Employees' share plan reserve									(9,948)	(9,948)		(9,948)
Zakat for current period					(6,250)					(6,250)		(6,250)
Non-controlling interest arising on consolidation										-		-
Balance at end of the period		5,000,000	429,066	(7,115)	206,335	-	1,000,000	(114,389)	5,378	6,519,275	-	6,519,275

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017 AND 2016**

	Note	2017 SAR' 000	2016 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		226,629	174,523
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Gains on non-trading investments, net		(5,541)	(1,256)
Gains from disposal of property and equipment, net		(1,607)	(660)
Depreciation		24,913	24,470
Impairment charge for financing, net		50,406	56,411
Impairment charge on available for sale investments		-	30,609
Employees' share plan		3,046	1,907
Operating profit before changes in operating assets and liabilities		297,846	286,004
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(64,648)	(60,717)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(540,341)	241,594
Commodity murabaha with SAMA maturing after ninety days from the date of acquisition		(157,632)	51,210
Financing		(2,574,068)	(3,132,436)
Other assets		(11,407)	(19,839)
Net increase (decrease) in operating liabilities:			
Due to SAMA		9,750	250,000
Due to banks and other financial institutions		(253,811)	868,917
Customer deposits		3,306,907	1,748,577
Other liabilities		257,835	107,784
Net cash generated from operating activities		270,431	341,094
INVESTING ACTIVITIES			
Purchase of non-trading investments		(254,125)	(150,304)
Proceeds from sales of non-trading investments		137,778	171,593
Purchase of property and equipment		(37,277)	(18,922)
Proceeds from sale of property and equipment		1,662	999
Net cash (used in) from investing activities		(151,962)	3,366
FINANCING ACTIVITIES			
Distributed Sukuk profit	17	(494)	-
Purchase of shares for employee share plan		-	(12,486)
Net cash used in financing activities		(494)	(12,486)
Increase in cash and cash equivalents		117,975	331,974
Cash and cash equivalents at the beginning of the period		8,786,280	8,066,276
Cash and cash equivalents at the end of the period	11	8,904,255	8,398,250
Income received from investing and financing assets		436,190	377,820
Return paid on deposits and financial liabilities		85,085	42,614
Supplemental non cash information			
Total other comprehensive (losses) income		(8,128)	4,597

The accompanying notes from 1 to 19 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017 AND 2016

1. GENERAL

a) Incorporation and operation

Bank AlBilad (the “Bank”), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, was formed and licensed pursuant to Royal Decree No. M/48 dated 21 Ramadan 1425H (corresponding to November 4, 2004), in accordance with the Counsel of Ministers’ resolution No. 258 dated 18 Ramadan 1425H (corresponding to November 1, 2004).

The Bank operates under Commercial Registration No.1010208295 dated 10 Rabi Al Awal 1426H (corresponding to April 19, 2005) and its Head Office is located at the following address:

**Bank AlBilad
P.O. Box 140
Riyadh 11411
Kingdom of Saudi Arabia**

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, ‘Albilad Investment Company’, ‘Albilad Real Estate Company’ and ‘Makkah Al Diyafah Fund’ (“the fund”) (collectively referred to as “the Group”). Albilad Investment Company and AlBilad Real Estate Company are 100% owned by the Bank while Makkah Al Diyafah Fund is 80% owned by the Group. The Fund is managed by Albilad Investment Company. All subsidiaries are incorporated in the Kingdom of Saudi Arabia.

The Group’s objective is to provide full range of banking services and conduct, financing and investing activities through various Islamic instruments. The activities of the Bank are conducted in compliance with Islamic Shariah and within the provisions of the Articles of Association and the Banking Control Law. The Bank provides these services through 112 banking branches (March 31, 2016: 120) and 178 exchange and remittance centers (March 31, 2016: 172) in the Kingdom of Saudi Arabia.

b) Shariah Authority

The Bank has established a Shariah Authority (“the Authority”). It ascertains that all the Bank’s activities are subject to its approval and control.

2. BASIS OF PREPARATION

a) Statement of compliance

During 2017, SAMA issued a Circular no. 381000074519 dated April 11, 2017, and subsequent amendments through certain clarifications relating to the accounting for zakat and tax. The impact of these amendments are as follows:

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

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017 AND 2016

The interim condensed consolidated financial statements of the Group as at and for the quarter ended March 31, 2017, were prepared using IAS 34 and SAMA guidance described above.

This change in framework resulted in a change in accounting policy for zakat as disclosed in note 4 and the effects of this change are disclosed in note 5 to the interim condensed consolidated financial statements.

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2016.

The preparation of interim condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended December 31, 2016, except for the change in the accounting policy in relation to SAMA guidance for the accounting of zakat and tax as mentioned above, which is effective January 1, 2017.

b) Basis of measurement and presentation

These interim condensed consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of available for sale investments.

c) Functional and presentation currency

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) which is the Bank's functional currency and are rounded off to the nearest thousands.

3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which the control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017 AND 2016

Non-controlling interests represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the interim consolidated income statement and within equity in the interim consolidated statement of financial position, separately from the equity holders of the Bank. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Inter-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these interim condensed consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2016, except for the change in the accounting policy in relation to zakat and tax as prescribed by SAMA effective January 1, 2017 (see note 2 and 5) and the adoption of amendments to the existing standards as mentioned below which has had no significant financial impact on the financial statements of the Group.

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

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

5. CHANGE IN ACCOUNTING POLICY

The Group amended its accounting policy relating to zakat and now recognize a liability for zakat on a quarterly basis. Previously, zakat was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time. In case no dividends were paid, zakat was accounted for upon payment to GAZT and recorded as a receivable from shareholders. The Group has accounted for this change in the accounting policy relating to zakat retrospectively and the effects of the above change on the respective line items of statements of financial position and changes in equity are disclosed below:

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017 AND 2016****As at December 31, 2016**

<u>Account</u>	<u>Balance as previously reported at December 31, 2016 SR'000</u>	<u>Effect of restatement SR'000</u>	<u>Restated balance at December 31, 2016 SR'000</u>
Other assets	351,166	(143,921)	207,245
Other liabilities	1,327,419	25,000	1,352,419
Retained earnings	285,188	(25,000)	260,188
Other reserves	169,201	(143,921)	25,280

As at March 31, 2016

<u>Account</u>	<u>Balance as previously reported at March 31, 2016 SR'000</u>	<u>Effect of restatement SR'000</u>	<u>Restated balance at March 31, 2016 SR'000</u>
Other assets	259,829	(65,256)	194,573
Other liabilities	1,284,843	26,249	1,311,092
Retained earnings	297,840	(91,505)	206,335

The above change in accounting policy did not have an impact on consolidated statements of income and comprehensive income for any of the above period/year presented.

6. INVESTMENTS, NET

	<u>March 31, 2017 SAR' 000 (Unaudited)</u>	<u>December 31, 2016 SAR' 000 (Audited)</u>	<u>March 31, 2016 SAR' 000 (Unaudited)</u>
Available-for-sale investments			
Equities	293,329	287,820	305,785
Mutual funds	366,178	279,365	193,734
Sukuk	790,622	769,182	600,149
	<u>1,450,129</u>	<u>1,336,367</u>	<u>1,099,668</u>
Held at amortized cost			
Commodity Murabaha with SAMA	2,293,894	1,744,578	1,902,244
Total	<u><u>3,744,023</u></u>	<u><u>3,080,945</u></u>	<u><u>3,001,912</u></u>

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017 AND 2016****7. FINANCING, NET**

	March 31, 2017 SAR'000 (Unaudited)	December 31, 2016 SAR'000 (Audited)	March 31, 2016 SAR'000 (Unaudited)
Bei ajel	24,705,491	22,667,228	23,305,977
Installment sales, Ijarah and credit cards	12,922,236	12,671,433	12,455,940
Musharaka	1,446,282	1,158,166	1,745,914
Ijarah	180,896	180,086	219,957
Performing financing	39,254,905	36,676,913	37,727,788
Non-performing financing	380,299	507,125	523,497
Gross financing	39,635,204	37,184,038	38,251,285
Impairment charge for financing	(933,155)	(1,005,651)	(920,637)
Financing, net	38,702,049	36,178,387	37,330,648

8. INVESTMENT PROPERTY

As of March 31, 2017 investment property represents cost of properties in the Holy city of Makkah which aims to provide investors with dividends and capital growth on the medium and long term. This investment has resulted from the consolidation of Makkah Al Diyafah Fund which is managed by Albilad Investment Company, a subsidiary controlled by the Group.

9. CUSTOMER DEPOSITS

	March 31, 2017 SAR'000 (Unaudited)	December 31, 2016 SAR'000 (Audited)	March 31, 2016 SAR'000 (Unaudited)
Demand	27,434,380	26,974,543	27,899,391
Albilad account (Mudarabah)	7,994,874	5,937,828	3,724,719
Direct investment	7,309,138	6,496,933	11,429,617
Others	803,230	825,411	874,310
Total	43,541,622	40,234,715	43,928,037

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017 AND 2016****10. COMMITMENTS AND CONTINGENCIES**

- a) The Group is subject to legal proceedings in the ordinary course of business. There was no change in the status of legal proceedings as disclosed at December 31, 2016.
- b) The Group's commitments and contingencies are as follows:

	March 31, 2017 SAR' 000 (Unaudited)	December 31, 2016 SAR' 000 (Audited)	March 31, 2016 SAR' 000 (Unaudited)
Letters of guarantee	4,133,497	4,241,932	3,916,590
Letters of credit	844,484	895,732	442,490
Acceptances	454,805	217,432	443,639
Irrevocable commitments to extend credit	1,633,522	1,633,518	1,044,237
Total	7,066,308	6,988,614	5,846,956

c) Zakat

The Bank has filed its Zakat returns with the General Authority for Zakat and Tax (GAZT) and paid Zakat for financial years 2006 to 2015 of SAR 166 million. The Bank has received the assessments for the years 2007 to 2014 in which the GAZT raised additional demands aggregating to SAR 561.1 million on account of "disallowance of long-term investments and the addition of long term financing to the Zakat base by the GAZT". The basis for the additional Zakat liability is being contested by the Bank before the Higher Appeal Committee. Management expects a favorable outcome on the aforementioned appeals and have therefore not made any provisions in respect of the above.

The final assessments for the years 2015 and 2016 are yet to be raised by the GAZT. However, if long-term investments are disallowed and long-term financing is added to the Zakat base, in line with the assessments finalized by GAZT for the years referred to above, it would result in significant additional zakat exposure to the Bank which remains an industry wide issue.

During 2016, the Bank made an additional payment of SAR 58 million in respect of the assessment for financial year 2006.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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Cash and cash equivalents included in the interim consolidated statement of cash flows comprise the following:

	March 31, 2017 SAR' 000 (Unaudited)	December 31, 2016 SAR' 000 (Audited)	March 31, 2016 SAR' 000 (Unaudited)
Cash	1,422,143	1,518,636	1,519,653
Due from banks and other financial institutions (maturing within ninety days from acquisition)	6,670,274	6,369,598	6,649,631
Held to maturity investment (maturing within ninety days from acquisition)	691,754	300,070	150,232
Balances with SAMA (excluding statutory deposit)	120,084	597,976	78,734
Total	8,904,255	8,786,280	8,398,250

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

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

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

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

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SAR' 000	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
March 31, 2017					
Financial assets measured at fair value					
Available for sale investments	1,450,129	815,334	-	634,795	1,450,129
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	8,791,861	-	-	8,791,861	8,791,861
Investments held at amortized cost	2,293,894	-	-	2,293,894	2,293,894
Financing, net	38,702,049	-	-	37,917,665	37,917,665

SAR' 000	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
December 31, 2016					
Financial assets measured at fair value					
Available for sale investments	1,336,367	708,223	-	628,144	1,336,367
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	7,950,844	-	-	7,950,844	7,950,844
Investments held at amortized cost	1,744,578	-	-	1,744,578	1,744,578
Financing, net	36,178,387	-	-	35,613,860	35,613,860

SAR' 000	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
March 31, 2017					
Financial liabilities not measured at fair value					
Due to SAMA	2,015,964	-	-	2,015,964	2,015,964
Due to banks and other financial institutions	742,580	-	-	742,580	742,580
Customers' deposits	43,541,622	-	-	43,541,622	43,541,622
Sukuk	2,006,553	-	-	2,006,553	2,006,553

SAR' 000	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
December 31, 2016					
Financial liabilities not measured at fair value					
Due to SAMA	2,006,214	-	-	2,006,214	2,006,214
Due to banks and other financial institutions	996,391	-	-	996,391	996,391
Customers' deposits	40,234,715	-	-	40,234,715	40,234,715
Sukuk	2,007,047	-	-	2,007,047	2,007,047

The fair values of financial instruments which are not measured at fair value in these interim condensed consolidated financial statements are not significantly different from the carrying values included in the interim condensed consolidated financial statements. The fair values, of profit

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bearing customer deposits, held at amortized cost investment, due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since either the current market profit rates for similar financial instruments are not significantly different from the contracted rates, or for the short duration of certain financial instruments particularly due from and due to banks and other financial institutions or a combination of both. An active market for these instruments is not available and the Group intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities. Financing classified as level 3 has been valued using expected cash flows discounted at relevant SIBOR.

13. SEGMENT INFORMATION

Operating segments, based on customer groups are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Assets and Liabilities Committee (ALCO) and decision Maker in order to allocate resources to the segments and to assess its performance. The Group's main business is conducted in the Kingdom of Saudi Arabia.

There has been no change to the basis of segmentation or the measurements basis for the segment profit or loss since December 31, 2016.

For management purposes, the Group is divided into the following five segments:

Retail banking

Services and products to individuals, including deposits, financing, remittances and currency exchange.

Corporate banking

Services and products to corporate and commercial customers including deposits, financing and trade services.

Treasury

Money market, trading and treasury services.

Investment banking and brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Other

All other support functions including CEO Office which manages equity investments of the Group.

Transactions between the above operating segments are under the terms and conditions of the approved Fund Transfer Pricing (FTP) system. The support segments and Head Office expenses are allocated to operating segments, based on approved criteria.

The Group's total assets and liabilities as at March 31, 2017 and 2016, together with its total operating income and expenses, and net income, for the three months period then ended, for each segment are as follows:

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SAR'000	March 31, 2017 (Unaudited)					
	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	16,355,997	24,516,783	14,964,847	425,984	1,026,796	57,290,407
Total liabilities	28,651,115	10,107,870	7,541,180	13,949	3,610,359	49,924,473
Net income from investing and financing assets	179,428	167,045	16,738	3,396	25,836	392,443
Fee, commission and other income, net	196,314	41,029	29,385	20,441	14,884	302,053
Total operating income	375,742	208,074	46,123	23,837	40,720	694,496
Impairment charge for financing , net	6,108	44,298	-	-	-	50,406
Impairment charge on available for sale investments	-	-	-	-	-	-
Depreciation	21,965	2,097	402	449	-	24,913
Total operating expenses	321,341	111,871	18,677	17,736	(1,758)	467,867
Net income for the period	54,401	96,203	27,446	6,101	42,478	226,629
Attributable to						
Equity holders of the Bank	54,401	96,203	27,446	6,101	45,226	229,377
Non-controlling interest					(2,748)	(2,748)
Net income for the period	54,401	96,203	27,446	6,101	42,478	226,629

SAR'000	March 31, 2016 (Unaudited) (Restated)					
	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	16,971,586	24,575,949	11,027,907	444,400	1,279,131	54,298,973
Total liabilities	27,219,901	9,202,485	10,046,220	154,630	1,156,462	47,779,698
Net income from investing and financing assets	115,831	164,317	32,944	903	19,755	333,750
Fee, commission and other income, net	209,191	35,658	24,577	19,046	4,770	293,242
Total operating income	325,022	199,975	57,521	19,949	24,525	626,992
Impairment charge for financing , net	27,357	29,054	-	-	-	56,411
Impairment charge on available for sale investments	-	-	-	-	30,609	30,609
Depreciation	22,012	1,720	308	430	-	24,470
Total operating expenses	312,789	83,709	12,551	12,302	31,118	452,469
Net income for the period	12,233	116,266	44,970	7,647	(6,593)	174,523
Attributable to						
Equity holders of the Bank	12,233	116,266	44,970	7,647	(6,593)	174,523
Non-controlling interest	-	-	-	-	-	-
Net income for the period	12,233	116,266	44,970	7,647	(6,593)	174,523

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 600 million shares of SAR 10 each (31 December 2016: 600 million shares of SAR 10 each and 31 March 2016: 500 million shares of SAR 10 each).

15. CAPITAL ADEQUACY

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

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

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

The following table summarizes the Group's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios:

	March 31, 2017 SAR' 000 (Unaudited)	December 31, 2016 SAR' 000 (Audited) (Restated)	March 31, 2016 SAR' 000 (Unaudited) (Restated)
Credit Risk RWA	45,494,228	42,831,321	42,522,077
Operational Risk RWA	4,475,144	4,340,692	4,017,717
Market Risk RWA	866,977	991,676	651,837
Total Pillar-I RWA	50,836,349	48,163,689	47,191,631
Tier I Capital	7,542,354	7,151,884	6,519,275
Tier II Capital	2,562,325	2,532,325	494,932
Total Tier I & II Capital	10,104,679	9,684,209	7,014,207
Capital Adequacy Ratio %			
Tier I ratio	%14.84	% 14.85	% 13.81
Tier I + Tier II ratio	%19.88	% 20.11	% 14.86

16. CAPITAL INCREASE AND DIVIDENDS

In the Extra-ordinary General Assembly meeting of the Bank held on April 11, 2016 approval was given for a bonus issuance of one share for every five shares raising the Bank's capital from SAR 5,000 million to SAR 6,000 million. The bonus share has been issued by capitalizing an amount of SAR 468 million from retained earnings, and transfer of an amount of SAR 532 million from statutory reserve as per the approval from SAMA increasing the number of shares outstanding after the bonus issuance from 500 million shares to 600 million shares.

Basic and diluted earnings per share for the three months period ended March 31, 2017 and 2016 are calculated by dividing the net income for the period by 600 million shares to give retroactive effect of changes in number of shares increased as a result of the bonus share issue.

17. SUKUK

On August 30th, 2016, the Bank issued 2,000 Sukuk Certificates (Sukuk) of SR 1 million each, and payable quarterly in arrears on 29 February, 30 May, 30 August, 30 November each year until 30 August 2026, on which Sukuk will expire. The Bank has a call option which can be exercised on or after 30 August 2021 upon meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. The Bank has not defaulted on any of payments (profit /

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principle) due during the period. The expected profit distribution of sukuk is the base rate for three months in addition to the profit margin of 2%.

18. BOARD OF DIRECTORS' APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on 15 Sha'aban 1438H (corresponding to 11 May, 2017).

19. COMPARATIVE FIGURES

Comparative figures have been reclassified wherever necessary to conform to the current period presentation.