



BANK ALBILAD
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017**



KPMG Al Fozan & Partners
Certified Public Accountants

**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 June 30, 2017, and the related interim consolidated statements of income and comprehensive income for the three months and six months period then ended, and the interim consolidated statements of changes in equity and cash flows for the six months 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.



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Report on Review of 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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1 Thul-Qedah 1438H
(24 July 2017)



BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	June 30, 2017 SAR'000 (Unaudited)	December 31, 2016 SAR'000 (Audited) (Restated)	June 30, 2016 SAR'000 (Unaudited) (Restated)
ASSETS				
Cash and balances with SAMA		4,992,572	4,528,825	4,464,531
Due from banks and other financial institutions, net		7,518,110	7,950,844	9,074,191
Investments, net	6	4,491,593	3,080,945	2,992,852
Financing, net	7	40,664,633	36,178,387	36,930,159
Property and equipment, net		815,265	802,424	781,782
Investment property	8	1,000,000	1,000,000	-
Other assets		249,461	207,245	84,071
Total assets		59,731,634	53,748,670	54,327,586
LIABILITIES AND EQUITY				
Liabilities				
Due to SAMA		2,013,640	2,006,214	2,000,911
Due to banks and other financial institutions		1,787,553	996,391	2,228,018
Customers' deposits	9	44,970,777	40,234,715	42,118,378
Sukuk	18	2,006,204	2,007,047	-
Other liabilities		1,631,847	1,352,419	1,268,283
Total liabilities		52,410,021	46,596,786	47,615,590
Equity attributed to equity holders of the Bank				
Share capital	14	6,000,000	6,000,000	6,000,000
Statutory reserve		630,997	630,997	429,066
Other reserves		25,618	25,280	12,271
Retained earnings		727,407	260,188	383,359
Proposed dividends		-	300,000	-
Treasury shares		(104,575)	(113,207)	(114,389)
Employee share plan reserve		6,135	8,720	1,689
Total equity attributed to equity holders of the Bank		7,285,582	7,111,978	6,711,996
Non-controlling interest		36,031	39,906	-
Total equity		7,321,613	7,151,884	6,711,996
Total liabilities and equity		59,731,634	53,748,670	54,327,586

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	<u>For the three months</u> <u>period ended</u>		<u>For the six months</u> <u>period ended</u>	
	<u>June 30,</u> <u>2017</u> <u>SAR'000</u>	<u>June 30,</u> <u>2016</u> <u>SAR'000</u>	<u>June 30,</u> <u>2017</u> <u>SAR'000</u>	<u>June 30,</u> <u>2016</u> <u>SAR'000</u>
Income from investing and financing assets	516,909	432,571	999,673	828,966
Return on deposits and financial liabilities	(86,115)	(83,912)	(176,436)	(146,557)
Income from investing and financing assets, net	430,794	348,659	823,237	682,409
Fee and commission income, net	199,411	206,085	400,754	413,924
Exchange income, net	71,514	78,906	148,606	157,728
Dividend income	1,212	3,273	2,261	4,639
Gains (losses) on non-trading investments, net	1,192	(1,502)	6,733	(246)
Other operating income	13,743	6,081	30,771	10,040
Total operating income	717,866	641,502	1,412,362	1,268,494
Salaries and employee related expenses	243,749	245,508	472,854	457,416
Rent and premises related expenses	62,920	64,969	124,746	128,694
Depreciation	25,266	23,926	50,179	48,396
Other general and administrative expenses	71,631	66,528	173,248	131,874
Impairment charge for financing, net	76,667	53,926	127,073	110,337
Impairment charge for investments	-	2,771	-	33,380
Total operating expenses	480,233	457,628	948,100	910,097
Net income for the period	237,633	183,874	464,262	358,397
Attributable to:				
Equity holders of the Bank	238,759	183,874	468,137	358,397
Non-controlling interest	(1,126)	-	(3,875)	-
Net income for the period	237,633	183,874	464,262	358,397
Basic and diluted earnings per share (attributable to ordinary equity holders of the Bank) (SAR)	16 0.40	0.31	0.78	0.60

The accompanying notes from 1 to 20 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)

	<u>For the three months</u> <u>period ended</u>		<u>For the six months period</u> <u>ended</u>	
	June 30, 2017 SAR'000	June 30, 2016 SAR'000	June 30, 2017 SAR'000	June 30, 2016 SAR'000
Net income for the period	237,633	183,874	464,262	358,397
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	9,658	15,113	7,071	(9,643)
• Net realized amount transferred to interim consolidated statement of income	(1,192)	1,502	(6,733)	246
• Impairment charge for the period	-	2,771	-	33,380
Total other comprehensive income	8,466	19,386	338	23,983
Total comprehensive income for the period	246,099	203,260	464,600	382,380
Attributable to:				
Equity holders of the Bank	247,225	203,260	468,475	382,380
Non-controlling interest	(1,126)	-	(3,875)	-
Total comprehensive income for the period	246,099	203,260	464,600	382,380

The accompanying notes from 1 to 20 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 SIX MONTHS PERIOD ENDED JUNE 30, 2017**

2017 SAR' 000	Notes	Attributable to the equity holders of the Bank							Non- controlling interest	Total equity	
		Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Treasury shares	Employees' share plan reserve			Total
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	39,906	7,320,805
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	39,906	7,151,884
Changes in the equity for the period											
Net changes in fair values of available for sale investments		-	-	7,071	-	-	-	-	7,071	-	7,071
Net realized amount transferred to interim consolidated statement of income		-	-	(6,733)	-	-	-	-	(6,733)	-	(6,733)
Net income recognized directly in equity		-	-	338	-	-	-	-	338	-	338
Net income for the period		-	-	-	468,137	-	-	-	468,137	(3,875)	464,262
Total comprehensive income for the period		-	-	338	468,137	-	-	-	468,475	(3,875)	464,600
Treasury shares		-	-	-	-	-	8,632	-	8,632	-	8,632
Employees' share plan reserve		-	-	-	-	-	-	(2,585)	(2,585)	-	(2,585)
Zakat for current period		-	-	-	(918)	-	-	-	(918)	-	(918)
Proposed dividends		-	-	-	-	(300,000)	-	-	(300,000)	-	(300,000)
Non-controlling interest arising on consolidation		-	-	-	-	-	-	-	-	-	-
Balance at end of the period		6,000,000	630,997	25,618	727,407	-	(104,575)	6,135	7,285,582	36,031	7,321,613

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BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2016**

2016 SAR' 000	Notes	Attributable to the equity holders of the Bank (Restated)							Non- controlling interest	Total equity	
		Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Treasury shares	Employees' share plan reserve			Total
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	-	-	-	(85,855)	-	-	-	(85,855)	-	(85,855)
Balance at the beginning of the period as restated		5,000,000	961,066	(11,712)	505,462	-	(113,758)	15,326	6,356,384	-	6,356,384
Changes in the equity for the period		-	-	-	-	-	-	-	-	-	-
Net changes in fair values of available for sale investments		-	-	(9,643)	-	-	-	-	(9,643)	-	(9,643)
Net realized amount transferred to interim consolidated statement of income		-	-	246	-	-	-	-	246	-	246
Impairment charge on available for sale investments		-	-	33,380	-	-	-	-	33,380	-	33,380
Net income recognized directly in equity		-	-	23,983	-	-	-	-	23,983	-	23,983
Net income for the period		-	-	-	358,397	-	-	-	358,397	-	358,397
Total comprehensive income for the period		-	-	23,983	358,397	-	-	-	382,380	-	382,380
Issuance of bonus shares		1,000,000	(532,000)	-	(468,000)	-	-	-	-	-	-
Treasury shares		-	-	-	-	-	(631)	-	(631)	-	(631)
Employees' share plan reserve		-	-	-	-	-	-	(13,637)	(13,637)	-	(13,637)
Zakat for current period		-	-	-	(12,500)	-	-	-	(12,500)	-	(12,500)
Balance at end of the period		6,000,000	429,066	12,271	383,359	-	(114,389)	1,689	6,711,996	-	6,711,996

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017 AND 2016**

	Notes	2017 SAR' 000	2016 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		464,262	358,397
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Gains (losses) on non-trading investments, net		(6,733)	246
Gains from disposal of property and equipment, net		(1,607)	(670)
Depreciation		50,179	48,396
Impairment charge for financing, net		127,073	110,337
Impairment charge for investments		-	33,380
Employees' share plan		6,047	(1,783)
Operating profit before changes in operating assets and liabilities		639,221	548,303
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(150,033)	(20,889)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(71,889)	311,468
Commodity murabaha with SAMA maturing after ninety days from the date of acquisition		(746,403)	(36,751)
Financing		(4,613,319)	(2,785,874)
Other assets		(42,216)	90,664
Net increase (decrease) in operating liabilities:			
Due to SAMA		7,426	2,000,911
Due to banks and other financial institutions		791,162	806,366
Customer deposits		4,736,062	(61,082)
Other liabilities		278,510	58,125
Net cash generated from operating activities		828,521	911,241
INVESTING ACTIVITIES			
Purchase of non-trading investments		(1,342,808)	(219,690)
Proceeds from sales of non-trading investments		385,564	202,881
Purchase of property and equipment		(63,075)	(38,465)
Proceeds from sale of property and equipment		1,662	1,042
Net cash used in investing activities		(1,018,657)	(54,232)
FINANCING ACTIVITIES			
Distributed Sukuk profit	18	(843)	-
Purchase of shares for employee share plan		-	(12,486)
Cash dividend		(300,000)	-
Net cash used in financing activities		(300,843)	(12,486)
(Decrease) Increase in cash and cash equivalents			
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	8,295,301	8,910,799
Income received from investing and financing assets		948,565	790,477
Return paid on deposits and financial liabilities		188,039	126,488
Supplemental non cash information			
Total other comprehensive income		338	23,983

The accompanying notes from 1 to 20 form an integral part of these interim condensed consolidated financial statements.

BANK ALBILAD

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017

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 by-laws and the Banking Control Law. The Bank provides these services through 112 banking branches (June 30, 2016: 121) and 178 exchange and remittance centers (June 30, 2016: 173) 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.

BANK ALBILAD

(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017

Accordingly, these interim condensed consolidated financial statements has been prepared using IAS 34, 'Interim Financial Reporting' and SAMA guidance for the accounting of zakat and income tax as 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 these interim condensed consolidated financial statements requires management to make judgments, 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.

The Bank presents its statement of financial position in order of liquidity.

In preparing these interim condensed consolidated financial statements, the significant judgments 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 as set forth in note 1. 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 SIX MONTHS PERIOD ENDED JUNE 30, 2017

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, estimates and assumptions 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:

BANK ALBILAD

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017****As at December 31, 2016**

Account	Balance as previously reported at December 31, 2016 SR'000	Effect of restatement SR'000	Restated balance at December 31, 2016 SR'000
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 June 30, 2016

Account	Balance as previously reported at June 30, 2016 SR'000	Effect of restatement SR'000	Restated balance at June 30, 2016 SR'000
Other assets	169,926	(85,855)	84,071
Other liabilities	1,255,783	12,500	1,268,283
Retained earnings	481,714	(98,355)	383,359

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

	June 30, 2017 SAR' 000 (Unaudited)	December 31, 2016 SAR' 000 (Audited)	June 30, 2016 SAR' 000 (Unaudited)
Available-for-sale investments			
Equities	295,128	287,820	312,813
Mutual funds	482,099	279,365	241,638
Sukuk	1,523,455	769,182	598,428
	<u>2,300,682</u>	<u>1,336,367</u>	<u>1,152,879</u>
Held at amortized cost			
Commodity Murabaha with SAMA	2,190,911	1,744,578	1,839,973
Total	<u><u>4,491,593</u></u>	<u><u>3,080,945</u></u>	<u><u>2,992,852</u></u>

BANK ALBILAD

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017****7. FINANCING, NET**

	June 30, 2017 SAR'000 (Unaudited)	December 31, 2016 SAR'000 (Audited)	June 30, 2016 SAR'000 (Unaudited)
Bei ajel	26,170,894	22,667,228	22,880,339
Installment sales, Ijarah and credit cards	13,542,550	12,671,433	12,609,869
Musharaka	1,421,664	1,158,166	1,693,106
Ijarah	160,401	180,086	199,565
Performing financing	41,295,509	36,676,913	37,382,879
Non-performing financing	378,746	507,125	521,843
Gross financing	41,674,255	37,184,038	37,904,722
Impairment charge for financing	(1,009,622)	(1,005,651)	(974,563)
Financing, net	40,664,633	36,178,387	36,930,159

8. INVESTMENT PROPERTY

As of June 30, 2017 investment property represents cost of properties in the Holy city of Makkah which aims to provide investors with dividends and capital growth in 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

	June 30, 2017 SAR'000 (Unaudited)	December 31, 2016 SAR'000 (Audited)	June 30, 2016 SAR'000 (Unaudited)
Demand	27,131,918	26,974,543	26,719,962
Albilad account (Mudarabah)	8,699,790	5,937,828	3,879,945
Direct investment	8,281,769	6,496,933	10,639,830
Others	857,300	825,411	878,641
Total	44,970,777	40,234,715	42,118,378

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2017****10. COMMITMENTS AND CONTINGENCIES**

- a) As at June 30, 2017, there are legal proceedings outstanding against the Bank during the ordinary course of business. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.
- b) The Group's commitments and contingencies are as follows:

	June 30, 2017 SAR' 000 (Unaudited)	December 31, 2016 SAR' 000 (Audited)	June 30, 2016 SAR' 000 (Unaudited)
Letters of guarantee	<u>4,079,267</u>	4,241,932	3,938,826
Letters of credit	668,383	895,732	575,492
Acceptances	386,860	217,432	206,447
Irrevocable commitments to extend credit	<u>1,662,524</u>	1,633,518	1,040,283
Total	<u>6,797,034</u>	<u>6,988,614</u>	<u>5,761,048</u>

c) Zakat

The Bank has filed its Zakat returns with the General Authority for Zakat and Tax (GAZT) and paid Zakat for financial years from 2006 to 2015 amounting to SAR 166 million. The Bank has received the assessments for the years from 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. The basis for the additional Zakat liability is being contested by the Bank before the Higher Appeal Committee. The 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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Cash and cash equivalents included in the interim consolidated statement of cash flows comprise the following:

	June 30, 2017 SAR' 000 (Unaudited)	December 31, 2016 SAR' 000 (Audited)	June 30, 2016 SAR' 000 (Unaudited)
Cash	1,685,275	1,518,636	1,863,738
Due from banks and other financial institutions (maturing within ninety days from acquisition)	5,864,975	6,369,598	6,976,258
Held to maturity investment (maturing within ninety days from acquisition)	-	300,070	-
Balances with SAMA (excluding statutory deposit)	745,051	597,976	70,803
Total	8,295,301	8,786,280	8,910,799

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
June 30, 2017					
Financial assets measured at fair value					
Available for sale investments	2,300,682	1,532,278	-	768,404	2,300,682
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	7,518,110	-	-	7,518,110	7,518,110
Investments held at amortized cost	2,190,911	-	-	2,190,911	2,190,911
Financing, net	40,664,633	-	-	40,180,821	40,180,821

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
June 30, 2017					
Financial liabilities not measured at fair value					
Due to SAMA	2,013,640	-	-	2,013,640	2,013,640
Due to banks and other financial institutions	1,787,553	-	-	1,787,553	1,787,553
Customers' deposits	44,970,777	-	-	44,970,777	44,970,777
Sukuk	2,006,204	-	-	2,006,204	2,006,204

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 have 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 the Chief 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 June 30, 2017 and 2016, together with its total operating income and expenses, and net income, for the six months period then ended, for each segment are as follows:

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SAR'000	June 30, 2017 (Unaudited)					
	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	17,302,664	25,793,746	15,246,942	330,234	1,058,048	59,731,634
Total liabilities	30,168,565	9,206,041	9,410,944	14,656	3,609,815	52,410,021
Net income from investing and financing assets	359,265	363,510	45,031	6,616	48,815	823,237
Fee, commission and other income, net	402,975	76,437	51,200	40,610	17,903	589,125
Total operating income	762,240	439,947	96,231	47,226	66,718	1,412,362
Impairment charge for financing , net	27,101	99,972	-	-	-	127,073
Impairment charge on available for sale investments	-	-	-	-	-	-
Depreciation	44,173	4,307	773	926	-	50,179
Total operating expenses	652,788	228,805	35,571	36,873	(5,937)	948,100
Net income for the period	109,452	211,142	60,660	10,353	72,655	464,262
Attributable to						
Equity holders of the Bank	109,452	211,142	60,660	10,353	76,530	468,137
Non-controlling interest					(3,875)	(3,875)
Net income for the period	109,452	211,142	60,660	10,353	72,655	464,262

SAR'000	June 30, 2016 (Unaudited) (Restated)					
	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	17,932,333	23,338,825	11,595,749	763,258	697,421	54,327,586
Total liabilities	27,330,677	6,883,811	10,131,908	157,589	3,111,605	47,615,590
Net income from investing and financing assets	230,306	326,790	74,695	1,815	48,803	682,409
Fee, commission and other income, net	420,344	69,501	47,929	35,791	12,520	586,085
Total operating income	650,650	396,291	122,624	37,606	61,323	1,268,494
Impairment charge for financing , net	30,063	80,274	-	-	-	110,337
Impairment charge on available for sale investments	-	-	-	-	33,380	33,380
Depreciation	43,130	3,748	665	853	-	48,396
Total operating expenses	617,551	201,544	30,447	26,307	34,248	910,097
Net income for the period	33,099	194,747	92,177	11,299	27,075	358,397
Attributable to						
Equity holders of the Bank	33,099	194,747	92,177	11,299	27,075	358,397
Non-controlling interest						
Net income for the period	33,099	194,747	92,177	11,299	27,075	358,397

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 30 June 2016: 600 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:

	June 30, 2017 SAR' 000 (Unaudited)	December 31, 2016 SAR' 000 (Audited) (Restated)	June 30, 2016 SAR' 000 (Unaudited) (Restated)
Credit Risk RWA	46,925,617	42,831,321	42,089,647
Operational Risk RWA	4,598,689	4,340,692	4,117,297
Market Risk RWA	187,926	991,676	1,077,713
Total Pillar-I RWA	51,712,232	48,163,689	47,284,657
Tier I Capital	7,321,613	7,151,884	6,810,351
Tier II Capital	2,638,545	2,532,325	522,835
Total Tier I & II Capital	9,960,158	9,684,209	7,333,186
Capital Adequacy Ratio %			
Tier I ratio	14.16%	14.85%	14.40%
Tier I + Tier II ratio	19.26%	20.11%	15.51%

16. Earnings per share ("EPS")

Basic and diluted earnings per share for the period ended June 30, 2017 and 2016 are calculated by dividing the net income for the period attributable to the equity holders by SAR 600 million shares and adjusted for treasury shares.

17. DIVIDENDS

Dividend of SAR 300 million i.e. SAR 0.5 per share has been approved by the Extra-ordinary General Assembly meeting of the Bank held on May 8, 2017.

18. SUKUK

On August 30, 2016, the Bank issued 2,000 Sukuk Certificates (Sukuk) of SR 1 million each, payable quarterly in arrears on 29 February, 30 May, 30 August, 30 November each year until 30 August 2026, on which date the 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 / 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%.

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FINANCIAL STATEMENTS**

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on 26 Shawwal 1438 H (corresponding to 20 July, 2017).

20. COMPARATIVE FIGURES

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