



BANK ALBILAD
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 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 September 30, 2017, and the related interim consolidated statements of income and comprehensive income for the three months and nine months period then ended, and the interim consolidated statements of changes in equity and cash flows for the nine 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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Certified Public Accountants

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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03 Safar 1439H
(23 October 2017)



BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		September 30, 2017 SAR'000 (Unaudited)	December 31, 2016 SAR'000 (Audited) (Restated)	September 30, 2016 SAR'000 (Unaudited) (Restated)
	Notes			
ASSETS				
Cash and balances with SAMA		5,021,027	4,528,825	5,339,142
Due from banks and other financial institutions, net		8,660,582	7,950,844	9,017,286
Investments, net	6	5,871,562	3,080,945	3,042,403
Financing, net	7	41,814,968	36,178,387	36,246,671
Property and equipment, net		829,192	802,424	788,845
Investment property	8	-	1,000,000	1,000,251
Other assets		335,582	207,245	211,073
Total assets		<u>62,532,913</u>	<u>53,748,670</u>	<u>55,645,671</u>
LIABILITIES AND EQUITY				
Liabilities				
Due to SAMA		2,008,017	2,006,214	2,006,346
Due to banks and other financial institutions		2,807,296	996,391	2,073,449
Customers' deposits	9	46,401,672	40,234,715	41,244,191
Sukuk	18	2,006,749	2,007,047	2,007,402
Other liabilities		1,728,337	1,352,419	1,351,611
Total liabilities		<u>54,952,071</u>	<u>46,596,786</u>	<u>48,682,999</u>
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		80,326	25,280	(1,768)
Retained earnings		787,959	260,188	604,915
Proposed cash dividends		180,000	300,000	-
Treasury shares		(104,575)	(113,207)	(114,389)
Employee share plan reserve		6,135	8,720	4,848
Total equity attributed to equity holders of the Bank		<u>7,580,842</u>	<u>7,111,978</u>	<u>6,922,672</u>
Non-controlling interest	1 & 3	-	39,906	40,000
Total equity		<u>7,580,842</u>	<u>7,151,884</u>	<u>6,962,672</u>
Total liabilities and equity		<u>62,532,913</u>	<u>53,748,670</u>	<u>55,645,671</u>

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 nine months</u> <u>period ended</u>		
	<u>Notes</u>	<u>September</u> <u>30,2017</u> <u>SAR'000</u>	<u>September</u> <u>30,2016</u> <u>SAR'000</u>	<u>September</u> <u>30,2017</u> <u>SAR'000</u>	<u>September</u> <u>30,2016</u> <u>SAR'000</u>
Income from investing and financing assets		547,598	466,946	1,547,271	1,295,912
Return on deposits and financial liabilities		(98,765)	(105,205)	(275,201)	(251,762)
Income from investing and financing assets, net		448,833	361,741	1,272,070	1,044,150
Fee and commission income, net		214,038	199,411	614,792	613,335
Exchange income, net		76,881	71,509	225,487	229,237
Dividend income		2,224	1,464	4,485	6,103
(Losses) gains on non-trading investments, net		-	(1,450)	6,733	(1,696)
Other operating income		21,049	5,881	51,820	15,921
Total operating income		763,025	638,556	2,175,387	1,907,050
Salaries and employee related expenses		228,712	216,375	701,566	673,791
Rent and premises related expenses		62,119	60,165	186,865	188,859
Depreciation		31,794	23,352	81,973	71,748
Other general and administrative expenses		78,376	60,188	251,624	192,062
Impairment charge for financing, net		115,979	37,680	243,052	148,017
Impairment charge for investments		-	12,990	-	46,370
Total operating expenses		516,980	410,750	1,465,080	1,320,847
Net income for the period		246,045	227,806	710,307	586,203
Attributable to:					
Equity holders of the Bank		248,051	227,806	716,187	586,203
Non-controlling interest	1 & 3	(2,006)	-	(5,880)	-
Net income for the period		246,045	227,806	710,307	586,203
Basic and diluted earnings per share (attributable to ordinary equity holders of the Bank) (SAR)	16	0.41	0.38	1.19	0.98

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>For the nine months</u>	
	<u>period ended</u>		<u>period ended</u>	
	<u>September</u>	<u>September</u>	<u>September</u>	<u>September</u>
	<u>30,2017</u>	<u>30,2016</u>	<u>30,2017</u>	<u>30,2016</u>
<u>Notes</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Net income for the period	246,045	227,806	710,307	586,203
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	54,708	(28,479)	61,779	(38,122)
• Net realized amount transferred to interim consolidated statement of income	-	1,450	(6,733)	1,696
• Impairment charge for the period	-	12,990	-	46,370
Total other comprehensive income	54,708	(14,039)	55,046	9,944
Total comprehensive income for the period	300,753	213,767	765,353	596,147
Attributable to:				
Equity holders of the Bank	302,759	213,767	771,233	596,147
Non-controlling interest	1 & 3 (2,006)	-	(5,880)	-
Total comprehensive income for the period	300,753	213,767	765,353	596,147

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

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 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 previously 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		-	-	61,779	-	-	-	-	61,779	-	61,779
Net realized amount transferred to interim consolidated statement of income		-	-	(6,733)	-	-	-	-	(6,733)	-	(6,733)
Net income recognized directly in equity		-	-	55,046	-	-	-	-	55,046	-	55,046
Net income for the period		-	-		716,187	-	-	-	716,187	(5,880)	710,307
Total comprehensive income for the period		-	-	55,046	716,187	-	-	-	771,233	(5,880)	765,353
Treasury shares		-	-	-	-	-	8,632	-	8,632	-	8,632
Employees' share plan reserve		-	-	-	-	-	-	(2,585)	(2,585)	-	(2,585)
Zakat for current period		-	-	-	(8,416)	-	-	-	(8,416)	-	(8,416)
Cash dividends		-	-	-	-	(300,000)	-	-	(300,000)	-	(300,000)
Proposed cash dividends		-	-	-	(180,000)	180,000	-	-	-	-	-
Reduction in NCI resulting from deconsolidation	1 & 3	-	-	-	-	-	-	-	-	(34,026)	(34,026)
Balance at end of the period		6,000,000	630,997	80,326	787,959	180,000	(104,575)	6,135	7,580,842	-	7,580,842

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

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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 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 previously 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		-	-	(38,122)	-	-	-	-	(38,122)	-	(38,122)
Net realized amount transferred to interim consolidated statement of income		-	-	1,696	-	-	-	-	1,696	-	1,696
Impairment charge on available for sale investments		-	-	46,370	-	-	-	-	46,370	-	46,370
Net income recognized directly in equity		-	-	9,944	-	-	-	-	9,944	-	9,944
Net income for the period		-	-		586,203	-	-	-	586,203	-	586,203
Total comprehensive income for the period		-	-	9,944	586,203	-	-	-	596,147	-	596,147
Issuance of bonus shares		1,000,000	(532,000)	-	(468,000)	-	-	-	-	-	-
Treasury shares		-	-	-	-	-	(631)	-	(631)	-	(631)
Employees' share plan reserve		-	-	-	-	-	-	(10,478)	(10,478)	-	(10,478)
Zakat for current period		-	-	-	(19,350)	-	-	-	(19,350)	-	(19,350)
Non-controlling interest arising on consolidation	1 & 3	-	-	-	-	-	-	-	-	40,000	40,000
Balance at end of the period		6,000,000	429,066	(1,768)	604,915	-	(114,389)	4,848	6,922,672	40,000	6,962,672

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

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

	Notes	2017 SAR' 000	2016 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		710,307	586,203
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
(Losses) gains on non-trading investments, net		(6,733)	1,696
Profit on sukuk		58,222	7,402
Gains from disposal of property and equipment, net		(1,070)	(683)
Depreciation		81,973	71,748
Impairment charge for financing, net		243,052	148,017
Impairment charge for investments		-	46,370
Employees' share plan		6,047	1,377
Operating profit before changes in operating assets and liabilities		1,091,798	862,130
Net (increase) decrease in operating assets, net of effects from disposal of a subsidiary :			
Statutory deposit with SAMA		(286,660)	71,817
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(140,662)	480,660
Commodity murabaha with SAMA maturing after ninety days from the date of acquisition		(1,347,414)	58,189
Financing		(5,879,633)	(2,140,065)
Other assets		(128,337)	(36,338)
Net increase in operating liabilities, net of effects from disposal of a subsidiary:			
Due to SAMA		1,803	2,006,346
Due to banks and other financial institutions		1,810,905	651,797
Customers' deposits		6,166,957	(935,269)
Other liabilities		367,502	135,202
Net cash generated from operating activities		1,656,259	1,154,469
INVESTING ACTIVITIES			
Purchase of non-trading investments		(2,084,769)	(564,132)
Proceeds from sales of non-trading investments		403,276	374,352
Disposal of a subsidiary	1 & 3	991,301	-
Acquisition of a subsidiary		-	(1,000,251)
Purchase of property and equipment		(100,635)	(68,881)
Proceeds from sale of property and equipment		1,662	1,055
Net cash used in investing activities		(789,165)	(1,257,857)
FINANCING ACTIVITIES			
Proceeds from issuance of sukuk		-	2,000,000
Distributed Sukuk profit	18	(58,520)	-
Purchase of shares for employee share plan		-	(12,486)
Cash dividend		(300,000)	-
Non-controlling interest		(34,026)	40,000
Net cash used in (generated from) financing activities		(392,546)	2,027,514
Net change in cash and cash equivalents		474,548	1,924,126
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	9,260,828	9,990,402
Income received from investing and financing assets		1,463,295	1,179,118
Return paid on deposits and financial liabilities		278,027	229,276
Supplemental non cash information			
Total other comprehensive income		55,046	9,944

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 NINE MONTHS PERIOD ENDED SEPTEMBER 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’ (collectively referred to as “the Group”). Albilad Investment Company and AlBilad Real Estate Company are 100% owned by the Bank. All subsidiaries are incorporated in the Kingdom of Saudi Arabia.

As at 31 December 2016, the Bank had 80% ownership in Makkah Al Diyafah Fund (the Fund), however, during the current period, the Fund has issued further units and accordingly, the Bank’s holding percentage reduced to 29.75% on 31 August 2017, and accordingly, the Bank has lost control of the Fund and the Fund is not being consolidated with effect from 1 September 2017.

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 (September 30, 2016: 120) and 179 exchange and remittance centers (September 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

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

- 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.

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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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:

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 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 September 30, 2016

Account	Balance as previously reported at September 30, 2016 SR'000	Effect of restatement SR'000	Restated balance at September 30, 2016 SR'000
Other assets	296,928	(85,855)	211,073
Other liabilities	1,332,861	18,750	1,351,611
Retained earnings	709,520	(104,605)	604,915

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

	September 30, 2017 SAR' 000 (Unaudited)	December 31, 2016 SAR' 000 (Audited)	September 30, 2016 SAR' 000 (Unaudited)
Available-for-sale investments			
Equities	302,553	287,820	297,213
Mutual funds	807,657	279,365	249,411
Sukuk	1,969,430	769,182	750,746
	3,079,640	1,336,367	1,297,370
Held at amortized cost			
Commodity Murabaha with SAMA	2,791,922	1,744,578	1,745,033
Total	5,871,562	3,080,945	3,042,403

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

	September 30, 2017 SAR'000 (Unaudited)	December 31, 2016 SAR'000 (Audited)	September 30, 2016 SAR'000 (Unaudited)
Bei ajal	27,045,856	22,667,228	22,544,402
Installment sales, Ijarah and credit cards	14,128,216	12,671,433	12,597,773
Musharaka	1,128,934	1,158,166	1,368,095
Ijarah	161,255	180,086	200,368
Performing financing	42,464,261	36,676,913	36,710,638
Non-performing financing	476,308	507,125	548,276
Gross financing	42,940,569	37,184,038	37,258,914
Impairment charge for financing	(1,125,601)	(1,005,651)	(1,012,243)
Financing, net	41,814,968	36,178,387	36,246,671

8. INVESTMENT PROPERTY

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 had resulted from the consolidation of Makkah Al Diyafah Fund which is managed by Albilad Investment Company, a subsidiary controlled by the Group. As of August 31, 2017 the Group has no power to govern the financial and operating policies of Makkah Al Diyafah Fund due to the change in ownership percentage. Accordingly, the Group derecognized related assets, liabilities and non-controlling interest of Makkah Al Diyafah Fund (See note 1 and 3).

9. CUSTOMERS' DEPOSITS

	September 30, 2017 SAR'000 (Unaudited)	December 31, 2016 SAR'000 (Audited)	September 30, 2016 SAR'000 (Unaudited)
Demand	26,937,866	26,974,543	26,952,502
Albilad account (Mudarabah)	10,971,010	5,937,828	3,877,876
Direct investment	7,601,147	6,496,933	9,536,896
Others	891,649	825,411	876,917
Total	46,401,672	40,234,715	41,244,191

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- a) As at September 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:

	September 30, 2017 SAR' 000 (Unaudited)	December 31, 2016 SAR' 000 (Audited)	September 30, 2016 SAR' 000 (Unaudited)
Letters of guarantee	4,216,596	4,241,932	4,280,310
Letters of credit	815,889	895,732	584,457
Acceptances	565,091	217,432	235,541
Irrevocable commitments to extend credit	1,534,123	1,633,518	1,193,153
Total	7,131,699	6,988,614	6,293,461

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 the 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:

	September 30, 2017 SAR' 000 (Unaudited)	December 31, 2016 SAR' 000 (Audited)	September 30, 2016 SAR' 000 (Unaudited)
Cash	1,635,523	1,518,636	1,576,366
Due from banks and other financial institutions (maturing within ninety days from acquisition)	6,938,674	6,369,598	7,088,545
Held to maturity investment (maturing within ninety days from acquisition)	-	300,070	-
Balances with SAMA (excluding statutory deposit)	686,631	597,976	1,325,491
Total	9,260,828	8,786,280	9,990,402

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
September 30, 2017					
Financial assets measured at fair value					
Available for sale investments	3,079,640	1,673,001	-	1,406,639	3,079,640
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	8,660,582	-	-	8,660,582	8,660,582
Investments held at amortized cost	2,791,922	-	-	2,791,922	2,791,922
Financing, net	41,814,968	-	-	40,688,848	40,688,848

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
September 30, 2017					
Financial liabilities not measured at fair value					
Due to SAMA	2,008,017	-	-	2,008,017	2,008,017
Due to banks and other financial institutions	2,807,296	-	-	2,807,296	2,807,296
Customers' deposits	46,401,672	-	-	46,401,672	46,401,672
Sukuk	2,006,749	-	-	2,006,749	2,006,749

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

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

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SAR'000	September 30, 2017 (Unaudited)					
	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	17,813,410	25,375,090	17,776,255	415,842	1,152,316	62,532,913
Total liabilities	31,613,716	10,132,126	9,471,143	21,989	3,713,097	54,952,071
Net income from investing and financing assets	546,977	569,351	74,069	10,112	71,561	1,272,070
Fee, commission and other income, net	619,197	110,063	80,693	68,222	25,142	903,317
Total operating income	1,166,174	679,414	154,762	78,334	96,703	2,175,387
Impairment charge for financing , net	60,888	182,164	-	-	-	243,052
Impairment charge on available for sale investments	-	-	-	-	-	-
Depreciation	70,271	8,908	1,387	1,407	-	81,973
Total operating expenses	990,195	373,619	51,182	58,915	(8,831)	1,465,080
Net income for the period	175,979	305,795	103,580	19,419	105,534	710,307
Attributable to						
Equity holders of the Bank	175,979	305,795	103,580	19,419	111,414	716,187
Non-controlling interest	-	-	-	-	(5,880)	(5,880)
Net income for the period	175,979	305,795	103,580	19,419	105,534	710,307

SAR'000	September 30, 2016 (Unaudited) (Restated)					
	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	18,077,968	23,197,202	12,939,053	240,967	1,190,481	55,645,671
Total liabilities	24,736,311	8,091,469	12,496,206	9,071	3,349,942	48,682,999
Net income from investing and financing assets	352,073	492,620	115,330	2,320	81,807	1,044,150
Fee, commission and other income, net	621,438	98,489	69,436	55,455	18,082	862,900
Total operating income	973,511	591,109	184,766	57,775	99,889	1,907,050
Impairment charge for financing , net	37,603	110,414	-	-	-	148,017
Impairment charge on available for sale investments	-	-	-	1,975	44,395	46,370
Depreciation	64,139	5,370	962	1,277	-	71,748
Total operating expenses	905,321	285,110	43,272	41,566	45,578	1,320,847
Net income for the period	68,190	305,999	141,494	16,209	54,311	586,203
Attributable to						
Equity holders of the Bank	68,190	305,999	141,494	16,209	54,311	586,203
Non-controlling interest	-	-	-	-	-	-
Net income for the period	68,190	305,999	141,494	16,209	54,311	586,203

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 September 2016: 600 million shares of SAR 10 each).

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

Capital adequacy and the use of regulatory capital are monitored 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:

	September 30, 2017 SAR' 000 (Unaudited)	December 31, 2016 SAR' 000 (Audited) (Restated)	September 30, 2016 SAR' 000 (Unaudited) (Restated)
Credit Risk RWA	48,490,666	42,831,321	42,756,334
Operational Risk RWA	4,746,995	4,340,692	4,222,077
Market Risk RWA	551,025	991,676	1,463,960
Total Pillar-I RWA	53,788,686	48,163,689	48,442,371
Tier I Capital	7,580,842	7,151,884	7,067,277
Tier II Capital	2,672,359	2,532,325	2,532,020
Total Tier I & II Capital	10,253,201	9,684,209	9,599,297
Capital Adequacy Ratio %			
Tier I ratio	14.09%	14.85%	14.59%
Tier I + Tier II ratio	19.06%	20.11%	19.82%

16. Earnings per share ("EPS")

Basic and diluted earnings per share for the period ended September 30, 2017 and 2016 are calculated by dividing the net income for the period attributable to the equity holders by the weighted average number of outstanding shares during the period 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. In addition, dividend of SAR 180 million i.e. SAR 0.3 per share for the first half of 2017 has been approved by the Board of Directors meeting of the Bank held on September 25, 2017.

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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%.

19. 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 02 Safer 1439 H (corresponding to 22 October, 2017).

20. COMPARATIVE FIGURES

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