BANK ALBILAD
(A Saudi Joint Stock Company)

Consolidated Financial Statements
For the year ended December 31, 2016

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Bank Albilad (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of Bank Albilad (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of income; consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 39.

In our opinion, the accompanying consolidated financial statements taken as a whole:

- present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Accounting Standards for Commerical Banks issued by the Saudi Arabian Monetary Authority ("SAMA") and with International Financial Reporting Standards ("IFRS"); and.

- comply with the requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

Basis for Opinion

We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Saudi Arabia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter, a description of how our audit addressed the matter is set out below:

Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

The key audit matter	How the matter was addressed in our audit
Financing impairment At 31 December 2016, the gross financing was Saudi Riyals 37.2 billion against which impairment provision of Saudi Riyals 1 billion was maintained. This includes impairment against specific financing and collective impairment recorded on a portfolio basis through modelling. We considered this as a key audit matter as the Group makes complex and subjective judgements, makes assumptions to determine the impairment and the timing of recognition of such impairment and the potential impact of impairment could be material to the consolidated financial statements. In particular the determination of impairment against financing includes: o The identification of impairment events and methods and judgments used to calculate the impairment against specific corporate financing; o The use of assumptions underlying the calculation of collective impairment for portfolios of financing, and the use of the models to make those calculations; o An assessment of the Group's exposure to certain industries affected by economic conditions. *Refer to note 3 to the consolidated financial statements for the significant accounting policy relating to impairment of financing, note 2 which contains disclosure of significant accounting estimates relating to Impairment on financing, and note 7 which contains the disclosure of impairment of financing.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. This included testing of: • entity level controls over the modelling process including model review and monitoring and approval of assumptions by senior management and the Group's Credit Committee; and • a sample of controls over the identification of impaired financing, the data transfer from source systems to impairment models and model outputs to the general ledger, and the calculation of the impairment provision. For financing which is individually assessed for impairment: • We tested a sample of financing (including financing that had not been identified by management as potentially impaired) to form our own assessment as to whether impairment events had occurred and to assess whether impairment had been identified and recorded in a timely manner. • We considered the assumptions underlying the impairment identification including forecasted future cash flows, discount rates and estimated recovery, including recovery from any underlying collateral etc. • We also selected a sample of financing for industries adversely affected by the current economic conditions to evaluate management's impairment assessment for such loans including loans currently being classified as 'watch list', as well as those classified as 'superior or satisfactory'. For the collective impairment models used by the Group, we tested on a sample basis: • the extracts of historical data from underlying systems • the assumptions used by management including probability of default and Group's delinquency days analysis used in the models. • the calculations within the model.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

Impairment of available for sale investments	
As at 31 December 2016, the Group had available for sale investments of Saudi Riyals 3.1 billion. These available for sale investments comprise equities, mutual funds and sukuk which are subject to the risk of impairment in value due to either adverse market situation and / or liquidity constraints faced by the issuers. For assessing the impairment of equities, management monitors volatility of share prices and uses the criteria of significant or prolonged decline in their fair values below their costs as the basis for determining impairment. A significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The determination of what is significant or prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the cost of the equity instrument. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the equity instrument has been below its cost. For debt instruments, including Sukuk and mutual funds, management considers them to be impaired when there is evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows. We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the consolidated financial statements. In particular, the determination of level 3 fair values is considerably more subjective given the lack of availability of market based data. *Refer to note 3 of the consolidated financial statements for the accounting policy relating to the impairment of available for sale investments, note 2 for the critical accounting estimates and judgments, and notes 28 and 29 for the disclosures of credit and market risks respectively.*	We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for identifying significant or prolonged decline in the fair value of equities and/or any defaults on Sukuk. For equity investments, on a sample basis, we: • Assessed the appropriateness of management criteria for determining the significant or prolonged decline in the value of investments; • Evaluated the basis for determining the costs and fair value of investments; • Tested the costs and valuations; and • Considered the price fluctuation / movement during the holding period to determine if the investment meets the significant or prolonged criteria. For Sukuk, on a sample basis, we assessed the creditworthiness of counter parties based on available market data and future cash flows from the instrument to consider any defaults based on the terms and conditions of the issuance of these Sukuk.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

Fee from banking servcies	
The Group charges financing processing fee and certain other amounts upfront to the customers on corporate and retail financing and recognises the same within fee and commission income. Such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, should be recognized as an adjustment to effective yield within financing income. However, due to large number of transactions with mostly insignificant fee amounts adjustments to the effective yield is made by the management based on certain thresholds. For transaction below the threshold, the Group estimates at each period end to ascertain what the potential adjustment would have been, had the amount been amortised on a financing by financing basis, and adjust, if considered material. We considered this as a key audit matter as the use of inappropriate threshholds and the related potential impact of non-amortisation of the fee below the threshold could effect the amount recognised for fee and comission income. Refer to the significant accounting policies note 3 (j) to the consoldated financial statements.	We performed the following audit procedures: We assessed the design and implementation and tested the operating effectiveness of the key controls over the consistent application of thresholds for making the adjustments to the effective yield of financing for which the income has been received. We assessed the reasonableness of thresholds established by the Group to record the fee and comission income. We obtained the management's assessment of the impact of the use of thresholds on fees and comission income and: • On a sample basis traced the historical and current year data used by the management to the source documents; • assessed the reasonableness of the management's estimation of the impact of the use of thresholds (alongwith the related assumptions used in this calculation) on the recognition of fee and comission income.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

Zakat	
The Group files its zakat return with the General Authority of Zakat and Tax ("GAZT") on an annual basis. The GAZT has issued assessment orders for the years from 2006 up to 2014, which resulted in significant additional zakat exposure of the Group amounting to SR 622.5 million. The significant additional zakat exposure resulted mainly due to disallowance of certain long-term investments as well as addition of long term finaincing by the GAZT. The interpretation of the GAZT is being challenged by the Group and the appeal proceedings are underway at various levels of available appellate forums. Assessment for the year 2015 is yet to be raised. However, in line with the assessments finalized by the GAZT for the years 2006 to 2014, if long-term investments are disallowed and long term financing are added to the Zakat base this would result in an additional zakat exposure for the year 2015. The amount of the potential additional zakat exposure is not disclosed in the consolidated financial statements as management expects that such disclosure might affect the Bank in this matter. The management makes judgments about the incidence and quantum of zakat liabilities (which are subject to the future outcome of assessments by the GAZT) and based on such judgements the management is confident of a favourable outcome of the appeal process as referred to above. We considered this as a key audit matter as it involves significant management judgement and the additional assessments by the GAZT are material to the consolidated financial statements. *Refer to note 3(l) for the accounting policy relating to zakat and note 17(e) for the related disclosures for zakat.*	• In order to assess the status and likely outcome of the matter, we obtained the correspondence between the Group, GAZT and Group's zakat consultants to determine the amount of the additional demand made by the GAZT. We further obtained the related appeal document to confirm the fact that the matter has been contested at various appellate forums and to assess the status of the outcome of those appeals. • We held meetings with those charged with governance and senior management of the Group to obtain update on the Zakat matter and the results of their interactions with the relevant appeal committees. • We also used our internal specialist to assess the adequacy of the net exposure disclosed and the appropriateness of the management's judgements relating to the zakat matter in light of the facts and circumstances of the Group. • We also assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

Other Information included in the Bank's 2016 Annual Report

Management is responsible for the other information in its annual report. Other information consists of the information included in the Bank's 2016 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Accounting Standards for Commerical Banks issued by the SAMA, IFRSs, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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1 Jumada Al-Thani 1438H
(28 February 2017)

ارنست ويونغ
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016 AND 2015

	Notes	**2016 SAR' 000**	2015 SAR' 000
ASSETS			
Cash and balances with SAMA	4	**4,528,825**	4,602,121
Due from banks and other financial institutions, net	5	**7,950,844**	8,382,657
Investments, net	6	**3,080,945**	2,948,935
Financing, net	7	**36,178,387**	34,254,623
Property and equipment, net	8	**802,424**	792,084
Investment property	9	**1,000,000**	-
Other assets	10	**351,166**	239,990
Total assets		**53,892,591**	51,220,410
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to SAMA		**2,006,214**	-
Due to banks and other financial institutions	11	**996,391**	1,421,652
Customers' deposits	12	**40,234,715**	42,179,460
Sukuk	13	**2,007,047**	-
Other liabilities	14	**1,327,419**	1,177,059
Total liabilities		**46,571,786**	44,778,171
Equity attributable to the equity holders of the Bank			
Share capital	15	**6,000,000**	5,000,000
Statutory reserve	16	**630,997**	961,066
Other reserves	18	**169,201**	(11,712)
Retained earnings		**285,188**	591,317
Proposed cash dividend		**300,000**	-
Treasury shares		**(113,207)**	(113,758)
Employees' share plan reserve	37	**8,720**	15,326
Total equity attributable to the equity holders of the Bank		**7,280,899**	6,442,239
Non-controlling interest		**39,906**	-
Total equity		**7,320,805**	6,442,239
Total liabilities and equity		**53,892,591**	51,220,410

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Notes	2016 SAR' 000	2015 SAR' 000
INCOME:			
Income from investing and financing assets	20	**1,772,471**	1,238,839
Return on deposits and financial liabilities	21	**(362,626)**	(76,445)
Income from investing and financing assets, net		**1,409,845**	1,162,394
Fee and commission income, net	22	**816,720**	779,220
Exchange income, net		**311,175**	316,994
Dividend income		**6,805**	9,647
Gains / (losses) on non-trading investments, net		**1,759**	(197)
Other operating income	23	**47,506**	26,562
Total operating income		**2,593,810**	2,294,620
EXPENSES:			
Salaries and employee-related benefits	24	**902,222**	853,106
Rent and premises-related expenses		**250,461**	224,825
Depreciation	8	**96,327**	101,187
Other general and administrative expenses		**297,380**	235,278
Impairment charge for financing, net	7(b)	**191,214**	78,693
Impairment charge on available for sale investments	6(b)	**47,183**	13,108
Total operating expenses		**1,784,787**	1,506,197
Net income for the year		**809,023**	788,423
Attributable to:			
Equity holders of the Bank		**807,723**	788,423
Non-controlling interest		**1,300**	-
Net income for the year		**809,023**	788,423
Basic and diluted earnings per share (attributable to ordinary equity holders of the Bank) (Saudi Riyals)	25	**1.35**	1.31

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Note	2016 SAR' 000	2015 SAR' 000
Net income for the year		**809,023**	788,423
Other comprehensive income:			
Items that can be recycled back to consolidated statement of income in subsequent periods / have been recycled in the current year			
- Available for sale financial assets	18		
Net changes in fair value		**(8,432)**	(47,795)
Net amount transferred to consolidated statement of income		**(1,759)**	197
Impairment charge on available for sale investments		**47,183**	13,108
Total other comprehensive income/ (losss)		**36,992**	(34,490)
Total comprehensive income for the year		**846,015**	753,933
Attributable to:			
Equity holders of the Bank		**844,715**	753,933
Non-controlling interest		**1,300**	-
Total comprehensive income for the year		**846,015**	753,933

BANK ALBILAD
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

2016 SAR' 000	Notes	Attributable to the equity holders of the Bank Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed cash dividend	Treasury shares	Employees' share plan	Total	Non-controlling interest	Total equity
Balance at the beginning of the year		**5,000,000**	**961,066**	**(11,712)**	**591,317**	**-**	**(113,758)**	**15,326**	**6,442,239**	**-**	**6,442,239**
Changes in the equity for the year											
Net changes in fair values of available for sale investments				**(8,432)**					**(8,432)**		**(8,432)**
Net amount transferred to consolidated statement of income				**(1,759)**					**(1,759)**		**(1,759)**
Impairment charge on available for sale investments				**47,183**					**47,183**		**47,183**
Net income recognized directly in equity				**36,992**					**36,992**		**36,992**
Net income for the year					**807,723**				**807,723**	**1,300**	**809,023**
Total comprehensive income for the year		**-**	**-**	**36,992**	**807,723**		**-**	**-**	**844,715**	**1,300**	**846,015**
Proposed cash dividend	17				**(300,000)**	**300,000**			**-**		**-**
Issuance of bonus shares	17	**1,000,000**	**(532,000)**		**(468,000)**				**-**		**-**
Treasury shares							**551**		**551**		**551**
Employees' share plan reserve	37							**(6,606)**	**(6,606)**		**(6,606)**
Zakat	19			**143,921**	**(143,921)**				**-**		
Transfer to statutory reserve	16		**201,931**		**(201,931)**				**-**		**-**
Non-controlling interest arising on consolidation									**-**	**38,606**	**38,606**
Balance at end of the year		**6,000,000**	**630,997**	**169,201**	**285,188**	**300,000**	**(113,207)**	**8,720**	**7,280,899**	**39,906**	**7,320,805**

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

		Attributable to the equity holders of the Bank									
2015 SAR' 000	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed cash dividend	Treasury shares	Employees' share plan	Total	Non-controlling interest	Total equity
Balance at the beginning of the year		4,000,000	768,403	22,778	1,195,557	-	(110,705)	15,320	5,891,353		5,891,353
Changes in the equity for the year											
Net changes in fair values of available for sale investments				(47,795)					(47,795)		(47,795)
Net amount transferred to consolidated statement of income				197					197		197
Impairment charge on available for sale investments				13,108					13,108		13,108
Net income recognized directly in shareholders' equity				(34,490)					(34,490)		(34,490)
Net income for the year					788,423				788,423	-	788,423
Total comprehensive income for the year				(34,490)	788,423	-		-	753,933		753,933
Cash dividend	17				(200,000)				(200,000)		(200,000)
Issuance of bonus shares	17	1,000,000	(4,443)		(995,557)				-		-
Treasury shares							(3,053)		(3,053)		(3,053)
Employees' share plan reserve	37							6	6		6
Transfer to statutory reserve	16		197,106		(197,106)				-		-
Non-controlling interest arising on consolidation										-	
Balance at end of the year		5,000,000	961,066	(11,712)	591,317	-	(113,758)	15,326	6,442,239	-	6,442,239

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Notes	2016 SAR' 000	2015 SAR' 000
OPERATING ACTIVITIES			
Net income for the year		**809,023**	788,423
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
(Gains) / losses on non-trading investments, net		**(1,759)**	197
Gains from disposal of property and equipment, net		**(917)**	(66)
Depreciation	8	**96,327**	101,187
Impairment charge for financing, net	7(b)	**191,214**	78,693
Impairment charge on available for sale investments	6(b)	**47,183**	13,108
Employees' share plan		**6,431**	8,267
Operating profit before changes in operating assets and liabilities		**1,147,502**	989,809
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**96,888**	(150,244)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**828,154**	772,331
Commodity murabaha with SAMA maturing after ninety days from the date of acquisition		**358,715**	(1,102,066)
Financing		**(2,114,978)**	(5,978,045)
Other assets		**(111,176)**	(51,335)
Net increase / (decrease) in operating liabilities:			
Due to SAMA		**2,006,214**	
Due to banks and other financial institutions		**(425,261)**	230,634
Customers' deposits		**(1,944,745)**	5,455,718
Other liabilities		**150,360**	(246,742)
Net cash used in operating activities		**(8,327)**	(79,940)
INVESTING ACTIVITIES			
Purchase of non-trading investments		**(743,592)**	(662,349)
Proceeds from sale of non-trading investments		**544,507**	402,964
Investment property		**(1,000,000)**	-
Purchase of property and equipment		**(106,806)**	(94,994)
Proceeds from sale of property and equipment		**1,055**	158
Net cash used in investing activities		**(1,304,836)**	(354,221)
FINANCING ACTIVITIES			
Issuance of sukuk		**2,007,047**	-
Purchase of shares for employees' share plan		**(12,486)**	(11,314)
Dividend paid	17	**-**	(200,000)
Non-controlling interest		**38,606**	
Net cash generated from / (used in) financing activities		**2,033,167**	(211,314)
Increase / (decrease) in cash and cash equivalents		**720,004**	(645,475)
Cash and cash equivalents at the beginning of the year		**8,066,276**	8,711,751
Cash and cash equivalents at the end of the year	26	**8,786,280**	8,066,276
Income received from investing and financing assets		**1,697,624**	1,182,807
Return paid on deposits and financial liabilities		**348,648**	74,474
<u>Supplemental non-cash information</u>			
Total other comprehensive income		**36,992**	(34,490)
Issuance of bonus shares	17	**1,000,000**	1,000,000

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements.

1. GENERAL

a) Incorporation and operation

Bank AlBilad (the "Bank"), 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 114 banking branches (2015: 120) and 176 exchange and remittance centers (2015: 171) 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

These consolidated financial statements are prepared in accordance with the Accounting Standards for Commercial Banks promulgated by the Saudi Arabian Monetary Authority ("SAMA") and with International Financial Reporting Standards ("IFRS") as well as interpretations issued by IFRS Interpretations Committee (IFRIC). The Bank, in preparation of its consolidated financial statements, complies with the requirements of the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia, the Bank's Articles of Association.

b) Basis of measurement and presentation

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

The Group presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 31.

c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Bank's functional currency. The financial information presented in SAR has been rounded to the nearest thousand except otherwise indicated.

d) Critical accounting judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management uses estimates, assumptions or exercised judgments are as follows:

(i) Impairment for losses on financing

The Group reviews its financing portfolio to assess specific and collective impairment on a regular basis. In determining whether an impairment loss should be recorded, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group.

Management uses estimates based on historical loss experience for financing with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Fair value measurement

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

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

- in the principal market for the asset or liability, or

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

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

(iii) Classification of held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling close to maturity or an insignificant amount– it will be required to reclassify the entire class as available-for-sale.

(iv) Impairment of available-for-sale equity, sukuk and mutual funds investment

The Group exercises judgment to consider impairment on the available-for-sale investments at each reporting date. This includes determination of a significant or prolonged decline in the fair value of investment below its cost. The determination of what is significant and prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

In making this judgment, the Group evaluates among other factors, the normal volatility in the investment price, deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

The Group reviews its sukuk investments classified as available for sale at each reporting date to assess whether they are impaired. This requires similar judgment as applied to assess individual corporate financings for impairment.

(v) Determination of control over investees

The control indicators set out in note 3 (b) are subject to management's judgments that can have a significant effect in case of the Group's interests in investment funds.

The Group acts as a Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases and therefore has not consolidated these funds except for Makkah Al Diyafah fund for which the Group has concluded that it controls this Fund (for details refer to note 1 (a)).

(vi) Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management has exercised judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per law.

(vii) Fee from banking services

The management has established a threshold for the purpose of recording documentation / financing processing charges as an adjustment to effective yield. The amounts below this threshold are not capitalized and the impact is considered as immaterial.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

a) Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2015 except for the adoption of the following new standards and other amendments to existing standards and a new interpretation mentioned below which has had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods:

- **Amendments to existing standards**

  - Amendments to IFRS 10 – "Consolidated Financial Statements", IFRS 12 – "Disclosure of Interests in Other Entities" and IAS 28 – "Investments in Associates", applicable for the annual periods beginning on or after 1 January 2016, address three issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. Furthermore, only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

- Amendments to IFRS 11 – "Joint Arrangements", applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – "Business Combinations" and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

- Amendments to IAS 1 – "Presentation of Financial Statements", applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to;

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

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

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

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

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

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

b) Basis of consolidation

These 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 year 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 the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

The Bank’s subsidiaries ‘Albilad Investment Company’ and ‘Albilad Real Estate Company’ are 100% owned by the Bank and both are incorporated in the Kingdom of Saudi Arabia while Makkah Al Diyafah fund is 80% owned by the Group and is managed by Albilad Investment Company.

Albilad Investment Company’s principal activity is dealing, managing, arranging, advising and custody of securities regulated by CMA .

Albilad Real Estate Company’s principal activity is to act as custodian for assets provided by customer of the Bank as collateral.

Makkah Al Diyafah fund principal activity is to provide investors with dividend and capital growth over the medium and long term period by acquiring and selling properties situated in Makkah.

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for the transactions and other events in similar circumstances.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect amount of its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights granted by equity instruments such as shares

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Non-controlling interests represent the portion of net income / (loss) and net assets of subsidiaries not owned, directly or indirectly, by the Bank in Makkah Al Diyafah Fund and is presented separately in the consolidated statement of income and separately within equity in the consolidated statement of financial position and consolidated statement of equity, from the Bank shareholders' equity. 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.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-controlling interests are subsequently adjusted for their share.

Inter-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these 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.

c) Trade date accounting

All regular-way purchases and sales of financial assets are initially recognized and derecognized on the trade date, i.e. the date that the Group becomes a party to contractual provision of an instrument. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of those assets within the time frame generally established by regulation or convention in the market place.

All other financial asset and financial liabilities are initially recognized on trade date at which the Group becomes a party to the contractual provisions of the instrument.

d) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Bank's functional currency.

Transactions in foreign currencies are translated into Saudi Riyals ('SAR') at exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the reporting date.

Realized and unrealized gains or losses on exchange are credited or charged to the consolidated statement of income.

e) Offsetting financial instrument

Financial assets and financial liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Group either intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

f) Due from banks and other financial institution

Due from banks and other financial institutions are initially measured at fair value and subsequently measured at amortized cost.

g) Investments

All investments in securities are initially recognized at fair value and except for investments classified at fair value through statement of income (FVSI), include the acquisition costs associated with the investment. Transaction costs if any are not added to fair value measurement at initial recognition of investments classified at FVSI.

Premiums are amortized and discounts are accreted using the effective yield method and are taken to consolidated statement of income.

For securities traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are recognized at cost.

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

(i) Held as FVSI

Investments in this category are classified if they are held for trading or designated by management as FVSI on initial recognition. Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in short term and are recorded in the statement of financial position at fair value. Changes in fair value are recognized in net trading income/loss.

An investment may be designated at FVSI by the management, at initial recognition, if it satisfies the criteria laid down by IAS 39 except for the equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

Investments at FVSI are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are recognized in the consolidated statement of income for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVSI investments. Financing and investing income and dividend income on financial assets held as FVSI are reflected as either trading income or income from FVSI financial instruments in the consolidated statement of income.

Reclassification

Investments at FVSI are not reclassified subsequent to their initial recognition, except that non-derivative FVSI instrument, other than those designated as FVSI upon initial recognition, may be reclassified out of the FVSI (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- If the financial asset would have met the definition of financing and receivables, if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

- If the financial asset would not have met the definition of financing and receivables, then it may be reclassified out of the trading category only in ‘rare circumstances’.

(ii) Available for sale

Available-for-sale investments are those equity, sukuk and mutual funds investments which are neither classified as held to maturity investments, financing nor designated as FVSI, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in profit rates, exchange rates or equity prices.

Investments which are classified as “available-for-sale” are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured and are carried at cost. Unrealized gains or losses arising from changes in fair value are recognized in other comprehensive income until the investment is de-recognized or impaired whereupon any cumulative gain or loss previously recognized in other comprehensive income are reclassified to consolidated statement of income.

Financing and investing income is recognized in the consolidated statement of income on effective yield basis. Dividend income is recognized in the consolidated statement of income when the Group becomes entitled to the dividend. Foreign exchange gains or loss on available for sale debt security investments are recognized in consolidated statement of income.

A security held as available for sale may be reclassified to "other investments held at amortized cost" if it otherwise would have met the definition of "other investments held at amortized cost" and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(iii) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification.

However, sales and reclassifications in any of the following circumstances would not impact the Group's ability to use this classification.

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value.
- Sales or reclassifications after the Group has collected substantially all the assets' original principal.
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

(iv) Other investments held at amortized cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as "other investments held at amortized cost". Such investments are stated at amortized cost using effective yield basis, less provision for impairment. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized or impaired.

h) Financing

Financing comprises of bei-ajel, installment sales, musharakah, and ijarah originated or acquired by the Group and are initially recognized at fair value including acquisition costs and is subsequently measured at amortized cost less any amounts written off and provision for impairment, if any. Financing is recognized when cash is advanced to borrowers, and is derecognized when either the customers repay their obligations, or the financing is sold or written off, or substantially all the risks and rewards of ownership are transferred.

Bei-ajel and installment sales - These financing contracts are based on Murabaha whereby the Group sells to customers a commodity or an asset which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin. Bei ajel is used for corporate customers whereas installment sale is used for retail customers.

Ijarah muntahia bittamleek is an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer (lessee) request, based on his promise to lease the asset for an agreed rent and for a specific period. Ijarah could end by transferring the ownership of the leased asset to the lessee.

Musharakah is an agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

i) Impairment of financial assets

a) <u>Financing and investments held at amortized cost</u>

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired at the reporting date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts.

The Group considers evidence of impairment for financing and advances and investments held at amortized cost at both specific asset and collective level.

When a financial asset is uncollectible, it is either written off against the related provision for impairment or directly by a charge to the consolidated statement of income. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment loss is reversed by adjusting the impairment allowance account. The amount of the reversal is recognized in the consolidated statement of income in impairment charge account.

Financing whose terms have been renegotiated are no longer considered to be past due but are treated as new financing. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The financing continue to be subject to an individual or collective impairment assessment, calculated using the financing’s original effective yield rate.

Financing are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission to genuinely distressed borrowers. This results in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the financing. In other cases, renegotiation lead to a new agreement, this is treated as a new financing.

The Group also considers evidence of impairment at a collective assets level. The collective provision could be based on following criteria i.e. deterioration in internal grading, external credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

b) <u>Available for sale investments</u>

In the case of sukuk investment classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

If, in a subsequent period, the fair value of a sukuk investments increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

For equity and mutual funds investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through consolidated statement of income as long as the asset continues to be recognized i.e. any increase in fair value after impairment can only be recognized in equity. On derecognition, any cumulative gain or loss previously recognized in equity is included in the consolidated statement of income.

j) Revenue recognition

i- Income on investing and financing assets, and return on financial liabilities

Income on investing and financing assets, and return on financing liabilities is recognized in the consolidated statement of income using the effective yield method on the outstanding balance over the term of the contract.

The calculation of effective yield takes into account all contractual terms of the financial instruments including all fees (above certain threshold), transaction costs, discounts that are integral part of the effective yield method but does not include the future financing loss. Transactional costs are incremental costs that are directly attributable to acquisition of financing assets and liabilities.

ii- Fees and commission income

Fees and commission income (above certain threshold for fee related to financing) that are integral to the effective yield rate are included in the measurement of the relevant assets.

Fees and commission income that are not integral part of the effective yield calculation on a financial asset or liability are recognized when the related service is provided as follows:

- Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.

- Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.

- Performance linked fees or fee components are recognized when the performance criteria are fulfilled.

- Financing commitment fees for financing that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective yield on the financing. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognized on a straight-line basis over the commitment period.

- Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the transaction is completed or the service, is received.

iii- Exchange income / (loss)

Exchange income/ (loss) is recognized as discussed in foreign currencies policy above.

iv- Dividend income

Dividend income from investment in equities is recognized when the Group's right to receive the dividend is established which is generally when the shareholders approve the dividend.

v- Gain/ (loss) from non-trading investments

Unrealized gain/loss for a change in fair value is recognized in other comprehensive income until the investment is derecognized or impaired where upon any cumulative gains or losses previously recognized in other comprehensive income are recycled back to consolidated statement of income.

k) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to receive the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for derecognition.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognises separately, as assets or liabilities, any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

l) Zakat and Withholding Tax

Under Saudi Arabian Zakat and Income Tax Regulations, Zakat is the liability of the Saudi shareholders. Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat Regulations.

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

Withholding tax is withheld from payments made to non-resident vendors for services rendered and goods purchased according to the tax law applicable in Saudi Arabia and are directly paid to the General Authority for Zakat and Tax (GAZT) on a monthly basis.

m) Financial guarantees

In ordinary course of business, the Group provides financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in "impairment charge for financing, net". The premium received is recognized in the consolidated statement of income in "Fees and commission income, net" on a straight line basis over the life of the guarantee.

n) Provisions

Provisions are recognized when a reliable estimate can be made by the Group for a present legal or constructive obligation arising as a result of past events and it is more likely that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each consolidated statement of financial position date and are adjusted to reflect the current best estimate.

o) Accounting for leases

i) Where the Group is the lessee

Leases that do not transfer to the Group substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Group are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognized as an expense in the period in which termination takes place.

The Group evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

ii) Where the Group is the lessor

When assets are transferred under Ijara Muntahia Bittamleek the present value of the lease payments is recognized as a receivable and disclosed under “Financing”. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets subject to operating leases are included in the consolidated financial statements as property and equipment. Income from operating lease is recognized on a straight-line (or appropriate) basis over the period of the lease.

p) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, “cash and cash equivalents” include cash on hand, balances and murabaha with SAMA excluding statutory deposit, and due from banks and other financial institutions with original maturities of three months or less from the date of acquisition which is subject to insignificant changes in their fair value.

q) Property and equipment

Property and equipment is stated at cost less accumulated depreciation, and impairment, if any. The cost of property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Building	33 years
Leasehold improvements	Over lease period or economic life (10 years), whichever is shorter
Equipment and furniture and motor vehicles	4 to 6 years
Computer hardware and software	5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the consolidated statement of income.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

r) Investment in property

Properties that are held to earn rentals or for capital appreciation or both are classified as investment properties. Investment property is measured at cost including transaction costs. Transaction costs include transfer fees, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and accumulated impairment and reviewed at each reporting date for any decline in the value of the investment. Gains from this investment are reported upon the sale of investment property.

The estimated useful life of the investment property is 40 years starting from the date of the utilization of the properties.

s) Financial liabilities

All customer deposits, due to banks and other financial institutions, sukuk and other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost.

t) Investment management services

The Group offers investment services to its customers, through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Group's share of these funds is included in the available-for-sale investment and fee income earned from managing these funds is disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly, are not included in the consolidated financial statements.

u) Income excluded from the consolidated statement of income

The Shariah Authority of the Bank conducts from time to time Shariah reviews to ensure compliance of its Shariah decisions. In cases where revenue have been wrongly or inadvertently recognized which does not conform to Shariah principles, the Board of Directors of the Bank shall, at the request of the Chief Executive Officer (CEO), authorize the exclusion of such revenue from the Group's income for its final disposal.

v) Employees' share plan

The Bank offers its eligible employees an equity-settled share-based payment plan as approved by SAMA. As per the plan, eligible employees of the Bank are offered stocks to be withheld out of their annual bonus payments.

The cost of the plan is measured by reference to the fair value at the date on which the stocks are granted.

The cost of the plan is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the stock option ('the vesting date'). The cumulative expense recognized for the plan at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a year represents the movement in cumulative expense recognized as at the beginning and end of that year.

The Bank, with the approval from SAMA, has entered into an agreement with an independent third-party for custody of the shares under the plan, plus any benefits accrued there-on.

w) Treasury shares

Treasury shares are recorded at cost and presented as a deduction from the equity as adjusted for any transaction costs, dividends and gains or losses on sale of such stocks. Subsequent to their acquisition, these shares are carried at the amount equal to the consideration paid.

These shares are acquired by the Bank with the approval of SAMA, primarily for discharging its obligation under its share-based payment plans.

x) Employees' end of service benefits

The liability for employees' end of service benefits is determined based on an actuarial valuation conducted by an independent actuary. The actuarial valuation process takes into account the provisions of the Saudi Arabian Labour Law.

4. CASH AND BALANCES WITH SAMA

	Notes	**2016 SAR' 000**	2015 SAR' 000
Statutory deposit	**4.1**	**2,412,213**	2,509,101
Cash in hand		**1,518,636**	1,473,037
Other balances	**4.2**	**597,976**	619,983
Total		**4,528,825**	4,602,121

4.1 In accordance with the Banking Control Law and Regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, saving, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day to day operations and therefore is not part of cash and cash equivalents.

4.2 This includes cash management account with SAMA of SAR 325 million (2015: SAR 570 million).

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

	2016 SAR' 000	2015 SAR' 000
Demand	**467,716**	424,791
Commodity murabaha	**7,574,051**	8,048,789
Allowance for impairment on commodity murabaha	**(90,923)**	(90,923)
	7,483,128	7,957,866
Total	**7,950,844**	8,382,657

The credit quality of due from banks and other financial institutions is managed using external credit rating agencies.

The table below shows the credit quality by class

Class	2016 SAR' 000	2015 SAR' 000
Excellent	**5,714,178**	8,018,557
Very good	**2,236,666**	273,147
Unrated	**-**	90,953
	7,950,844	8,382,657

6. INVESTMENTS, NET

a) Investments as at December 31 comprise the following:

2016

		Domestic		International		Total
		Quoted	Unquoted	Quoted	Unquoted	
	Note	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000
Available-for-sale investments						
Equities, net	6 (b)	**130,320**	**157,500**			**287,820**
Mutual fund		**279,365**	**-**	**-**	**-**	**279,365**
Sukuk		**250,791**	**470,644**	**47,747**	**-**	**769,182**
		660,476	**628,144**	**47,747**	**-**	**1,336,367**
Held at amortized cost						
Commodity murabaha with SAMA		**-**	**1,744,578**	**-**	**-**	**1,744,578**
Total		**660,476**	**2,372,722**	**47,747**	**-**	**3,080,945**

2015

		Domestic		International		Total
		Quoted	Unquoted	Quoted	Unquoted	
	Note	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000
Available-for-sale investments						
Equities, net	6 (b)	151,041	157,500	-	-	308,541
Mutual fund		236,909		-	-	236,909
Sukuk		253,991	297,568	48,704	-	600,263
		641,941	455,068	48,704		1,145,713
Held at amortized cost						
Commodity murabaha with SAMA		-	1,803,222	-	-	1,803,222
Total		641,941	2,258,290	48,704	-	2,948,935

b) Movement in impairment charge through consolidated income statement are summarized as follows:

	2016 SAR'000	2015 SAR'000
Balance at the beginning of the year	**13,108**	-
Provided during the year	**47,183**	13,108
Balance at the end of the year	**60,291**	13,108

c) Analysis of investments by credit quality

	2016 SAR'000	2015 SAR'000
Sovereign	**1,744,578**	1,803,222
Investment grade	**298,538**	302,695
Equities, mutual fund and others	**1,037,829**	843,018
Total	**3,080,945**	2,948,935

Investment grade includes exposures in the range of "substantially credit risk free to very good credit risk quality".

d) The analysis of investments by counter-party is as follows:

	2016 SAR' 000	2015 SAR' 000
Corporate	**1,330,268**	1,138,833
Banks and other financial institutions	**6,099**	6,880
SAMA	**1,744,578**	1,803,222
Total	**3,080,945**	2,948,935

e) Equities reported under available-for-sale investments include unquoted shares of SAR 157.5 million (2015: SAR 157.5 million) carried at cost as management believes that cost of such investments approximate their fair value. Management also believes cost of Commodity murabaha with SAMA and unquoted sukuk approximates its fair value.

7. FINANCING, NET

a) Held at amortized cost

SAR' 000	**2016**				
	Bei ajel	**Installment sales / Ijarah**	**Musharakah**	**Ijarah**	**Total**
Performing	**22,667,228**	**12,671,433**	**1,158,166**	**180,086**	**36,676,913**
Non-performing	**252,995**	**162,518**	**91,612**	**-**	**507,125**
Total	**22,920,223**	**12,833,951**	**1,249,778**	**180,086**	**37,184,038**
Allowance for impairment	**(687,644)**	**(209,865)**	**(105,446)**	**(2,696)**	**(1,005,651)**
Financing, net	**22,232,579**	**12,624,086**	**1,144,332**	**177,390**	**36,178,387**

SAR' 000	2015				
Performing	20,812,829	11,708,958	1,863,143	219,157	34,604,087
Non-performing	263,462	139,024	112,276	-	514,762
Total	21,076,291	11,847,982	1,975,419	219,157	35,118,849
Allowance for impairment	(536,762)	(191,000)	(132,614)	(3,850)	(864,226)
Financing, net	20,539,529	11,656,982	1,842,805	215,307	34,254,623

b) Allowance for impairment for financing:

	2016 SAR' 000	2015 SAR' 000
Balance at the beginning of the year	**864,226**	825,099
Provided during the year	**262,375**	120,970
Amounts written off during the year	**(49,789)**	(39,566)
Recoveries of amounts previously provided	**(71,161)**	(42,277)
Balance at the end of the year	**1,005,651**	864,226

c) Credit quality of financing

The financing categories have the following classifications:

(i) Neither past due nor impaired

SAR' 000	Bei ajel		Installment sales / Ijarah		Musharakah		Ijarah		Total	
Grades	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Excellent	**3,954,779**	5,188,166	-	-	**333,866**	656,883	-	-	**4,288,645**	5,845,049
Good	**4,422,040**	5,556,446	-	-	**406,845**	448,322	-	-	**4,828,885**	6,004,768
Satisfactory	**9,485,549**	3,646,611	-	-	**142,645**	279,421	**180,086**	219,157	**9,808,280**	4,145,189
Fair risk	**4,291,385**	5,668,540	-	-	**258,631**	407,475	-	-	**4,550,016**	6,076,015
Watch list	**296,124**	363,516	-	-	-	-	-	-	**296,124**	363,516
Total corporate	**22,449,877**	20,423,279	-	-	**1,141,987**	1,792,101	**180,086**	219,157	**23,771,950**	22,434,537
Retail – satisfactory			**12,272,572**	11,445,895					**12,272,572**	11,445,895
Total									**36,044,522**	33,880,432

Excellent:
Strong financial position with excellent liquidity, capitalization, earnings, cash flow, management and capacity to repay are excellent.

Good:
Healthy financial position with good liquidity, capitalization, earnings, cash flow, management and capacity to repay are good.

Satisfactory:
Acceptable financial position with reasonable liquidity, capitalization, earnings, cash flow, management and capacity to repay are good. All performing retail financing are also categorized as Satisfactory.

Fair risk:
Financial position is fair but volatile. However, capacity to repay remains acceptable.

Watch list:
Cash flow problems may result in delay in payment of profit / installment. Facilities require frequent monitoring. However management considers that full repayment will be received.

(ii) Ageing of portfolio (past due but not impaired)

2016	Bei Ajel SAR' 000	Installment sales / ijarah SAR' 000	Ijarah SAR' 000	Musharakah SAR' 000	Total SAR' 000
1 to 30 days	**209,051**	**321,423**	**-**	**15,695**	**546,169**
31 to 90 days	**8,301**	**77,437**	**-**	**484**	**86,222**
Total	**217,352**	**398,860**	**-**	**16,179**	**632,391**
Fair value of collaterals	**294,464**	**86,852**	**-**	**6,002**	**387,318**
2015					
1 to 30 days	314,419	204,854	-	63,812	583,085
31 to 90 days	75,131	58,208	-	7,231	140,570
Total	389,550	263,062	-	71,043	723,655
Fair value of collaterals	2,489,668	25,798	-	111,095	2,626,561

Neither past due nor impaired and past due but not impaired comprise the total performing financing.

(iii) Credit quality of financing (individually impaired financing)

The table below sets out gross balances of individually impaired financing, together with the fair value of related collaterals held by the Group as at December 31, as follows:

2016	**Bei Ajel SAR' 000**	**Installment sales / ijarah SAR' 000**	**Ijarah SAR' 000**	**Musharakah SAR' 000**	**Total SAR' 000**
Individually impaired financing	**252,995**	**162,518**	**-**	**91,612**	**507,125**
Fair value of collaterals	**202,004**	**27,023**	**-**	**367,036**	**596,063**

2015	Bei Ajel SAR' 000	Installment sales / ijarah SAR' 000	Ijarah SAR' 000	Musharakah SAR' 000	Total SAR' 000
Individually impaired financing	263,462	139,024	-	112,276	514,762
Fair value of collaterals	211,531	11,791	-	321,968	545,290

d) Collateral

The Bank in the ordinary course of its financing activities holds collateral as security to mitigate credit risk.

The collateral mostly includes project receivables deposits, financial guarantees, local equities and real estate. Collateral is principally held against corporate and retail real estate facilities and is managed against relevant exposures at their net realizable values.

e) Economic sector risk concentration for financing and allowance for impairment:

2016	**Performing financing SAR' 000**	**Non-performing financing SAR' 000**	**Allowance for impairment SAR' 000**	**Financing, net SAR' 000**
Commercial	**4,414,769**	**195,980**	**(235,450)**	**4,375,299**
Industrial	**4,248,322**	**32,243**	**(85,005)**	**4,195,560**
Building and construction	**7,572,156**	**52,626**	**(179,120)**	**7,445,662**
Transportation and communication	**588,989**	**-**	**(3,932)**	**585,057**
Electricity, water, gas & health services	**373,664**	**-**	**(1,870)**	**371,794**
Services	**2,236,429**	**3,198**	**(37,679)**	**2,201,948**
Agriculture and fishing	**797,830**	**-**	**(64,026)**	**733,804**
Mining & Quarrying	**17,517**	**-**	**(85)**	**17,432**
Personal	**12,703,669**	**162,518**	**(209,865)**	**12,656,322**
Other	**3,723,568**	**60,560**	**(188,619)**	**3,595,509**
Total	**36,676,913**	**507,125**	**(1,005,651)**	**36,178,387**

2015	Performing financing SAR '000	Non-performing financing SAR '000	Allowance for impairment SAR '000	Financing, net SAR '000
Commercial	4,071,951	101,744	(161,020)	4,012,675
Industrial	4,447,959	135,947	(132,374)	4,451,532
Building and construction	6,686,319	74,698	(182,695)	6,578,322
Transportation and communication	487,798	-	(8,569)	479,229
Electricity, water, gas & health services	494,469	-	(8,686)	485,783
Services	2,467,705	224	(43,573)	2,424,356
Agriculture and fishing	498,286	-	(8,753)	489,533
Mining & Quarrying	-	-	-	-
Personal	11,708,957	139,024	(191,000)	11,656,981
Other	3,740,643	63,125	(127,556)	3,676,212
Total	34,604,087	514,762	(864,226)	34,254,623

f) Ijarah receivables:

	2016 SAR'000		2015 SAR'000	
	Retail	**Corporate**	Retail	Corporate
Gross receivables from ijarah financing :				
Less than 1 year	**359,594**	**181,770**	240,445	220,670
1 to 5 years	**186,427**	**-**	266,754	-
Over 5 years	**1,614**	**-**	10,444	-
Unearned finance income on ijarah financing	**(105,050)**	**(1,684)**	(59,782)	(1,513)
Net receivables from ijarah financing	**442,585**	**180,086**	457,861	219,157

8. PROPERTY AND EQUIPMENT, NET

SAR' 000	Land and building	Leasehold improvements	Equipment, furniture and motor vehicles	Computer hardware and software	Total 2016	Total 2015
Cost:						
As at the beginning of the year	**457,231**	**569,275**	**283,771**	**358,117**	**1,668,394**	1,577,719
Additions during the year	**-**	**18,461**	**50,268**	**38,077**	**106,806**	94,994
Disposals			**(1,607)**	**(830)**	**(2,437)**	(4,319)
As at December 31	**457,231**	**587,736**	**332,432**	**395,364**	**1,772,763**	1,668,394
Accumulated depreciation:						
At the beginning of the year	**2,300**	**356,952**	**221,951**	**295,107**	**876,310**	779,350
Charge for the year	**657**	**36,316**	**29,773**	**29,581**	**96,327**	101,187
Disposals		**-**	**(1,469)**	**(829)**	**(2,298)**	(4,227)
As at December 31	**2,957**	**393,268**	**250,255**	**323,859**	**970,339**	876,310
Net book value:						
As at December 31, 2016	**454,274**	**194,468**	**82,177**	**71,505**	**802,424**	
As at December 31, 2015	454,931	212,324	61,820	63,009		792,084

Leasehold improvements include work-in-progress as at December 31, 2016 amounting to SAR 35.1 million (2015: SAR 46.7 million).

9. INVESTMENT PROPERTY

As of December 31, 2016 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.

10. OTHER ASSETS

	2016 SAR' 000	2015 SAR' 000
Prepaid rent	**51,191**	48,446
Advances to suppliers	**55,796**	47,735
Management fee receivable	**41,574**	39,496
Others	**202,605**	104,313
Total	**351,166**	239,990

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2016	2015
	SAR' 000	SAR' 000
Demand	**62,758**	83,491
Direct investment	**933,633**	1,338,161
Total	**996,391**	1,421,652

12. CUSTOMERS' DEPOSITS

		2016	2015
	Notes	**SAR' 000**	SAR' 000
Demand	12-1	**26,974,543**	28,502,322
Direct investment		**6,496,933**	9,452,440
Albilad account (Mudarabah)		**5,937,828**	3,326,469
Others	12-2	**825,411**	898,229
Total		**40,234,715**	42,179,460

12-1 Demand includes foreign currency deposits of SAR 594 million (2015: SAR 282 million).

12-2 Other includes Margins held for irrevocable commitments of SAR 825 million (2015: SAR 895 million). Margins includes foreign currency margin of SAR 52 million (2015: SAR 57 million).

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

14. OTHER LIABILITIES

	2016	2015
	SAR' 000	SAR' 000
Accounts payable	**559,217**	536,055
Accrued expenses	**304,502**	275,447
Others	**463,700**	365,557
Total	**1,327,419**	1,177,059

15. SHARE CAPITAL

The authorized issued and fully paid-up capital of the Bank consists of 600 million shares of SAR 10 each (2015: 500 million shares of SAR 10 each).

16. STATUTORY RESERVE

In accordance with Article 13 of the Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 202 million (2015: SAR 197 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

17. DIVIDENDS AND CAPITAL INCREASE

On December 28, 2016 the Board of Directors recommended to pay a cash dividends of SAR 300 million (SAR 0.5 per share). This dividends is subject to final approval of shareholders in the upcoming general assembly.

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 increasing 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.

The Board of Directors in its meeting held on January 8, 2015 approved a dividend of SAR 200 million i.e. SAR 0.5 per share for the year 2014. The Board of Directors also recommended a bonus issuance of one share for every four shares held. This was subsequently approved in the Bank’s Extra-ordinary General Assembly meeting held on April 14, 2015 thus increasing the Bank’s capital from SAR 4,000 million to SAR 5,000 million. The bonus share were issued by capitalizing an amount of SAR 995.6 million from retained earnings, and transfer of an amount of SAR 4.4 million from statutory reserve as per the approval from SAMA increasing the number of shares outstanding after the bonus issuance from 400 million shares to 500 million shares.

Basic and diluted earnings per share for the twelve months period ended December 31, 2016 and 2015 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.

18. OTHER RESERVES

Other reserves represent the net unrealized revaluation (losses) / gains on available for sale investments and zakat paid to General Authority for Zakat and Tax (GAZT) on behalf of the shareholders. This reserve is not available for distribution to shareholders. Movement in other reserves is as follows:

	2016 SAR' 000	2015 SAR' 000
Balance at beginning of the year	**(11,712)**	22,778
Net change in fair value of available for sale investments	**(8,432)**	(47,795)
Transfer to consolidated statement of income	**(1,759)**	197
Impairment charge on available for sale investments	**47,183**	13,108
Net movement during the year	**36,992**	(34,490)
Zakat	**143,921**	-
Balance at the end of the year	**169,201**	(11,712)

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2016, there were legal proceedings outstanding against the Bank. Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisers.

b) Capital commitments

As at December 31, 2016, the Bank had capital commitments of SAR 131 million (2015: SAR 94 million) relating to leasehold improvements and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantee and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as financing. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent unused portions of authorization to extend credit, principally in the form of financing, guarantees or letters of credit. With respect to credit risk relating to commitments to extend credit, the Group is potentially exposed to a loss in an amount which is equal to the total unused commitments. The amount of any related loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

(i) Contractual maturity structure of the Group's commitments and contingencies:

2016 (SAR' 000)	**Less than 3 months**	**From 3 months to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Letters of credit	**198,678**	**634,673**	**62,381**	**-**	**895,732**
Letters of guarantee	**210,483**	**2,184,562**	**1,719,423**	**127,464**	**4,241,932**
Acceptances	**137,527**	**79,905**	**-**	**-**	**217,432**
Irrevocable commitments to extend credit	**-**	**-**	**1,633,518**	**-**	**1,633,518**
Total	**546,688**	**2,899,140**	**3,415,322**	**127,464**	**6,988,614**

2015 (SAR' 000)	Less than 3months	From 3 months to 12 months	From 1 to 5 years	More than 5 years	Total
Letters of credit	101,471	256,116	118,101	-	475,688
Letters of guarantee	369,747	1,732,269	1,491,507	106,510	3,700,033
Acceptances	385,144	61,814	7,453	-	454,411
Irrevocable commitments to extend credit	-	-	1,400,739	-	1,400,739
Total	856,362	2,050,199	3,017,800	106,510	6,030,871

The outstanding unused portion of commitments as at December 31, 2016 which can be revoked unilaterally at any time by the Group, amounts to SAR 5.6 billion (2015: SAR 4.3 billion).

(ii) Commitments and contingencies by counter party:

	2016 SAR' 000	2015 SAR' 000
Corporate	**6,091,729**	5,727,081
Financial institutions	**827,039**	229,597
Others	**69,846**	74,193
Total	**6,988,614**	6,030,871

d) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases where the Group is the lessee are as follows:

	2016	2015
	SAR' 000	SAR' 000
Less than one year	**159,975**	118,989
One year to five years	**437,183**	376,912
Over five years	**357,884**	338,760
Total	**955,042**	834,661

e) 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 the current year, the Bank made an additional payment of SAR 58 million in respect of the assessment for financial year 2006.

20. INCOME FROM INVESTING AND FINANCING ASSETS

	2016	2015
	SAR' 000	SAR' 000
Investments and due from banks and other financial institutions		
Income from Commodity murabaha with		
- SAMA	**28,275**	5,863
- Banks and other financial institutions	**210,098**	72,991
Income from sukuk	**18,083**	9,813
Income from financing:		
Bei ajel	**997,593**	674,013
Installment sales	**452,273**	406,411
Ijarah	**3,217**	4,163
Musharakah	**62,932**	65,585
Total	**1,772,471**	1,238,839

21. RETURN ON DEPOSITS AND FINANCIAL LIABILITES

	2016	2015
Return on:	**SAR' 000**	SAR' 000
Due to banks and other financial institutions	**46,611**	5,259
Deposits		
- Albilad account (Mudarabah)	**47,255**	8,624
- Direct investment	**239,745**	62,562
Sukuk	**29,015**	-
Total	**362,626**	76,445

22. FEES AND COMMISSION INCOME, NET

	2016	2015
	SAR' 000	SAR' 000
Fees and commission income		
Remittance	**486,830**	477,684
ATM and point of sale	**191,517**	155,836
Facilities management fee	**87,862**	78,448
Letter of credit and guarantee	**42,154**	46,782
Management fee (mutual fund and others)	**47,476**	43,083
Brokerage income	**31,895**	41,383
Documentation charges	**39,260**	39,273
Others	**56,974**	42,460
Total fees and commission income	**983,968**	924,949
Fees and commission expenses		
ATM and point of sale	**130,559**	111,616
Brokerage expenses	**3,052**	4,762
Remittance	**4,846**	2,990
Others	**28,791**	26,361
Total fees and commission expenses	**167,248**	145,729
Fees and commission income, net	**816,720**	779,220

23. OTHER OPERATING INCOME

	2016	2015
	SAR' 000	SAR' 000
Recovery of directly written-off financing	**25,948**	25,035
Others	**21,558**	1,527
Total	**47,506**	26,562

24. SALARIES AND EMPLOYEE RELATED BENEFITS

The following table summarizes compensation practices and includes total of fixed and variable compensation paid to employees during the year ended December 31, 2016 and 2015, and the form of such payments:

	Number of Employees		Fixed compensation SAR 000		Variable Compensation Paid					
					Cash		Shares		Total	
					SAR' 000					
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Senior executives requiring SAMA no objection	**16**	12	**18,305**	20,498	**4,598**	8,104	**6,106**	4,840	**10,704**	12,944
Employees engaged in risk taking activities	**267**	249	**80,628**	71,273	**3,616**	7,950	**1,609**	1,117	**5,225**	9,067
Employees engaged in control functions	**265**	256	**70,529**	65,844	**6,057**	6,674	**1,110**	716	**7,168**	7,390
Other employees	**2,893**	2,982	**392,273**	380,340	**19,139**	23,131	**2,513**	1,588	**21,653**	24,719
Outsourced employees	**374**	385	**59,124**	52,387	21		**-**		**21**	
Total	**3,815**	3,884	**620,859**	590,342	**33,431**	45,859	**11,338**	8,261	**44,771**	54,120
Variable compensation accrued			**49,243**	35,337						
Other employee related benefits			**232,120**	227,427						
Total salaries and employee related expenses			**902,222**	853,106						

Employees Compensation and Benefits

1. Quantitative disclosure:

This disclosure has to be bifurcated between the following categories, whereby the meaning of each category is mentioned below:

a. Senior executive requiring SAMA no objection:

Whose appointment is subject to approval of SAMA: This includes all staff which requires prior approval of SAMA before appointment, such as: CEO, COO, CRO, CFO, CBO, Head of Internal Audit, Head of Compliance, etc.

b. Employees engaged in risk taking activities:

This comprises of management staff within various business lines i.e. corporate, retail, treasury, trade Services, private Banking etc. who are responsible for executing and implementing the business strategy of the Bank.

c. Employees engaged in control functions:

This comprises of employees working in divisions that are not involved in risk taking activities but engaged in review functions i.e. risk management, compliance, head of internal audit, treasury operations, finance and accounting, etc.

d. Other employees:

All regular employees other than those mentioned in (a) to (c) above.

e. Outsourced employees:

This includes staff employed by various agencies who supply services to the Bank on a full time basis in non-critical roles. None of these roles require risk undertaking or control.

2. Qualitative disclosure:

The Bank has developed a Compensation Policy based on the 'Rules on Compensation Practices' issued by SAMA as well as the guidelines provided by the Financial Stability Board and the Basel Committee on Banking Supervision in this respect.

The Compensation Policy has been approved by the Board of Directors (BOD). The BOD have also established a Nominations and Remuneration Committee, comprising of five members, the Chairman and two members of the Committee are independent to oversee the implementation of the Policy.

The mandate of the Committee is to oversee the compensation system design and operation, prepare and periodically review the Compensation Policy and evaluate its effectiveness in line with the industry practice.

Policy objectives

The policy sets guidelines for determination of both fixed and variable compensation to be paid to the employees of the Group. The scope of the Policy includes all compensation elements, approval and reporting process, stock options, bonus and its deferral, etc.

The objective of the Policy is to ensure that the compensation is governed by the financial performance evaluation and is linked to the various risks associated, at an overall level. Key staff members of the Bank are eligible to variable compensation which is derived from Risk Adjusted Net Income of the Bank which accounts for significant existing and potential risks in order to protect the Bank's Capital Adequacy and to mitigate the risk of potential future losses.

Compensation structure

The compensation structure of the Bank is based on appropriate industry benchmarking and includes both fixed and variable components. The variable component is designed to ensure key employee retention and is based on three year vesting period.

a. Fix components:

Provide a competitive salaries or wage according to annual Market alignment. Including (Basic, Housing, Transportation and Fix allowance) which is written in the employee's contract.

b. Variable components:

Taking into account the risk associated with the Bank's performance & individual performance appraisal, all these factors are assessed on periodical basis and the results are shared with the stakeholders based on which the incentive is announced at the close of each accounting period. Including (LTIP or the Stoke Options & STIP as Incentives scheme, Annual Bonus and Annual tickets allowance).

Performance management system

The performance of all employees is measured by way of a balance score card methodology taking in to consideration, financial, customer, process and people factors with appropriate weightage to each factor based on the respective assignments.

25. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2016 and 2015 is calculated by dividing the net income for the year attributable to the equity holders by 600 million shares to give a retroactive effect of change in the number of shares increased as a result of the issuance of bonus shares. 6,369,598

26. CASH AND CASH EQUIVALENTS

	Notes	**2016** **SAR' 000**	2015 SAR' 000
Cash in hand	4	**1,518,636**	1,473,037
Due from banks and other financial institutions (maturing within ninety days from acquisition)		**6,369,598**	5,973,256
Held to maturity investment (maturing within ninety days from acquisition)		**300,070**	-
Balances with SAMA (excluding statutory deposit)	4	**597,976**	619,983
Total		**8,786,280**	8,066,276

27. SEGMENTAL 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) 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, 2015.

For management purposes, the Group is divided into the following five operating 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 .

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 other operating segments, based on an approved criteria.

a) The Group total assets and liabilities, together with its total operating income and expenses, and net income /(loss), for the years ended December 31, 2016 and 2015 for each segment are as follows:

SAR' 000	2016					
	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	18,343,093	22,537,142	11,480,857	227,406	1,304,093	53,892,591
Capital expenditures	53,956	973	(182)	869	51,190	106,806
Total liabilities	25,620,006	8,180,533	9,436,781	15,932	3,318,534	46,571,786
Income from investing and financing assets	525,058	990,957	247,173	9,283	-	1,772,471
Return on deposits and financial liabilities	(79,554)	(12,862)	(241,195)	-	(29,015)	(362,626)
Funding Pool	31,505	(316,576)	151,489	-	133,582	-
Net income from investing and financing assets	477,009	661,519	157,467	9,283	104,567	1,409,845
Fee, commission and other income, net	823,661	134,288	94,492	83,662	47,862	1,183,965
Total operating income	1,300,670	795,807	251,959	92,945	152,429	2,593,810
Impairment charge for financing, net	26,659	164,555	-	-	-	191,214
Impairment charge on available for sale investments	-	-	-		47,183	47,183
Depreciation	85,741	7,557	1,300	1,729	-	96,327
Total operating expenses	1,209,845	405,446	58,736	61,822	48,938	1,784,787
Net income for the year	90,825	390,361	193,223	31,123	103,491	809,023
Attributable to						
Equity holders of the Bank	90,825	390,361	193,223	31,123	102,191	807,723
Non-controlling interest	-	-	-	-	1,300	1,300
Net income for the year	90,825	390,361	193,223	31,123	103,491	809,023

SAR' 000	2015					
	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	15,818,492	22,793,027	10,582,126	430,947	1,595,818	51,220,410
Capital expenditures	66,743	148	57	2,221	25,825	94,994
Total liabilities	24,928,550	7,881,401	10,791,161	148,753	1,028,306	44,778,171
Income from investing and financing assets	440,973	709,200	84,923	3,743	-	1,238,839
Return on deposits and financial liabilities	(8,240)	(384)	(67,821)	-	-	(76,445)
Funding Pool	19,938	(110,768)	50,622	-	40,208	-
Net income from investing and financing assets	452,671	598,048	67,724	3,743	40,208	1,162,394
Fee, commission and other income, net	795,184	135,516	94,401	70,855	36,270	1,132,226
Total operating income	1,247,855	733,564	162,125	74,598	76,478	2,294,620
Impairment charge for financing, net	65,777	12,916	-	-	-	78,693
Impairment charge on available for sale investments	-	-	-	-	13,108	13,108
Depreciation	93,217	5,436	1,085	1,449	-	101,187
Total operating expenses	1,110,973	284,049	49,541	46,732	14,902	1,506,197
Net income for the year	136,882	449,515	112,584	27,866	61,576	788,423
Attributable to						
Equity holders of the Bank	136,882	449,515	112,584	27,866	61,576	788,423
Non-controlling interest	-	-	-	-	-	-
Net income for the year	136,882	449,515	112,584	27,866	61,576	788,423

(b) Credit exposure by operating segments is as follows:

2016 **SAR' 000**	**Retail banking segment**	**Corporate**	**Treasury**	**Total**
Total assets	**12,624,086**	**23,554,301**	**10,456,604**	**46,634,991**
Commitments and contingencies	**-**	**3,657,416**	**-**	**3,657,416**
2015 SAR' 000				
Total assets	11,656,981	22,597,642	10,786,142	45,040,765
Commitments and contingencies	-	3,103,069	-	3,103,069

Group credit exposure is comprised of due from bank and other financial institutions, investments and financing. The credit equivalent value of commitments and contingencies are included in credit exposure as calculated in accordance with SAMA regulations.

28. FINANCIAL RISK MANAGEMENT

Banking activities involve varieties of financial risks which are assessed by conducting set of analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance with ultimate objective of enhancing the shareholders' value.

The Group's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Group reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practice.

The Group's Board of Directors have appointed the Risk and Compliance Committee which has the responsibility to monitor the overall risk process within the Group. The Risk and Compliance Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is the responsible for managing risk decisions and monitoring risk levels. The Risk and Compliance Committee reports on a regular basis to the Board of Directors.

29. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arrive principally in financing and investment activities. There is also credit risk in off-financial position financial instruments, such as letters of credit, letter of guarantees and financing commitments.

The Group assesses the probability of default of counterparties using internal rating tools. Also, the Group uses external ratings from major rating agencies, where available.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

The Group seeks to manage its credit risk exposure through diversification to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant facilities.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment of financings.

The Group regularly reviews its risk management policies and systems to reflect changes in market products and emerging best practice.

Analysis of investments by counter-party is provided in note 6(d), for financing in note 7 and for commitments and contingencies in note 19. The information on the Group's maximum credit and credit risk exposure by operating business segments is given in note 27(b).

a) Geographical concentration

(i) The geographical distribution of assets, liabilities, commitments and contingencies and credit risk exposure as of December 31:

2016 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	4,528,825	-	-	-	-	-	-	4,528,825
• Cash in hand	1,518,636	-	-	-	-	-	-	1,518,636
• Balances with SAMA	3,010,189	-	-	-	-	-	-	3,010,189
Due from Banks and other financial institutions	3,631,585	3,894,954	109,779	161,736	-	97,968	54,822	7,950,844
• Demand	-	43,411	109,779	161,736	-	97,968	54,822	467,716
• Commodity murabaha	3,631,585	3,851,543	-	-	-	-	-	7,483,128
Investments, net	3,024,900	47,747	8,298	-	-	-	-	3,080,945
• Available for sale	1,280,322	47,747	8,298	-	-	-	-	1,336,367
• Held at amortized cost	1,744,578	-	-	-	-	-	-	1,744,578
Financing, net	36,178,387	-	-	-	-	-	-	36,178,387
• Consumer	12,624,086	-	-	-	-	-	-	12,624,086
• Corporate	23,554,301	-	-	-	-	-	-	23,554,301
Property and equipment, net	802,424	-	-	-	-	-	-	802,424
Investment in property	1,000,000	-	-	-	-	-	-	1,000,000
Other assets	350,742	424	-	-	-	-	-	351,166
Total	49,516,863	3,943,125	118,077	161,736	-	97,968	54,822	53,892,591
Liabilities								
Due to SAMA	2,006,214	-	-	-	-	-	-	2,006,214
Due to banks and other financial institutions	727,153	145,854	-	-	-	93,897	29,487	996,391
• Demand	-	33,228	-	-	-	43	29,487	62,758
• Direct investment	727,153	112,626	-	-	-	93,854	-	933,633
Customer deposits	40,234,715	-	-	-	-	-	-	40,234,715
• Demand	26,974,543	-	-	-	-	-	-	26,974,543
• Direct investment	6,496,933	-	-	-	-	-	-	6,496,933
• Albilad account (Mudarabah)	5,937,828	-	-	-	-	-	-	5,937,828
• Other	825,411	-	-	-	-	-	-	825,411
Sukuk	2,007,047	-	-	-	-	-	-	2,007,047
Other liabilities	1,327,419	-	-	-	-	-	-	1,327,419
Total	46,302,548	145,854	-	-	-	93,897	29,487	46,571,786
Commitments and contingencies								
• Letters of credit	895,732	-	-	-	-	-	-	895,732
• Letter of Guarantee	4,241,932	-	-	-	-	-	-	4,241,932
• Acceptances	217,432	-	-	-	-	-	-	217,432
• Irrevocable commitments to extend credit	1,633,518	-	-	-	-	-	-	1,633,518
	6,988,614	-	-	-	-	-	-	6,988,614
Credit risk (stated at credit equivalent amounts) on commitments and contingencies	3,657,416	-	-	-	-	-	-	3,657,416

2015 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	4,602,121	-	-	-	-	-	-	4,602,121
• Cash in hand	1,473,037	-	-	-	-	-	-	1,473,037
• Balances with SAMA	3,129,084	-	-	-	-	-	-	3,129,084
Due from Banks and other financial institutions	5,223,260	2,754,035	132,083	118,187	-	68,665	86,427	8,382,657
• Demand	-	19,429	132,083	118,187	-	68,665	86,427	424,791
• Commodity murabaha	5,223,260	2,734,606	-	-	-	-	-	7,957,866
Investments, net	2,900,231	48,704	-	-	-	-	-	2,948,935
• Available for sale	1,097,009	48,704	-	-	-	-	-	1,145,713
• Held at amortized cost	1,803,222	-	-	-	-	-	-	1,803,222
Financing, net	34,254,623	-	-	-	-	-	-	34,254,623
• Consumer	11,656,982	-	-	-	-	-	-	11,656,982
• Corporate	22,597,641	-	-	-	-	-	-	22,597,641
Property and equipment, net	792,084	-	-	-	-	-	-	792,084
Investment in property	-	-	-	-	-	-	-	-
Other assets	239,567	423	-	-	-	-	-	239,990
Total	48,011,886	2,803,162	132,083	118,187	-	68,665	86,427	51,220,410
Liabilities								
Due to banks and other financial institutions	1,313,158	87,868	231			1,292	19,103	1,421,652
• Demand	-	62,865	231	-	-	1,292	19,103	83,491
• Direct investment	1,313,158	25,003	-		-			1,338,161
Customer deposits	42,179,460	-	-	-	-	-	-	42,179,460
• Demand	28,502,322	-	-	-	-	-	-	28,502,322
• Direct investment	9,452,440	-	-	-	-	-	-	9,452,440
• Albilad account (Mudarabah)	3,326,469	-	-	-	-	-	-	3,326,469
• Other	898,229	-	-	-	-	-	-	898,229
Sukuk	-	-	-	-	-	-	-	-
Other liabilities	1,177,059	-	-	-	-	-	-	1,177,059
Total	44,669,677	87,868	231	-	-	1,292	19,103	44,778,171
Commitments and contingencies								
• Letters of credit	475,688	-	-	-	-	-	-	475,688
• Letter of Guarantee	3,700,033	-	-	-	-	-	-	3,700,033
• Acceptances	454,411	-	-	-	-	-	-	454,411
• Irrevocable commitments to extend credit	1,400,739	-	-	-	-	-	-	1,400,739
	6,030,871	-	-	-	-	-	-	6,030,871
Credit risk (stated at credit equivalent amounts) on commitments and contingencies	3,103,069	-	-	-	-	-	-	3,103,069

Credit equivalent amounts reflect the amounts that result from translating the Group's commitments and contingencies into the risk equivalent of financing facilities using credit conversion factors prescribed by SAMA. Credit conversion factor is used to capture the potential credit risk resulting from the Group meeting its commitments.

(ii) The geographical distribution of the impaired available for sale investments, financing assets and commodity murabaha and the allowance for impairment is set out as below:

2016 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Non-Performing financing	**507,125**	-	-	-	-	-	-	**507,125**
Allowance for financing impairment	**1,005,651**	-	-	-	-	-	-	**1,005,651**
Impaired available for sale investments and commodity murabaha	102,182	90,923	-	-	-	-	-	193,105
Allowance for impairment for investments and commodity murabaha	47,183	90,923	-	-	-	-	-	138,106

2015 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Non-Performing financing	514,761	-	-	-	-	-	-	514,761
Allowance for financing impairment	864,226	-	-	-	-	-	-	864,226
Impaired available for sale investments and commodity murabaha	33,302	90,923	-	-	-	-	-	124,225
Allowance for impairment for investments and commodity murabaha	13,108	90,923	-	-	-	-	-	104,031

30. MARKET RISK

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

a) Profit rate risk

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Group does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit bearing liabilities are at fixed rates and are carried in the consolidated financial statements at amortized cost. In addition to this, a substantial portion of the Group's financial liabilities are non-profit bearing.

b) Foreign exchange rate risk

(i) Foreign exchange rate risk represents the risk of change in the value of financial instruments due to change in exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on both its financial position and on its cash flows. The Group's management sets limits on the level of exposure by individual currency and in total for intra day positions, which are monitored daily.

The Group had the following summarized exposure to foreign currency exchange rate risk as at December 31:

	2016		2015	
	Saudi Riyal SAR' 000	**Foreign currency SAR' 000**	Saudi Riyal SAR' 000	Foreign currency SAR' 000
Assets				
Cash and balances with SAMA	**4,451,004**	**77,821**	4,483,028	119,093
Due from banks and other financial institutions, net	**7,389,269**	**561,575**	7,957,866	424,791
Investments, net	**3,024,899**	**56,046**	2,900,231	48,704
Financing, net	**35,982,360**	**196,027**	34,035,310	219,313
Investment property	**1,000,000**	**-**	-	-
Other assets	**317,560**	**33,606**	212,661	27,329
Liabilities and equity				
Due to SAMA	**2,006,214**	**-**	-	-
Due to banks and other financial institutions	**781,615**	**214,776**	1,218,389	203,263
Customer deposits	**38,655,904**	**1,578,811**	41,626,585	552,875
Sukuk	**2,007,047**	**-**	-	-
Other liabilities	**1,322,246**	**5,173**	1,169,766	7,293
Equity	**7,281,422**	**(523)**	6,442,239	-
Non-controlling interest	**39,906**	**-**	-	-

A substantial portion of the net foreign currency exposure to the Group is in US Dollars, where SAR is pegged to US Dollar. The other currency exposures are not considered significant to the Group's foreign exchange rate risks and as a result the Group is not exposed to major foreign exchange rate risks.

The Bank has performed a sensitivity analysis over one year time horizon for the probability of changes in foreign exchange rates, other than US Dollars, using historical average exchange rates and has determined that there is no significant impact on its net foreign currency exposures.

(ii) **Currency position**

At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	2016 SAR' 000 Long/(short)	2015 SAR' 000 Long/(short)
US Dollars	**(970,868)**	(20,980)
Kuwaiti Dinars	**3,417**	(32,109)
Pakistani Rupees	**49,681**	55,691
Qatari Riyals	**6,965**	5,155
UAE Dirhams	**19,851**	36,745
Bangladeshi Takas	**11,698**	16,391
Others	**6,095**	14,906
Total	**(873,161)**	75,799

c) Investment price risk

Investment risk refers to the risk of decrease in fair values of equities, mutual funds and sukuk in the Group's available-for-sale investment portfolio as a result of possible changes in levels of market indices over a one year time horizon and the value of individual stocks.

The effect on the Group's investments held as available for sale due to reasonable possible change in market indices, with all other variables held constant is as follows:

	December 31, 2016		**December 31, 2015**	
Security types	**Change in investment price %**	**Effect in SAR' 000**	**Change in investment price %**	**Effect in SAR' 000**
Quoted	**± 10**	**70,822**	± 10	69,065
Unquoted	**± 2**	**12,563**	± 2	9,101

31. LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Assets Liability Committee (ALCO). Daily reports cover the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2015: 7%) of total demand deposits and 4% (2015: 4%) of time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its total deposits, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through special investment arrangements facilities with SAMA.

The table below summarises the maturity profile of the Group’s assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group’s deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected discounted cash inflows.

a) Maturity profile of assets, liabilities and equity as at December 31 are as follows:

2016 SAR' 000	Within 3Months	3 months to 1 year	Over one year to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	2,116,612	-	-	-	2,412,213	4,528,825
• Cash in hand	1,518,636	-	-	-	-	1,518,636
• Balances with SAMA	597,976	-	-	-	2,412,213	3,010,189
Due from Banks and other financial institutions	6,628,766	960,684	361,394	-	-	7,950,844
• Demand	467,716	-	-	-	-	467,716
• Commodity murabaha	6,161,050	960,684	361,394	-	-	7,483,128
Investments, net	1,243,704	199,287	290,993	779,777	567,184	3,080,945
• Available for sale	-	-	290,993	478,190	567,184	1,336,367
• Held at amortized cost	1,243,704	199,287	-	301,587	-	1,744,578
Financing, net	7,560,003	18,226,823	9,655,969	735,592	-	36,178,387
• Consumer	729,149	2,758,780	8,417,725	726,465	-	12,632,119
• Commercial	6,830,854	15,468,043	1,238,244	9,127	-	23,546,268
Property and equipment, net	-	-	-	-	802,424	802,424
Investment in property	-	800,000	-	-	200,000	1,000,000
Other assets	-	-	-	-	351,166	351,166
Total assets	18,095,314	19,952,626	9,996,369	1,515,295	4,332,987	53,892,591
Liabilities						
Due to SAMA	-	2,006,214	-	-	-	2,006,214
Due to banks and other financial institutions	794,485	201,906	-	-	-	996,391
• Demand	62,758	-	-	-	-	62,758
• Direct investment	731,727	201,906	-	-	-	933,633
Customer deposits	38,756,872	1,477,843	-	-	-	40,234,715
• Demand	26,974,543	-	-	-	-	26,974,543
• Direct investment	5,937,828	-	-	-	-	5,937,828
• Albilad account (Mudarabah)	5,019,090	1,477,843	-	-	-	6,496,933
• Other	825,411	-	-	-	-	825,411
Sukuk	-	-	-	2,007,047	-	2,007,047
Other liabilities	-	-	-	-	1,327,418	1,327,418
Total Liabilities	39,551,357	3,685,963		2,007,047	1,327,418	46,571,785
Commitments & contingencies	546,688	2,899,140	3,415,322	127,464	-	6,988,614

2015 SAR' 000	Within 3 Months	3 months to 1 year	Over one year to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	2,093,020	-	-	-	2,509,101	4,602,121
• Cash in hand	1,473,037	-	-	-	-	1,473,037
• Balances with SAMA	619,983	-	-	-	2,509,101	3,129,084
Due from Banks and other financial institutions	6,747,294	1,433,062	202,301	-		8,382,657
• Demand	-	-	-	-	-	-
• Commodity murabaha	6,747,294	1,433,062	202,301	-	-	8,382,657
Investments, net	1,803,222	-	-	600,263	545,450	2,948,935
• Available for sale	-	-	-	600,263	545,450	1,145,713
• Held at amortized cost	1,803,222	-	-	-	-	1,803,222
Financing, net	7,153,852	17,129,723	9,471,864	499,184	-	34,254,623
• Consumer	778,573	2,543,945	8,106,883	482,505	-	11,911,906
• Commercial	6,375,279	14,585,778	1,364,981	16,679	-	22,342,717
Property and equipment, net	-	-	-	-	792,084	792,084
Investment in property	-	-	-	-	-	-
Other assets	-	-	-	-	239,990	239,990
Total assets	17,797,388	18,562,785	9,674,165	1,099,447	4,086,625	51,220,410
Liabilities						
Due to banks and other financial institutions	1,421,652	-	-	-	-	1,421,652
• Demand	83,491	-	-	-	-	83,491
• Direct investment	1,338,161	-	-	-	-	1,338,161
Customer deposits	38,128,985	4,050,475	-	-	-	42,179,460
• Demand	28,502,322	-	-	-	-	28,502,322
• Direct investment	3,326,469	-	-	-	-	3,326,469
• Albilad account (Mudarabah)	5,401,965	4,050,475	-	-	-	9,452,440
• Other	898,229	-	-	-	-	898,229
Sukuk	-	-	-	-	-	-
Other liabilities	-	-	-	-	1,177,059	1,177,059
Total Liabilities	39,550,637	4,050,475	-	-	1,177,059	44,778,171
Commitments & contingencies	856,362	2,050,199	3,017,800	106,510	-	6,030,871

b) Analysis of financial liabilities by the remaining undiscounted contractual maturities as at December 31, are as follows:

2016 SAR' 000	Within 3 Months	3 months to 1 year	Over one year to 5 years	Over 5 Years	No fixed Maturity	Total
Financial liabilities						
Due to SAMA	**-**	**2,020,908**	**-**	**-**	**-**	**2,020,908**
Due to banks and other financial institutions	**794,574**	**203,716**	**-**	**-**	**-**	**998,290**
Customers' deposits	**38,771,144**	**1,489,250**	**-**	**-**	**-**	**40,260,394**

2015 SAR' 000	Within 3 Months	3 months to 1 year	Over one year to 5 years	Over 5 Years	No fixed Maturity	Total
Financial liabilities						
Due to banks and other financial institutions	1,422,156	-	-	-	-	1,422,156
Customers' deposits	38,138,110	4,083,175	-	-	-	42,221,285

32. 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:

		Fair value			
SAR' 000	**Carrying 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**

		Fair value			
SAR' 000	Carrying value	Level 1	Level 2	Level 3	Total
December 31, 2015					
Financial assets measured at fair value					
Available for sale investments	1,145,713	690,645	-	455,068	1,145,713
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	8,382,657	-	-	8,382,657	8,382,657
Investments held at amortized cost	1,803,222	-	-	1,803,222	1,803,222
Financing, net	34,254,623	-	-	33,875,782	33,875,782

		Fair value			
SAR' 000	**Carrying 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**

SAR' 000	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
December 31, 2015					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	1,421,652	-	-	1,421,652	1,421,652
Customers' deposits	42,179,460	-	-	42,179,460	42,179,460

The fair values of financial instruments which are not measured at fair value in these consolidated financial statements are not significantly different from the carrying values included in the 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 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. Also see note 7(e).

33. RELATED PARTY BALANCES AND TRANSACTIONS

In the ordinary course of business, the Group transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. Major shareholders are those shareholders who own 5% or more of the Bank's issued share capital. Key management personnel include the Chief Executive Officer and other officers having authority and responsibility for planning, directing, and controlling the activities of the Bank. The nature and balances of transactions with the related parties for the years ended December 31 are as follows:

	2016	2015
	SAR' 000	SAR' 000
a) Directors, and other major shareholders and their affiliates balances:		
Financing		
Bei ajel	**1,126,699**	1,324,902
Musharaka	**16,376**	46,959
Commitments and contingencies		
Commitments and contingencies	**90,642**	44,228
Deposits		
Demand	**84,728**	148,797
Albilad account (Mudarabah)	**2,611**	14,481
Other	**5,750**	1,181

b) Key management personnel and their affiliates balances:

	2016 SAR' 000	2015 SAR' 000
Financing		
Installment sales	**9,381**	12,623
Deposits		
Demand	**5,707**	9,001
Albilad account (Mudarabah)	**5,326**	1

c) Group's mutual funds:

These are the outstanding balances with Group's mutual funds as of December 31:

	2016 SAR' 000	2015 SAR' 000
Customers' deposits	**196**	2,689
Investments	**47,164**	29,735

d) Income and expense:

The following is an analysis of the related party income and expenses included in the consolidated statement of income for the years ended December 31, 2016 and 2015:

Directors, and other major shareholders and their affiliates and mutual funds managed by the Group:

	2016 SAR' 000	2015 SAR' 000
Income		
Income from financing	**39,699**	45,736
Fee and commission income, net	**626**	352
Fee and commission income, net (AlBilad mutual funds)	**11,790**	17,635
Expenses		
Albilad account (Mudarabah)	**16**	2
Buildings rents	**11,054**	5,086
Board of Directors' remuneration	**5,480**	6,302

Key management personnel and their affiliates:

	2016 SAR' 000	2015 SAR' 000
Income		
Income from financing	**100**	265
Expenses		
Albilad account (Mudarabah)	**16**	-

The total amount of compensation paid to key management personal during the year is as flows:

	2016 SAR' 000	2015 SAR' 000
Employee benefits	**96,905**	62,504

34. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored 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 consolidated statement of financial position assets and commitments at a weighted amount to reflect their relative risk.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from January 1, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis, are calculated under the Basel III framework.

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

	2016 **SAR' 000**	2015 SAR' 000
Credit Risk RWA	**42,831,321**	39,449,578
Operational Risk RWA	**4,340,692**	3,905,237
Market Risk RWA	**991,676**	149,700
Total Pillar-I RWA	**48,163,689**	43,504,515
Tier I Capital	**7,320,805**	6,442,239
Tier II Capital	**2,532,325**	467,373
Total Tier I & II Capital	**9,853,130**	6,909,612
Capital Adequacy Ratio %		
Tier I ratio	**15.20%**	14.81%
Tier I + Tier II ratio	**20.46%**	15.88%

35. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank offers investment management services to its customers through its subsidiary, AlBilad Investment Company. These services include the management of 9 mutual funds (2015: 7 mutual funds) with assets under management (AUM) totaling SAR 946 million (2015: SAR 925 million). All of these funds comply with Shariah rules and are subject to Shariah controls on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors.

The Group also manages private investment portfolios on behalf of its customers amounting to SAR 1,644 million (2015: SAR 7,708 million). The financial statements of these funds and private portfolios are not included in the consolidated financial statements of the Group. However, the transactions between the Group and the funds are disclosed under related party transactions (see note 33).

36. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Bank's accounting years beginning on or after 1 January 2017 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after January 1, 2017.

Standard, amendment or interpretation	Summary of requirements	Effective for annual periods beginning on or after
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
Amendments to IAS 7	Disclosure Initiative	1 January 2017
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	1 January 2017
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 16	Leases	1 January 2019

37. Employees' share plan

Significant features of the share based payment plan is as follows:

	2016	2015
Grant date	**21 June 2016**	1 November 2015
Maturity Date	**25% 1 Jan 2017** **25% 1 Jan 2018** **50% 1 Jan 2019**	25% 1 Jan 2016 25% 1 Jan 2017 50% 1 Jan 2018
Number of shares offered on the grant date	**483,477**	479,302
Share price on the grant date (SAR)	**24.07**	21.76
Value of shares offered on grant date (SAR' 000)	**11,637**	8,691
Vesting period	**3 years**	3 years
Vesting condition	**Employees to be in service**	Employees to be in service
Method of settlement	**Equity**	Equity

The movement in the number of shares, during the year, under employees' share plan is as follows	**2016**	2015
Beginning of the year	**1,129,439**	1,041,953
Granted during the year	**483,477**	479,302
Forfeited	**(332,598)**	(58,242)
Exercised	**(457,672)**	(333,574)
End of the year	**822,646**	1,129,439

The shares are granted only under service condition with no market condition associated with them.

38. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year presentation.

39. BOARD OF DIRECTORS' APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Bank's Board of Directors on 29 Jumada ‟ Al Awwal 1438H (corresponding to 26 February, 2017).