BANK ALBILAD
(A Saudi Joint Stock Company)

Consolidated Financial Statements
For the year ended December 31, 2017

KPMG Al Fozan & Partners
Certified Public Accountants

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 31 December 2017, 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 the summary of significant accounting policies and other explanatory notes from 1 to 40.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia. 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 professional code of conduct and ethics, as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 matter below, a description of how our audit addressed the matter is provided in that context:

Independent Auditors' Report on the audit of the consolidated financial statements
To the shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
Financing impairment As at 31 December 2017, the gross financing was Saudi Riyals 44.696 billion against which impairment provision of Saudi Riyals 1.249 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: • The identification of impairment events and methods and judgments used to calculate the impairment against specific corporate financing; • The use of assumptions underlying the calculation of collective impairment for portfolios of financing, and the use of the models to make those calculations; • An assessment of the Group's exposure to certain industries affected by economic conditions. *Refer to note 3(i)(a) to the consolidated financial statements for the significant accounting policy relating to impairment of financing, note 2(d)(i), which contains disclosure of significant accounting estimates related to impairment on financing, and note 7 which contains the disclosure of impairment of financing.*	We assessed the design and implementation, and tested on a sample basis the operating effectiveness of the key controls over management's processes for establishing and monitoring both specific and collective impairment. This included testing of: • controls over the modelling process including model review, monitoring and approval of assumptions by the 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 performed the following: • Selected a sample of financing, including loans currently being classified as 'watch list' (which may indicate signs of impairment) as well as those classified as 'excellent' or 'satisfactory', to form our own assessment as to whether loss events had occurred and to assess whether impairment had been identified, assessed 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. and compared to historical and other relevant industry data to assess the reasonableness of assumptions. 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; and • the calculations within the model.

Independent Auditors' Report on the audit of the consolidated financial statements
To the shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of available for sale investments As at 31 December 2017, the Group had available for sale investments of Saudi Riyals 3.247 billion (net of impairment). These available for sale (AFS) 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 in accordance with IAS 39 requirements. 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 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 and existence of estimation uncertainty. *Refer to note 3(i)(b) of the consolidated financial statements for the accounting policy relating to the impairment of available for sale investments, note 2(d)(iii) for the critical accounting estimates and judgments, and note 6(a & b) which contains the disclosure of impairment of AFS investments.*	We assessed the design and implementation and tested the operating effectiveness of key controls over management's processes of 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; • Independently tested the cost and fair value amounts; 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.

Independent Auditors' Report on the audit of the consolidated financial statements
To the shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
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 in accordance with IFRS. 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 management performs an assessment at year end to estimate what the cumulative and for and the current period potential adjustment would have been, had the required amounts been amortised on a loan by loan basis, and adjust if considered material. We considered this as a key audit matter as the use of threshholds and the related potential impact of non-amortisation of the fee below the threshold could effect the amount recognised for gross financing and investment income and fee from banking services. *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 income on financing. • We obtained the management's assessment of the impact of the use of assumptions and thresholds for recognition of fee income and gross financing and investment income, below which adjustments are not made and: o traced the historical and current year data used by the management to the source documents on a sample basis; o checked the accuracy of the management's assessment including calculations and related assumptions; and o considered the impact of non-amortisation of fees on an effective yield basis with regard to the net profit for the year and the net equity amongst other measures and discussed it with management and those charged with governance.

Independent Auditors' Report on the audit of the consolidated financial statements
To the shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
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 Saudi Riyals 615.3 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 and 2016 is yet to be raised. However, in line with the assessments finalized by GAZT for the years referred to above, if long-term investments and long-term financing are disallowed for computation of Zakat base, it would result in significant additional zakat exposure. 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's position 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 judgments 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 judgment 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 19(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 involved our internal specialists and examined the matters in dispute to assess: - the adequacy and appropriateness of the related disclosures included in the consolidated financial statements; and - the management's judgments relating to the incidence and quantum of zakat liabilities in light of the facts and circumstances.

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 2017 annual report
The Board of Directors of the Bank (the "Directors") are responsible for the other information in the Bank's annual report. The other information consists of the information included in the Bank's 2017 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, when it becomes available, 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 the directors and those charged with governance for the consolidated financial statements
The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRS as modified by SAMA for the accounting of zakat and income tax, 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 the Directors determine 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, the Directors are 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 the Directors 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.

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 International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia 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 International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, 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 the Directors.

- Conclude on the appropriateness of the Directors' 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.

- 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 jointly responsible for our audit opinion.

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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)

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.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Articles of Association, in so far as they affect the preparation and presentation of the consolidated financial statements.

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28 Jamad Al-Awwal 1439H
(14 February 2018)

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت ٤٠٣٠٢٨٩٠٠٢
PRICE WATER HOUSE COOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25
C.R. 4030289002

كي بي ام جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
س.ش.م رقم ٤٦
Certified Public Accountants
KPMG Al Fozan & Partners

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017 AND 2016

	Notes	**2017 SAR' 000**	2016 SAR' 000 (Restated)
ASSETS			
Cash and balances with SAMA	4	**5,688,931**	4,528,825
Due from banks and other financial institutions, net	5	**7,706,382**	7,950,844
Investments, net	6	**5,140,017**	3,080,945
Financing, net	7	**43,447,429**	36,178,387
Property and equipment, net	8	**875,424**	802,424
Investment property	9	**-**	1,000,000
Other assets	10	**349,493**	207,245
Total assets		**63,207,676**	53,748,670
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to SAMA		**2,012,518**	2,006,214
Due to banks and other financial institutions	11	**1,748,937**	996,391
Customers' deposits	12	**47,782,959**	40,234,715
Sukuk	13	**2,006,575**	2,007,047
Other liabilities	14	**2,067,894**	1,352,419
Total liabilities		**55,618,883**	46,596,786
Equity attributable to the equity holders of the Bank			
Share capital	15	**6,000,000**	6,000,000
Statutory reserve	16	**866,508**	630,997
Other reserves	18	**47,420**	25,280
Retained earnings		**530,805**	260,188
Proposed cash dividend	17	**240,000**	300,000
Treasury shares		**(104,575)**	(113,207)
Employees' share plan reserve	38	**8,635**	8,720
Total equity attributable to the equity holders of the Bank		**7,588,793**	7,111,978
Non-controlling interest		**-**	39,906
Total equity		**7,588,793**	7,151,884
Total liabilities and equity		**63,207,676**	53,748,670

The accompanying notes 1 to 40 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, 2017 AND 2016

	Notes	**2017 SAR' 000**	2016 SAR' 000
INCOME:			
Income from investing and financing assets	20	**2,117,189**	1,770,534
Return on deposits and financial liabilities	21	**(378,194)**	(362,626)
Income from investing and financing assets, net		**1,738,995**	1,407,908
Fee and commission income, net	22	**834,107**	812,276
Exchange income, net		**309,909**	311,175
Dividend income		**7,539**	6,805
Gains on non-trading investments, net		**7,820**	4,040
Other operating income	23	**61,414**	45,224
Total operating income		**2,959,784**	2,587,428
EXPENSES:			
Salaries and employee-related benefits	24	**953,585**	902,222
Rent and premises-related expenses		**252,012**	250,461
Depreciation	8	**96,519**	96,327
Other general and administrative expenses		**342,876**	290,998
Impairment charge for financing, net	7(b)	**378,381**	191,214
Impairment charge on available for sale investments	6(b)	**244**	47,183
Total operating expenses		**2,023,617**	1,778,405
Net income for the year		**936,167**	809,023
Attributable to:			
Equity holders of the Bank		**942,047**	807,723
Non-controlling interest		**(5,880)**	1,300
Net income for the year		**936,167**	809,023
Basic and diluted earnings per share (attributable to ordinary equity holders of the Bank) (Saudi Riyals)	25	**1.56**	1.36

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Note	**2017 SAR' 000**	2016 SAR' 000
Net income for the year		**936,167**	809,023
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		**29,716**	(6,151)
Net amount transferred to consolidated statement of income on disposal		**(7,820)**	(4,040)
Impairment charge on available for sale investments		**244**	47,183
Total other comprehensive income		**22,140**	36,992
Total comprehensive income for the year		**958,307**	846,015
Attributable to:			
Equity holders of the Bank		**964,187**	844,715
Non-controlling interest		**(5,880)**	1,300
Total comprehensive income for the year		**958,307**	846,015

The accompanying notes 1 to 40 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, 2017 AND 2016

		Attributable to the equity holders of the Bank									
2017 **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 - as previously reported		**6,000,000**	**630,997**	**169,201**	**285,188**	**300,000**	**(113,207)**	**8,720**	**7,280,899**	**39,906**	**7,320,805**
Effect of change in accounting policy	3(a)			**(143,921)**	**(25,000)**				**(168,921)**		**(168,921)**
Balance at the beginning of the year - as restated		**6,000,000**	**630,997**	**25,280**	**260,188**	**300,000**	**(113,207)**	**8,720**	**7,111,978**	**39,906**	**7,151,884**
Changes in the equity for the year											
Net changes in fair values of available for sale investments				**29,716**					**29,716**		**29,716**
Net amount transferred to consolidated statement of income on disposal				**(7,820)**					**(7,820)**		**(7,820)**
Impairment charge on available for sale investments				**244**					**244**		**244**
Other comprehensive income				**22,140**					**22,140**		**22,140**
Net income for the year					**942,047**				**942,047**	**(5,880)**	**936,167**
Total comprehensive income for the year				**22,140**	**942,047**			**-**	**964,187**	**(5,880)**	**958,307**
2016 final cash dividend paid					**-**	**(300,000)**			**(300,000)**		**(300,000)**
2017 interim cash dividend paid					**(180,000)**	**-**			**(180,000)**		**(180,000)**
2017 proposed final cash dividend	17				**(240,000)**	**240,000**			**-**		**-**
Treasury shares							**8,632**		**8,632**		**8,632**
Employees' share plan reserve	38							**(85)**	**(85)**		**(85)**
Zakat for the transferred to other liabilities	19(e)				**(15,919)**				**(15,919)**		**(15,919)**
Transfer to statutory reserve	16		**235,511**		**(235,511)**				**-**		**-**
Non-controlling interest removed on de-consolidation									**-**	**(34,026)**	**(34,026)**
Balance at end of the year		**6,000,000**	**866,508**	**47,420**	**530,805**	**240,000**	**(104,575)**	**8,635**	**7,588,793**	**-**	**7,588,793**

The accompanying notes 1 to 40 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, 2017 AND 2016

2016 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
		Attributable to the equity holders of the Bank									
Balance at the beginning of the year – as previously reported		5,000,000	961,066	(11,712)	591,317	-	(113,758)	15,326	6,442,239	-	6,442,239
Effect of change in accounting policy	3(a)				(85,255)				(85,255)		(85,255)
Balance at the beginning of the year – as restated		5,000,000	961,066	(11,712)	506,062	-	(113,758)	15,326	6,356,984	-	6,356,984
Changes in the equity for the year											
Net changes in fair values of available for sale investments				(6,151)					(6,151)		(6,151)
Net amount transferred to consolidated statement of income on disposal				(4,040)					(4,040)		(4,040)
Impairment charge on available for sale investments				47,183					47,183		47,183
Other comprehensive income				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	15	1,000,000	(532,000)		(468,000)				-		-
Treasury shares							551		551		551
Employees' share plan reserve	38							(6,606)	(6,606)		(6,606)
Zakat charged transferred to other liabilities	19(e)				(83,666)				(83,666)		(83,666)
Transfer to statutory reserve	16		201,931		(201,931)				-		-
Non-controlling interest removed on de-consolidation									-	38,606	38,606
Balance at end of the year – as restated		6,000,000	630,997	25,280	260,188	300,000	(113,207)	8,720	7,111,978	39,906	7,151,884

The accompanying notes 1 to 40 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, 2017 AND 2016

	Notes	2017 SAR' 000	2016 SAR' 000 (Restated)
OPERATING ACTIVITIES			
Net income for the year		**936,167**	809,023
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Gains on disposal of non-trading investments, net		**(7,820)**	(4,040)
Gains from disposal of property and equipment, net		**(1,359)**	(917)
Depreciation		**105,218**	96,327
Impairment charge for financing, net	7(b)	**378,381**	191,214
Impairment charge on available for sale investments	6(b)	**244**	47,183
Profit on sukuk		**77,662**	29,015
Employees' share plan		**8,547**	6,431
Operating profit before changes in operating assets and liabilities		**1,497,040**	1,174,236
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(323,044)**	96,888
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**(314,249)**	828,154
Commodity murabaha with SAMA maturing after ninety days from the date of acquisition		**(148,228)**	358,715
Financing		**(7,647,423)**	(2,114,978)
Other assets		**(142,248)**	(32,510)
Zakat paid		**(10,919)**	(78,666)
Net increase / (decrease) in operating liabilities:			
Due to SAMA		**6,304**	2,006,214
Due to banks and other financial institutions		**752,546**	(425,261)
Customers' deposits		**7,548,244**	(1,944,745)
Other liabilities		**710,475**	150,360
Net cash generated from operating activities		**1,928,498**	18,407
INVESTING ACTIVITIES			
Purchase of non-trading investments		**(2,400,147)**	(743,592)
Proceeds from sale of non-trading investments		**519,014**	546,788
Disposal of a subsidiary		**991,301**	-
Acquisition of a subsidiary		**-**	(1,000,000)
Purchase of property and equipment		**(170,157)**	(106,806)
Proceeds from sale of property and equipment		**1,997**	1,055
Net cash used in investing activities		**(1,057,992)**	(1,302,555)
FINANCING ACTIVITIES			
Issuance of sukuk		**-**	2,000,000
Profit paid on sukuk		**(78,134)**	(21,968)
Purchase of shares for employees' share plan		**-**	(12,486)
Dividend paid	17	**(480,000)**	-
Non-controlling interest		**(34,026)**	38,606
Net cash (used in) / generated from financing activities		**(592,160)**	2,004,152
Net change in cash and cash equivalents		**278,346**	720,004
Cash and cash equivalents at the beginning of the year		**8,786,280**	8,066,276
Cash and cash equivalents at the end of the year	26	**9,064,626**	8,786,280
Supplemental information			
Income received from investing and financing assets		**1,463,295**	1,697,624
Return paid on deposits and financial liabilities		**278,027**	348,648
Total other comprehensive income		**22,140**	36,992
Issuance of bonus shares	15	**-**	1,000,000

The accompanying notes 1 to 40 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 is listed on Tadawul (Saudi Stock Exchange).

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' and 'Albilad Real Estate Company' (collectively referred to as "the Group"). Albilad Investment Company and AlBilad Real Estate Company are 100% owned by the Bank. All subsidiaries are incorporated in the Kingdom of Saudi Arabia.

As at 31 December 2016, the Bank had 80% ownership in Makkah Al Diyafah Fund (the Fund) and it was consolidated as at December 31, 2016. However, during the current year, the Fund has issued further units and accordingly, the Bank's holding percentage reduced to 29.75% on 31 August 2017, and the Bank lost control of the Fund and the Fund was de-consolidated with effect from 1 September 2017.

The Group's objective is to provide full range of banking services and conduct, financing and investing activities through various Islamic instruments. The activities of the Bank are conducted in compliance with Islamic Shariah and within the provisions of the Articles of Association and the Banking Control Law. The Bank provides these services through 112 banking branches (2016: 114) and 179 exchange and remittance centers (2016: 176) 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

The (consolidated) financial statements of the Bank (Group) have been prepared;

- in accordance with 'International Financial Reporting Standards (IFRS) as modified by Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards

Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Article of Association of the Bank.

Further, the above SAMA Circular has also repealed the existing Accounting Standards for Commercial Banks, as promulgated by SAMA, and are no longer applicable from January 1, 2017.

Refer note 3(l) for the accounting policy of zakat and income tax and note 3(a) for the impact of change in the accounting policy resulting from the SAMA Circular.

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 32.

c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the functional currency of the Bank and its subsidiaries. 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. The resulting accounting estimates will, by definition, seldom equal the related actual results. Significant areas where management uses estimates, assumptions or exercised judgments and that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year 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. Also, see note 3(i)(a) and 7.

(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.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

The Group exercises judgment to consider impairment on the available-for-sale equity and mutual fund 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. Also, see note 3(i)(b).

Also, see note 6(b) for details of impairment loss recorded during the year.

(iv) 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.

Al Bilad Investment Company 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 which was consolidated till August 31, 2017. [for details refer to note 1(a) and 3(b)].

(v) 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. For details please refer note 19(a).

(vi) Defined benefit plans

Bank operates an End of service benefit plan for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit method in accordance with the periodic actuarial valuation. For details of assumptions and estimate please refer note 27.

(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.

(viii) Going concern

The management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group and the Bank have the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

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, 2016 except for the change in accounting policy of Zakat and tax and adoption of the amendments to existing standards mentioned below. The amendments to existing standards 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. The impact of change in accounting policy for zakat has resulted in restatement of the consolidated financial statements.

- **Zakat and income tax**

  The Bank amended its accounting policy relating to zakat and income tax and have started to accrue zakat and income tax on a quarterly basis and charging it to retained earnings in accordance with SAMA guidance on zakat and income tax, with corresponding accrual under other liabilities. Previously, zakat and income tax payment was recorded as receivable from the shareholders under other assets and adjusted against dividends upon payment to the shareholders. The Group has accounted for this change in the accounting policy relating to Zakat retrospectively and the effects of the above change on the respective line items of statements of financial position, changes in equity and cash flows are disclosed below:

As at January 1, 2016

Account	Balance as previously reported at January 1, 2016 SR'000	Effect of restatement SR'000	Restated balance at January 1, 2016 SR'000
Consolidated statement of financial position			
Other assets	239,990	(65,255)	174,735
Other liabilities	1,177,059	20,000	1,197,059
Retained earnings	591,317	(85,255)	506,062
Other reserves	(11,712)	-	(11,712)
Consolidated statement of cash flows			
Other assets	(51,335)	22,269	(29,066)

As at December 31, 2016

Account	Balance as previously reported at December 31, 2016 SR'000	Effect of restatement SR'000	Restated balance at December 31, 2016 SR'000
Consolidated statement of financial position			
Other assets	**351,166**	**(143,921)**	**207,245**
Other liabilities	**1,327,419**	**25,000**	**1,352,419**
Retained earnings	**285,188**	**(25,000)**	**260,188**
Other reserves	**169,201**	**(143,921)**	**25,280**
Consolidated statement of cash flows			
Other assets	**(111,176)**	**78,666**	**(32,510)**

- **Amendments to existing standards**

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

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

These adoptions have no material impact on the consolidated financial statements other than certain additional disclosures.

The Bank has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards which have been published and are mandatory for compliance by the banks for the accounting years beginning on or after January 1, 2018 (please also refer note 37).

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.

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.

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 or mutual funds.

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 owned, directly or indirectly, by the Bank. Makkah Al Diyafah Fund was a subsidiary of the Bank till August 31, 2017 and accordingly, is presented separately in the consolidated statement of income. 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. Also, see note 1(a) and 1(d)(iv).

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.

When the group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in statement of income. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to statement of income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to statement of income, where appropriate

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 and group companies' 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, the fair value is determined by reference to the 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 the 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. The Group does not have any FVSI financial instruments.

(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 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 expected 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 financing assets level. The collective provision is based on following criteria i.e. deterioration in internal grading, external credit ratings allocated to the 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 financial 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

Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share adjusted of net income for the year.

Zakat and income tax are accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidance for the accounting of zakat and income tax. Previously, zakat and income tax was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time.

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.

p) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" include cash in 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 SAMA ,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 investment in 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. Also refer note 27.

4. CASH AND BALANCES WITH SAMA

	Notes	**2017** **SAR' 000**	2016 SAR' 000
Statutory deposit	**4.1**	**2,735,257**	2,412,213
Cash in hand		**1,724,325**	1,518,636
Other balances	**4.2**	**1,229,349**	597,976
Total		**5,688,931**	4,528,825

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 1,075 million (2016: SAR 325 million).

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

	2017 SAR' 000	2016 SAR' 000
Demand	157,645	467,716
Commodity murabaha - performing	7,548,737	7,483,128
Commodity murabaha - non performing	90,923	90,923
Allowance for impairment on commodity murabaha	(90,923)	(90,923)
	7,548,737	7,483,128
Total	7,706,382	7,950,844

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 - performing

Class	2017 SAR' 000	2016 SAR' 000
Excellent	6,381,810	5,714,178
Very good	1,300,736	2,236,666
Unrated	23,836	-
	7,706,382	7,950,844

For details of categories of credit quality, please refer note 7(c).

6. INVESTMENTS, NET

a) Investments as at December 31 comprise the following:

		2017				
		Domestic		International		Total
		Quoted	Unquoted	Quoted	Unquoted	
	Note	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000
Available-for-sale investments						
Equities, net of impairment	6 (b)	132,254	158,393	-	-	290,647
Mutual fund		374,539	319,317	8,333	3,869	706,058
Sukuk		630,698	1,308,036	311,777	-	2,250,511
		1,137,491	1,785,746	320,110	3,869	3,247,216
Held at amortized cost						
Commodity murabaha with SAMA		-	1,892,801	-	-	1,892,801
Total		1,137,491	3,678,547	320,110	3,869	5,140,017

		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 of impairment	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

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

	2017	2016
	SAR'000	SAR'000
Balance at the beginning of the year	**60,291**	13,108
Provided during the year	**244**	47,183
Balance at the end of the year	**60,535**	60,291

No impairment recognized on sukuk and mutual funds.

c) Analysis of investments by credit quality

	2017	2016
	SAR'000	SAR'000
Sovereign	**3,015,391**	1,744,578
Investment grade	**410,465**	298,538
Others	**717,456**	470,644
Total	**4,143,312**	2,513,760

'Sovereign' includes exposures to the central government and corresponding central bank.

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

d) The analysis of investments by counterparty is as follows:

	2017	2016
	SAR' 000	SAR' 000
Government and quasi government	**3,015,391**	1,744,578
Corporate	**2,124,626**	1,336,367
Total	**5,140,017**	3,080,945

e) Equities reported under available-for-sale investments include unquoted shares of SAR 158.4 million (2016: 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	**2017**				
	Commercial			**Consumer**	
	Bei ajel	**Ijarah**	**Musharakah**	**Installment sales / Ijarah**	**Total**
Performing	**27,021,505**	**140,816**	**1,466,377**	**15,535,506**	**44,164,204**
Non-performing	**309,456**	**-**	**82,702**	**140,018**	**532,176**
Total	**27,330,961**	**140,816**	**1,549,079**	**15,675,524**	**44,696,380**
Allowance for impairment	**(891,203)**	**(684)**	**(123,912)**	**(233,152)**	**(1,248,951)**
Financing, net	**26,439,758**	**140,132**	**1,425,167**	**15,442,372**	**43,447,429**

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

b) Allowance for impairment for financing:

2017 **SAR' 000**	**Commercial**	**Consumer**	**Total**
Balance at the beginning of the year	**795,786**	**209,865**	**1,005,651**
Provided during the year	**332,377**	**99,499**	**431,876**
Recoveries of amounts previously provided	**(17,820)**	**(35,675)**	**(53,495)**
	314,557	**63,824**	**378,381**
Amounts written off during the year	**(94,544)**	**(40,537)**	**(135,081)**
Balance at the end of the year	**1,015,799**	**233,152**	**1,248,951**

2016 SAR' 000	Commercial	Consumer	Total
Balance at the beginning of the year	673,226	191,000	864,226
Provided during the year	195,452	66,923	262,375
Recoveries of amounts previously provided	(44,653)	(26,508)	(71,161)
	150,799	40,415	191,214
Amounts written off during the year	(28,239)	(21,550)	(49,789)
Balance at the end of the year	795,786	209,865	1,005,651

These include impairment provision on ijarah lease receivables amounting to SAR 12 million (2016: SAR 11 million). The charge for the year for impairment on ijarah financing was SAR 3 million (2016: SAR 3 million).

c) Credit quality of financing

The financing categories have the following classifications:

(i) Neither past due nor impaired

SAR' 000	Commercial						Consumer		Total	
	Bei ajel		Ijarah		Musharakah		Installment sales / Ijarah			
Grades	**2017**	**2016**	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Excellent	**2,232,502**	3,954,779	-	-	**148,700**	333,866	-	-	**2,381,202**	4,288,645
Good	**4,742,443**	4,422,040	-	-	**228,625**	406,845	-	-	**4,971,068**	4,828,885
Satisfactory	**9,338,705**	9,485,549	**140,816**	180,086	**475,080**	142,645	-	-	**9,954,601**	9,808,280
Fair risk	**6,582,563**	4,291,385	-	-	**520,617**	258,631	-	-	**7,103,180**	4,550,016
Watch list	**1,630,345**	296,124	-	-	**74,740**	-	-	-	**1,705,085**	296,124
Total commercial	**24,526,558**	22,449,877	**140,816**	180,086	**1,447,762**	1,141,987	-	-	**26,115,136**	23,771,950
Consumer – satisfactory							**14,900,406**	12,272,572	**14,900,406**	12,272,572
Total									**41,015,542**	36,044,522

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)

	Commercial			Consumer	
2017	**Bei Ajel SAR' 000**	**Ijarah SAR' 000**	**Musharakah SAR' 000**	**Installment sales / ijarah SAR' 000**	**Total SAR' 000**
1 to 30 days	**2,398,997**	**-**	**8,281**	**535,810**	**2,943,088**
31 to 90 days	**95,950**	**-**	**10,334**	**99,290**	**205,574**
Total	**2,494,947**	**-**	**18,615**	**635,100**	**3,148,662**
Fair value of collaterals	**2,924,052**	**-**	**7,553**	**203,663**	**3,135,268**
2016					
1 to 30 days	209,051	-	15,695	321,423	546,169
31 to 90 days	8,301	-	484	77,437	86,222
Total	217,352	-	16,179	398,860	632,391
Fair value of collaterals	294,464	-	6,002	86,852	387,318

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:

	Commercial			Consumer	
2017	**Bei Ajel SAR' 000**	**Musharakah SAR' 000**	**Ijarah SAR' 000**	**Installment sales / ijarah SAR' 000**	**Total SAR' 000**
Individually impaired financing	**309,456**	**82,702**	**-**	**140,018**	**532,176**

	Commercial			Consumer	
2016	Bei Ajel SAR' 000	Musharakah SAR' 000	Ijarah SAR' 000	Installment sales / ijarah SAR' 000	Total SAR' 000
Individually impaired financing	252,995	91,612	-	162,518	507,125

The Bank holds collateral amounting SAR 667 million (2016: SAR 596 million), against some of the non-performing customers, but as a matter of abundant caution these have not been considered while calculating the impairment against these customers, as the management believes that it may not be able to realize these collaterals immediately.

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 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:

2017	Performing financing SAR' 000	Non-performing financing SAR' 000	Allowance for impairment SAR' 000	Financing, net SAR' 000
Commercial	**4,619,301**	**166,309**	**(271,564)**	**4,514,046**
Industrial	**5,618,660**	**98,185**	**(186,548)**	**5,530,297**
Building and construction	**9,981,591**	**50,361**	**(252,295)**	**9,779,657**
Transportation and communication	**744,765**	**574**	**(8,460)**	**736,879**
Electricity, water, gas & health services	**941,828**	**3,000**	**(8,079)**	**936,749**
Services	**2,155,851**	**4,945**	**(62,281)**	**2,098,515**
Agriculture and fishing	**475,978**	**-**	**(28,545)**	**447,433**
Mining & Quarrying	**9,609**	**-**	**(24)**	**9,585**
Personal	**15,535,506**	**140,018**	**(233,152)**	**15,442,372**
Other	**4,081,115**	**68,784**	**(198,003)**	**3,951,896**
Total	**44,164,204**	**532,176**	**(1,248,951)**	**43,447,429**

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

f) Financing include finance lease receivables, which are as follows:

	2017 SAR'000		2016 SAR'000	
	Consumer	**Commercial**	Consumer	Commercial
Gross receivables from ijarah financing :				
Less than 1 year	**218,929**	**-**	359,594	181,770
1 to 5 years	**810,472**	**142,494**	186,427	-
Over 5 years	**129,675**	**-**	1,614	-
	1,159,076	**142,494**	547,635	181,770
Unearned finance income on ijarah financing	**(274,342)**	**(1,678)**	(105,050)	(1,684)
Net receivables from ijarah financing	**884,734**	**140,816**	442,585	180,086

	2017 SAR'000		2016 SAR'000	
	Consumer	**Commercial**	Consumer	Commercial
Net receivables from ijarah receivables:				
Less than 1 year	**241,604**	**-**	298,500	180,086
1 to 5 years	**578,796**	**140,816**	142,944	-
Over 5 years	**64,334**	**-**	1,141	-
	884,734	**140,816**	442,585	180,086

8. PROPERTY AND EQUIPMENT, NET

SAR' 000	**Land and building**	**Leasehold improvements**	**Equipment, furniture and motor vehicles**	**Computer hardware and software**	**Total 2017**	Total 2016
Cost:						
As at the beginning of the year	**457,231**	**587,736**	**332,432**	**395,364**	**1,772,763**	1,668,394
Additions during the year	**-**	**113,637**	**13,590**	**42,930**	**170,157**	106,806
Disposals	**-**	**(573)**	**(17,409)**	**(42,392)**	**(60,374)**	(2,437)
As at December 31	**457,231**	**700,800**	**328,613**	**395,902**	**1,882,546**	1,772,763
Accumulated depreciation:						
At the beginning of the year	**2,957**	**393,268**	**250,255**	**323,859**	**970,339**	876,310
Charge for the year	**1,467**	**30,210**	**24,136**	**40,706**	**96,519**	96,327
Disposals	**-**	**(549)**	**(16,838)**	**(42,349)**	**(59,736)**	(2,298)
As at December 31	**4,424**	**422,929**	**257,553**	**322,216**	**1,007,122**	970,339
Net book value:						
As at December 31, 2017	**452,807**	**277,871**	**71,060**	**73,686**	**875,424**	
As at December 31, 2016	454,274	194,468	82,177	71,505		802,424

Leasehold improvements include work-in-progress as at December 31, 2017 amounting to SAR 141.4 million (2016: SAR 35.1 million).

9. INVESTMENT PROPERTY

Investment property represents cost of properties in the Holy city of Makkah which aims to provide investors with dividends and capital growth in the medium and long term. This investment had resulted from the consolidation of Makkah Al Diyafah Fund which is managed by Albilad Investment Company, a subsidiary controlled by the Group. As of August 31, 2017 the Group has lost control of Makkah Al Diyafah Fund due to the change in ownership percentage. Accordingly, the Group derecognized related assets, liabilities and non-controlling interest of Makkah Al Diyafah Fund (See note 1 and 3).

10. OTHER ASSETS

	2017	2016
	SAR' 000	SAR' 000 Restated
Prepaid expenses	**113,090**	93,935
Advances to suppliers	**18,408**	13,110
Management fee receivable	**40,159**	41,085
Others	**177,836**	59,115
Total	**349,493**	207,245

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017	2016
	SAR' 000	SAR' 000
Demand	**346,546**	62,758
Direct investment	**1,402,391**	933,633
Total	**1,748,937**	996,391

12. CUSTOMERS' DEPOSITS

	Note	**2017**	2016
		SAR' 000	SAR' 000
Demand	12-1	**27,442,213**	26,974,543
Direct investment		**6,623,054**	6,496,933
Albilad account (Mudarabah)		**12,811,178**	5,937,828
Others	12-2	**906,514**	825,411
Total		**47,782,959**	40,234,715

12-1 Demand includes foreign currency deposits of SAR 537 million (2016: SAR 594 million).

12-2 Other includes Margins held for irrevocable commitments of SAR 906 million (2016: SAR 825 million). Margins includes foreign currency margin of SAR 51 million (2016: SAR 54 million).

12-3 The above include foreign currency deposits as follows:

	2017	2016
	SAR' 000	SAR' 000
Demand	**537,050**	593,565
Direct investment	**890,352**	930,906
Others	**51,037**	54,340
Total	**1,478,439**	1,578,811

13. SUKUK

On August 30, 2016, the Bank issued 2,000 Sukuk Certificates (Sukuk) of SR 1 million each, and payable quarterly in arrears on February 29, May 30, August 30, November 30 each year until August 30, 2026, on which Sukuk will be redeemed. The Bank has a call option which can be exercised on or after August 30 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 / principal) due during the year. The expected profit distribution on the sukuk is the base rate for three months in addition to the profit margin of 2%.

14. OTHER LIABILITIES

	2017	2016
	SAR' 000	SAR’ 000
		Restated
Accounts payable	**955,842**	559,930
Accrued expenses	**450,698**	304,502
Accrued zakat	**30,000**	25,000
Others	**631,354**	462,987
Total	**2,067,894**	1,352,419

15. SHARE CAPITAL

The authorized issued and fully paid-up capital of the Bank consists of 600 million shares of SAR 10 each (2016: 600 million shares of SAR 10 each).

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.

16. STATUTORY RESERVE

In accordance with Article 13 of the 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 236 million (2016: SAR 202 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

17. DIVIDENDS

Dividend of SAR 300 million i.e. SAR 0.5 per share has been approved by the Extra-ordinary General Assembly meeting of the Bank held on May 8, 2017. In addition, dividend of SAR 180 million i.e. SAR 0.3 per share for the first half of 2017 has been approved by the Board of Directors of the Bank in their meeting held on September 25, 2017.

On January 14, 2018, the Board of Directors recommended to pay a cash dividends of SAR 240 million (SAR 0.4 per share). This dividend is subject to final approval of shareholders in the upcoming general assembly.

18. OTHER RESERVES

Other reserves represent the net unrealized revaluation (losses) / gains on available for sale investments. This reserve is not available for distribution to shareholders. Movement in other reserves is as follows:

	2017 SAR' 000	2016 SAR' 000 Restated
Balance at beginning of the year	**25,280**	(11,712)
Net change in fair value of available for sale investments	**29,716**	(6,151)
Transfer to consolidated statement of income	**(7,820)**	(4,040)
Impairment charge on available for sale investments	**244**	47,183
Net movement during the year	**22,140**	36,992
Balance at the end of the year	**47,420**	25,280

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2017, 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, 2017, the Bank had capital commitments of SAR 52 million (2016: SAR 131 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:

2017 (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	**338,317**	**531,557**	**61,467**	**-**	**931,341**
Letters of guarantee*	**750,241**	**2,296,408**	**1,171,030**	**114,921**	**4,332,600**
Acceptances	**197,253**	**213,569**	**1,812**	**-**	**412,634**
Irrevocable commitments to extend credit	**-**	**-**	**568,010**	**-**	**568,010**
Total	**1,285,811**	**3,041,534**	**1,802,319**	**114,921**	**6,244,585**

2016 (SAR' 000)	Less than 3months	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

The outstanding unused portion of commitments as at December 31, 2017 which can be revoked unilaterally at any time by the Group, amounts to SAR 6.8 billion (2016: SAR 5.6 billion).

* This is as per contractual period of the guarantee and in event of default may be payable on demand and therefore current in nature.

(ii) Commitments and contingencies by counterparty:

	2017 SAR' 000	2016 SAR' 000
Corporate	**5,105,524**	6,091,729
Financial institutions	**1,052,347**	827,039
Others	**86,714**	69,846
Total	**6,244,585**	6,988,614

d)

d) Operating lease commitments

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

	2017 SAR' 000	2016 SAR' 000
Less than one year	**139,496**	159,975
One year to five years	**416,836**	437,183
Over five years	**272,358**	357,884
Total	**828,690**	955,042

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 2016 of SAR 177 million The Bank has received the assessments for the years 2006 to 2014 in which the GAZT raised additional demands aggregating to SAR 615.3 million on account of "disallowance of long-term investments and the addition of long term financing to the Zakat base". During the year 2016, the Bank paid an additional zakat liability of SAR 58 million in respect of the assessment for financial year 2006.

The basis for the additional Zakat liability is being contested by the Bank before the Higher Appeal Committee. The management expects a favorable outcome on the aforementioned appeals and have therefore not made any provisions in respect of the above.

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

20. INCOME FROM INVESTING AND FINANCING ASSETS

	2017	2016
	SAR' 000	SAR' 000
Investments and due from banks and other financial institutions		
Income from Commodity murabaha with		
- SAMA	**45,999**	28,275
- Banks and other financial institutions	**141,766**	210,098
Income from sukuk	**46,339**	18,083
Income from financing:		
Bei ajel	**1,287,711**	999,161
Installment sales	**528,819**	448,768
Ijarah	**3,485**	3,217
Musharakah	**63,070**	62,932
Total	**2,117,189**	1,770,534

21. RETURN ON DEPOSITS AND FINANCIAL LIABILITES

	2017	2016
Return on:	**SAR' 000**	SAR' 000
Due to banks and other financial institutions	**53,271**	46,611
Deposits		
- Albilad account (Mudarabah)	**109,326**	47,255
- Direct investment	**137,935**	239,745
Sukuk	**77,662**	29,015
Total	**378,194**	362,626

22. FEES AND COMMISSION INCOME, NET

	2017	2016
	SAR' 000	SAR' 000
Fees and commission income		
Remittance	**465,651**	486,830
ATM and point of sale	**204,568**	191,517
Facilities management fee	**90,704**	87,862
Letters of credit and guarantee	**47,585**	42,154
Management fee (mutual fund and others)	**61,286**	47,476
Brokerage income	**27,013**	31,895
Documentation charges	**69,825**	39,260
Others	**59,184**	56,974
Total fees and commission income	**1,025,816**	983,968
Fees and commission expenses		
ATM and point of sale	**142,092**	130,233
Brokerage expenses	**4,089**	3,052
Remittance	**7,360**	4,846
Others	**38,168**	33,561
Total fees and commission expenses	**191,709**	171,692
Fees and commission income, net	**834,107**	812,276

23. OTHER OPERATING INCOME

	2017	2016
	SAR' 000	SAR' 000
Recovery of directly written-off financing	**38,652**	25,948
Others	**22,762**	19,276
Total	**61,414**	45,224

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, 2017 and 2016, and the form of such payments:

	Number of Employees		Fixed compensation SAR 000		Variable Compensation Paid SAR' 000					
					Cash		Shares		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Senior executives requiring SAMA no objection	**9**	9	**14,845**	12,461	**6,774**	3,365	**1,318**	5,608	**8,092**	8,973
Employees engaged in risk taking activities	**271**	267	**82,976**	80,628	**12,572**	9,304	**1,801**	1,609	**14,373**	10,913
Employees engaged in control functions	**264**	268	**74,914**	71,853	**7,922**	6,406	**1,802**	1,149	**9,724**	7,556
Other employees	**2,849**	2,897	**393,780**	396,793	**46,185**	41,601	**3,221**	2,972	**49,406**	44,573
Outsourced employees	**457**	374	**71,917**	59,124	**30**	42	**0**	0	**30**	42
Total	**3,850**	3,815	**638,432**	620,859	**73,483**	60,718	**8,142**	11,338	**81,625**	72,057
Variable compensation accrued			**109,618**	73,748						
Other employee related benefits			**205,535**	207,615						
Total salaries and employee related expenses			**953,585**	902,222						

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, 2017 and 2016 is calculated by dividing the net income for the period attributable to the equity holders by the weighted average number of outstanding shares 2017: 596 million shares (2016: 595 million shares) during the period adjusted for treasury shares. The weighted average number of shares for 2016 were adjusted retrospectively due to bonus share issue.

26. CASH AND CASH EQUIVALENTS

	Notes	**2017** **SAR' 000**	2016 SAR' 000
Cash in hand	4	**1,724,325**	1,518,636
Due from banks and other financial institutions (maturing within ninety days from acquisition)		**5,810,887**	6,369,598
Held at amortized cost (maturing within ninety days from acquisition)		**300,065**	300,070
Balances with SAMA (excluding statutory deposit)	4	**1,229,349**	597,976
Total		**9,064,626**	8,786,280

The table below shows the credit quality by class

Class	**2017** **SAR' 000**	2016 SAR' 000
Excellent	**8,090,448**	6,405,975
Very good	**950,342**	2,380,305
Unrated	**23,836**	-
	9,064,626	8,786,280

27. EMPLOYEE BENEFIT OBLIGATION

a) General description

The Bank operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

b) The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2017 **SAR' 000**	2016 SAR' 000
Defined benefit obligation at the beginning of the year	**161,307**	142,565
Current service cost	**47,770**	31,072
Interest cost	**8,700**	7,128
Benefits paid	**(16,461)**	(9,567)
Unrecognized actuarial loss / (gain)*	**-**	(9,891)
Defined benefit obligation at the end of the year	**201,316**	161,307

The current service cost for the year was SAR 48 million (2016: SAR 31 million).

*Unrecognized actuarial gain / (loss) has not been reflected in other comprehensive income being immaterial.

c) Principal actuarial assumptions (in respect of the employee benefit scheme)

	2017 **SAR' 000**	2016 SAR' 000
Discount rate	**5%**	5%
Expected rate of salary increase	**5%**	5%
Normal retirement age		
• Male	**60 years**	60 years
• Female	**55 years**	55 years

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

d) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2017 to the discount rate (5%), salary escalation rate (5%), withdrawal assumptions and mortality rates.

	SAR 000'			
	Impact on defined benefit obligation – Increase / (decrease)			
	Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	5%	1%	(10.23%)	12.01%
Expected rate of salary increase	5%	1%	14.85%	(12.57%)
Normal retirement age				
• Male	60 years	20%	(3.28%)	3.59%
• Female	55 years	20%	(3.28%)	3.59%

The above sensitivity analyses are based on a change in an assumption holding all other assumptions constant.

28. 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, 2016.

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 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, 2017 and 2016 for each segment are as follows:

SAR' 000	2017					
	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	19,226,564	25,567,342	16,460,585	444,834	1,508,351	63,207,676
Total liabilities	31,939,534	11,782,080	7,532,423	17,710	4,347,136	55,618,883
Income from investing and financing assets	632,925	1,237,930	232,096	14,238	-	2,117,189
Return on deposits and financial liabilities	(114,619)	(40,881)	(145,190)	-	(77,504)	(378,194)
Funding Pool	228,727	(397,990)	48,881	-	120,382	-
Net income from investing and financing assets	747,033	799,059	135,787	14,238	42,878	1,738,995
Fee, commission and other income, net	826,316	134,744	111,856	91,374	56,499	1,220,789
Total operating income	1,573,349	933,803	247,643	105,612	99,377	2,959,784
Impairment charge for financing, net	71,597	306,784	-	-	-	378,381
Impairment charge on available for sale investments	-	-	-	-	244	244
Depreciation	83,403	9,761	1,412	1,943	-	96,519
Other operation expenses	1,152,703	250,102	67,666	78,002	-	1,548,473
Total operating expenses	1,307,703	566,647	69,078	79,945	244	2,023,617
Net income for the year	265,646	367,156	178,565	25,667	99,133	936,167
Attributable to						
Equity holders of the Bank	265,646	367,156	178,565	25,667	105,013	942,047
Non-controlling interest	-	-	-	-	(5,880)	(5,880)
Net income for the year	265,646	367,156	178,565	25,667	99,133	936,167

SAR' 000	2016					
	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Other	Total
Total assets (Restated)	18,343,093	22,537,142	11,480,857	227,406	1,160,172	53,748,670
Total liabilities (Restated)	25,620,006	8,180,533	9,436,781	15,932	3,343,534	46,596,786
Income from investing and financing assets	523,121	990,957	247,173	9,283	-	1,770,534
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	475,072	661,519	157,467	9,283	104,567	1,407,908
Fee, commission and other income, net	819,216	134,288	94,492	83,662	47,862	1,179,520
Total operating income	1,294,288	795,807	251,959	92,945	152,429	2,587,428
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
Other operation expenses	1,091,063	233,334	57,436	60,093	1,755	1,443,681
Total operating expenses	1,203,463	405,446	58,736	61,822	48,938	1,778,405
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

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

	Retail	Corporate	Treasury	Total
2017				
SAR' 000				
Total assets	**15,442,372**	**28,005,057**	**11,849,694**	**55,297,123**
Commitments and contingencies	**-**	**3,148,960**	**-**	**3,148,960**
2016				
SAR' 000				
Total assets	12,624,086	23,554,301	10,456,604	46,634,991
Commitments and contingencies	-	3,657,416	-	3,657,416

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.

29. 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.

30. 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 counterparty 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 28(b).

a) Geographical concentration

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

2017 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	5,688,931	-	-	-	-	-	-	5,688,931
• Cash in hand	1,724,325	-	-	-	-	-	-	1,724,325
• Balances with SAMA	3,964,606	-	-	-	-	-	-	3,964,606
Due from Banks and other financial institutions	5,757,587	1,808,903	79,857	6,277	-	35,933	17,825	7,706,382
• Demand	-	17,753	79,857	6,277	-	35,933	17,825	157,645
• Commodity murabaha	5,757,587	1,791,150	-	-	-	-	-	7,548,737
Investments, net	4,815,538	311,777	8,833	3,869	-	-	-	5,140,017
• Available for sale	2,922,737	311,777	8,833	3,869				3,247,216
• Held at amortized cost	1,892,801	-	-	-	-	-	-	1,892,801
Financing, net	43,447,429	-	-	-	-	-	-	43,447,429
• Retail	15,442,372	-	-	-	-	-	-	15,442,372
• Corporate	28,005,057	-	-	-	-	-	-	28,005,057
Property and equipment, net	875,424	-	-	-	-	-	-	875,424
Investment in property	-	-	-	-	-	-	-	-
Other assets	349,493	-	-	-	-	-	-	349,493
Total	60,934,402	2,120,680	88,690	10,146	-	35,933	17,825	63,238,604
Liabilities								
Due to SAMA	2,012,518	-	-	-	-	-	-	2,012,518
Due to banks and other financial institutions	1,221,517	91,955	-	245,539	-	181,885	8,041	1,748,937
• Demand	-	69,428	-	245,539	-	23,537	8,041	346,545
• Direct investment	1,221,517	22,527	-	-	-	158,348	-	1,402,392
Customer deposits	47,782,959	-	-	-	-	-	-	47,782,959
• Demand	27,442,213	-	-	-	-	-	-	27,442,213
• Direct investment	6,623,054	-	-	-	-	-	-	6,623,054
• Albilad account (Mudarabah)	12,811,178	-	-	-	-	-	-	12,811,178
• Other	906,514	-	-	-	-	-	-	906,514
Sukuk	2,006,575	-	-	-	-	-	-	2,006,575
Other liabilities	2,067,894	-	-	-	-	-	-	2,067,894
Total	55,091,463	91,955	-	245,539	-	181,885	8,041	55,618,883
Commitments and contingencies								
• Letters of credit	931,341	-	-	-	-	-	-	931,341
• Letter of Guarantee	4,332,600	-	-	-	-	-	-	4,332,600
• Acceptances	412,634	-	-	-	-	-	-	412,634
• Irrevocable commitments to extend credit	568,010	-	-	-	-	-	-	568,010
	6,244,585	-	-	-	-	-	-	6,244,585
Credit risk (stated at credit equivalent amounts) on commitments and contingencies	3,148,960	-	-	-	-	-	-	3,148,960

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
• Retail	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	206,821	424	-	-	-	-	-	207,245
Total	49,372,942	3,943,125	118,077	161,736	-	97,968	54,822	53,748,670
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	1,352,419	-	-	-	-	-	-	1,352,419
Total	46,327,548	145,854	-	-	-	93,897	29,487	46,596,786
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

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:

2017 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	**532,176**	**-**	**-**	**-**	**-**	**-**	**-**	**532,176**
Allowance for financing impairment	**1,248,951**	**-**	**-**	**-**	**-**	**-**	**-**	**1,248,951**
Impaired available for sale investments and commodity murabaha	**547**	**90,923**	**-**	**-**	**-**	**-**	**-**	**91,470**
Allowance for impairment for investments and commodity murabaha	**244**	**90,923**	**-**	**-**	**-**	**-**	**-**	**91,167**
2016 **SAR' 000**								
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

31. 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

a. 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:

	2017		2016	
	Saudi Riyal SAR' 000	**Foreign currency SAR' 000**	Saudi Riyal SAR' 000	Foreign currency SAR' 000
Assets				
Cash and balances with SAMA	**5,620,789**	**68,142**	4,451,004	77,821
Due from banks and other financial institutions, net	**7,548,737**	**157,645**	7,389,269	561,575
Investments, net	**4,568,759**	**571,258**	3,024,899	56,046
Financing, net	**43,244,465**	**202,964**	35,982,360	196,027
Investment property	**-**	**-**	1,000,000	-
Other assets	**325,782**	**23,711**	173,639	33,606
Liabilities and equity				
Due to SAMA	**2,012,518**	**-**	2,006,214	-
Due to banks and other financial institutions	**716,830**	**1,032,107**	781,615	214,776
Customer deposits	**46,304,520**	**1,478,439**	38,655,903	1,578,812
Sukuk	**2,006,575**	**-**	2,007,047	-
Other liabilities	**2,060,342**	**7,552**	1,347,246	5,173
Equity	**7,588,708**	**85**	7,112,501	(523)
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.

b. Currency position

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

	2017 SAR' 000 Long/(short)	2016 SAR' 000 Long/(short)
US Dollars	**(1,474,290)**	(970,868)
Kuwaiti Dinars	**(2,253)**	3,417
Pakistani Rupees	**10,018**	49,681
Euro	**(8,443)**	6,965
UAE Dirhams	**(3,129)**	19,851
Bangladeshi Takas	**(2,308)**	11,698
Others	**(14,058)**	6,095
Total	**(1,494,463)**	(873,161)

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, 2017		**December 31, 2016**	
Security types	**Change in investment price %**	**Effect in SAR' 000**	**Change in investment price %**	**Effect in SAR' 000**
Equity				
Quoted	± 10	**13,225**	± 10	13,032
Unquoted	± 2	**3,168**	± 2	3,150
Mutual Funds				
Quoted	±10	**38,287**	±10	27,937
Unquoted	±2	**6,464**	±2	-
Sukuk				
Quoted	±10	**94,248**	±10	29,854
Unquoted	±2	**26,161**	±2	9,413

32. 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% (2016: 7%) of total demand deposits and 4% (2016: 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.

a. Analysis of discounted assets and liabilities by expected maturities

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 discounted cash flows, whereas the Group manages the inherent liquidity risk based on expected discounted cash inflows.

2017 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	2,953,674	-	-	-	2,735,257	5,688,931
• Cash in hand	1,724,325	-	-	-	-	1,724,325
• Balances with SAMA	1,229,349	-	-	-	2,735,257	3,964,606
Due from Banks and other financial institutions	6,391,004	360,579	954,799	-	-	7,706,382
• Demand	157,645	-	-	-	-	157,645
• Commodity murabaha	6,233,359	360,579	954,799	-	-	7,548,737
Investments, net	1,628,633	10,230	497,500	2,006,948	996,706	5,140,017
• Available for sale	37,532	10,230	497,500	1,705,248	996,706	3,247,216
• Held at amortized cost	1,591,101	-	-	301,700	-	1,892,801
Financing, net	9,927,147	20,042,406	10,868,928	2,608,948	-	43,447,429
• Consumer	623,114	3,284,472	9,655,390	1,879,396	-	15,442,372
• Commercial	9,304,033	16,757,934	1,213,538	729,552	-	28,005,057
Investment in property	-	-	-	-	-	-
Other assets*	-	-	-	-	64,024	64,024
Total assets	20,900,458	20,413,215	12,321,227	4,615,896	3,795,987	62,046,783
Liabilities						
Due to SAMA	2,012,518	-	-	-	-	2,012,518
Due to banks and other financial institutions	1,236,723	512,214	-	-	-	1,748,937
• Demand	346,546	-	-	-	-	346,546
• Direct investment	890,177	512,214	-	-	-	1,402,391
Customer deposits	46,266,291	1,516,668	-	-	-	47,782,959
• Demand	27,442,213	-	-	-	-	27,442,213
• Direct investment	5,106,386	1,516,668	-	-	-	6,623,054
• Albilad account (Mudarabah)	12,811,178	-	-	-	-	12,811,178
• Other	906,514	-	-	-	-	906,514
Sukuk	-	-	-	2,006,575	-	2,006,575
Other liabilities*	-	-	-	-	1,448,034	1,448,034
Total Liabilities	49,515,532	2,028,882	-	2,006,575	1,448,034	54,999,023
Commitments & contingencies	1,285,811	3,041,534	1,802,319	114,921	-	6,244,585

The cumulative maturities of commitments & contingencies are given in note 19 of the financial statements

*It does not include non-financial assets and liabilities.

2016 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	2,116,612	-	-	-	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	721,116	2,758,780	8,417,725	726,465	-	12,624,086
• Commercial	6,838,887	15,468,043	1,238,244	9,127	-	23,554,301
Investment in property	-	800,000	-	-	200,000	1,000,000
Other assets*	-	-	-	-	48,201	48,201
Total assets	17,549,085	20,186,794	10,308,356	1,515,369	3,227,598	52,787,202
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*	-	-	-	-	922,084	922,084
Total Liabilities	39,551,357	3,685,963	-	2,007,047	922,084	46,166,451
Commitments & contingencies	546,688	2,899,140	3,415,322	127,464	-	6,988,614

The cumulative maturities of commitments & contingencies are given in note 19 of the financial statements

*It does not include non-financial assets and liabilities.

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

2017 **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	**2,014,309**	**-**	**-**	**-**	**-**	**2,014,309**
Due to banks and other financial institutions	**1,237,279**	**515,578**	**-**	**-**	**-**	**1,752,857**
Customers' deposits	**46,274,649**	**1,533,665**	**-**	**-**	**-**	**47,808,314**

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

33. 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, 2017					
Financial assets measured at fair value					
Available for sale investments					
Equities	**290,647**	**132,254**	**-**	**158,393**	**290,647**
Mutual funds	**706,058**	**382,872**	**323,186**	**-**	**706,058**
Sukuks	**2,250,511**	**942,475**	**-**	**1,308,036**	**2,250,511**
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	**7,706,382**	**-**	**-**	**7,706,382**	**7,706,382**
Investments held at amortized cost	**1,892,801**	**-**	**-**	**1,892,801**	**1,892,801**
Financing, net	**43,447,429**	**-**	**-**	**42,356,960**	**42,356,960**

		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					
Equities	287,820	130,320	-	157,500	287,820
Mutual funds	287,365	279,365	-	-	279,365
Sukuks	761,182	298,538	-	470,644	769,182
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
Investment property	1,000,000	-	-	1,290,637	1,290,637

		Fair value			
SAR' 000	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2017					
Financial liabilities not measured at fair value					
Due to SAMA	**2,012,518**	**-**	**-**	**2,012,518**	**2,012,518**
Due to banks and other financial institutions	**1,748,937**	**-**	**-**	**1,748,937**	**1,748,937**
Customers' deposits	**47,782,959**	**-**	**-**	**47,782,959**	**47,782,959**
Sukuk	**2,006,575**	**-**	**-**	**2,006,575**	**2,006,575**

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

The fair values of financial instruments which are not measured at fair value in these 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 counterparty 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).

Available for sale investments classified as level 3 include unlisted sukuk which have been measured by the management at fair value using broker quotes or estimating present value by discounting cash flows using adjusted discount rate. The adjusted discount rate is calculated using CDS of a similar entity using publicly available information. The valuation method has been approved by ALCO.

During the current year, no financial assets / liabilities have been transferred between level 1 and / or level 2 fair value hierarchy.

Reconciliation of level 3 fair values held as available for sale

	2017 SAR' 000	2016 SAR' 000
Balance at the beginning of the year	**628,144**	455,068
Purchase	**830,284**	269,414
Sales	**-**	(97,568)
Net changes in fair value (unrealised)	**8,001**	1,230
Total	**1,466,429**	628,144

34. 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:

	2017 SAR' 000	2016 SAR' 000
a) Directors, and other major shareholders and their affiliates balances:		
Financing		
Bei ajel	**2,017,422**	1,126,699
Musharaka	**13,331**	16,376
Commitments and contingencies		
Commitments and contingencies	**81,512**	90,642
Deposits		
Demand	**64,390**	84,728
Albilad account (Mudarabah)	**88,625**	2,611
Other	**5,750**	5,750

	2017 SAR' 000	2016 SAR' 000
b) Key management personnel and their affiliates balances:		
Financing		
Installment sales	**11,481**	9,381
Deposits		
Demand	**2,271**	5,707
Albilad account (Mudarabah)	**14,203**	5,326

c) Group's mutual funds*:

	2017 SAR' 000	2016 SAR' 000
These are the outstanding balances with Group's mutual funds as of December 31:		
Customers' deposits	**196**	196
Investments – units	**220,367**	47,164
Financing	**-**	811,800
Sukuk issued by the Bank	**-**	8,000

*these includes certain balances pertaining to Makkah AlDiyafah Fund which were consolidated in 2016 but are not being consolidated in 2017 and accordingly included in these balances in 2017.

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, 2017 and 2016:

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

	2017 SAR' 000	2016 SAR' 000
Income		
Income from financing	**36,833**	39,699
Fee and commission income, net	**622**	626
Fee and commission income, net (AlBilad mutual funds)	**12,277**	11,790
Expenses		
Albilad account (Mudarabah)	**2,664**	16
Buildings rents	**10,404**	11,054
Board of Directors' remuneration	**4,883**	5,480

Key management personnel and their affiliates:

	2017 SAR' 000	2016 SAR' 000
Income		
Income from financing	**156**	100
Expenses		
Albilad account (Mudarabah)	**84**	16

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

	2017 SAR' 000	2016 SAR' 000
Employee benefits	**69,523**	96,905

35. 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.

As at December 31, 2017, and December 31 2016 and during the year ended December 31 2017, Bank is in compliance with the regulatory capital requirements.

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

	2017	2016
	SAR' 000	SAR' 000
Credit Risk RWA	**49,050,813**	42,831,321
Operational Risk RWA	**4,899,270**	4,340,692
Market Risk RWA	**1,512,788**	991,676
Total Pillar-I RWA	**55,462,871**	48,163,689
Tier I Capital	**7,588,793**	7,320,805
Tier II Capital	**2,693,286**	2,532,325
Total Tier I & II Capital	**10,282,079**	9,853,130
Capital Adequacy Ratio %		
Tier I ratio	**13.68%**	15.20%
Tier I + Tier II ratio	**18.54%**	20.46%

36. 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 7 public mutual funds (2016: 7 public mutual funds) with assets under management (AUM) totaling SAR 921 million (2016: SAR 946 million). Al Bilad Investment acts as the fund manager of these funds. 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 1,105 million (2016: SAR 1,644 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 34).

37. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Bank has chosen not to early adopt the standards and amendments which have been published and are mandatory for compliance by the Banks effective from accounting period beginning on or after January 1, 2018.

Standard, and amendments	Effective date	Brief description of changes
IFRS 2 -- "Share-based Payment"	January 1, 2018	The amendments cover classification and measurement of three accounting areas, first, measurement of cash-settled share-based payments, second, classification of share-based payments settled net of tax withholdings, and third, accounting for a modification of a share-based payment from cash-settled to equity-settled. The impact is not material for the Bank.
IFRS 15 – "Revenue from contracts with customers"	January 1, 2018	This is a converged standard from the IASB and Financial Accounting Standards Board (FASB) on revenue recognition. This standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
IFRS 16 – "Leases"	January 01, 2019	The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.

The Bank is in the process of assessing the impact of IFRS 2, IFRS 16 and IFRS 15 on bank's financial statements, however, no major impact is expected.

Implementation and impact analysis of IFRS 9

a. Implementation strategy

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that replaces IAS 39 Financial Instruments: Recognition and Measurement effective from 1 January 2018, with early adoption permitted. The Bank considers implementing IFRS 9 as a significant project and therefore has set up a multidisciplinary implementation team with members from its Credit risk and Market RIsk, Finance, IT, Operations and other respective businesses to achieve a successful and robust implementation. The project is jointly managed by the Chief Financial Officer and the Chief Risk Officer.

b. Classification and measurement

The classification and measurement of financial assets (except equity instruments) will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through statement of income ('FVSI'). For equity instruments that are not held for trading, the bank may irrevocably elect to designate them as FVOCI, with no subsequent reclassification of gains or losses to the income statement. This election is made on an investment-by-investment basis.

The majority of the bank's debt instruments that are currently classified as available for sale (AFS) will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change in the accounting for these assets except for new impairment requirements. Equity investments currently measured at FVSI will continue to be measured on the same basis under IFRS 9.

The majority of financial assets that are classified as Financing are measured at amortised cost under IAS 39 are expected to be measured at amortised cost under IFRS 9 as well. instruments that are classified as AFS under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVSI, depending on particular circumstances.

Under IFRS 9, the accounting for financial liabilities will largely remain similar to IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVSI. The de-recognition rules have been transferred from IAS 39 and have not been changed. The Bank therefore does not expect any material impact on its financial liabilities and the de-recognition accounting policy.

c. Impairment

The Bank will recognize impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured via FVSI. This mainly include financing, investments that are measured at amortised cost or at FVOCI (other than equity investments), interbank placements, financial guarantees, lease receivables and credit commitments. No impairment loss will be recognised on equity investments. The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The above parameters are generally derived from internally developed statistical models, other historical data and are adjusted for forward looking information. The Bank will categorize its financial assets into following three stages in accordance with IFRS 9 methodology:

- **Stage 1:** Performing assets: Financial asset(s) that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.
- **Stage 2**: Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on lifetime ECL.
- **Stage 3:** Impaired assets: For Financial asset(s) that are impaired, the Bank will recognise the impairment allowance based on lifetime ECL.

The Bank will also consider the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g., unemployment, Oil Prices, Private Consumption, Government Consumption, profit rates and economic forecasts obtained through internal and external sources. The selection of variables was made after multiple scenario analysis and analyzing the impact on the Bank's portfolio.

The Bank is now ready to implement IFRS-9 after due validation by the external auditors of the whole IFRS 9 framework.

d. Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 allows an accounting policy choice to continue to apply hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

The Bank does not have any hedging instruments as at December 31, 2017.

e. Overall expected impact

The Bank has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of IFRS 9 on 1 January 2018:

- According to transitional provisions for initial application of IFRS 9, the bank is allowed to recognize any difference between previous carrying amount under IAS 39 and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in opening retained earnings. Accordingly, the overall impact on equity and the aggregated carrying value of relevant financial assets is estimated to be (1%) to (2.3%) and (0.1%) to (0.27%) respectively on the date of initial application arising due to application of expected credit loss model as against Incurred loss model;
- Furthermore and as a result, the bank's Tier 1 ratio will be impacted primarily from potential increase in credit impairment provisions.
- Based on the balances as at December 31, 2017, the day 1 impact of IFRS 9 (applicable from 1 January 2018) would be an estimated reduction of approximately 0.30% to 0.35% in Capital Adequacy Ratio which would be transitioned over five years

in accordance with SAMA guidelines. Further, the key impacts worth highlighting are as follows:

a) Gains or losses realized on the sale of equity instruments classified as FVOCI will no longer be transferred to profit or loss. During the year ended 31 December 2017, gains amounting to SAR 7.820 million (2016: SAR 4.040 million) were recognised in profit or loss in relation to the disposal of AFS financial assets.

- The new standard also introduces extended disclosure requirements and changes in presentation. These are expected to change the nature and extent of the bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Caveat:

The estimated decrease in shareholders' equity includes the impact of both statement of financial position classification and measurement changes and the increase to credit impairment provisions compared to those applied at 31 December 2017 under IAS 39. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Bank could vary significantly from this estimate. The Bank continues to refine models, methodologies and controls, and monitor developments in regulatory rulemaking in advance of IFRS 9 adoption on 1 January 2018.

38. EMPLOYEES' SHARE PLAN

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

	2017	2016
Grant date	**14 May 2017**	21 June 2016
Maturity Date	**25% 1 Jan 2018** **25% 1 Jan 2019** **50% 1 Jan 2020**	25% 1 Jan 2017 25% 1 Jan 2018 50% 1 Jan 2019
Number of shares offered on the grant date	**733,620**	483,477
Share price on the grant date (SAR)	**18.12**	24.07
Value of shares offered on grant date (SAR' 000)	**13,293**	11,637
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	**2017**	2016
Beginning of the year	**822,646**	1,129,439
Granted during the year	**733,620**	483,477
Forfeited	**(128,563)**	(332,598)
Exercised	**(399,887)**	(457,672)
End of the year	**1,027,816**	822,646

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

39. COMPARATIVE FIGURES

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

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

These consolidated financial statements were approved by the Bank's Board of Directors on 25 Jumada ‟ Al Awwal 1439H (corresponding to 11 February, 2018).