





## **Annual Report 2017**

Kingdom of Saudi Arabia  
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**Core Values**

Initiative and Innovation  
Care and Partnership  
Trust and Accountability

**Mission**

To strive initiatives and innovation to provide our banking services on a genuine Islamic basis to meet the ambitions of our stakeholders: clients, employees and shareholders

**Vision**

To be the preferred choice of genuine Islamic banking solutions



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ









# Board Members & Chief Executive Officer

Mr.  
**Khalid Al-Rajhi**  
Board member  
Member of the  
Executive Committee



Mr.  
**Ahmed Alhussan**  
Board member  
Chairman of the Audit Committee



Mr.  
**Saud Alfaiz**  
Board member  
Chairman of the Risk Committee



Mr.  
**Fahad Bindekhayel**  
Board member  
Member of the Executive Committee



Mr.  
**Nasser AlSubeaei**  
Board member  
Vice Chairman of the board  
Member of the Executive Committee



Mr.  
**Fahad Alkassim**  
Board member  
Member of the Risk Committee



Dr.  
**Abdulrahman AlHumaid**  
Chairman of the Board  
Chairman of the  
Executive Committee



Mr.  
**Abdulrhman Addas**  
Board member  
Chairman of the Nominations &  
Compensations Committee  
Chairman of the Compliance &  
Governance Committee



Mr.  
**Abdulaziz Alonaizan**  
Chief Executive Officer  
Member of the Executive  
Committee



Mr.  
**Khalid AlMukairin**  
Board Member  
Member of Executive Committee  
Member of Nomination and  
Remuneration Committee



Eng.  
**Omar Babaker**  
Board member  
Member of the Nominations &  
Compensations Committee



# In The Name of Allah, The Most Beneficent, The Most Merciful

Praise be to Allah, and prayers and peace be upon the Messenger of Allah and his family and companions.

Then, in my name and on behalf of the Board of Directors, I am pleased to present to the respected shareholders of the Bank, the annual report of the fiscal year 2017 that shows the general performance of the Bank, gives details about its main activities, illustrates the balance sheet, the shareholders’ equity and the financial statements for the year ended in 31 December 2017.

With the help of God and the efforts of Albilad’s employees (ambassadors), the Bank was able to achieve positive financial and operational results and appreciated growth during last year which ended in 31 December 2017. The financial and monetary policy adopted by the good government of the Kingdom has played the main role in enhancing the capacities of Bank Albilad and Saudi Banks in general, through strengthen their financial positions, increasing their abilities to deal with risks and keeping a high and stable financial solvency level.

During 2017, as per the good performance that developed over last years- in order for the board of director to achieve the interests of the Bank’s shareholders among them, their rights to have regular profits- the Bank has disbursed interim dividend on the first half of 2017 with total amount of 180 Million Saudi Riyal, in the amount of 0.3 Riyal per share that is equal to 3% of the nominal value of the share. Moreover, the board of directors has advised the general assembly on 14.01.2018 to disburse dividends on the second half of 2017 with total amount of 240 Million Saudi Riyal, in the amount of 0.4 Riyal per share that is equal to 4% of the nominal value of the share. Therefore, the total amount distributed to the shareholders for the fiscal year 2017 is 420 Million Saudi Riyal, in the amount of 0.70 Riyal per share that is equal to 7% of the nominal value of the share.

In addition to the financial results achieved, the board of directors, in order to achieve its vision and objectives towards the society, has paid special attention to the main three elements of the society – environment, development and people- out of its community-based responsibility. The Bank adopted several community initiatives that enhanced its role in serving and developing the society. We as the board members will continue working in this field to dedicate the Bank’s community-based responsibility.

I am honored to express in my name and on behalf of the board of directors and the executive management and all those associated with the Bank, our deepest gratitude, respect and appreciation to his Highness the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz and the Crown Prince his Highness Muhammad bin Salman- may God protect them- for their continuous support provided specially for the Banking sector. Also, I want to thank under my name and on behalf of the board of directors and the executive management, all the governmental entities, especially the Saudi Arabian Monetary Fund, Ministry of Finance, Ministry of Commerce and Investment and Capital Market Authority. We are also thankful for their excellencies the head of Shariah Committee and its members and for the head of the review committee and its members, for all the board of directors’ committees and the executive committee for the efforts they exert to make sure that the Bank abides by the Sharia standards on one hand and abides by all the Laws, regulations, highest standards and best practical applications from the other hand in providing all its services and working on achieving the vision of the Bank’s board of directors and its shareholders to a prominent Bank for the modern Islamic Banking. Our gratitude extends to the respected shareholders, partners and customers of Bank Albilad for their trust that is so valuable for the Bank and also to those associated with the Bank- Albilad Employees (ambassadors) who worked and always working with dedication, loyalty, persistence and professionalism, and they were and will always be – the main reason- after Almighty God’s Conciliation- for what the Bank has achieved and will achieve in terms of the exponential growth and good results. We fully trust them that they will not save any effort in order to continue this hard work and achieve the required progress for gaining more growth and prosperity during this year and the following years God willing.

Finally, I would like to express our sincere gratitude and appreciation for your trust in the management of the Bank and its employees. I am also honored to meet you during the annual meeting of the Bank at the general assembly to reply to any inquiries about this report, whether they were directed to me as the chairman of the board or directed to any of the heads of the board’s committees and my conciliation comes only from God.

May the peace, mercy and blessings of God be with you.

Your brother/ Abdul-rahman bin Ibrahim Al-Humaid

Statement of the Chairman of the Board 2017





## In The Name of Allah, The Most Beneficent, The Most Merciful

Praise be to Allah, and prayers and peace be upon the Messenger of Allah and his family and companions.

Dear Respected Stakeholders of Bank Albilad,

Peace be upon you

Thanks to Allah, then the efforts and collaboration of the Bank's Ambassadors, Bank Albilad continued its growth during 2017, despite the economic challenges and the very competitive environment that require increase use of technology, improving regulatory standards related to adequacy of capital, liquidity coverage and abidance by applying the governance principles of companies. The Bank continued strengthening its relationships with all segments of customers in various banking business sectors related to individuals, trade sectors, small and medium enterprise sector, which led to achieving growth in all indicators, including operational income growth and net profit of the Bank as well as supporting the main infrastructure to support business in order to serve our clients effectively and remarkably.

### Financial Performance:

As a result of these wide-scale initiatives, the Bank was able to increase the net income of 942 Million Saudi Riyal for 2017 with growth percentage of 17% than last year. Hence, the income from investing and financing assets portfolio jumped 24% to achieve 1.739 Billion Saudi Riyal, , while Total Operating Income rose by 14%. On the other hand, total operational expenses, grew by 14% led by an increase in provisions and operating expenses with percentages of 59% and 6% respectively. Additionally, fees and commissions were increased by 3% to achieve 834 Million Saudi Riyal, supported by an increase in the received service fees. Regarding the financial position of the Bank, the assets of the Bank has recorded an increase of 17% at the end of 2017 to reach 63.208 Billion Saudi Riyal and the net financing reached 43.447 Billion Saudi Riyal with an increase of 20% than last year. Moreover, the deposits increased with 19% to reach 47.783 Billion Saudi Riyal.

### Expanding our Products Offers:

2017 witnessed the introduction of new products and services that fulfill the needs and expectations of our customers, including traditional products and services as well as providing electronic banking services. In the light of focusing on the development of the Personal Banking Sector, the Bank currently has a wide range of financing products for individuals including, real estate financing, personal financing, cars financing, in addition to many types of credit cards.

The Bank is proud to be one of the leading banks that entered into partnership with Ministry of Housing and Real Estate Development Fund through providing many housing financing products such as: Accelerated financing, supported financing and concessional financing that were all prepared specifically to help the citizens of the Kingdom in achieving their dreams about owning private houses and better life as per the Kingdom's aspiring Vision 2030.

The Bank has also developed its strategies related to Small and Medium Enterprises (SMEs) sector through providing more options of products and services to the customers of this segment. This will have a great impact on increasing the market share that will develop the Bank's portfolio in this sector. Additionally, the Bank is working on the preparation and development of more financing products that are compliance with Sharia to serve this sector that will contribute in increasing the gross domestic product from 20% to 35% in 2030.

Regarding money transfer field, Bank Albilad has enhanced its leading position in the market through (Injaz) sector by launching new immediate transfer service as the transfer is done between the beneficiaries accounts immediately and on the same day. The process of money transfer was improved through providing the electronic Enjaz network and a mobile application which made the transfer process more easier and comfortable for the customers.

Regarding Treasury Sector, the diversity in investment portfolio size was increased, in addition to, expanding our network of relationships with international banks and our investment relationships with the customers that result in supporting the growth of the Bank.

### Enhancing the Customers' Experience through Special Service and Digital Transformation:

Technology and information security are the main two elements of the Bank strategy related to the efficiency in performing banking transactions and improving the quality of the customer service. Therefore, the Bank has invested enormous amounts of money as the keystone of our digital banking project has been set, in order to transfer Bank Albilad to a comprehensive digital work environment that aims at improving the customer's experience in completing all his/her banking transactions at all channels of the Bank quickly and in a better way. Improvements included also several alternative channels such as restructuring IVR system for banking phone through adding new functions and services. E-commerce products were developed and made available on the website of Albilad for business that is related to segment of companies banking customers; communication methods with the customer were widened that facilitated their deals in products and services.

We continued our exerted efforts in re-distributing our branches network through opening five (5) new sales centers and three (3) Enjaz centers, adding more cash deposit machines and coins machines. We have also started the trial run for interactive ATM to provide the best service for the customers.

2017 has also witnessed a focus on redeployment plan of ATMs and Point of Sales machines to ensure providing a high level of performance and operation. Accordingly, we provide electronic banking services that are comfortable for our customers 24 hours a day. The positive impact of these initiatives is revealed in the increase use of electronic platforms by our customers via the Bank website (Albilad Net) and the mobile application (Albilad Maak).

### Enhancing the culture of Excellent Performance and Community Care:

Bank Albilad is always proud of its constant care about its employees, as we give out employees in general the same attention we give to our customers and we support excellent employees through recognition programs, in addition to our commitment to develop their skills, provide specialized training programs and give them opportunities to achieve progress in their professional lives. We aim at creating an ideal work environment that attracts qualified employees and its foundation is based on creativity and excellent performance.

Community participation is considered a keystone in Bank Albilad's strategy, represented in the community responsibility programs as we support various projects and initiatives intended for serving and developing the community.

To conclude, we will strive as Bank Albilad ambassadors to sustain our growth trajectory and achieve better results for 2018 through providing the best Islamic Banking solutions, improving the service quality, enhancing our relationships and increasing our customers' base by common sale initiatives, in addition to increasing the operating efficiency through investment in modern technology and human capital as well as supporting community responsibility programs and most importantly, working on effective contribution that achieve the objectives of Vision 2030 of the Kingdom and its aspirations.

What the Bank has achieved during 2017 is a result of continuous care and guidance that provided by our respected Board of Directors to the management team of the Bank and its constant monitoring to the Executive Management in order to achieve the approved strategies.

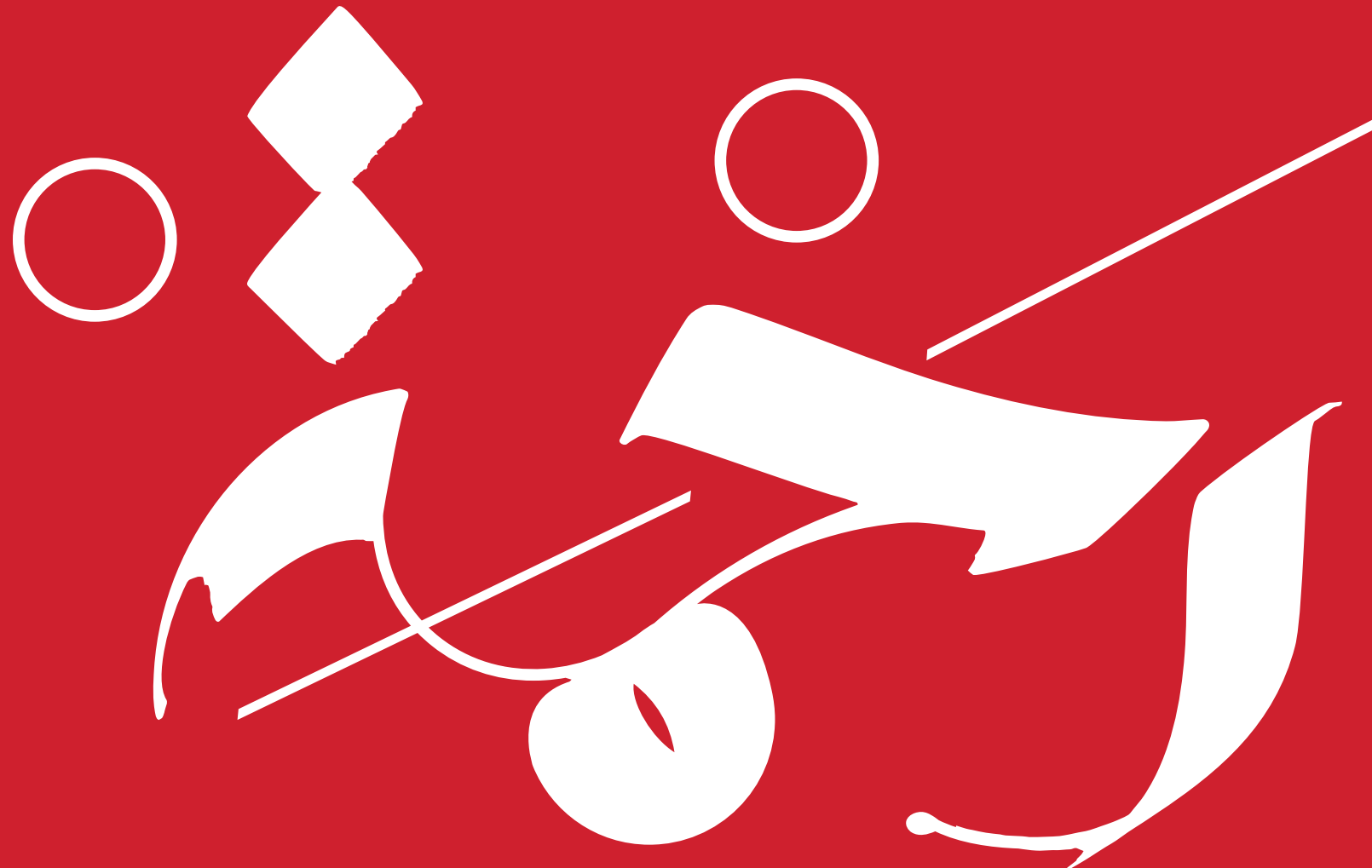
Finally, we would like to express our deepest gratitude and thanks to his Highness the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz Al Saud and the Crown Prince his Highness Muhammad bin Salman may God protect them. We would like also to thank our good government for its support and care provided to the banking sector, commercial, industrial, agricultural and other sectors; thank all the shareholders, customers and ambassadors of Bank Albilad for their trust and support that had always great impact on pushing us towards achieving quantum leaps that go in line with their aspirations. At the end, I would like to express our greatest appreciation for the Saudi Arabian Monetary Authority for executing wise monetary policies that ensure the stability and growth of the Banking Sector.

May Allah Bless Us All

Your brother/ Abdulaziz bin Mohammed Alonaizan



**And the challenge for success  
continues steadily in God's will**



Supporting Tarahum (Compassion) Committee

Financial support was provided to the National Committee  
for the Welfare of Prisoners and their Families (TARAHUM)

**Program  
Tarahum**





Dear: Shareholders of Bank Albilad

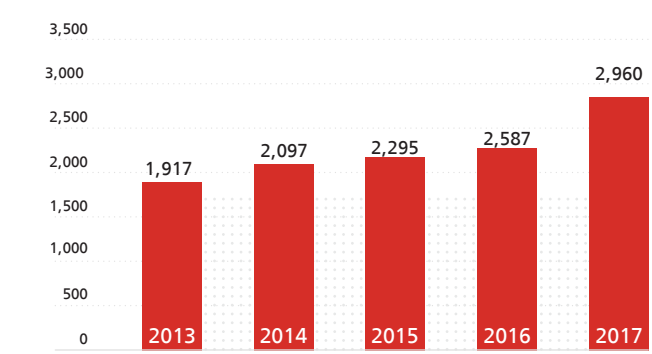
Greetings,

The board of directors is pleased to present to the shareholders of Bank Albilad the annual report related to the Bank performance, its subsidiaries, its main activities and achievements for the fiscal year ended in 31 December 2017.

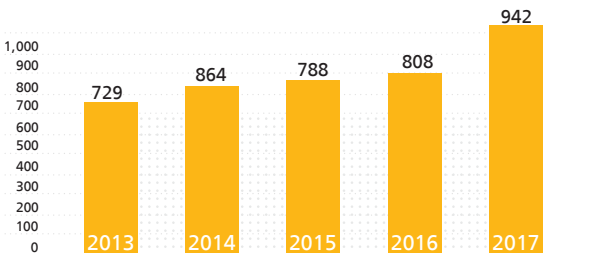
Operational Results:

Net income attributable for the shareholders of the Bank reached in 2017 an amount of 942 Million Saudi Riyal, with 16.6% increase from 2016. This increase was due to 14.5% increase in the operations income to reach 2,960 Million Saudi Riyal as a result of a growth in the net income of the investment and funding assets portfolio with a percentage of 23.5% to reach 1,739 Million Saudi Riyal.

In return, the total operational expenses has increased with a percentage of 13.8% to reach 2,024 Million Saudi Riyal as a result of the increase in the allocations reserved for the funding portfolio as well as the item of other general and administrative expenses and employees' salaries.



Total Operating Income in the last five years  
(in Millions Riyals)

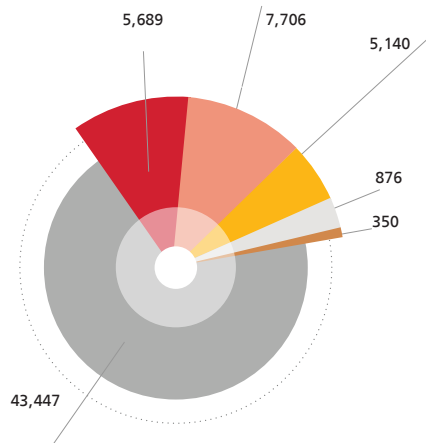
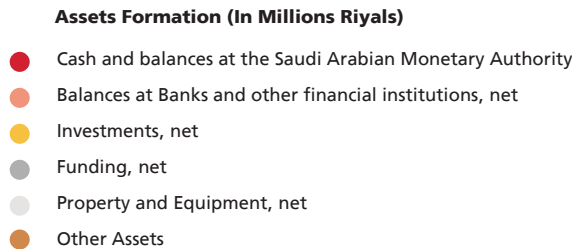
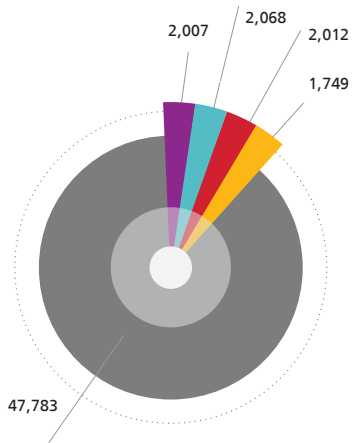
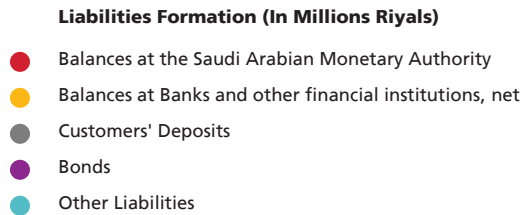
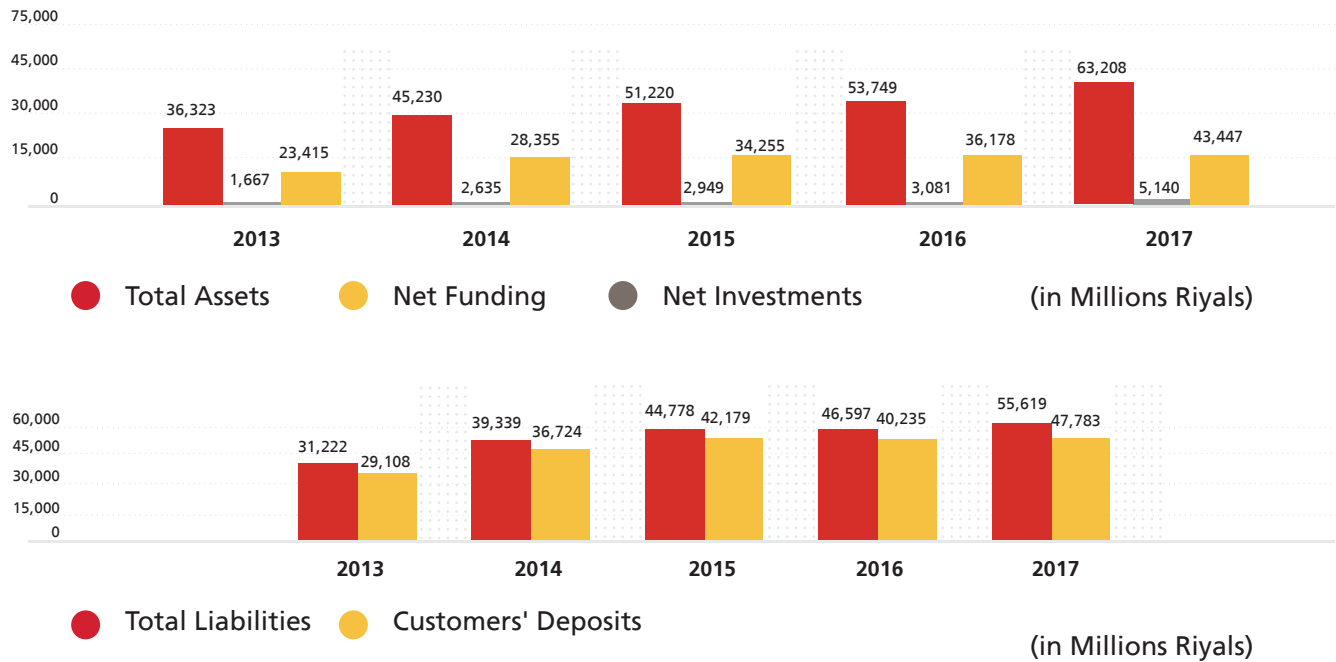


Net income attributable for the shareholders of the  
Bank in the last five years (in Millions Riyals)

Balance Sheet:

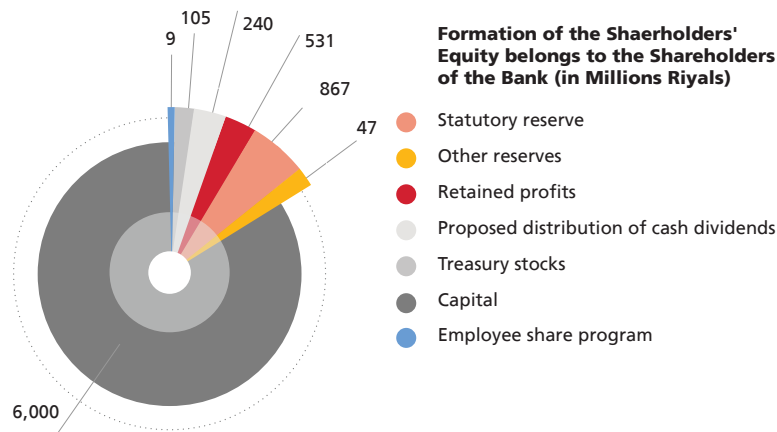
The assets of the Bank at the end of 2017 have reached an amount of 63,208 Million Saudi Riyal with 17.6% increase from last year. The customers' deposits at the end of the current year have reached 47,783 Million Saudi Riyal, recording an increase with amount of 7,548 Million Saudi Riyal from last year, which represents 18.8% increase. The net funding portfolio has increased at the end of 2017 to reach 43,447 Million Saudi Riyal, in comparison with 36,178 Million Saudi Riyal for last year with an increase percentage 20.1%.





Shareholders' Equity:

The shareholders' equity belongs to the shareholders of the Bank at the end of 2017 has reached 7,589 Million Saudi Riyal, in comparison with an amount of 7,112 Million Saudi Riyal at the end of 2016, with 6.7% increase. The number of the common shares issued reached 600 million share and the capital adequacy rate has reached 18.5% at the end of 2017, in comparison to the minimum required percentage which is 8%. The Bank has also achieved revenues on the assets average that reached 1.61% while the revenues on the shareholders' equity average have reached 12.78% and earnings per share reached 1.56 Saudi Riyal per one share.



Financial Comparisons:

A) Analysis of the most important items of the consolidated balance sheet: (in Millions Saudi Riyals)

	2017	2016	2015	2014	2013
Investments, Net	5,140	3,081	2,949	2,635	1,667
Funding, Net	43,447	36,178	34,255	28,355	23,415
Total Assets	63,208	53,749	51,220	45,230	36,323
Customers' Deposits	47,783	40,235	42,179	36,724	29,108
Total Liabilities	55,619	46,597	44,778	39,339	31,222
Total shareholders' equity belongs to the shareholders of the Bank	7,589	7,112	6,442	5,891	5,101

	2016	2015	Changes	Changes Percentage
Investments, Net	5,140	3,081	2,059	66.8%
Funding, Net	43,447	36,178	7,269	20.1%
Total Assets	63,208	53,749	9,459	17.6%
Customers' Deposits	47,783	40,235	7,548	18.8%
Total Liabilities	55,619	46,597	9,022	19.4%
Total shareholders' equity belongs to the shareholders of the Bank	7,589	7,112	477	6.7%

## B) Analysis of the most important items of the consolidated income statement: (in Millions Saudi Riyals)

	2017	2016	2015	2014	2013
Net income from investment and funding assets	1,739	1,408	1,162	1,019	947
Income from fees and commissions, net	834	812	779	719	666
Earnings from currency exchange, net	310	311	317	293	245
Total operating income	2,960	2,587	2,295	2,097	1,917
Reverse allocation of low goods murabaha		-	-	-	(5)
Allocation of low investment available for sale	0.2	47	13	-	-
Allocation/ (reverse allocation) of low funding, net	378	191	79	(8)	175
Total operating expenses	2,024	1,778	1,506	1,233	1,188
Net income for the year	936	809	788	864	729
Revenues for:					
Shareholders of the Bank	942	808	788	864	729
Non-controlling interest	(6)	1	-	-	-
Net income for the year	936	809	788	864	729

(in Millions Saudi Riyals)

	2016	2015	Changes	Changes Percentage
Net income from investment and funding assets	1,739	1,408	331	23.5%
Income from fees and commissions, net	834	812	22	2.7%
Earnings from currency exchange, net	310	311	(1)	(0.3%)
Total operating income	2,960	2,587	373	14.4%
Reverse allocation of low goods murabaha		-	-	0/0%
Allocation of low investment available for sale	0.2	47	(47)	(99.6%)
Allocation/ (reverse allocation) of low funding, net	378	191	187	97.9%
Total operating expenses	2,024	1,778	246	13.8%
Net income for the year	936	809	127	15.7%
Revenues for:				
Shareholders of the Bank	942	808	134	16.6%
Non-controlling interest	(6)	1	(7)	(700.0%)
Net income for the year	936	809	127	15.7%

## Geographical analysis for Bank's revenues and its subsidiaries:

Analysis for total revenues as per provinces	(in Millions Saudi Riyals)			
	Central	Western	Eastern	Total
Total Revenues for 2017	1,908	630	422	2,960

Most revenues of the Bank and its subsidiaries are achieved mainly from their activities in the Kingdom of Saudi Arabia and the Bank doesn't have any branches or subsidiaries or establishments that work outside the Kingdom of Saudi Arabia.

## Accounting Standards Applied

Bank Albilad in its preparation of its consolidated financial statements follows the accounting standards for the financial institutions issued from the Saudi Arabian Monetary Authority, International Accounting Standards (IAS), International Financial Reporting Standards (IFRS). The Bank also prepares its consolidated financial statements in a way that complies with the Banking Control Law and the Companies Law applied in the Kingdom of Saudi Arabia.

It is worth mentioning that the Capital Market Authority has issued a circular whereby stresses on the companies' board of directors to ensure that the report of the board of directors on the fiscal years 2015 and 2016 should include the details of the plan applying the International Accounting Standards in full -after completing its approval from the Saudi Organization for Certified Public Accountants- on the financial statements prepared for the financial periods starting in 1 January 2017 or later, in addition to the stages of the plan implementation and the readiness of the company to apply the International Accounting Standards in 1 January 2017.

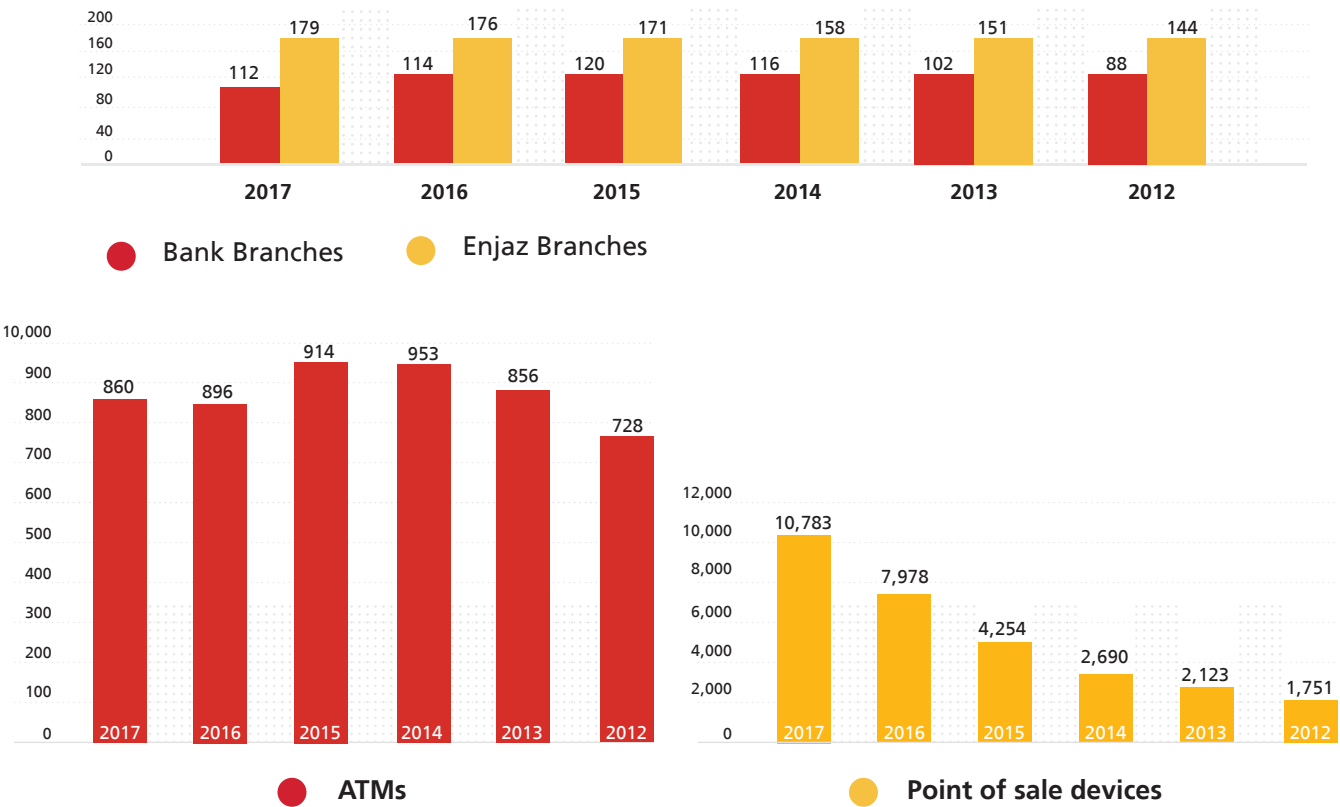
Given that the Bank is already adopting the International Accounting Standards while preparing its consolidated financial statements, it has no plans regarding what has been mentioned in the circular.

## Strategies and Future Plans of the Bank:

As an affirmation on the Bank continuous commitment to its institutional values and in accordance with the current economic changes, the Bank's board of directors during 2017 has updated the strategy approved since 2013 and extended it for the next five years (2017- 2021). Hence, the strategic directions have been reviewed while taking into consideration the expected investment opportunities and acceptable risk levels, in order to achieve the vision and objectives of the Bank , represented in increasing its market share, achieving growth in revenues and net profits and expanding its capital base. The strategic plans targeted expanding the database of the business sectors clients with their different segments, improving the quality standards of the services provided to them, offering secure and modern products and services that match their ambition. The strategy also included improving the efficiency of the Banking and financial channels of the Bank, increasing productivity in general through improving the effectiveness of the procedures, the performance of the branches and their prevalence, ATMs locations and developing the operational and technical infrastructure.

Banking Services Expansion:

During 2017, the strategy of branches redeployment was continued while focusing on improving the efficiency of the branches network performance through ensuring the collaboration between all branches to achieve the targeted profits. As a result of implementing the study related to this matter, some branches were merged and two Banking branches and five self-service branches (sales centers) were opened. Thus, the number of branches reached 112 working branch, in addition to 34 division for ladies. 3 Enjaz centers were opened, therefore, the number of Enjaz centers reached 179 center. Regarding card issuance, 432040 Banking card were issued in 2017 divided into pre-paid cards, credit cards and Mada cards. In the field of electronic Banking services, self-service working devices reached 860 device in 2017. The reason behind reducing the number of self-service devices goes back to reducing the operational expenses and changing the location of some devices to better locations. In addition, 5099 point of sale devices were added during 2017, so their numbers reached 10.783 device at the end of 2017.



Social Responsibility:

The social responsibility for Bank Albilad is the constant commitment of the Bank towards the society that emerges from its awareness of its national role and its contribution in the society as a responsible cooperate

through having high professional ethics, avoiding harming the environment, rationalizing of natural resources Utilization, playing a positive role in the country economy in order to achieve economic growth, working on improving the usual business practices of the Bank which will have a direct and sustainable effect, as per the updated social responsibility policy that is approved by the general assembly during 2017 and related organizing documents.

The social responsibility program in Bank Albilad has started an #Albilad initiative in 2011 with “every soul can” that aims at promoting noble values in the society. This was the beginning of an effective contribution in development of the society under the #Albilad initiative .

In the field of the environment preservation and not harming the natural resources, Bank Albilad gives a great attention to this field since its establishment through taking into account environmental building standards in all the facilities of the Bank in terms of insulation and construction materials that contribute in power consumption rationalization. The Bank participates annually at the global Earth Hour program that aims at raising the awareness of the importance of reducing carbon emissions and their danger upon Earth.

In the field of human development and work environment improvement, Bank Albilad exerted enormous efforts in this field such as:

- Achieving workforce nationalization with a percentage more than 87% and with 97% on the executive team level.
- Hiring more than 900 male and female in the last three years.
- Continuing to support “Albilad Future” program that aims at training and qualifying fresh graduates to be the future leaders.
- Establishing “Albilad Academy” to train and develop the employees of the Bank.
- Participating in “Your Job First And Then Your Scholarship Program” launched by Ministry of Education.

To facilitate procedures for orphans and their families, Bank Albilad initiated an e-portal for all services provided by the Charity Committee for Orphans Care (Ensan) to its beneficiaries.

Ensan Charity Committee

Awards obtained by the Bank in 2017:

1.

Award of best Islamic Bank in 2016, on the sideline of ceremony of best 50 trademarks in the Kingdom that was organized by BNC Publishing.
2.

First-place award from Bursa Malaysia in 2016 as the biggest Bank dealing in commodities for third year in a row.
3.

Bank Albilad ranked 25th in the list of the top 100 Saudi companies in 2017 that is issued by Al Eqtisadiyah (economic) newspaper.
4.

“Albilad Capital” has been awarded the best local fund in the Middle East granted by Thomson Reuters Lepper, in recognition of the performance of “Amwal Fund”, which invests in the shares of Islamic Banks and financial institutions.

Bank Subsidiaries:

The Bank owns two subsidiaries shown as follows:

Name of the Company	Establishment Date	Main Activity	Capital	Main State for its Operations	Country of Incorporation	Ownership Rate
Albilad Investment Company "Albilad Capital"	20 November 2007	Perform investment services and assets management activities represented in dealing with, arranging, managing, counseling and keeping securities.	200 Million Saudi Riyals	Riyadh, Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	100%
Albilad Real Estate Company Ltd.	17 September 2006	Carry out registration procedures related to real estate guarantees received by the Bank from its customers	500 Thousand Saudi Riyals	Riyadh, Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	100%

The Consolidated Financial Statements of the group include the Financial Statements of the Bank and its subsidiaries, namely, Albilad Investment Company and Albilad Real Estate Company collectively referred to as the “Group”.

Strategic Investments:

Name of the Company	Establishment Date	Main Activity	Authorized Capital	Paid-Up Capital	Main State for its Operations	Country of Incorporation	Ownership Rate
Bayan Credit Information Company	28 December 2015	The Company provides credit information services, valuation services, credit valuation and consulting g for companies and businesses	100 Million Saudi Riyals	50 Million Saudi Riyals	Riyadh, Kingdom of Saudi Arabia	Kingdom of Saudi Arabia	15%

Groups, business sectors and key activities of the Bank and its subsidiaries:

The Bank and its subsidiaries practice the following activities:

Personal Banking Activity (Retail)	Includes services and products provided to individuals, such as deposits, finance for individuals, remittances and foreign exchange.
Corporate Banking Activity:	Includes services and products provided to companies and legal person customers, such as deposits, finance and business services to customers.
Treasury Activity	Includes Capital Market and the provision of treasury services.
Investment and Brokerage Services Activity	Includes investment management services and assets management activities associated with the services of handling, management, arrangement, counseling and maintenance of securities provided by AlBilad Investment Company, which is owned by the Bank.

The following is a summary of the work of Banks Groups, business sectors and its subsidiaries:



### Personal Banking Division:

During the year 2017, the business was developed by launching several products and services, including flexible mortgage finance (Murabaha), real estate financing in the form of leasing, government-supported financing in collaboration with the Ministry of Housing and the Real Estate Development Fund, concessional financing and additional financing in cooperation with the Real Estate Development Fund, educational financing, personal financing for mortgage; in addition to signing several real estate marketing agreements and designing programs and marketing promotions to several companies. Moreover, current services and products were developed and improved in a way that serves sales channels and fulfills the needs of the customers. This led to achieving unremarkable financial results during the year 2017, hence, the personal finance portfolio has increased until the closing of December 2017, with an amount of 2.8. Billion Saudi Riyals, i.e. a growth percentage of 20% in comparison with the same period of last year. Also, the real estate finance portfolio with an amount of 1.2 Billion Saudi Riyals, i.e. a growth percentage of 88%, in addition, the personal finance portfolio has increased with an amount of 1 Billion Saudi Riyals, i.e. a growth percentage of 9%. Additionally, auto lease finance portfolio has increased with an amount of 423 Million Saudi Riyals, i.e. a growth percentage of 110%. Tamayuz program has been re-issued under two new looks and names (Tamayuz Gold and Tamayuz Diamond) that depends mainly on the principle of relationship management and close communication with the customers, in order to provide the best service and seeking to promote the service level to new horizons. Moreover, a new set of products and services were added to Tamayuz program in a very competitive prices, including cards of different benefits, transactions and safe deposit boxes.

New set of products and services were launched, including Tamkeen credit cards and digital cards (prepaid). Mukafaat AlBilad program was launched in collaboration with Visa International Company. The service of requesting cards on the internet via the website has been launched without the need to visit the branch, as well as the service of customers' installments to buy their procurements by installment and launching the service of Visa Checkout , beside the existing products and services that are currently provided such as customer relationship management, ATM services, POS, safe deposit boxes, "Albilad Maak" service. In addition to providing guaranties, service payment, deposit, withdrawal, private Banking customer services, and currency exchange service, and internal and external remittances. The customer service was also developed through social media channels, so that the service is provided to the customers 24 hours a day through the staff at the call center. In 2018, Personal Banking Division will continue to work to expand customers base and development of revenues by introducing new products that meet the desires of its customers, and it also aims to expand in developing advanced and modern methods to attract and recruit its customers to meet their current and future aspirations.

### Enjaz Division

Enjaz division has achieved a remarkable growth during the year 2017, as currently "Enjaz" is becoming one of the most important service providers of remittances and currency exchange in the Kingdom. The confidence of Enjaz's customers comes as a reflection to what the Sector had witnessed from continued development for transfer channels, and development of systems in order to keep pace with the global technological development; In addition to expanding the network of correspondents by contracting with major Banks around the world. Moreover, the Bank had increased the geographical spread of Enjaz centers of which amounted to 179 centers by the end of 2017.

### Treasury Sector

The Treasury Sector's efforts and directions during 2017 focused on main pillars such as expanding in investment portfolios, investment in bonds of the Government of Saudi Arabia, financial Murabaha portfolios, investment portfolios related to leas and direct investment in shares portfolios. It focused also on the field of capital markets and currencies, expanding the long-term investment, increasing and diversifying relationships with local and international financial institutions. It has also started providing hedge product against currency fluctuations through Murabaha and enabling the Bank to be the first option and to be competitor of all local and regional Banks in covering its requirements at various works related to treasury. It also focuses on the customer service of the Bank to companies, large and medium establishments and private Banking institutions to cover their needs of currencies and direct investment through direct dealings with the treasury sector. These efforts and directions led to increasing and diversifying sources of income, in addition to increasing market share and raising the level of customers service in addition to risk management in a very professional and accurate way.

### Corporate Banking division

During 2017, the Bank was able to achieve an outstanding quantitative and qualitative growth at the financing portfolio of the Bank and the customers base of the Bank in the establishments, companies and financing huge national projects. The Bank also pays attention to enhance its market share in the field of small and medium-sized enterprises (SMEs) as the Bank has provided many specialized services and products for this category via a specialized and trained team in the field of SMEs. During 2017, the Bank has performed the project of automation of the processes related to giving facilitations to establishments, companies and financial institutions, which saves a lot of time and effort, facilitate the monitoring process, raise the quality level in terms of strict control and risks reduction.

Since the year 2017 had many national and governmental initiatives among the national transformation process and Vision 2030, the Bank has studies these programs and initiatives to work on achieving the most positive and effective contribution, in addition to achieving the highest returns for the Bank and increasing its market share, which will reflect positively on the shareholders and other stakeholders.

Micro, Small and Medium Enterprises (MSMEs)

A- Qualitative Disclosure

The most important actions taken by the Bank in this regard are as follows:

- Collaborating with the advisory the International Finance Corporation (IFC), a member the World Bank to achieve and the main objective was to set a correct foundation for the development of this sector as well as building the necessary capacities for this. The Bank has benefited from the international experience of the IFC in the field of small and medium enterprises (SMEs) as this is associated with the mission of making this sector the financial services in the region. This participation included four related models: strategy, business model, products development, training and capacity building, risk and credit management and it gave the bank a new vision to set the appropriate strategy and business approach for this segment.
- Working on the development of credit policy and reducing obstacles in order to serve the small and medium enterprises.
- Launching many programs about products that target specific sectors within the small and medium enterprises sector.
- Distributing the managers of relationships in the small and medium enterprises sector in many branches at the main cities across the Kingdom.
- Approving the incentives plans for the provided recommendations to the small and medium enterprises sector.
- Continuous improvement for banking business through the website of business and other electronic channels that guarantee an easy access for this segment to the Bank services.
- Conducting many workshops and training courses to enhance and develop the skills of the relationships managers with a total of 99 training days for the employees.

B- Quantitative Disclosure:

2017	(Amounts in Millions)			
Details	Micro	Small	Medium	Total
Direct facilities provided to Micro, Small and Medium Enterprises	NA	595	1744	2,339.00
Indirect facilities provided to Micro, Small and Medium Enterprises	NA	216.59	310.3	526.89
Direct facilities provided to Micro, Small and Medium Enterprises in connection with total direct facilities		1%	4%	5%
Direct facilities provided to Micro, Small and Medium Enterprises in connection with total indirect facilities		3%	5%	8%
Number of direct and indirect facilities				-
Number of customers of direct and indirect facilities		207	155	362.00
Number of direct and indirect and guaranteed facilities through Kafala Program		78	10	88.00
Total direct and indirect and guaranteed facilities through Kafala Program		178.11	41	219.11

2016	(Amounts in Millions)			
Details	Micro	Small	Medium	Total
Direct facilities provided to Micro, Small and Medium Enterprises	NA	563.45	897.18	1,460.63
Indirect facilities provided to Micro, Small and Medium Enterprises (nominal value)	NA	167.98	251.78	419.76
Direct facilities provided to Micro, Small and Medium Enterprises in connection with total direct facilities		2%	2%	4%
Direct facilities provided to Micro, Small and Medium Enterprises in connection with total indirect facilities		2%	4%	6%
Number of direct and indirect facilities				
Number of customers of direct and indirect facilities		158	137	295.00
Number of direct and indirect and guaranteed facilities through Kafala Program		64	7	71.00
Total direct and indirect and guaranteed facilities through Kafala Program		126.5	23.81	150.31

### Activities of Albilad Investment Company "Albilad Capital" for the year 2017

Albilad Investment Company "Albilad Capital" was established in 2008 as a limited liability company with the approval of the Capital Market Authority of Saudi Arabia, and has a capital of SAR 200,000,000, which is the investment arm of the Bank Albilad. Its headquarters is in Riyadh and its business is in line with the principles of Islamic Sharia. In 2017, the company was transformed from a limited liability company into a single shareholder closed joint stock company as the Minister of Commerce and Investment has issued his resolution No. Q/166 on 03.06.1438 AH on the approval of the transformation of the company.

The Company's vision is represented in becoming the best investment company for meeting the aspirations of its customers in the individuals and business sectors, and its employees and shareholders. Its mission lies in providing investment solutions based on the lenient Islamic Sharia principles.

Albilad Investment Company performs its activity independently in all areas of investment and investment Banking services, including investment Banking consultancy and corporate finance. It manages assets such as investment funds, private portfolios, brokerage, securities and custody.

Regarding new services that the Company provided and excelled at during 2017, the Company has launched for the first time in the Kingdom the service of electronic margin financing that enables the customer to request the service and receive financing without the need to visit the branch of the Company. The Company has also launched the service of opening an investment account and investment portfolio online through the new website of the Company on the internet.

The securities service management that established by the Company in 2015 won the first place in assets protection for real estate funds and private ownership funds that represent an icon of the product of this management as the value of the assets under protection has reached more than 40 Billion Saudi Riyal. The Company took the second place in direct protection service market and it is expected that the value of the assets under protection will reach 100 Billion Saudi Riyal before the end of 2018.

Achieving the expectations of the Company in its report for 2016, the total real estate assets under this management has reached during 2017 to 2.1 Billion Saudi Riyal, this reflects the extent of efforts and growth achieved by the Company as the real estate funds became one of the main pillars that show the positive growth of the Company. Regarding the financial results, the Company has achieved in 2017 a good financial performance, despite that many sectors and business retreated and the challenges faced the local and international markets in this year. Hence, the Company's income has increased with a percentage of 15% in comparison to 2016, however this was not shown in the profit of the Company due to hiring more employees, and expanding in capital expenses to expanding the business of the Company and absorbing future demands which led to reducing the achieved profits with 17% in comparison with 2016.

Moreover, Albilad Capital has a recognized excellence in issuing reports on Saudi Financial Market, companies and main sectors that are led by the research management in the Company which is considered one of the most active financial and economic research center in the region as it has issued 127 report during 2017. The research management has expanded its existence in international financial databases such as Reuters and Bloomberg agencies.

### Brief of financial results of Bank Albilad and its subsidiaries (the Group) as on 31 December 2017:

2017 In thousands of Saudi Riyals	Personal Banking Sector (Retail)	Corporate Sector	Treasury Sector	Investment and Brokerage Services Sector	Others	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 Investment and Finance 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)
Pot financing	228,727	(397,990)	48,881	-	120,382	-
Net Income from Investment and Finance Assets	747,033	799,059	135,787	14,238	42,878	1,738,995
Net Fees and Commissions Income and others	826,316	134,744	111,856	91,374	56,499	1,220,789
Net Operational Income	1,573,349	933,803	247,643	105,612	99,377	2,959,784
Net Provision for the Finance Impairment Losses	71,597	306,784	-	-	-	378,381
Provision for the Impairment of Available- for-Sale	-	-	-	-	244	244
Depreciations	83,403	9,761	1,412	1,943	-	96,519
Other Operational Expenses	1,152,703	250,102	67,666	78,002	-	1,548,473
Total Operational Expenses	1,307,703	566,647	69,078	79,945	244	2,023,617
Year's Net Income	265,646	367,156	178,565	25,667	99,133	936,167
Return to:						
Bank Shareholders	265,646	367,156	178,565	25,667	105,013	942,047
Non-controlling share	-	-	-	-	5,880)	(5,880)
Year's Net Income	265,646	367,156	178,565	25,667	99,133	936,167

Bank Albilad is continuously improving the Fathkourouni App for smart phones which is related to Prayer times, Qibla direction, the Holy Quraan and Prophet sayings.



Fathkourouni  
Application



The Consolidated Financial Statements include the Financial Statements of the Bank and its subsidiaries, mainly, Albilad Investment Company and Albilad Real Estate Company collectively referred to as the “Group”.

Finance and Issued Instruments

In the course of its normal transactions, the Bank exchanges finance with Banks and the Saudi Arabian Monetary Authority (SAMA). On 30 August 2016, the Bank issued 2,000 instruments certificates of capital appreciation of 1 million Saudi Riyals per instrument, payable quarterly on 29 February, 30 May, 30 August and 30 November of each year until 30 August 2026, the date on which such instruments are due. The Bank may exercise the redemption option on or after August 30, 2021, if certain conditions are met in accordance with the provisions of its Prospectus. The Bonds may also be redeemed if certain other conditions are met in accordance with the provisions contained in the above Prospectus, in case the Bank has not failed to make payments (profits) due during this year 2017.

Profits Per Share

Basic and diluted profits per share for the two periods ending on 31 December 2017 and 2016 were calculated by dividing the net income for the period return to the shareholders of the Bank on the weighted average of the numbers of shares in that amount to 596 million shares in 2017 (595 million shares in 2016) existing during the period and after removing treasury shares. The weighted average has been amended retroactively for the number of shares of 2016 due to issuance of award of bonus shares.

Profit Distribution Policy

The distribution of the Bank’s annual net profits, which are determined after deducting all the general expenses and other costs and the preparation of the necessary precautions to face questionable debts, investment losses and contingent liabilities that the Board deems necessary in conformity with the provisions of the Banking Control Law and the directives of the Saudi Arabian Monetary Authority (SAMA), are as follows:

- 1. The amounts needed to pay the Zakat due on the shareholders are calculated, and the Bank pays these amounts to the competent authorities.
- 2. At least twenty five percent (25%) of the remaining net profit will be carried over after deducting the Zakat to the statutory reserve, so that the mentioned reserve will be at least equal to the paid-up capital.
- 3. An amount not less than five percent (5%) of the paid-up capital is allocated from the remaining profits after deducting the statutory reserve and the Zakat; in order to be distributed to the shareholders, according to the Board’s proposal and is decided by the General Assembly. If the remaining profit rate accrued to shareholders is not enough to pay this percentage, the shareholders cannot claim to pay them during the year or the following years, and the General Assembly is not allowed to decide the distribution of a percentage of the profits exceeding what is proposed by the Board of Directors.
- 4. After allocating the amounts mentioned in the paragraphs (1, 2, and 3), the remainder would be used as by the Board of Directors recommendation and by the General Assembly decision.

	Percentage of the profits distributed during the year	Percentage of the profits proposed to be distributed at the end of the year	Total Profit
	First half of 2017		
Percentage	3%	4%	7%
Total	180 Million Saudi Riyals	240 Million Saudi Riyals	420 Million Saudi Riyals

Current and Future Risks:

The Bank may be exposed through its activities to current and future risks, which is an essential part of the nature of the Bank’s business. These risks are monitored and managed by the Bank’s Risk Management Division that is responsible for the management of credit risk, market risk, operational risk and information security, in addition to complying with the requirements of the Basel Committee. A complete description of these risks has been stated in the notes attached to the consolidated financial statements from 30 to 32 as accompaniment to the Board of Directors’ report. The most important of which are the following:

During 2017, the Risk Management Division worked in a manner that contributes to the effectiveness of the risk management system, in addition to achieving good applications and practices, and ensuring that the Bank’s actions achieve an appropriate balance between the return and the expected risk.

The framework of the Risk Management Division relies on three pillars, which are the sound principles for risk management, the organizational structure and the risk control and measurement processes, which conform to the Banking activities to ensure the maintenance of an acceptable level for these risks. Furthermore, the function of Risk Management Division is independent and separate from the business divisions and sectors of the Bank, based on SAMA’s instructions and Basel Committee instructions. The Bank has frameworks for defining, measuring, monitoring and managing risks. The Banking Risk Management Process includes different types of Banking risks such as credit risk, liquidity risk, operational risk and market risk. The Bank also reviews the Risk Management systems and policies periodically to adapt to the changes taking place in markets and products to reach the best international Banking practices:

Supporting patients in need of various medical equipment in cooperation with the Patient Friends Committee in Riyadh.



### A) Credit Risk:

The credit risk is one of the most important risks assumed by the Bank, as the Bank is exposed to credit risk through its finance and investment activities, and the credit risk's work is divided into multiple units operating under one system in accordance with the approved credit policies and procedures.

**Measurement of Credit Risk Degree:** The Bank works on measuring the degree of credit risk for the purpose of reaching the maximum quantity and quality measurement degree to determine the credit risk degree faced by the Bank. Furthermore, Bank Albilad uses an advanced assessment system to assist in the internal assessment of the credit risk degree for corporate customers and private Banking customers as well as financial institutions, in order to measure the probability of default, the size of the amounts that are likely to be defaulted, and the losses resulting from defaults. The Bank is constantly striving to develop the internal assessment methods for the risk degree for the customers; as the Bank has assessment forms to evaluate customers of small and medium enterprises and customers with high solvency aside from the form designed for corporate customers; to give a more accurate and fair assessment. During 2017, the Bank completed applying a system for measuring the assessment of the individual customers risk degree who are financed by approved financing programs.

**Credit Risk Controls and Mitigations:** The Bank follows several methods to mitigate the credit risk degree to acceptable limits, and from the most important methods is conducting analytical studies on the future data to measure the possibility of the customer's payment of his obligations. The credit approvals are carried out by several credit committees composed of executive members in the Bank or through Board-level committees in proportion to the degree of credit risk and the size of credit facilities for each competent authority. In addition, the Bank meets the guarantees in exchange for the facilities whenever the need arises, and the Bank goes for the most liquid, organizational and enforceable guarantees; as the forms of the existing guarantees in the Bank vary in exchange for the credit facilities, for example: cash cover, mortgage of some investments and assets for the Bank or mortgage/reservation of some commercial and residential real estate assets, in addition to, approved waive on the revenues of projects in case of financing specific projects, and the presence of a security in exchange for the facilities, whether personal or financial security or a third party security; fulfilling the security needed for Kafalah Program that supports financing SMEs whenever the conditions and standards of the programs are met; noting that the granting of finance for individuals is based on finance programs that include the transfer of the customer's wage to the Bank. It is taken into account not to allow the presence of credit concentration in the credit portfolio, in addition to ensuring the conformity of the size of credit exposure with the controls stated in this regard, whether for the exposure with a certain authority or a certain sector (activity).

### Monitoring and Reports:

A comprehensive credit review of the financial and credit position is carried out annually for all corporate and private Banking customers who receive finance to ensure the continuity of the customer's activity and his financing need and the continuance of a proper functioning credit relationship, in addition to reviewing the reports of the customers' through frequent visits throughout the year. Corporate customers who have high credit risk rates are considered and rated on the list of customers who require special supervision; as this credit exposure is monitored and pursued accurately and carefully to reduce the shrinking of this credit exposure properly and in a semiannually manner. The portfolio of the individual customers, who obtain

credit facilities for consumption purposes, and the credit cards are followed up with on a comprehensive basis through the assessment of the criteria established for this portfolio for each segment individually.

The Bank calculates the credit provisions in the Bank's financial statements and record in accordance with the applicable International Financial Reporting Standards (IFRS) for accounts that are likely to achieve losses, in the presence of indicators implying the need to carry out these provisions, which may affect the expected cash flows from these assets or investments. The Bank is also preparing a comprehensive monthly report for the status of the Bank's portfolio, containing an analysis of the credit concentrations analysis to be reviewed and supervised by senior management of the Bank.

### B) Market Risk:

Most of the Banks' activities are exposed to market risks; as the fluctuation in profits margins and currency prices lead to positive or negative results, resulting in a gain or loss for the Bank; furthermore, the sudden and high fluctuations in prices may affect the liquidity of the Bank in addition to the Bank's financing ability. There are main risks from the market faced by the Bank and they are as follows: **Return Rate Risk or Profit Rate Risk:** The return rate risk or the profit rate risk are known as the potential impact on the Bank's profitability as a result of the changes in the rates of returns on the market, and the price changes often occur either due to overall market movements, the source or certain reasons for the borrower. **Foreign Exchange Risk:** The risk resulting from the impact of the fluctuations in the currency exchange rates on the existing currency centers at the Bank. **Share Investment Risks:** The risks resulting from fluctuations in share prices and thus the impact on the Bank's profitability and the shareholders' equity. In general, the objective of the Market Risk Management for the Bank is to manage and control exposures to market risks in order to increase the revenues within the approved policies for market risk and the Bank's acceptable risk level. The sources of exposure to market risks for the Bank are divided into: **Trading Portfolios:** The exposure to market risks in the trading portfolio in foreign currencies arises due to meeting the requirements of the Bank and its customers from foreign currencies. **Non-Trading Portfolios:** The exposure to market risks in the non-trading portfolios primarily arises due to the lack of conformity of the assets and its maturity dates with the maturity dates of the liabilities, and the impact of the price changes with the implementation of the re-investment operations.

### C) Liquidity Risk:

The liquidity risk is considered one of the most important risks faced by the Banking sector in general or a specific Bank in particular; taking into account the likelihood of the Bank's inability to meet the financing requirements at a reasonable cost (liquidity finance risk), or its inability to liquidate its positions at a reasonable speed, while maintaining the appropriate price (market liquidity risk).

• **Governance of Market Risk and Liquidity Risk:** Market Risk Management is working on developing limitations and control for the extent of the compliance thereto by applying policies and limitations approved by the Board of Directors; and the Assets and Liabilities Committee (ALCO) is considered responsible for managing the market risk at the strategic level under the tasks and responsibilities delegated to it. The limitations of the portfolios Bank Albilad products and risk types are specified based on the size of the liquidity in the market, the credit risks associated with it, the implemented analysis and the extent of using the limitations.

The Market Risk Management is classified as an independent regulatory management responsible for implementing the market risk policies effectively, and it is also responsible for the development of the methods and methodologies of the Market Risk Management in the Bank, the measurement mechanisms and the behavioral assumptions for liquidity and investment, in addition to the immediate reporting of any violations of the established limits to the Senior Management, in accordance with the strict mechanisms and procedures approved and certified by the Board of Directors, along with the regular reporting of the exposure to market risks and the violations of the limitations to the Asset and Liabilities Committee and the Board of Directors. The Bank works on diversifying the financing sources in order to reduce exposure to liquidity risks; which results in reducing the degree of concentration and maintaining an acceptable level of assets for liquidation; in addition to developing a number of policies and standards for Liquidity Risk Management, as well as providing an emergency plan in line with the best practices issued by the Basel Committee regarding Liquidity Risk Management. The policies and procedures regarding Liquidity Risk Management are reviewed periodically and subjected to the approval of the Assets and Liabilities Committee and the Board of Directors. Furthermore, there are additional control factors that often work on maintaining the level of market risk exposure within acceptable readiness levels in the event of adverse events (such as stress tests and procedures for approving new products); as the periodic receipt of the stress tests results determines the impact of the changes in the profit rates, the foreign currency exchange rates and other risk factors on the Bank's profitability, capital adequacy, and liquidity. The results of the stress tests are sent periodically to the Executive Management and the Board of Directors to evaluate the potential financial impact in the event of extraordinary events. During 2017, the Risk Management Group has worked on developing technological systems that help in liquidity risks measurement process, assets and liabilities management, related studies, reports preparation and stress tests. This was worked on as part of the system related to the various types of financial risks measurement systems that need to be developed.

#### D) Operational Risk:

Operational risk are known as the risk of loss resulting from inadequate or failed internal operations, individuals, technical systems or external events, and the definition includes the legal risk and excludes the strategic risk and the reputational risk. Operational risks are collateral risks inherent in all the Bank's products activities, operations, and IT systems, which are caused by internal factors, unlike the credit risks and the market risks that arise from external factors. Taking into account the above, Bank AlBilad has adopted a strategy that relies on the active participation of the Senior Management in managing this type of risk; because of its impact on the various activities of the Bank; as the Bank is constantly trying to work on reducing the effects of the operational risk to achieve the Bank's strategic objectives through the following:

- Analyze and assess the objectives and sub-activities and work on reducing the exposure to operational risk.
- Identify the operational risks in the current and new products, activities, operations and IT systems through the use of the following operational risk management tools: Calculation of the operating losses in order to identify the regulatory gaps that led to these losses and working on developing the corrective actions to reduce their recurrence in the future; the assessment of the collateral risks inherent in the various activities of the Bank and the applicable regulatory elements to address the risks, and the collection of key risk indicators in order to monitor and control the level of exposure to the operational risk as an initial warning before the risk occurs.

- A proactive initiative from the Bank's Management to address the operational risks.
- An independent and continuous assessment of the regulatory elements, policies, procedures and performance of the Bank's activities.
- Ensure compliance with the regulators' instructions and the international standards in the Operational Risk Management.
- Providing the Executive Management and the Board of Directors with periodic reports on the results of the risk assessment and the operational losses suffered by the Bank and its corrective actions.

#### E) Fraud Risks:

Fraud risk is known to be one of the operation risks that institutions including Banking institutions are exposed to. As the Bank pursues to apply the best practices and requirements of the regulatory and supervisory entities to limit these risks, the anti-fraud management was restructured and included within the risks management group. This link will surely increase the effectiveness of monitoring and analysis process. The Bank has continued in 2017 the development process of policies and work procedures related to anti-fraud management, in accordance with the strategy of the Bank to limit the risks within acceptable margins and it also started to develop monitoring tools that will facilitate the work and increase its effectiveness.

#### Compliance with Regulations and Laws:

Bank AlBilad is committed to abide by legal, ethical and professional laws and regulations as a fundamental pillar of its orientation, policies, plans, strategic decisions and main objectives. The Bank is committed to all relevant laws, regulations and controls, and all issued by the regulatory and supervisory authorities such as the Saudi Arabian Monetary Authority (SAMA), the Capital Market Authority (CMA) and the Ministry of Commerce and Investment and others, including the relevant approved international standards. The Bank's Commitment and Anti-Financial Crimes Sector is keen on developing its instruments and refining its capabilities in order to achieve the desired objectives and implement the adopted strategy which contributes to the elimination of all illegal transactions and to ensure the Bank's compliance with all relevant regulations, instructions and requirements of the Saudi Arabian Monetary Authority (SAMA), in particular, to improve the efficiency of Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) laws and to participate in the training and sensitization of the Bank's staff in the field of AML/CFT.

#### Internal Audit:

Internal Audit is an independent and objective function reporting directly to the Audit Committee that is formed by the General Assembly of the Bank. It aims to provide reasonable assurance to the Audit Committee and the Bank's Senior Management on the adequacy and effectiveness of the Internal Audit System by applying a systematic approach to evaluating and improving the effectiveness of governance, risk and control management. The internal audit sector follows the risk-based audit methodology in the planning and implementation of audit work. It also follows up on correcting the observations contained in the audit reports to ensure that they are implemented according to the schedule and procedures established to ensure the integrity of the internal controls. The internal audit sector relies on the continuous development of its staff to upgrade their capabilities. The sector shall also ensure that the internal audit standards are applied through the quality assurance program covering all internal audit activities.



The internal audit sector’s framework includes all the activities and sectors of the Bank. In 2017, the sector implemented internal audit works as per the approved plan from the audit committee that is based on an integrated study and comprehensive risks assessment for the units subjected to the audit across the Bank. Additionally, the internal audit sector has implemented many other tasks assigned to it by the managements of the Bank or the Monetary Authority.

**Internal Audit System:**

The Bank’s Executive Management is responsible for establishing an appropriate and effective Internal Audit System, including policies, procedures and processes prepared under the supervision of the Board of Directors to achieve the Bank’s strategic objectives. Accordingly, an integrated system of internal control has been established as recommended by the regulatory and supervisory authorities. It begins with the general framework of governance in the Bank, which defines the roles and responsibilities assigned to the Board of Directors and its committees, as well as the executive management committees so as to ensure appropriate control at the Bank level. All groups, departments and managements of the Bank are making concerted and integrated efforts to improve the control environment through continuous development and review of policies and procedures to reduce any abuses and to prevent and correct any deficiencies in the Internal Audit System.

In addition to control work made by the risk and compliance sector, internal audit is a separate line of defense about executive management, and involves the evaluation of the effectiveness of the Internal Audit System, including adherence to policies and procedures. Audit shall be reported including weaknesses points in the Internal Audit System as well as corrective procedures are submitted to the Audit Committee and to the Senior Executive Management. The Audit Committee monitors the adequacy and effectiveness of the Internal Audit System to reduce risks and protect the interests of the Bank.

Based on the ongoing internal audit assessment results during 2017, the Bank Management believes that the current internal audit system is sufficient, functioning effectively and is regularly monitored. Nevertheless, the Management continuously seeks to strengthen the Internal Audit System. The Board of Directors believes that the Internal Audit System is adequately designed and implemented effectively and that there are no control gaps or material weaknesses in the Bank’s business for 2017. This is based on reasonable assurance by the Board of the design integrity and effectiveness of the Internal Audit System application, knowing that any Internal Audit System, no matter how well designed and effective, cannot provide absolute assurance in this regard.

**Human Resources and Saudization:**

At the end of 2017, the number of Bank employees has reached 3,394 employees compared to 3,341 employees by the end of 2016, the Saudization percentage was 87% of the total personnel at the end of 2017.

As the Bank believes in the importance of the human capital, the human resources sector has recruited and developed qualified employees. Hence, the Bank prepared and implemented specialized training courses for new employees including graduates of universities and management institutes, and it has also prepared development courses for all employees; as the number of training opportunities for the Bank employees has

reached 3,159 training opportunities. Furthermore, human resources sector complies with high professional and ethical standards by its competent management.

**End-of-Service Gratuity:**


The gratuities accrued to the Bank employees are calculated at the end of their service, according to the Saudi Labor Law, and they are included in the other liabilities section in the Consolidated Statement of Financial Position.

**Employee Share Program**

The Bank provides its qualified employees with incentive programs that are paid based on the shares as per a program approved by the Saudi Arabian Monetary Authority (SAMA). Under the terms of this program, the Bank grants shares to qualified employees, and they will be kept as part of their annual remunerations. The cost of these programs is measured based on the fair value at the shares’ grant date, and the cost of the programs is recognized throughout the period during which the service requirement is fulfilled, which ends with the date on which the concerned employees are entitled to the granting of the shares (maturity date).

The cumulative expenses, which are calculated under these programs from the preparation date of all the financial statements until the maturity date, show the extent of the maturity date, and the best Bank estimates for the number of shares that will be granted at the end. The amount charged or restricted on the consolidated income statement for a year represents the movement in the cumulative expense registered at the beginning and end of that year. After obtaining the approval of the Saudi Arabian Monetary Authority (SAMA), the Bank entered into an agreement with a neutral third party to retain the shares involved in the program, in addition to the benefits accrued from these shares. The important benefits of the program are as follows:

We have renovated a branch equipping it with the full capabilities necessary to serve the people with special needs, which enables the people with movement, hearing and visual disabilities of performing all of their banking operations quite easily.



Comprehensive  
Access Branch

Details	2017
Grant Date	14 May 2017
Maturity Date	25% 1 January 2018
	25% 1 January 2019
	50% 1 January 2020
Number of Shares Granted on the Grant Date	733,620
Share price on the Grant Date (Saudi Riyals)	18.12
The Value of the Shares Granted on the Grant Date (in Thousands of Saudi Riyals)	13,293
Maturity Period	3 years
Grant Condition	Completion of Service Period
Payment Method	Shares
The following is a statement of the movement in the number of shares for the Employees Share Program during the year:	2017
At the beginning of the year	822,646
Shares Granted during the year	733,620
Waivered	( 204,445 )
Disbursed	( 399,887 )
At the end of the year	951,934

These shares were granted with an essential condition; which is the completion of the service period and it is not linked to the market conditions.

Shariah Division:

Out of Bank Albilad’s policy, in which it stipulated the Bank’s commitment to the Islamic Sharia provisions, and to achieve this purpose, the General Assembly of the Bank has selected the members of the Shariah Board and agreed to its regulations, which states its independence from the Bank, and the most notable highlights in this regulation are as follow:

- 1. The Bank does not apply any product, contract or agreement without the consent of the Shariah Board.
- 2. The Shariah Board’s decisions are binding on the Bank with all its managements and subsidiaries.
- 3. The Shariah Board and the Shariah Sector participate in the product development process, in accordance with the Sharia provisions.
- 4. The Shariah Board and the Shariah division contribute in spreading awareness of Islamic Banking.

The Shariah Board consists of six members from scholars and specialists proficient in the jurisprudence of financial transactions and the economy, namely:

1	His Excellency Sheikh Abdullah Bin Suleiman Al Manea	(Board’s Chairman)
2	His Excellency Sheikh Prof. Dr. Abdullah Bin Mohamed Al Mutlaq	(Deputy)
3	His Eminence Sheikh Prof. Dr. Abdullah Ibn Musa Al-Amar	(Member)
4	His Eminence Sheikh Dr. Muhammad Ibn Saud Al-Osaimi	(Member)
5	His Eminence Sheikh Prof. Dr. Abdul Aziz bin Fauzan Al-Fawzan	(Member)
6	His Eminence Sheikh Prof. Dr. Yusuf Al-Shubaili	(Member)

A preparatory committee emerges from the Shariah Board consisting of Some of the virtuous members of the Shariah Division, and the Preparatory Committee exercises the powers provided thereto by the Shariah Board, and has several tasks, most notably: Studying the subjects received from the Bank in order to be submitted to the Shariah Board to reach a decision; studying the Shariah inquiries related to the financial and Banking matters received from the Bank’s employees and customers and providing guidance in this regard; and studying the initial ideas for products and providing guidance in this regard.

In 2017, five (5) Shariah Board meetings, and eighteen (18) Preparatory Committee meetings were held. The Shariah division of the Bank works through the Shariah Studies and Research Managemen and Shariah Supervisory Management and support unit; as the Shariah Studies and Research Management prepares the subjects received by the Shariah Board, and prepares the necessary studies and research, in addition to participating in the development of Islamic Banking products and their clearances and spreading awareness of Islamic Banking. Whereas the Shariah Supervisory Management works on verifying the Bank’s commitment to the decisions of the Shariah Board by implementing supervisory field visits to audit all the Bank’s business on a regular basis to make sure of the Bank’s commitment to the Shariah Board’s decisions and controls. The support unit works on arranging and coordinating the meetings of the Shariah Board and serving its results, in addition to, monitoring, executing projects and business that contribute in spreading the awareness of Islamic Banking inside and outside the Bank, like printing scientific research project that the Shariah Sector has contributed since its establishment in printing research that aim at spreading the Shariah knowledge in connection with jurisprudence of financial transactions and Islamic economy. In 2017, the Sector has issued three scientific research which are:

- Cooperative Banks book, applicable jurisprudence study.
- Cost of loan book, applicable jurisprudence study.
- Usury rules book, a critical study on the most important rules for usury prohibition.

The awareness training project about Islamic Banking that is provided to the employees of the Bank and knowledge sharing project that aim at linking the theoretical part to the practical part in financial transactions and understanding the Shariah forms, Islamic Banking products to teachers and students of the universities during their visit to the Shariah Sector.

Governance:

The Bank’s Board of Directors is committed to provide a growing shareholder value over the long term, and it appreciates the role of an effective governance system in achieving sustainable growth, and that is achieved through the formulation of strategic objectives and translating them into appropriate work programs, and working on their achievement with a commitment to the transparency, disclosure and fairness standards.

Based on the requirements and decisions of the regulatory authorities represented in the Saudi Arabian Monetary Authority (SAMA) and the Capital Market Authority (CMA), and others and given the awareness and belief of the Bank’s Board of Directors and its Executive Management in the importance of governance, the Board of Directors has adopted the Bank’s corporate governance documents, including the Corporate Governance Manual, its annexes and a group of related policies and documents; in full conformity with the Companies Law, Governance Regulation and Principles and all Regulations issued by the relevant Regulatory and Supervisory Authorities as well as the Bank’s Articles of Association.

Governance – as a concept in Bank Albilad- is a system of rules used in directing and guiding the Bank, including mechanisms to regulate the relationship between the Board of Directors, the Executive Management, shareholders and other stakeholders, where special regulations and procedures are applied to facilitate decision making and transparency in order to protect the rights of shareholders and stakeholders and achieve justice and transparency in the financial and business environment.

The Bank’s corporate governance is based on fair treatment on the basis of equality between the interests of the various concerned parties, including shareholders, management, customers, suppliers or government agencies (including Regulatory and Supervisory Authorities), and all community sectors. The Board of Directors and the Executive Management stresses the need to adhere to the governance controls as an effective method to develop the concepts of effective transparency, integrity and control, and achieving high professional performance, thus enhancing the confidence of the above mentioned stakeholders locally. This report demonstrates the extent to which the Bank complies with the terms and conditions of corporate governance.

One of the most prominent achievements in this regard during the year 2017, the Corporate Governance Manual and its annexes were updated and approved, including general rules for the Board of Directors and Executive Management and their committees and introducing many policies and documents that are approved by the Board of Directors or the General Assembly according to what is required by the laws and regulations of approval and to be consistent specifically with the Updated Corporate Governance Regulations issued by the Capital Market Authority on 13.02.2017. In addition to the controls and regulatory procedures issued for implementing the Companies Law in connection with joint stock companies enlisted that is issued on 17.10.2016 and updated on 23.03.2017 and the main principles of Bank governance –first update on March 2014- issued by Saudi Arabian Monetary Authority , and in accordance with Companies Law and its regulation and others relevant regulations. The Board and its committees follow up with the Executive Management to ensure its commitment in the application of all that is stipulated by these regulations and policies permanently and effectively.

Board of Directors:

The Board of Directors consists of eleven members, elected at the Extraordinary General Assembly meeting held on 04/07/1437AH, corresponding to 11/04/2016, for a period of three years commencing from 17/04/2016 and ending on 16/04/2019.

Names and titles of the Board Members:

SN.	Name	Membership Nature	Member Classification
1	Dr. Abdul Rahman bin Ibrahim Hamid	Chairman	Non-Executive
2	Mr. Nasser Bin Mohammed Al-Subaie	Deputy-Chairman	Non-Executive
3	Mr. Saud bin Mohammed al-Fayez	Member	Independent
4	Mr. Abdul Rahman bin Mohammed Ramzi Addas	Member	Independent
5	Mr. Fahad bin Abdullah bin Dakhil	Member	Non-Executive
6	Mr. Khaled bin Abdulaziz Al-Mukairin	Member	Non-Executive
7	Mr. Ahmed Bin Abdul-Rahman Al- Hosan	Member	Independent
8	Eng. Omar bin Saleh Babiker	Member	Independent
9	Mr. Khalid bin Suleiman Al - Jasser	Member	Non-Executive
10	Mr. Fahd bin Abdullah al-Qasim	Member	Non-Executive
11	Mr. Khalid bin Abdul Rahman Al Rajhi	Member	Non-Executive





Major Stakeholders:

The Bank’s major stakeholders are the ones who own more than 5% of the shares as the case at the end of trading on (31.12.2017), as follows:

SN.	Shareholder Name	Percentage (%)
1	Mohammed Ibrahim Al-Subaie & Sons Company	19.10
2	Abdullah Ibrahim Al-Subaie Investment Company	11.14
3	Khaled Abdurahman Saleh Al-Rajhi	10.55
4	Abdulrahman Abdulaziz Saleh Al-Rajhi	6.58
5	Mohammed Saleh Hamza Sirf	5.09

The Bank adopted the aforementioned data based on the Bank records of EDAA Center Company by the end of trading on 31.12.2016.

General Assemblies held during the year 2017

Bank Albilad held one assembly meeting for its shareholders during the fiscal year 2017, which is the eights extraordinary general assembly held on 12 Sha’ban 1438 AH corresponding to 08 May 2017.

Attendance Record of Board of Directors for the Eights Extraordinary General Assembly Meeting:

SN.	Name	Attendance Record
		08 May 2017
1	Dr. Abdul Rahman bin Ibrahim Hamid	√
2	Mr. Nasser Bin Mohammed Al-Subaie	√
3	Mr. Saud bin Mohammed al-Fayez	√
4	Mr. Abdul Rahman bin Mohammed Ramzi Addas	√
5	Mr. Fahad bin Abdullah bin Dakhil	Didn't Attend
6	Mr. Khaled bin Abdulaziz Al-Mukairin	√
7	Mr. Ahmed Bin Abdul-Rahman Al- Hosan	√
8	Eng. Omar bin Saleh Babiker	√
9	Mr. Khalid bin Suleiman Al - Jasser	Didn't Attend
10	Mr. Fahd bin Abdullah al-Qasim	√
11	Mr. Khalid bin Abdul Rahman Al Rajhi	√

Board Meetings Attendance Record:



Albilad  
Ramadan Basket

Distributing food baskets to families in need during the holy month of Ramadan.

The Board of Directors has held (6) meetings during 2017 to enhance its role. The dates of the meetings and the attendance records are as follows:

SN.	Name	Attendance Record					
		(65)	(66)	(67)	(68)	(69)	(70)
		13.03.2017	24.04.2017	12.06.2017	18.09.2017	25.09.2017	18.12.2017
1	Dr. Abdul Rahman bin Ibrahim Hamid	√	√	√	√	√	√
2	Mr. Nasser Bin Mohammed Al-Subaie	√	√	√	√	√	√
3	Mr. Saud bin Mohammed al-Fayez	√	√	√	√	√	√
4	Mr. Abdul Rahman bin Mohammed Ramzi Addas	√	×	√	√	√	√
5	Mr. Fahad bin Abdullah bin Dakhil	√	√	√	√	√	√
6	Mr. Khaled bin Abdulaziz Al-Mukairin	√	√	√	√	√	√
7	Mr. Ahmed Bin Abdul-Rahman Al- Hosan	√	√	√	√	√	√
8	Eng. Omar bin Saleh Babiker	√	×	√	√	√	√
9	Mr. Khalid bin Suleiman Al - Jasser	√	√	√	√	√	√
10	Mr. Fahd bin Abdullah al-Qasim	√	×	√	√	√	√
11	Mr. Khalid bin Abdul Rahman Al Rajhi	√	×	√	√	√	√
Date of General Assembly Last Meeting		08.05.2017					
Attendee		√					

Names of the Companies inside or outside the Kingdom, in which the Board Member is/was currently/ previously a member in their Board of Directors or one of their Managers.

Member Name	Currently a member of the Board of Directors of Companies or one of their managers	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Previously a member of the Board of Directors of Companies or one of their managers	Inside the Kingdom/ Outside the Kingdom	Legal Entity
Dr. Abdul Rahman bin Ibrahim Hamid	1- Board member of Saudi Vitrified Clay Pipe Company (SVCP)	Listed Joint Stock Company	Listed Joint Stock Company	None		
	2- Board Member of Mohammed Abdulaziz Al Rajhi & Sons Company - Al Rajhi Holding	Closed Joint Stock Company				
	3- Board Member of Mohammed Ibrahim Al-Subaie & Sons Investment Company (MASIC)	Closed Joint Stock Company				
	4- Board Member of Obeikan Investment Group Company	Closed Joint Stock Company				
	5- Board Member of Saudi Agricultural and Livestock Investment Company (SALIC)	State-owned Joint Stock Company				
Nasser Bin Mohammed Al-Subaie	1- Vice-Chairman of Dur Hospitality Company	Inside the Kingdom	Listed Joint Stock Company			
	2- Vice-Chairman of Mohammad Ibrahim Al-Subaie & Sons Investment Company (MASIC)		Closed Joint Stock Company			
	3- Chairman of Al-Argan Projects Company		Closed Joint Stock Company			
	4- Board Member of Akwan Real Estate Company		Closed Joint Stock Company			
	5- Chairman of Zakher Company		Closed Joint Stock Company			
	6- Board Member of Fajr Capital		Limited Liability Company			



Saud bin Mohammed al-Fayez	None			1- Board Member of National Manufacturing Company	Inside the Kingdom	Listed Joint Stock Company
				2- Board Member of Saudi Travellers Cheque Company		Listed Joint Stock Company Joint Stock Unlisted Company
				3- Board Member of Saudi Spanish Bank	Outside the Kindom	Joint Bank
Abdul Rahman bin Mohammed Ramzi Addas	1- Chairman of Diyar Al Khayyal Real Estate Development Company	Inside the Kingdom	Closed Joint Stock Company	1- Board Member, Review Committee Member and Nomination and Remuneration Committee Member of Al Sorayai Trading And Industrial Group	Inside the Kingdom	Join Stock Listed Company
	2- Board Member of ARCO-MA Company		Limited Liability Company	2- Board Member of Red Sea Markets Limited Company		Limited Liability Company
	3- Chairman and Risk Committee Member- Tunisian Saudi Bank	Inside the Kingdom	A company owned by the Saudi Ministry of Finance and Tunisian Ministry of Finance	3- Board Member, Review Committee Member and Nomination Committee Member of AbdulAziz Alsaghyir Group		A Financial Company authorized by the CMA as a private company
Fahd bin Abdullah bin Dakhil	1-Chairman of Albilad Capital Company	Inside the Kingdom	Closed Joint Stock Company	1- National Petroleum Services Company- Dubai	Outside the Kingdom	Limited Liability Company
	2- Chairman of - National Petroleum Services Company		Limited Liability Company			
	3- Chairman of Al Hekma Company for Commercial and Industrial Investment		Limited Liability Company			
	4- Chairman of Al Wafaa Industries Company		Limited Liability Company			
	5- Board Member of Family Investment Company		Limited Liability Company			

Khaled bin Abdulaziz Al-Mukairin	1- Chairman of AlMaktaba Company for Marketing	Inside the Kingdom	Closed Joint Stock Company	1- Albilad Capital Company	Inside the Kingdom	Closed Joint Stock Company
	2- Chairman of Family Investment Company		Limited Liability Company	2- Chamber of Commerce and Industry		Governmental Entity
	3- Chairman of Khaled Al-Mukairin & Sons Holding		Limited Liability Company			
Ahmed Bin Abdul-Rahman Al- Hosan	None		None			
Omar bin Saleh Babiker	1- Board Member of Al Ahlia Cooperative Insurance Company	Inside the Kingdom	Listed Joint Stock Company	1- Ishraq Real Estate Company	Outside the Kingdom	Listed Joint Stock Company
	2- Chairman of Saleh Babiker Sons for Trading		Limited Liability Company			
	3- Chairman of Babiker for Catering		Limited Liability Company			
	4- Chairman of Al Haikaliyah Contracting Company		Limited Liability Company			
	5- Bina Ready Mix Company		Limited Liability Company			
	6- Board Member of East Asia Agricultural Investment Company		Closed Joint Stock Company			
Khalid bin Sulaiman Al-Jasser	1- Board Member of Albilad Capital Company	Inside the Kingdom	Closed Joint Stock Company	1- Al Qussaim Cement Company	Inside the Kingdom	Listed Joint Stock Company
	2- Board Member of United Cooperative Insurance Company		Listed Joint Stock Company	2- Travellers Cheque Company		Limited Liability Company
	3- Chief Executive Officer of Al Arabia Centers		Limited Liability Company			
	4- Board Member of Middle East Shopping Center	Outside the Kingdom	Limited Liability Company			

Fahd bin Abdullah Al Qasim	1- Board Member of Savola Group	Inside the Kingdom	Listed Joint Stock Company	1- Abdullatif Alissa Holding Group	Inside the Kingdom	Unlisted Joint Stock Company Limited Liability Company
	2- Board Member of Jarir Marketing Company		Listed Joint Stock Company	2- National Public Company for Cars		
	3- Board Member of Al Dur Hospitality Company		Listed Joint Stock Company			
	4- Board Member of Dallah Health Company		Listed Joint Stock Company			
	5- Chairman of Fahad bin Abdullah Al Kassem and Sons for Trading and Investment Company		Closed Joint Stock Company			
	6- Board Member (representative of Dor Company) in the Saudi Heritage Hospitality Company		Closed Joint Stock Company			
	7- Board Member of Dr Mohamed Rashid Al Fagih and his Partners Company		Closed Joint Stock Company			
	8- Board Member of Rakeen Najd International Company		Closed Joint Stock Company			
	9- Board Member (representative of Saudi Post) in Naqel Company		Closed Joint Stock Company			
	10- Board Member and Partner in Amwal Financial Consultants Limited		Limited Liability Company			
	11- Board Member and Partner in Arez for Commercial Investment Limited Company		Limited Liability Company			
	12- Board Member of Raj Real Estate Company		Limited Liability Company			
	13- Board Member of Al Rajhi Alpha Investment Holding		Limited Liability Company			
	14- Board Member of Rakeen Najd International Company		Limited Liability Company			
	15- Board Member of Saudi Post Public Corporation		Governmental Entity			
	16- Partner in Bwabt Al Lulu		Limited Liability Company			
	17- Partner in Facilities Company		Limited Liability Company			
	18- Partner in Fincorp Company	Outside the Kingdom	Limited Liability Company			

Khalid Bin Abdulrahman Al-Rajhi	1- Chairman and Head of Executive Committee of Saudi Cement Company	Inside the Kingdom	Listed Joint Stock Company	1- Dana Gas Company		Listed Joint Stock Company
	2- Board Member, Head of Investment Company and Member in Risk Committee of Saudi United Cooperative Insurance Company (Wala'a)		Listed Joint Stock Company	2- Naas Company	Outside the Kingdom	Listed Joint Stock Company
	3- Chairman of Nominations and Remuneration Committee in Takween Advanced Industries Company		Listed Joint Stock Company	3- Saudi Telecom Company	Inside the Kingdom	Listed Joint Stock Company
	4- Board Member of Tanami Arabian Company		Closed Joint Stock Company	4- National Shipping Company of Saudi Arabia		Listed Joint Stock Company
	5- Board Member of Albilad Capital Company		Closed Joint Stock Company			
	6- Chief Executive Officer of Abdulrahman Al-Rajhi and Partners Limited Company		Limited Liability Company			

Current and previous positions of the board members and their qualifications and expertise:

Name	Current Position	Previous Position	Qualifications	Expertise
Abdul Rahman bin Ibrahim Hamid	<ul style="list-style-type: none"><li>Retired from King Saud University</li><li>Businessman and board member in many joint stock companies</li><li>Member in many review committee for Saudi joint stock companies.</li><li>Member of Board Trustee in the International Financial Accounting Standards Board for the Middle East and North Africa.</li><li>Member of Board Trustee in Prince Sultan University since its establishment until now.</li><li>Member in many local, regional and international professional associations.</li></ul>	<ul style="list-style-type: none"><li>Accounting and auditing professor in King Saud University.</li><li>Head of Accounting Section at King Saud University</li></ul>	<ul style="list-style-type: none"><li>PhD in financial accounting and auditing from Louisiana State Governmental University - 1981</li></ul>	<ul style="list-style-type: none"><li>Consultancy Manager- Al Rashid Certified Accountants and Auditors 1986.</li><li>Board Member of the Saudi Organization for Certified Public Accountants (two rounds).</li><li>Head of Examination Committee-Saudi Organization for Certified Public Accountant.</li><li>Head of Accounting Standards Committee-Saudi Organization for Certified Public Accountant for 10 years.</li><li>Head of Examination Committee- Gulf Cooperation Council Accounting and Auditing Organization.</li><li>Head of Securities Committee – Riyadh Chamber of Commerce and Industry for 5 years.</li><li>Member in First Instance and Zakat Committees for 10 years.</li><li>Councilman for Al Madina Al Munawara for the First Round.</li></ul>
Nasser Bin Mohammed Al-Subaie	<ul style="list-style-type: none"><li>Vice-Chairman of Mohammad Ibrahim Al-Subaie &amp; Sons Investment Company (MASIC)</li><li>Businessman and board member in many joint stock companies.</li></ul>	None	<ul style="list-style-type: none"><li>BSc in Administrative sciences (accounting section)- King Saud University 1399 AH.</li></ul>	<ul style="list-style-type: none"><li>Long experience in financial and banking field.</li><li>Long experience in real estate and investment fields</li></ul>

Saud bin Mohammed al-Fayez	<ul style="list-style-type: none"><li>Retired</li></ul>	<ul style="list-style-type: none"><li>Chief Executive Officer of the Arabian Company for Pipes 1996-2014.</li><li>General Manager Assistant for Credit Control Affairs in Riyadh Bank 1984- 1994.</li><li>Project manager at Saudi Industrial Development Fund 1977-1984.</li></ul>	<ul style="list-style-type: none"><li>BSc in business administration 1977- Jordanian University –Amman.</li><li>City Bank Credit Program- Athena, Greece 1983.</li><li>Chase Bank Credit Program- New York, USA- 1979.</li><li>Arther Anderson and Partners for Accounting and Auditing- Chicago, USA- - 1979.</li><li>Multiple courses and short programs in management and leaderships from Europe and USA.</li></ul>	<ul style="list-style-type: none"><li>Long experience in financial and banking fields and risk management.</li></ul>
Abdul Rahman bin Mohamed Ramzi Addas	<ul style="list-style-type: none"><li>Financial consultant authorized by the Ministry of Trade for financial consultancy of non-securities from March 2010 until now.</li></ul>	<ul style="list-style-type: none"><li>Managing Director for Real Estate Investment at SEDCO Company from July 2007 to January 2010.</li><li>He occupied many managerial positions. Last position was the head of corporate sector in Al Ahli Commercial Bank from March 1980 to April 2007.</li></ul>	<ul style="list-style-type: none"><li>Master degree in business administration, specialty: financial management from University of Denver at Colorado State in the USA- 1986.</li><li>BSc in business administration from King Abdul-Aziz University in Jeddah with First Class Honors Degree in 1979.</li></ul>	<ul style="list-style-type: none"><li>Banking experience including all financing ,investment and risk management bank sectors, in addition to, work experience in investment management in general and real estate investment in particular.</li></ul>
Fahad bin Abdullah bin Dakhil	<ul style="list-style-type: none"><li>Businessman</li></ul>	<ul style="list-style-type: none"><li>Chairman of Albilad Capital Company.</li><li>Vice-Chairman of Riyadh Chamber of Commerce and Industry.</li></ul>	<ul style="list-style-type: none"><li>Postgraduate diploma in monetary and business.</li><li>BSc in Economy from King Saud University.</li></ul>	<ul style="list-style-type: none"><li>Executive Partner- Al-Mukairin for exchange and investment from 1983 to 2005.</li><li>Chairman of Khaled AlMukairin &amp; Sons Holding.</li><li>Chairman of AlMaktaba Company for Marketing.</li><li>Chairman of Family Investment Company.</li></ul>
Ahmed Bin Abdul-Rahman Al- Hosan	<ul style="list-style-type: none"><li>Head of Al Thurya Centre for financial consultancy.</li></ul>	<ul style="list-style-type: none"><li>General Manager Deputy for financial issues in Al Rajhi Banking and Investment Company.</li><li>Regional Director of the central region for Al Rajhi Banking and Investment Company.</li><li>Financial Controller at the Ministry of Finance.</li></ul>	<ul style="list-style-type: none"><li>BSc in business administration.</li><li>Diploma in financial control from management institute.</li><li>Postgraduate diploma in financial management.</li><li>Diploma in bank credit-The Arab Academy for Financial and Banking Sciences.</li><li>Attended many specialized courses and conferences inside and outside the Kingdom.</li></ul>	<ul style="list-style-type: none"><li>Permanent member in the higher committee for granting international credit facilities.</li><li>Member in the higher management committee.</li><li>Long experience in banking and financial fields.</li></ul>

<b>Omar bin Saleh Babiker</b>	<ul style="list-style-type: none"><li>Chairman of Babiker Group</li></ul>	<ul style="list-style-type: none"><li>Executive manager of Saleh Abdul-Aziz Babiker Sons Company (1989-2002).</li><li>Manager of the High Commission Project for the development of Riyadh City (1983- 1989).</li></ul>	<ul style="list-style-type: none"><li>BSc in civil engineering- King Saud University (1984).</li></ul>	<ul style="list-style-type: none"><li>Long experience in trading and contracting.</li></ul>
<b>Khalid bin Suleiman Al - Jasser</b>	<ul style="list-style-type: none"><li>Chief Executive Officer of of Al Arabia Centers</li></ul>	<ul style="list-style-type: none"><li>Chief Executive Officer of Bank Albilad.</li><li>Executive vice-president of the human resources department in Riyadh Bank.</li><li>Regional manager of the eastern region of Riyadh Bank.</li><li>Manager of group of branches at Riyadh Bank.</li></ul>	<ul style="list-style-type: none"><li>BSc in business administration.</li></ul>	<ul style="list-style-type: none"><li>Long experience in banking and financial fields.</li></ul>
<b>Fahd bin Abdullah al-Qasim</b>	<ul style="list-style-type: none"><li>Chairman of Amwal Financial Consultants.</li><li>Consultant of the Board of Directors (Al Rajhi United Investment Holding)</li></ul>	<ul style="list-style-type: none"><li>Chief Executive Officer for Amwal Financial Consultancy (2001- 2011).</li><li>General Director- Othaim Commercial Group (2000-2001).</li><li>Partner- Manager- KPMG International Company (1995- 1999).</li><li>Executive Manager – Dallah Hospital (1991- 1995).</li><li>Partner- Al Qassem Office for Certified Chartered Accountants (1990-1991).</li></ul>	<ul style="list-style-type: none"><li>BSc in administrative sciences (accounting)- King Saud University.</li><li>Advanced management and leadership program- Oxford University.</li></ul>	<ul style="list-style-type: none"><li>Financial, administrative and auditing consultancy (20 years).</li><li>Executive management- Health Care facility (5 years).</li><li>Executive management- wholesale and retail trading (one year).</li></ul>
<b>Khalid Bin Abdulrahman Al-Rajhi</b>	<ul style="list-style-type: none"><li>Chairman of the Board and the Executive Committee of Saudi Cement Company.</li><li>Board Member, Head of Investment Company and Member in Risk Committee of Saudi United Cooperative Insurance Company (Wala’a).</li><li>Board Member and head of Remuneration Committee in Takween Advanced Industries Company.</li><li>Chief Executive Officer of Abdulrahman Al-Rajhi and Partners Limited Company.</li></ul>	<ul style="list-style-type: none"><li>Board Member in Dana Gas (United Arab Emirates).</li><li>Board Member – Saudi Telecom Company.</li><li>Board Member of Executive Management and Committee - National Shipping Company of Saudi Arabia.</li><li>Board Member of Naas Company (Bahrain).</li></ul>	<ul style="list-style-type: none"><li>BSc in financial management- King Fahd University of Petroleum and Minerals.</li></ul>	<ul style="list-style-type: none"><li>Financial Management.</li><li>Cash transfer and transactions.</li><li>Investments.</li></ul>

3. Current and Previous Positions of the Committee Members related to Board of Directors (Members outside the Board) as well as their qualifications and expertise:

Name	Current Position	Previous Position	Qualifications	Expertise
<b>Ahmed Abdullah Al-Moghames Audit Committee Member</b>	<ul style="list-style-type: none"><li>The General Secretary of the Saudi Organization for Certified Public Accountants</li></ul>	<ul style="list-style-type: none"><li>Assistant Professor at King Saud University.</li></ul>	<ul style="list-style-type: none"><li>PhD in Business Administration (Accounting Section)</li></ul>	<ul style="list-style-type: none"><li>Member in Board of Trustee at the Accounting and Auditing Organization for Islamic Financial Institutions.</li><li>Vice-President of the Development Committee for Accounting Female Authorities under International Union for Accountants.</li><li>Core Member of Saudi Organization for Certified Public Accountants.</li><li>Head of Management Committee in Saudi Accounting Association.</li><li>Member in the Permanent Committee for Capital Investment Phenomenon.</li><li>Member in Postgraduate Studies Committee at King Saud University.</li><li>Member in National Commission for Academic Accreditation and Assessment, Ministry of Higher Education.</li><li>Member in Audit Committee at Saudi Cement Company and Saudi Telecom Company.</li><li>Board Member and Head of Audit Committee at the National Shipping Company of Saudi Arabia</li></ul>
<b>Suliman bin Nasser Al Hatlan Audit Committee Member</b>	<ul style="list-style-type: none"><li>Chief Executive Officer of Bayt National Consultancy Company.</li></ul>	<ul style="list-style-type: none"><li>Member in Training Authority at the General Management Institute.</li></ul>	<ul style="list-style-type: none"><li>Master Degree in Professional Accounting.</li></ul>	<ul style="list-style-type: none"><li>Accounting, internal audit, financial reports, merging, acquisition, administrative management and companies assessment.</li></ul>
<b>Adib bin Mohammed Abanme Commitment and Governance Committee</b>	<ul style="list-style-type: none"><li>Chartered accountant- Abanme Chartered Accountants and Auditors.</li></ul>	<ul style="list-style-type: none"><li>Second Consultant- Capital Market Authority.</li><li>Lecturer- Imam Muhammad ibn Saud Islamic University -Financial Analyst- Saudi Development Fund.</li></ul>	<ul style="list-style-type: none"><li>Master degree in accounting.</li><li>BSc in accounting.</li></ul>	<ul style="list-style-type: none"><li>26 years experience in accounting and auditing.</li></ul>
<b>Abdel Fattah bin Ibrahim Al-Tawil Commitment and Governance Committee</b>	<ul style="list-style-type: none"><li>Executive manager of IT Consultancy Company.</li></ul>	<ul style="list-style-type: none"><li>Head of governance, risk and commitment sector in Alkhubair Finance.</li></ul>	<ul style="list-style-type: none"><li>Master degree in business administration from Texas University, USA.</li></ul>	<ul style="list-style-type: none"><li>30 years experience in banking services and held many positions- Head of governance, risk and commitment sector and executive manager for credit department in Al Ahli Commercial Bank and Commercial Bank of Qatar.</li></ul>

<b>Khaled Bin Saleh Al-Hathal Nomination and Remuneration Committee Member</b>	<ul style="list-style-type: none"><li>Chief Executive Officer of Mozn Investment Company.</li></ul>	<ul style="list-style-type: none"><li>Chief Executive Officer of Al Faisalia Group for Common Services.</li><li>Vice-president of Hael Economic City.</li></ul>	<ul style="list-style-type: none"><li>Master degree in business administration.</li></ul>	<ul style="list-style-type: none"><li>More than 23 years experience in several commercial sectors. Ministry of Housing and Public Works- General Electric Company- Al Faisalia Group.</li><li>Executive manager of strategy for Mohammed &amp; Abdullah Ibrahim Al-Subaie Companies and family consultant.</li><li>Vice-president of Hael Economic City.</li><li>Board Member of Nominations and Compensations at Albilad Capital.</li><li>Board Member and Head of Nominations and Compensations at Mohammad AlSubaie &amp; Sons Investment Company (MASIC).</li><li>Board Member of: Al Maktba Marketing Company- Simplify International Company- Manazl Qortba Fund.</li><li>Chairman of Mozn Investment Company and Logistic Services Company.</li><li>Member of Nominations and Compensations Committee at Arjan Company.</li></ul>
<b>Bashar bin Zakaria al-Mishal Nomination and Remuneration Committee Member</b>	<ul style="list-style-type: none"><li>Administrative consultant- Recruitment and assessment of executive managers and board members.</li></ul>	<ul style="list-style-type: none"><li>Administrative consultant.</li><li>Technical Projects Manager.</li><li>Computer and Electronics Engineer.</li></ul>	<ul style="list-style-type: none"><li>BSc in Computer Engineering.</li><li>Master degree in Management Sciences.</li><li>Master degree in General Managements.</li></ul>	<ul style="list-style-type: none"><li>12 years experience in the field of administrative consultancy, recruitment and assessment of executive managers and board members.</li><li>10 years experience in computer engineering.</li></ul>
<b>Mohammed bin Sulaiman Al Hajelan Risk Committee Member</b>	<ul style="list-style-type: none"><li>Financial Consultancy.</li></ul>	<ul style="list-style-type: none"><li>General Manager of Dubai National Bank (Branch of Saudi Arabia).</li><li>Cards and personal loans management director and credit director at the branches group management of Saudi Fransi Bank.</li><li>Personal loans management director, small enterprises management director at Saudi American Bank.</li><li>Credit and collect manager at credit cards management at Saudi American Bank.</li></ul>	<ul style="list-style-type: none"><li>BSc in economy from Emporia University in Kansas, USA.</li></ul>	<ul style="list-style-type: none"><li>Credit and risks for individuals and companies.</li><li>Strategic Planning.</li><li>Membership of board of directors and executive/ credit committee.</li></ul>

<b>Abdulaziz Mohammed Alonaizan Executive Committee Member</b>	<ul style="list-style-type: none"><li>Chief Executive Officer of Bank Albilad from 2016.</li></ul>	<ul style="list-style-type: none"><li>Executive manager for Bank Albilad business 2014-2016.</li><li>General manager of treasury- Alinma Bank 2008- 2014.</li><li>Alinma Investment Company 2008-2014.</li><li>Arab National Bank 2004-2008.</li><li>Samba Financial Group 1991- 2004.</li></ul>	<ul style="list-style-type: none"><li>BSc in quantitative methods 1987.</li></ul>	<ul style="list-style-type: none"><li>Several courses and specialized training and administrative programs- 30 years experience in banking and financial institutions fields.</li></ul>
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The Balance of the Board Members Shares, their Spouses and their Minor Children:

The number of the Board members’ shares, their spouses and their minor children at the beginning and at the end of the fiscal year 2017:

SN.	Stakeholder Name	Numbers of shares at the beginning of 2017	Ownership percentage	Numbers of shares at the end of 2017	Ownership percentage	Net Change	Change percentage
1	Dr. Abdul Rahman bin Ibrahim Hamid	1,999	0.0003	1,999	0.0003	0	0
2	Mr. Nasser Bin Mohammed Al-Subaie (and those he support) *	2,064,842	0.3441	2,058,051	0.3430	-6,791	-0.3
3	Mr. Saud bin Mohammed al-Fayez	2,400	0.0004	2,400	0.0004	0	0
4	Mr. Abdul Rahman bin Mohammed Ramzi Addas	3,998	0.0007	3,998	0.0007	0	0
5	Mr. Fahad bin Abdullah bin Dakhil	1,500	0.0003	1,500	0.0003	0	0
6	Mr. Khaled bin Abdulaziz Al-Mukairin (and those he support) *	959,880	0.6100	588,265	0.0980	-371,615	-38.7
7	Mr. Ahmed bin Abdulrahman Al-Hosan	1,500	0.0003	1,500	0.0003	0	0
8	Eng. Omar bin Saleh Babeker	1,900,989	0.3168	1,900,989	0.3168	0	0
9	Mr. Khalid bin Suleiman Al - Jasser	659,210	0.1099	659,210	0.1099	0	0
10	Mr. Fahd bin Abdullah al-Qasim	1,440	0.0002	1,440	0.0002	0	0
11	Mr. Khalid Bin Abdulrahman Al-Rajhi	63,277,420	10.5462	63,277,420	10.5462	0	0

(\*) Wife and children less than 16 years old.



The Balance of Senior Executives Shares, their Spouses and their Minor Children:

The balance of shares of senior executives, their spouses and their minor children by at the beginning and at the end of the fiscal year 2017:

SN.	Name	Numbers of shares at the beginning of 2017	Ownership percent-age	Numbers of shares at the end of 2017	Ownership percent-age	Net Change	Change percent-age
1	Mr. Abdulaziz bin Mohammed Al-Anizan	64,766	0.0108	64,766	0.0108	0	0
2	Mr. Mossadak Ajaz	4,806	0.0008	4,806	0.0008	0	0
3	Mr. Hesham bin Ali Al Aql	38	0.00001	38	0.00001	0	0

Remunerations and Compensations:

Remunerations, compensations and disclosure process thereof shall be set out under the Companies Law, and as per the “Regulations and Regulatory Procedures concerning the Listed Joint Stock Companies, that were issued in implementation of the Companies Law on 17/10/2016 and as amended on 23/03/2017”, which require the disclose the remuneration policies, and the mechanisms to identify them, the rules, principles and regulations of SAMA, CMA and related approved international standards. The Bank shall also adhere to its disclosure policy under the disclosure requirements in the Board of Directors’ report. The following shows the mechanism set to determine the remunerations and allowances of the Board members and the Board committees and the details of what have been paid to the Board members, the Board’s committees and Senior Executives:

Ruminations Policy for Board Members, Board’s Committees and Senior Executives:

A- Ruminations Policy for Board Members, Board Committees:

Remunerations standards and policies for Board Members, Board Committees are subjected to rules related to the Companies Law, its regulations such as controls, regulatory procedures issued to implement the Companies Law in connection with Listed Joint Stock Companies and the updated regulation of Companies governance; related circulations and principles of the Saudi Arabian Monetary Authority, the Bank’s Article of Associations. The most important rules and mechanisms items used to determine the remunerations of the Board Members and the Board Committees are shown as follows:

General Rules of Remunerations:

- 1-1
- The amounts of money disbursed to the board members shall not exceed (5%) five percent of net profits, under all circumstances, the total amount received by the board member in terms of remunerations, financial or in kind privileges shall not exceed (500) five hundred thousand Riyals per year, including attendance allowance that shouldn’t exceed (5000) five thousand Riyals per meeting. This shall be implemented in accordance with the control stipulated in the Companies Law, controls and regulatory

procedures for the Companies Law, Companies Governance Regulation, principles and instructions (circulations) of the Saudi Arabian Monetary Authority and related policies of the Bank.

- 1-2
- The Board Member shall have the right to receive a remuneration in exchange for his memberships in the audit committee formed by the General Assembly or in exchange of any additional works, executive, technical, administrative or consultancy positions by virtue of professional license that are assigned to him by the Bank; in addition to remunerations he received in his capacity as a board member and a member in the committee formed by the Board of Directors, as per the Companies Law and the Company’s Article of Associations and this policy.
- 1-3
- In case any committee member didn’t attend the meetings, an amount of money shall be deducted from its annual remuneration in a percentage proportional to his absenteeism, through dividing the total amount of remunerations by the total number of meetings held by the committee during the year and deducting the remuneration due to the member for the meeting or the meetings he didn’t attend.
- 1-4
- The Board Member shall not have the right to vote on the remunerations item of Board Members in the General Assembly.
- 1-5
- If the General Assembly decided to end the membership of the absent Board Member due to his absenteeism in three consecutive meetings of the Board without valid reason, this member shall not be entitled to any remunerations for the period preceding the last meeting he attended and he should return all the remunerations disbursed to him for this period.
- 1-6
- The remunerations of the board members may vary in an extent that reflects the experience of the member, tasks assigned to him, his specialty, independency, number of sessions attended and other considerations.

2- Mechanisms used to determine the remunerations of Board Members and Board Committees:

- 2-1
- Without prejudice to the above-mentioned general rules and in accordance with the Companies Law, controls and regulatory procedures for issued to implement the Companies Law related to the Listed Joint Stock Companies, the updated Companies Governance Regulation, and the related principles and circulations of the Saudi Arabian Monetary Authority, especially the ones related to the minimum and maximum that shall not exceed five hundred thousand Saudi Riyals (500,000 Riyals), the mechanisms used to determine the concerned parties of this policy such as board members and board committees shall be specified as per the policies and decisions issued by the board of directors and in accordance with specific rules applied by the audit committee, as per the Companies Laws and its regulations and related controls and regulations.
- 2-2
- Each board member shall have the actual expenses amount incurred by the member to attend the board of directors meetings and the committee meetings, including accommodation expenses, first class air tickets, in addition to the lump-sum remuneration and attendance allowance amount as per the above-mentioned controls.
- 2-3
- Each member of the committee board (external) who are not board members, shall have the actual expenses amount incurred by the member to attend the committee meetings, including accommodation expenses, business class air tickets, in addition to the lump-sum remuneration and attendance allowance amount as per the above-mentioned controls.

B- Policies of Remunerations for Executive Management Members and its Mechanisms:

Without prejudice to the above-mentioned rules and general standards and in accordance with the related Laws and Regulations, the updated Companies Governance Regulation and principles and circulations of the Saudi Arabian Monetary Authority, the mechanisms of the remunerations of the employees in general and the senior executive members in particular shall be determined according to the policies and decisions issued by the Board of Directors. These mechanisms shall take into consideration the related controls and standards mentioned in the nominations and remunerations approved by the General Assembly and the rules of remunerations issued by the Saudi Arabian Monetary Authority such as:

- 1- To conform with the Bank’ strategy and objectives.
- 2- To specify the standards of giving remuneration its disclosure mechanism and make sure of its implementation.
- 3- To focus on connecting the standards of giving remuneration to performance.
- 4- To specify the remuneration based on the level of post, tasks, responsibilities, academic qualifications, work experiences, skills and level of performance of the office-holder.
- 5- The remuneration must conform with the size, nature and degree of risks at the Bank.
- 6- The amounts of remunerations and incentives related to the performance shall be determined based on profit rate that is connected to the degree of risks and as per the rules and principles of the Saudi Arabian Monetary Authority in connection with remunerations, incentives and the standards of the Financial Stability Board (FSB).

Determining what is paid to the board members and board committees in the form of remunerations, allowances and other compensations:

(1) Board Members’ Remunerations:

	Fixed Remunerations						Variable Remunerations									
	Specific Amount	Attendance board sessions allowance	Total of attendance board sessions allowance	In-kind privileges	Remunerations of technical, administrative and consultancy works.	Remunerations the chairman of the board or the managing director or the secretary if he is one of the members.	Total	Profit percentage	Periodical remunerations (*)	Short-term incentives plans	Long-term incentives plans	Awarded shares (insert value)	Total	End-of-service gratuity	Total (**)	Expenses allowance
First: Independent Members																
Saud bin Mohammed Alfaiz	360,000	18,000	15,000	-	-	-	393,000	0.042	140,000	-	-	-	140,000	-	500,000	-
Abdulrhman Bin Mohammed Ramzi Addas	360,000	15,000	24,000	-	-	-	399,000	0.042	140,000	-	-	-	140,000	-	500,000	10,000
Ahmed bin Abdulrahman Al-Hosan	360,000	18,000	21,000	-	-	-	399,000	0.042	140,000	-	-	-	140,000	-	539,000	-
Omar bin Saleh Babiker	360,000	15,000	12,000	-	-	-	387,000	0.041	-	-	-	-	-	-	387,000	-
Total	1,440,000	66,000	72,000	-	-	-	1,578,000	0.168	420,000	-	-	-	420,000	-	1,926,000	10,000
Second: Non-Executive Members																
Abdul Rahman bin Ibrahim Hamid	360,000	18,000	55,000	-	-	-	433,000	0.046	140,000	-	-	-	140,000	-	500,000	-
Nasser Bin Mohammed Al-Subaie	360,000	18,000	55,000	-	-	-	433,000	0.046	-	-	-	-	-	-	433,000	-
Fahad bin Abdullah bin Dakhil	360,000	18,000	50,000	-	-	-	428,000	0.045	-	-	-	-	-	-	428,000	-
Khaled bin Abdulaziz Al-Mukairin	360,000	18,000	64,000	-	-	-	442,000	0.047	-	-	-	-	-	-	442,000	-
Khalid bin Suleiman Al-Jasser	360,000	18,000	-	-	-	-	378,000	0.040	-	-	-	-	-	-	378,000	-
Fahd bin Abdullah Al-Qasim	360,000	15,000	15,000	-	-	-	390,000	0.041	-	-	-	-	-	-	390,000	-
Khalid bin Abdul Rahman Al Rajhi	360,000	15,000	50,000	-	-	-	425,000	0.045	-	-	-	-	-	-	425,000	-
Total	2,520,000	120,000	289,000	-	-	-	2,929,000	0.311	140,000	-	-	-	140,000	-	2,996,000	-
Third: Executive Members There are no executive members.																

(\*) Remunerations of head of committees; in case one member is the chairman of more than one committee, he shall receive a total amount of (140) thousand Riyals.

(\*) Remunerations of head of committees; in case one member is the chairman of more than one committee, he shall receive a total amount of (140) thousand Riyals.

(\*\*) Maximum amounts that the member can receive in return of the board membership only or the board membership and committee membership jointly shall not exceed in all cases an amount of (500) thousand Riyals per year, except for the chairman and members of the audit committee.

(2) Remunerations of the board committees members (members from outside the board)

Committee Members	Fixed Remunerations (Except for sessions attendance allowance)	Sessions Attendance Allowance	Total
Executive committee members from outside the board:			
Abdulaziz bin Mohammed Alonaizan	120,000	50,000	170,000
Total	120,000	50,000	170,000
Audit committee members from outside the board:			
Ahmed Abdullah Al-Moghames	120,000	21,000	141,000
Suliman bin Nasser Al Hatlan	120,000	21,000	141,000
Hamad bin Nasser Al Kanhal (**)	51,429	9,000	60,429
Total	291,429	51,000	342,429
Nominations and remunerations committee members from outside the board:			
Khaled Bin Saleh Al-Hathal	120,000	12,000	132,000
Bashar ibn Zakaria al-Mishal (*)	90,000	9,000	99,000
Total	210,000	21,000	231,000
Risks committee members from outside the board:			
Mohammed bin Sulaiman Al Hajelan	120,000	15,000	135,000
Total	120,000	15,000	135,000
Commitment and governance committee members from outside the board:			
Adib bin Mohammed Abanme	120,000	12,000	132,000
Abdel Fattah bin Ibrahim Al-Tawil	120,000	12,000	132,000
Total	240,000	24,000	264,000

(\*) What has been disbursed to Mr./ Hamad bin Nasser Al Kanhal, for due amounts during 01.01.2017 until his resign on 21.05.2017.

(\*\*) If any committee member didn't attend the meetings of the concerned committee, an amount of his annual remunerations shall be deducted in proportion with his absenteeism rate.

- The remunerations policy of the board members, board committees and senior executives has been updated and shall be effective starting from the fiscal year 2018, after being approved from the 9th Ordinary General Assembly held on 09.01.2018.

Details of other remunerations, salaries, allowances and compensations paid to senior executives:

Statement In thousands Saudi Riyals	Seven senior executives including chief executive officer and financial manager
Salaries and compensations	12,116
Allowances, periodical and annual remunerations	7,824
Total	19,940

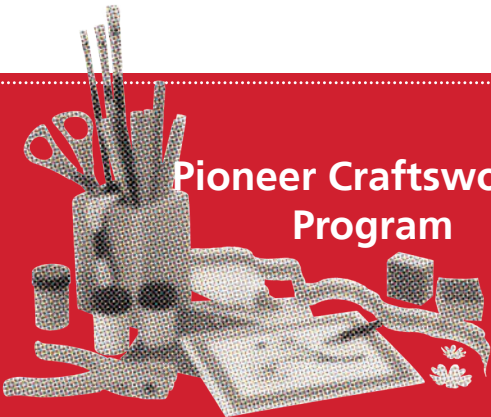
Board Committees:

The Board Committees carry out their tasks and responsibilities based on the policies, regulations and other related governance documents approved by the Board or the General Assembly, as the case may be, which determine their powers and working procedures. These committees were formed for a period of three years with the formation of the Board of Directors starting from 17.04.2016 to 16.04.2019. Accordingly, the Board of Directors set up five committees emerging from the Board, and their membership was formed by the Board members, independent and non-executive members from outside the Bank from experts and specialists, and an executive member, which are as follows:

Executive Committee:

The Committee's responsibilities are represented in ensuring the effectiveness of the decision-making process at its highest levels in order to achieve the Bank's objectives with all flexibility and according to the set schedule; in addition to assisting the Board of Directors in assuming its responsibilities and activating its role in promoting, following-up and implementing the strategy to support the effective performance, review and monitoring of the Bank's business on a regular basis, along with making necessary recommendations. At the same time, the Committee is also responsible for discussing issues that need in-depth review and detailed study before being submitted to the Board for adjudication and issuing a final decision in this regard; in addition to any other tasks delegated or assigned by the Board. The Committee held (13) meetings during 2017. The Committee consists of 6 members, 5 of them are non-executive members and one executive, namely;

In cooperation with Mawaddah Women Charity for Reduction of Divorce and its effects, we conducted several training courses in cooking, sewing and decoupage which all aim to enable divorcés to work and provide for their families.



Pioneer Craftswomen Program

Pioneer Craftswomen Program



Name	Membership Nature	Number and date of the meeting												
		(125)	(126)	(127)	(128)	(129)	(130)	(131)	(132)	(133)	(134)	(135)	(136)	(137)
		15.01.2017	21.01.2017	05.03.2017	09.04.2017	24.04.2017	08.05.2017	28.05.2017	12/06.2017	27.07.2017	13.09.2017	08.10.2017	12.11.2017	11.12.2017
Dr. Abdul Rahman bin Ibrahim Hamid	Chairman of the committee	√	√	√	√	√	√	√	√	√	√	√	√	√
Mr. Nasser Bin Mohammed Al-Subaie	Member	√	√	√	√	√	√	√	√	√	√	√	√	√
Mr. Fahad bin Abdullah bin Dakhil	Member	√	√	√	√	√	×	√	√	√	√	√	√	√
Mr. Khaled bin Abdulaziz Al-Mukairin	Member	√	√	√	√	√	√	√	√	√	√	√	√	√
Mr. Khalid bin Abdul Rahman Al Rajhi	Member	√	√	√	√	×	√	√	√	√	√	√	√	×
Abdulaziz Mohammed Alonaizan	Member	√	×	√	√	√	√	√	√	√	√	√	√	√
Attendee	√													
Absentee	×													

Nomination and Remuneration Committee:

The Committee’s responsibility is represented in annual audit of the appropriate skills required for Board membership, the committees affiliated to the board and the Shariah Division in a way that is appropriate to its nature and regulation, in addition to reviewing the structure, forming the Board of directors from time to time, making recommendations regarding the strengths and weaknesses of the Board members and giving suggestions to them. It is also responsible for submitting its recommendation to the Board of Directors in this regard, and about the candidates of the board membership, its committees and the qualifications and expertise needed for the membership. It also checks the convening of the Board’s regular meetings on a regular basis and ensures the independence of the independent members on a yearly basis, and the absence of any conflicting interests. The committee also is responsible for studying the situation, developing, updating and suggesting policies related to the remuneration and incentives paid to the members of the Board and the Executive Management, following up with the matters relating to the structure of posts and human resources, and making recommendations to the Board of Directors.

The Committee held (4) meetings during 2017: The current session of the committee consists of five (5) members; i.e. three members from the Board of Directors, two members from outside the Bank, namely:

Name	Membership Nature	Number and date of the meeting			
		(45)	(46)	(47)	(48)
		12.03.2017	11.06.2017	17.09.2017	17.12.2017
Mr. Abdul Rahman bin Mohammed Ramzi Addas	Chairman of the committee	√	√	√	√
Mr. Khaled bin Abdulaziz Al-Mukairin	Member	×	√	√	√
Eng. Omar bin Saleh Babiker	Member	√	√	√	√
Mr. Khaled Bin Saleh Al-Hathal	Member	√	√	√	√
Mr. Bashar ibn Zakaria al-Mishal	Member	√	√	×	√

Attendee	√
Absentee	×

Risk Committee:

The main purpose of the Risk Committee is to provide advice and consultation to the Board on the current and future overall plans and strategies regarding the Bank’s capacity and ability to bear risks; in addition to supervising the enforcement of the Bank’s Executive Management for such plans and strategies. In general, the Committee works on assisting the Board in overseeing all the activities and decisions related to the Risk Management at the Bank, represented in market and credit risks, the investment, financial and operational risks and the liquidity and reputational risks, business continuity and technical systems risks; in addition to any tasks or responsibilities that may be assigned to it by the Board of Directors without prejudice with the tasks and responsibilities of the other Board committees.

The Committee’s responsibility is represented in overseeing the risk level at the Bank to ensure that the work is carried out within the approved risk limits and to ensure that the Bank has adequate policies and procedures adopted by the competent authority; in addition to reviewing the Bank’s internal policies related to risks and submitting them to the Board of Directors for approval; along with adopting the distribution of the acceptable credit risks, meeting the credit responsibilities and all the risks approved by the Board of Directors, conducting periodic audit and assessment for the risk limits and the new products risks, ensuring the compliance with the instructions of the regulatory authorities and applying the appropriate control systems.

The Committee held (5) meetings during 2017 and the Committee consists of (3) members, i.e. two members of the Board of Directors and an independent member from outside the Bank. namely:

Name	Membership Nature	Number and date of the meeting				
		(01/17)	(02/17)	(03/17)	(04/17)	(05/17)
		27.02.2017	16.04.2017	29.05.2017	10.09.2017	04.12.2017
Mr. Saud bin Mohammed Al Fayez	Chairman of the committee	√	√	√	√	√
Mr. Fahd bin Abdullah al-Qasim	Member	√	√	√	√	√
Mr. Mohammad bin Sulaiman Al Hejilan	Member	√	√	√	√	√

Attendee	√
Absentee	×

Compliance and Governance Committee:

The Committee’s responsibility is to supervise, strengthen and maintain the highest standards of corporate governance and that is by ensuring, on behalf of the Board of Directors, the proper compliance with the corporate governance practices in all activities undertaken by the Bank. The Committee bears the responsibility of ensuring the Bank’s commitment to all the local, regional and international legislations, regulations and rules related to its activities, and conducts an annual review of the public governance framework and the relevant mechanisms; in addition to reviewing the regulations of the Board committees and the Executive Management and making recommendations to the Board in this regard, along with monitoring and ensuring that the Bank’s possession of sufficient mechanisms to identify cases of conflict of interest in operational activities. Furthermore, the Committee adopts the annual program/ plan of the Compliance Sector and the annual report submitted to the regulatory authorities; in addition to following-up with the adequacy and effectiveness of the Compliance division regarding the implementation of the Compliance policy and manual, along with reviewing the periodic and annual reports, and ensuring the effective correction of any identified gaps or violations. In order to fulfill its role, the Committee held four (4) meetings during 2017.

The current session of the Compliance and Governance Committee consists of (3) members; i.e. one member from the Board of Directors and two external independent experienced and specialist members namely:

Name	Membership Nature	Number and date of the meeting			
		(07/17)	(08/17)	(09/17)	(10/17)
		12.03.2017	11.06.2017	17.09.2017	17.12.2017
Mr. Abdul Rahman bin Mohammed Ramzi Addas	Chairman of the committee	√	√	√	√
Mr. Adib bin Mohammed Abanme	Member	√	√	√	√
Mr. Abdel Fattah bin Ibrahim Al-Tawil	Member	√	√	√	√

Attendee	√
Absentee	×

Audit Committee:

The Audit Committee supports the Board of Directors in enhancing the confidence in the Internal Audit System. The Audit Committee’s responsibility is represented in overseeing the Internal Audit Sector. This includes verifying the independency and effectiveness of the sector, approving annual audit plan, verifying also the availability of human resources and studying the reports issued from the Audit Sector and following-up how the Bank’s management compliance to correcting these notes on timely manner. The Committee also nominates external auditors for the Bank, determining their fees, supervising their activities and reviewing their plan; along with discussing their notes, evaluating their performance and verifying their independence. The task of the Committee also includes studying the interim and annual financial statements before approved by the Board of Directors and gives recommendation about them in connection with their fairness and to what extent they conform with the acceptable accounting standards. The Committee also verify the compliance of the Bank to the related instructions and policies, review contracts and transactions that the Bank suggested to perform with concerned parties and all other regulatory acts that fall under the Committee, in accordance with the Bank’s Corporate Governance Manual that is approved by the Board of Directors including the regulation approved by the General Assembly.

The Committee held seven meetings during 2017, to cover all the tasks and responsibilities assigned to it as per the approved plan for the fiscal year 2017. The current session of the Audit Committee consists of four members, i.e. the Committee Chairman, who is one of the Bank’s Board members and three external members from specialists, namely:

Name	Membership Nature	Number and date of the meeting						
		First Meeting 12 January 2017	Second Meeting 23 February 2017	Third Meeting 3 April 2017	Fourth Meeting 25 May 2017	Fifth Meeting 13 July 2017	Sixth Meeting 18 October 2017	Seventh Meeting 14 December 2017
1- Ahmed bin Abdulrahman Al-Hosan	Chairman of the committee	√	√	√	√	√	√	√
2- Dr. Ahmed Abdullah Al-Moghames	Member	√	√	√	√	√	√	√
3- Sulaiman bin Nasser Al Hatlan	Member	√	√	√	√	√	√	√
4- Hamad bin Nasser Al Kanhal*	Member	√	√	√	-	-	-	-

Attendee	√
Absentee	×

\* Board Member Mr. Hamad bin Nasser Al Kanhal has resigned on 21.05.2017.

Mechanisms and methods used to evaluate the performance of the board of directors, the board committees and their members:

The board of directors depends in evaluating its performance and the performance of its committees and their members on a mechanism that makes the nominations and remunerations committee, due to its specialty, perform an annual assessment for the boards of directors and its affiliated committees. This is performed through assessment models specially designed for this purpose: (board of directors assessment model/ self-assessment model of the board member/ assessment model of the committees affiliated to the board/ assessment model of the committees members affiliated to the board). The committee studies and discuss the assessment results to know the points of strength, in order to be enhanced and the points of weakness, in order to be addressed by the board or its committees. Then, a summary of the results with the needed recommendations of the committee shall be submitted to the board of directors at the earliest meeting of the board, knowing that there is a current study for developing the assessment mechanism through using the help of consultants or experts from outside the bank or from inside the bank in members assessment process and to conduct training courses for the board of directors and its affiliated committee, whenever needed.

Sanctions imposed on the Bank and its subsidiaries by the Supervisory Authorities:

During 2017, financial sanctions were imposed on the Bank and its subsidiaries as a result of operating works and these sanctions were addressed. A statement of the sanctions imposed on the Bank by the Supervisory Authorities as follows:

Supervisory Authorities	Number of Sanctions	Total Amount of Sanctions
The Saudi Arabian Monetary Authority		
Violations of the Supervisory Authority instructions.	7	1,246
Violations of the Authority instructions related to safety of the customers.	1	80
Violations of the Authority instructions related to due diligence.	-	-
Violations of the Authority instructions related to the performance level of the ATMs. And POS.	4	535
Violations of the Authority instructions related to due diligence in anti-money laundering and terrorism financing.	2	550
Ministry of Municipal and Rural Affairs and General Authority of Civil Aviation	118	745
Total	132	3,156

Transactions with related parties:

The Bank deals in its normal business cycle with related parties and the transactions with related parties are subjected to the controls stipulated in the Banks control system and instructions issued by the Saudi Arabian Monetary Authority. Nature and balances of these transactions for the year ended in 31 December 2017 (all amounts in thousands Saudi Riyals):

Related Parties	In thousands Saudi Riyals 2017
Board Members	
* Finance	0
* Possible undertakings and liabilities	1,176
* Current accounts	
Companies and corporate with guarantee from board members	
* Finance	483,025
* Possible undertakings and liabilities	3,048
Other main shareholders (own more than 5% of the Bank's capital	
* Finance	1,544,748
* Contingent Undertakings and Commitments	78,465
* Current accounts	
* Other liabilities	
Common funds	
* Investments in funds	

\* (Credit Cards Limits) this represents the credit cards limits for the board members and their families members.

The information below is regarding the works and contracts conducted during 2017 that the Bank is one of its parties and one of the board members or one of the senior executives or anyone related to them has an interest in (all amounts are in thousand Saudi Riyals)

SN.	Nature of the Contract	Related Party Name	Contract Duration	Annual Contract Value (in Saudi Riyal)
1	Lease contract of an ATM in Riyadh, owned by Mohammad Ibrahim Al-Subaie & Sons Company.	Board Member. Nasser Bin Mohammed Al-Subaie (in his capacity as the vice-chairman of the board and a partner)	From: 03.07.2015 to 02.07.2025	100,000
2	Lease contract of the Injaz Center- Southern Khalidia Branch in Dammam City, owned by Mohammad Ibrahim Al-Subaie & Sons Company.	Board Member. Nasser Bin Mohammed Al-Subaie (in his capacity as the vice-chairman of the board and a partner)	From: 05.12.2016 to 04.12.2026	174,790
3	Lease contract of Injaz Center Second Industrial in Riyadh owned by Mohammad Ibrahim Al-Subaie & Sons Company.	Board Member. Nasser Bin Mohammed Al-Subaie (in his capacity as the vice-chairman of the board and a partner)	From: 06.04.2016 to 05.04.2016	472,000
4	Lease contract for the showroom No. (2) at the ground floor rented for Albilad Investment Company; located on King Fahd Road in Riyadh (Smart Tower), and owned by Khaled bin Abdulaziz Al-Mukairin & Sons Holding Company.	Board Member .Khaled bin Abdulaziz Al-Mukairin (in his capacity as the chairman of the board and an owner)	From: 01.01.2013 to 31.12.2017 (it has not been renewed)	1,287,000
5	Lease contract for the site of the Albilad Investment Company; i.e. the two offices no. (101) and (102); located on King Fahd Road in Riyadh (Smart Tower), and owned by Khaled bin Abdulaziz Al-Mukairin & Sons Holding Company.	Board Member .Khaled bin Abdulaziz Al-Mukairin (in his capacity as the chairman of the board and an owner)	From 01.01.2013 to 31.12.2018	1,168,200

6	Lease contract for the site of the Albilad Investment Company; i.e. the two offices no. (103) and (104); located on King Fahd Road in Riyadh (Smart Tower), and owned by Khaled bin Abdulaziz Al-Mukairin & Sons Holding Company.	Board Member .Khaled bin Abdulaziz Al-Mukairin (in his capacity as the chairman of the board and an owner)	From: 01.01.2013 to 31.12.2018	1,089,000
7	Lease contract of the Injaz Center in Al-Khafji Governorate, owned by Abdulrahman bin Saleh Al Rajhi.	Board Member . Khalid bin Abdul Rahman Al Rajhi (in his capacity as the son of the property's owner)	From: 08.08.2016 to 31.12.2019	150,000
8	Lease contract of an ATM No (26) in Some Cities of the Kingdom, owned by Arabian Centres Company Limited.	Board Member. Khalid bin Suleiman Aljasser (in his capacity as the Chief Executive Officer of the Company)	From 09.07.2013 to 15.05.2018	2,792,400
9	Supply contract of furniture for Albilad Tower- Al Maktabia Limited Company.	Board Member .Khaled bin Abdulaziz Al-Mukairin (in his capacity as the chairman of the board)	From: 21.11.2017 to 20.11.2018	17,545,864
10	Supply contract of stationary for Albilad Bank- Jurair bookshop company for marketing.	Board Member. Fahad Abdullah Alkassim (in his capacity as board member)	From: 09.04.2015 to 08.04.2018	1,390,904.08 (contract is per unit – consumption of 2017)
11	Lease contract of the Main Injaz Center in Yanbu City, owned by Abdulrahman bin Abdulaziz bin Saleh Al Rajhi.	Abdulrahman bin Abdulaziz bin Saleh Al Rajhi, (as a senior shareholder)	From: 09.08.2015 to 08.08.2025	180,000
12	Lease contract of Branch of the Albilad’s Khubaib in Buraidah City, owned by Abdulrahman bin Abdulaziz bin Saleh Al Rajhi.	Abdulrahman bin Abdulaziz bin Saleh Al Rajhi, (as a senior shareholder)	From: 01.06.2015 to 31.05.2025	400,000
13	Lease contract of Branch of the Albilad main in Dammam City, owned by Abdulrahman bin Abdulaziz bin Saleh Al Rajhi.	Abdulrahman bin Abdulaziz bin Saleh Al Rajhi, (as a senior shareholder)	From: 15.09.2010 to 14.09.2025	500,000

The Group deals with the related parties during the course of its regular work. These dealing are subject to the controls and rules set out in the laws, regulations and instructions issued by the Supervisory Authorities and as per the mechanisms mentioned in the approved governance documents of the bank. On the other hand, Senior shareholders are those who own 5% or more of the Bank’s issued capital; and the Senior Management Personnel are these individuals, who have the authority and responsibility to carry out the planning, direction and supervision of the Bank’s activities, whether directly or indirectly.

The nature and balances of these transactions for the year ended on the 31st of December 2017 are as follows:

A- The Balances of the Board Members and Other Senior Shareholders, in addition to the Companies Affiliated to them and the Investment Funds Managed by the Group:

Details	In thousands Saudi Riyals 2017
<b>Finance</b>	
Deferred Sale	2,017,422
Participation	13,331
<b>Contingent Undertakings and Commitments</b>	
Contingent Undertakings and Commitments	81,512
<b>Deposits</b>	
On Demand	64,390
Albilad Account (Speculation)	88,625
Others	5,750

B- The Senior Management Personnel and the Companies Affiliated to them:

Details	In thousands Saudi Riyals 2017
<b>Finance</b>	
Installment Sales	11,481
<b>Deposits</b>	
On Demand	2,271
Albilad Account (Speculation)	14,203



C- Investment Funds of the Group:

Details	In thousands Saudi Riyals 2017
Customers' Deposits	196
Investments	220,367

D- Revenues and Expenses:

Details	In thousands Saudi Riyals 2017
<b>Revenues</b>	
Finance Income	36,833
Net Fees and Commissions Income and others	622
Net Fees and Commissions Income and others – Albilad Investment Funds	12,277
<b>Expenses</b>	
Albilad Account (Speculation)	2,664
Rents of Buildings	27,250
Remuneration of Board Members	4,922

The Balances of the Senior Management Personnel and the Companies Affiliated to them:

Details	In thousands Saudi Riyals 2017
<b>Revenues</b>	
Finance Income	156
<b>Expenses</b>	
Albilad Account (Speculation)	84

The following is a statement of the total compensation paid to the Senior Management Personnel during the year:

Details	In thousands Saudi Riyals 2017
Benefits for Employees	69,523

Means for Communication with Shareholders:

Pursuant from the Bank’s keen on strengthening its relationship with shareholders and all investors and customers, and in its belief in the principle of disclosure and transparency of information to investors, the Bank’s Board of Directors works constantly to promote these principles that include governance principles that work on ensuring fair treatment for all shareholders and determining the responsibility of the Board of directors towards the Bank and its shareholders; and so the Bank follows the regulations, standards and guidelines of the Saudi Arabian Monetary Authority (SAMA) and the Capital Market Authority (CMA), and the Basel Committee’s recommendations on corporate governance. The Bank provides comprehensive information on all of its activities and business within the annual report and the brief financial statements published in the local newspapers, and on the Tadawul website and the Bank’s website (www.bankalbilad.com), which contains additional information and news about the Bank. A new page was created on the website for the relationships of the shareholders, including all the important and necessary information needed by the shareholders and other stakeholders, among them: putting a copy of: (the bank’s article of associations/ shareholder guide/ all the ordinary and extraordinary General Assembly meetings that conducted by the Bank since its establishment until the last meeting held), in addition to other information such as capital increase, dividend distributed on the shareholders. Furthermore, The Bank takes specific note of the inquiries received from the shareholders and responding to them, in addition to encouraging shareholders to attend the annual General Assembly meetings that discuss the Bank’s business, whether in person or through electronic voting.

The procedures taken by the board of directors to inform its members—especially non-executive members about the recommendations of the shareholders and their notes about the company and its performance:

The Bank always works on protecting the rights of the stakeholders, especially the shareholders. This has been included in the Bank’s articles of association or in the policies, evidences and relevant procedures. The most important relevant rights is the right to attend the ordinary and extraordinary General Assembly meetings, discussing its topics and directing questions to the board, auditors and the executive management. They have the right to submit their recommendations and notes regarding the company and its performance as per the mechanisms specified for this and the board members shall be informed about them whether through General Assembly meetings by reading the minutes of the meetings that include the details or by presenting to the members in the first meeting will be held by the board ,the recommendations submitted by the shareholders and others through channels specified for this and this should be included in the minutes of the meetings- if available- knowing that all the board members are currently non-executive or independent.

Interests in the category of shares entitled to voting:

There is no interest that benefits in the category of the shares entitled to voting that belong to the individuals (other than the issuing Board of Directors of the Bank, the senior executives, and their spouses and minor children) and the Bank must be informed about these rights.

Waiver of interests by shareholders, board members or senior employees.

- There are no arrangements or agreements with any Board members or senior executives to waive any wages, remunerations or compensations.
- There are no arrangements or agreements with any of the shareholders to waive any rights in profits.

Number of Bank’s requests for the record of the shareholders, dates and reasons of these requests:

Number of requests for the shareholders' record	Date of request	Date of ownership files	Request reasons
1	01.01.2017	31.12.2016	Bank procedures
2	12.03.2017	12.03.2017	Bank procedures
3	04.04.2017	31.03.2017	Bank procedures
4	07.05.2017	08.05.2017	Bank procedures
5	11.05.2017	10.05.2017	Bank procedures
6	03.08.2017	22.06.2017	Bank procedures
7	18.07.2017	17.07.2017	Bank procedures
8	01.10.2017	30.09.2017	Bank procedures
9	04.10.2017	03.10.2017	Profits file

Accrued Regulatory Payments:

Details	In thousands Saudi Riyals 2017
Legal Zakat (1)	30.0
General Organization for Social Insurance (2)	7.3
1- Legal Zakat – the Zakat statement will be provided by the bank for the fiscal year 2017 during the first quarter of 2018, and the Zakat accrued for the fiscal year 2017, amounting to 30 million Saudi Riyals (2016: 25 million Saudi Riyals) will be paid along with the Zakat statement.	
2- The receivables of the General Organization for Social Insurance, amounting to 7.3 million Saudi Riyals (2016: 6.2 million Saudi Riyals), will be paid in January 2018.	

Zakat:

The Bank provided its Zakat statements to the General Authority of Tax and Income and paid Zakat amounting to 177 Million Saudi Riyals for the fiscal years from 2006 until 2016, and received the assessment for 2006 till 2014, where additional demands estimated to 615.3 Million Saudi Riyal long-term investments were excluded and the long-term finance was added to the Zakat base. During 2016, the Bank has paid additional demands for Zakat estimated with 58 Million Saudi Riyal in connection with the general assessment 2006, however the Bank has appealed against the case at the Higher Appeal Committee.

The Bank has submitted an appeal at the Higher Appeal Committee about the basis in which the additional Zakat demands were created, and the management expects that the result of the abovementioned appeal will be in favor of the Bank, consequently, the allocation of this matter was not put aside in these consolidated financial statements.

The final assessments for 2015 and 2016 were not performed by the General Authority for Zakat and Income until now. Accordingly, the final assessments that were completed by the General Authority for Zakat for the above-mentioned years, if the long-term investments were excluded and the long-term finance was added to the Zakat base, this will result in material additional Zakat demands. This matter still represents a point of concern for the banks sector in general.

Statements of paid and accrued regular payments for the period ended on 31 December 2017:

Bank Albilad			(in Thousand Saudi Riyals)	
Statement	Paid	Accrued till the end of the fiscal year and wasn't paid	Brief summary	Reasons
* Zakat	10,881	30,000	Amount paid as Zakat for 2016 and amount accrued for Zakat for 2017 from the records.	Legal Zakat on income
* Tax	3,553	602	Amount paid for tax for the months from January to November 2017 and the amount paid for tax for December 2017.	Tax on non-resident of the Kingdom
General Organization for Social Insurance	48,617	3,994	Amount paid for social insurance for the months from January to November 2017 and the amount paid for social insurance for December 2017.	Social Insurance subscriptions
Governmental Fees	3,895	-	Amount paid during 2017 as governmental fees.	Governmental fees

\* This includes the Bank and its subsidiaries.

Bank Albilad			(in Thousand Saudi Riyals)	
Statement	Paid	Accrued till the end of the fiscal year and wasn't paid	Brief summary	Reasons
* Tax	63	55	Tax on non-resident of the Kingdom	Tax on non-resident of the Kingdom
General Organization for Social Insurance	4,235	378	Social Insurance subscriptions	Social Insurance subscriptions
Visas and passports costs	42	-	Residency renewal and sponsorship transfer fees	Residency renewal and sponsorship transfer fees
Labor Office Fees	1	-	Work permit renewal fees	Work permit renewal fees
Capital Market Authority	323	-	Fees of fund registration request + authority permits renewal fees+ registration fees of the employees of the company at the authority.	Capital Market Authority fees for the registration of a new fund and fees of authority permits renewal and the registration fees of the employees of the company.
Riyadh City Municipality	18	-	Municipality fees	Municipality fees
Ministry of Commerce	30	-	Commercial register + trademark of Albilad Capital registration + Publishing Ministerial Decree	Registration of Joint Stock Company

In September 2017, the Board of Directors decided to distribute the cash profits of the first half of 2017 with an amount of 180 Million Saudi Riyals (0.3 per share). These profits were disbursed on the shareholders on 19 October 2017.

Details	In thousands Saudi Riyals 2017
Net income of the year attributed to the shareholders of the bank	942
Transferred to statutory reserve	236
Zakat from retained profits	30
Cash profits distribution of the first half	180
Proposed cash profits distribution of the second half	240

Compliance with Corporate Governance Regulation:

The Bank’s Board of Directors works according to the updated Corporate Governance Regulation issued by the Capital Market Authority (CMA), the controls and regulatory procedures issued to implement the Companies Law related to the Listed Joint Stock Companies issued on 17.10.2016 and updated on 23.03.2017, in addition to the General Principles of Governance in Banks working in the Kingdom of Saudi Arabia, whose first update was issued on March 2014 by the Saudi Arabian Monetary Authority, and all the instructions issued from it and as per the Companies Law, its regulations and the relevant policies of the Bank.

The Bank has committed itself to the application of the clauses of the above-mentioned Corporate Governance Regulation issued by the Capital Market Authority , with the exception of the following clauses:

Article	Paragraph	Text of article/ paragraph	Reasons for non-application
50	4	The committee members number shall not be less than three and don't exceed five.	It is applied on all the committees of the board except the executive committee and this will be applied during 2018.

Capital Adequacy:

The Group’s objectives when managing the capital are to comply with the capital requirements set by the Saudi Arabian Monetary Authority (SAMA) to maintain the Group’s ability to continue its work, in accordance with the continuity principle and the maintenance of a strong capital base. The Group’s Management monitors the capital adequacy and the use of regulatory capital. The instructions of the Saudi Arabian Monetary Authority (SAMA) requires the maintenance of a minimum level of regulatory capital, and the ratio of the total regulatory capital to the risk-weighted assets must be at or exceeding the agreed minimum of 8% .

The Group monitors the capital adequacy using the ratios stated by the Saudi Arabian Monetary Authority (SAMA); and by which the capital adequacy is measured by comparing the eligible capital clauses for the Group with the assets listed in the consolidated statement of financial position and the potential liabilities using the risk-weighted assets to show its relative risks.



The Saudi Arabian Monetary Authority (SAMA) issued the guidelines and frameworks for capital restructuring, according to the recommendations of the Basel III Committee, which took effect as of the 1st of January 2013. According to the frameworks of the Basel III Committee, the Group’s consolidated risk-weighted assets, the total capital and the relevant ratios were calculated on a consolidated basis for the Group.

As of 31 December 2017 and 31 December 2016 during the year ended on 31 December 2017, the Bank is committed to the requirements of the regulatory capital.

The following table summarizes the Group’s first pillar for the risk-weighted assets, the core capital, the supplementary capital and the capital adequacy ratio:

Details	In thousands Saudi Riyals 2017
Credit Risk-Weighted Assets	49,050,813
Operational Risk-Weighted Assets	4,899,270
Market Risk-Weighted Assets	1,512,788
Total First Pillar for Risk-Weighted Assets	55,462,871
Core Capital	7,588,793
Supplementary Capital	2,693,286
Total of Core Capital and Supplementary Capital	10,282,079
Capital Adequacy Ratio	
Core Capital Ratio	13.68%
Ration of Core Capital and Supplementary Capital	18.54%

Basel Pillar 3 Disclosures

These disclosures were prepared as per the requirements of the Saudi Arabian Monetary Authority regarding the quantitative and qualitative disclosures due to Basel Pillar 3 disclosures. Please visit the website of the Bank on the following link: [www.bankalbilad.com](http://www.bankalbilad.com) to view the disclosures.

The Board of Directors Declarations:

The Bank’s Board of Directors confirms the following:

- The accounting records were prepared properly.
- The Internal Audit System was prepared on a sound basis and implemented effectively.
- There is no doubt in the Bank’s ability to continue its activity.

Report of the Bank’s Auditors

The Bank’s auditors have submitted an unqualified audit report on the Bank’s consolidated financial statements for the current fiscal year.

External Auditors:

In the General Assembly meeting held on 08 May 2017, M/S Price Waterhouse Coopers Office and KPMG Al Fozan and their Partners have been appointed as external auditors for the Bank for the fiscal year 2017. As for the year 2018, the auditors will be appointed at the meeting of the General Assembly scheduled to be held in the early second quarter 2018, with Allah’s willing.

The Board of Directors, the Chief Executive Officer and all the Group employees are honored to extend their deepest thanks and appreciation to the Custodian of the Two Holy Mosques King Salman bin Abdulaziz Al Saud, may Allah protect him; and the Crown Prince, Deputy Prime Minister and the Minister of Defense, His Royal Highness Prince Mohammed bin Salman bin Abdul Aziz, may Allah protect him. We also thank the Ministry of Finance, the Ministry of Commerce and Industry, the Saudi Arabian Monetary Authority (SAMA) and the Capital Market Authority (CMA) for the help, support and encouragement received by the Banks and Financial Institutions Sector.

The Board is pleased to express its thanks and appreciation to all shareholders and customers for their precious support and trust. The Board also thanks the bank ambassadors for their constant and sincere efforts to develop and improve performance and achieve the Bank's purposes and their desired objectives.

### The Board Directors Settlements

The Board of Directors of the Bank Confirms the Following:

- The accounting records have been prepared correctly
- The internal control system has been properly prepared and implemented effectively.
- There is no doubt about the Bank's ability to continue its Enterprises.

### Bank's Auditors Report

The Bank's auditors have submitted an unqualified audit report on the Bank's consolidated financial statements for the current financial year.

### External Auditor's

At the meeting of the General Assembly held on 12 Sha'ban 1438H (corresponding to 08 May 2017), PwC and KPMG Al Fouzan & Co. were appointed as external auditors for the year 2017.

As for the year 2018, auditors will be appointed at the meeting of the General Assembly which will be held at the beginning of the second quarter of 2018.



**BANK ALBILAD**  
(A Saudi Joint Stock Company)

**Consolidated Financial Statements**  
For the year ended December 31, 2017

Setting up an Albilad Employees blood donation campaign for those in need of blood whereas more than 200 patients benefited.

### **Blood Donation Program**





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:



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) (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><b><i>Financing impairment</i></b></p> <p>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.</p> <p>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.</p> <p>In particular the determination of impairment against financing includes:</p> <ul style="list-style-type: none"><li>• The identification of impairment events and methods and judgments used to calculate the impairment against specific corporate financing;</li><li>• The use of assumptions underlying the calculation of collective impairment for portfolios of financing, and the use of the models to make those calculations;</li><li>• An assessment of the Group’s exposure to certain industries affected by economic conditions.</li></ul> <p><i>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.</i></p>	<p>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:</p> <ul style="list-style-type: none"><li>• controls over the modelling process including model review, monitoring and approval of assumptions by the senior management and the Group’s Credit Committee; and</li><li>• 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.</li></ul> <p>For financing which is individually assessed for impairment, we performed the following:</p> <ul style="list-style-type: none"><li>• 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.</li></ul> <p>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.</p> <p>For the collective impairment models used by the Group, we tested on a sample basis:</p> <ul style="list-style-type: none"><li>• the extracts of historical data from underlying systems;</li><li>• the assumptions used by management including probability of default and Group’s delinquency days analysis used in the models; and</li><li>• the calculations within the model.</li></ul>





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) (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment of available for sale investments</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p><i>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 &amp; b) which contains the disclosure of impairment of AFS investments.</i></p>	<p>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.</p> <p>For equity investments, on a sample basis, we:</p> <ul style="list-style-type: none"> <li>Assessed the appropriateness of management criteria for determining the significant or prolonged decline in the value of investments;</li> <li>Evaluated the basis for determining the costs and fair value of investments;</li> <li>Independently tested the cost and fair value amounts; and</li> <li>Considered the price fluctuation / movement during the holding period to determine if the investment meets the significant or prolonged criteria.</li> </ul> <p>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.</p>



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) (continued)**

Key audit matter	How our audit addressed the key audit matter
<p><b>Fee from banking services</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>We considered this as a key audit matter as the use of thresholds 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.</p> <p><i>Refer to the significant accounting policies note 3(j) to the consolidated financial statements.</i></p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>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.</li> <li>We assessed the reasonableness of thresholds established by the Group to record the fee income on financing.</li> <li>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: <ul style="list-style-type: none"> <li>traced the historical and current year data used by the management to the source documents on a sample basis;</li> <li>checked the accuracy of the management's assessment including calculations and related assumptions; and</li> <li>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.</li> </ul> </li> </ul>





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
<p><b>Zakat</b></p> <p>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 financing 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p><i>Refer to note 3(l) for the accounting policy relating to zakat and note 19(e) for the related disclosures for zakat.</i></p>	<p>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.</p> <ul style="list-style-type: none"><li>• 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.</li><li>• We involved our internal specialists and examined the matters in dispute to assess:<ul style="list-style-type: none"><li>- the adequacy and appropriateness of the related disclosures included in the consolidated financial statements; and</li><li>- the management's judgments relating to the incidence and quantum of zakat liabilities in light of the facts and circumstances.</li></ul></li></ul>



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.





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**Independent auditors' report on the audit of the consolidated financial Statements  
To the shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)**

**Auditors' responsibilities for the audit of the consolidated financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.



KPMG Al Fozan & Partners  
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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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Certified Public Accountant  
Registration No. 454

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



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

	Notes	2017 SAR' 000	2016 SAR' 000 (Restated)
<b>ASSETS</b>			
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
<b>Total assets</b>		<b>63,207,676</b>	<b>53,748,670</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
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
<b>Total Liabilities</b>		<b>55,618,883</b>	<b>46,596,786</b>
<b>Equity attributable to the equity holders of the Bank</b>			
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
<b>Total equity attributable to the equity holders of the Bank</b>		<b>7,588,793</b>	<b>7,111,978</b>
Non-controlling interest		-	39,906
<b>Total equity</b>		<b>7,588,793</b>	<b>7,151,884</b>
<b>Total liabilities and equity</b>		<b>63,207,676</b>	<b>53,748,670</b>

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

	Notes	2017 SAR' 000	2016 SAR' 000 (Restated)
<b>INCOME:</b>			
Income from investing and financing assets	20	2,117,189	1,770,534
Return on deposits and financial liabilities	21	(378,194)	(362,626)
<b>Income from investing and financing assets, net</b>		<b>1,738,995</b>	<b>1,407,908</b>
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		61,414	45,224
<b>Total operating income</b>		<b>2,959,784</b>	<b>2,587,428</b>
<b>EXPENSES:</b>			
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
<b>Total operating expenses</b>		<b>2,023,617</b>	<b>1,778,405</b>
<b>Net income for the year</b>		<b>936,167</b>	<b>809,023</b>
<b>Attributable to:</b>			
Equity holders of the Bank		942,047	807,723
Non-controlling interest		(5,880)	1,300
<b>Net income for the year</b>		<b>936,167</b>	<b>809,023</b>
Basic and diluted earnings per share (attributable to ordinary equity holders of the Bank) (Saudi Riyals)	25	1.56	1.36

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

	Notes	2017 SAR' 000	2016 SAR' 000 (Restated)
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

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	



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Attributable to the equity holders of the Bank											
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
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

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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)



	Notes	2017 SAR' 000	2016 SAR' 000 (Restated)
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



Providing medical and educational tools and devices for the blind, to facilitate their daily work in collaboration with the Blind charity Association "Roya".

**Roya Blind  
Charity Association**

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
<b>Consolidated statement of financial position</b>			
Other assets	351,166	(143,921)	207,245
Other liabilities	1,327,419	25,000	1,352,41
Retained earnings	285,188	(25,000)	260,188
Other reserves	169,201	(143,921)	25,280
<b>Consolidated statement of cash flows</b>			
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) Financing and investments held at amortized cost

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) Available for sale investments**

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

2016					
		Domestic		International	
	Note	Quoted SAR' 000	Unquoted SAR' 000	Quoted SAR' 000	Unquoted SAR' 000
Available-for-sale investments					
Equities, net of impairment	6 (b)	130,320	157,500	-	-
Mutual fund		279,365	-	-	-
Sukuk		250,791	470,644	47,747	-
		660,476	628,144	47,747	-
Held at amortized cost					
Commodity murabaha with SAMA		-	1,744,578	-	-
Total		660,476	2,372,722	47,747	-

Winter Gift Program  
for Northern  
Region Students



For the third consecutive year, Albilad ambassadors distribute winter clothing as gifts to students in need in the Northern region in cooperation with Takaful Charity Foundation.

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

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

No impairment recognized on sukuk and mutual funds.

**c) Analysis of investments by credit quality**

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

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

- 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**

In thousands of Saudi Riyals	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
<b>Total</b>	<b>27,330,961</b>	<b>140,816</b>	<b>1,549,079</b>	<b>15,675,524</b>	<b>44,696,380</b>
Allowance for impairment	(891,203)	(684)	(123,912)	(233,152)	(1,248,951)
<b>Financing, net</b>	<b>26,439,758</b>	<b>140,132</b>	<b>1,425,167</b>	<b>15,442,372</b>	<b>43,447,429</b>

In thousands of Saudi Riyals	2017				
	Commercial			Consumer	
	Bei ajel	Ijarah	Musharakah	Installment sales / Ijarah	Total
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
<b>Total</b>	<b>22,920,223</b>	<b>180,086</b>	<b>1,249,778</b>	<b>12,833,951</b>	<b>37,184,038</b>
Allowance for impairment	(687,644)	(2,696)	(105,446)	(209,865)	(1,005,651)
<b>Financing, net</b>	<b>22,232,579</b>	<b>177,390</b>	<b>1,144,332</b>	<b>12,624,086</b>	<b>36,178,387</b>

**b) Allowance for impairment for financing:**

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

In thousands of Saudi Riyals

	2017		
	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

In thousands of Saudi Riyals	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)

In thousands of Saudi Riyals	2017				
	Commercial			Consumer	
	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

In thousands of Saudi Riyals

	2016				
	Commercial			Consumer	
	Bei Ajel SAR’ 000	Ijarah SAR’ 000	Musharakah SAR’ 000	Installment sales / Ijarah SAR’ 000	Total SAR’ 000
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:

In thousands of Saudi Riyals	2017				
	Commercial			Consumer	
	Bei Ajel SAR’ 000	Ijarah SAR’ 000	Musharakah SAR’ 000	Installment sales / Ijarah SAR’ 000	Total SAR’ 000
Individually impaired financing	309,456	82,702	-	140,018	532,176

In thousands of Saudi Riyals	2016				
	Commercial			Consumer	
	Bei Ajel SAR’ 000	Ijarah SAR’ 000	Musharakah 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:**

In thousands of Saudi Riyals	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
<b>Total</b>	<b>44,164,204</b>	<b>532,176</b>	<b>(1,248,951)</b>	<b>43,447,429</b>

In thousands of Saudi Riyals	2017			
	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
<b>Total</b>	<b>36,676,913</b>	<b>507,125</b>	<b>(1,005,651)</b>	<b>36,178,387</b>

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

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

In thousands of Saudi Riyals	2017		2016	
	Consumer	Commercial	Consumer	Commercial
<b>Net receivables from ijarah receivables:</b>	-	241,604	180,086	298,500
Less than 1 year	140,816	578,796	-	142,944
1 to 5 years	-	64,334	-	1,141
Over 5 years	<b>140,816</b>	<b>884,734</b>	<b>180,086</b>	<b>442,585</b>

8. PROPERTY AND EQUIPMENT, NET

In thousands of Saudi Riyals	Land and building	Leasehold improvements	Equipment, furniture & motor vehicles	Computer hardware & software	Total 2017	Total 2016
<b>Cost:</b>						
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
<b>Accumulated depreciation:</b>						
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
<b>Net book value:</b>						
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 SAR' 000	2016 SAR' 000
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 SAR' 000	2016 SAR' 000
Demand	346,546	62,758
Direct investment	1,402,391	933,633
Total	1,748,937	996,391

Bank Albilad cooperated with Bunyan Charity on the development program for Al Sebala district in Riyadh to rebuild condemned residential units.

500+ beneficiaries



Charity Housing Association

## 12. CUSTOMERS' DEPOSITS

	Note	2017 SAR' 000	2016 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
<b>Total</b>		<b>47,782,959</b>	<b>40,234,715</b>

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:

The above include foreign currency deposits as follows:

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

## 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 SAR' 000	2016 SAR' 000
Accounts payable	955,842	559,930
Accrued expenses	450,698	304,502
Accrued zakat	30,000	25,000
Others	631,354	462,987
<b>Total</b>	<b>2,067,894</b>	<b>1,352,419</b>

## 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
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
<b>Balance at the end of the year</b>	<b>47,420</b>	<b>25,280</b>

## 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 In thousands of Saudi Riyals	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
<b>Total</b>	<b>1,285,811</b>	<b>3,041,534</b>	<b>1,802,319</b>	<b>114,921</b>	<b>6,244,585</b>

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

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
<b>Total</b>	<b>6,244,585</b>	<b>6,988,614</b>

### 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
<b>Total</b>	<b>828,690</b>	<b>955,042</b>

#### 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 SAR' 000	2016 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
<b>Income from financing:</b>		
Bei ajel	1,287,711	999,161
Installment sales	528,819	448,768
Ijarah	3,485	3,217
Musharakah	63,070	62,932
<b>Total</b>	<b>2,117,189</b>	<b>1,770,534</b>

## 21. RETURN ON DEPOSITS AND FINANCIAL LIABILITIES

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

## 22. FEES AND COMMISSION INCOME, NET

	2017 SAR' 000	2016 SAR' 000
<b>Fees and commission income</b>		
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
<b>Total fees and commission income</b>	<b>1,025,816</b>	<b>983,968</b>

<b>Fees and commission expenses</b>		
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
<b>Total fees and commission expenses</b>	<b>191,709</b>	<b>171,692</b>
<b>Fees and commission income, net</b>	<b>834,107</b>	<b>812,276</b>

23.OTHER OPERATING INCOME

	2017 SAR' 000	2016 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 In thousands of Saudi Riyals		Variable Compensation Paid					
					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

	Note	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.

	In thousands of Saudi Riyals			
	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:

In thousands of Saudi Riyals	2017					
	Retail banking	Corporate banking	Treasury	Investment banking & 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

In thousands of Saudi Riyals	2016					
	Retail banking	Corporate banking	Treasury	Investment banking & 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:**

2017 In thousands of Saudi Riyals	Retail	Corporate	Treasury	Total
Total assets	15,442,372	28,005,057	11,849,694	55,297,123
Commitments and contingencies	-	3,148,960	-	3,148,960

2016 In thousands of Saudi Riyals	Retail	Corporate	Treasury	Total
Total assets	12,624,086	23,554,301	10,456,604	46,634,991
Commitments and contingencies	-	3,657,416	-	3,657,416

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

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:

In thousands of Saudi Riyals	2017		2016	
	Saudi Riyal	Foreign currency	Saudi Riyal	Foreign currency
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:

In thousands of Saudi Riyals	2017	2016
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:

In thousands of Saudi Riyals	December 31, 2017		December 31, 2016	
Security types	Change in investment price %	Effect In	Change in investment price %	Effect In
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 In thousands of Saudi Riyals	Within 3 Months	3 months to 1 year	Over one year to 5 years	Over 5 years	No fixed maturity	Total
<b>Assets</b>						
<b>Cash and balances with SAMA</b>	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
<b>Due from Banks and other financial institutions</b>	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
<b>Investments, net</b>	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
<b>Financing, net</b>	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
<b>Investment in property</b>	-	-	-	-	-	-
<b>Other assets*</b>	-	-	-	-	64,024	64,024
<b>Total assets</b>	20,900,458	20,413,215	12,321,227	4,615,896	3,795,987	62,046,783
<b>Liabilities</b>						
<b>Due to SAMA</b>	2,012,518	-	-	-	-	2,012,518
<b>Due to banks and other financial institutions</b>	1,236,723	512,214	-	-	-	1,748,937
• Demand	346,546	-	-	-	-	346,546
• Direct investment	890,177	512,214	-	-	-	1,402,391
<b>Customer deposits</b>	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
<b>Sukuk</b>	-	-	-	2,006,575	-	2,006,575
<b>Other liabilities*</b>	-	-	-	-	1,448,034	1,448,034
<b>Total Liabilities</b>	49,515,532	2,028,882	-	2,006,575	1,448,034	54,999,023
<b>Commitments &amp; contingencies</b>	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 In thousands of Saudi Riyals	Within 3 Months	3 months to 1 year	Over one year to 5 years	Over 5 years	No fixed maturity	Total
<b>Assets</b>						
<b>Cash and balances with SAMA</b>	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
<b>Due from Banks and other financial institutions</b>	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
<b>Investments, net</b>	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
<b>Financing, net</b>	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
<b>Investment in property</b>	-	800,000	-	-	200,000	1,000,000
<b>Other assets*</b>	-	-	-	-	48,201	48,201
<b>Total assets</b>	17,549,085	20,186,794	10,308,356	1,515,369	3,227,598	52,787,202
<b>Liabilities</b>						
<b>Due to SAMA</b>	-	2,006,214	-	-	-	2,006,214
<b>Due to banks and other financial institutions</b>	794,485	201,906	-	-	-	996,391
• Demand	62,758	-	-	-	-	62,758
• Direct investment	731,727	201,906	-	-	-	933,633
<b>Customer deposits</b>	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
<b>Sukuk</b>	-	-	-	2,007,047	-	2,007,047
<b>Other liabilities*</b>	-	-	-	-	922,084	922,084
<b>Total Liabilities</b>	39,551,357	3,685,963	-	2,007,047	922,084	46,166,451
<b>Commitments &amp; contingencies</b>	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.

2017 In thousands of Saudi Riyals	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 In thousands of Saudi Riyals	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:

In thousands of Saudi Riyals	Fair value				
	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

In thousands of Saudi Riyals	Fair value				
	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



In thousands of Saudi Riyals	Fair value				
	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

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

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

In thousands of Saudi Riyals	2017	2016
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:

In thousands of Saudi Riyals	2017	2016
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

In thousands of Saudi Riyals	2017	2016
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

<b>In thousands of Saudi Riyals</b>	<b>2017</b>	<b>2016</b>
<b>c) Group's mutual funds*:</b>		
These are the outstanding balances with Group's mutual funds as of December 31:		
Customers' deposits	<b>196</b>	196
Investments – units	<b>220,367</b>	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:**

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

**Key management personnel and their affiliates:**

<b>In thousands of Saudi Riyals</b>	<b>2017</b>	<b>2016</b>
<b>Income</b>		
Income from financing	<b>156</b>	100
<b>Expenses</b>		
Albilad account (Mudarabah)	<b>84</b>	16

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

<b>In thousands of Saudi Riyals</b>	<b>2017</b>	<b>2016</b>
Employee benefits	<b>69,523</b>	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.

In thousands of Saudi Riyals	2017	2016
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
<b>Total Pillar-I RWA</b>	<b>55,462,871</b>	<b>48,163,689</b>
Tier I Capital	7,588,793	7,320,805
Tier II Capital	2,693,286	2,532,325
<b>Total Tier I &amp; II Capital</b>	<b>10,282,079</b>	<b>9,853,130</b>
<b>Capital Adequacy Ratio %</b>		
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 includes 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 2017
	25% 1 Jan 2019	25% 1 Jan 2018
	50% 1 Jan 2020	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).

