



البنك الأول
Alawal bank
(Formerly known as Saudi Hollandi Bank)

(A Saudi Joint Stock Company)

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(Un-audited)**

**FOR THE THREE MONTH PERIOD ENDED
MARCH 31, 2017**



KPMG Al Fozan & Partners
Certified Public Accountants

**Independent Auditors' Review Report on the
Interim Condensed Consolidated Financial Statements**

**To the Shareholders of Alawwal bank (Formerly known as Saudi Hollandi Bank)
(A Saudi Joint Stock Company)**

Introduction:

We have reviewed the accompanying interim consolidated statement of financial position of Alawwal bank (Formerly known as Saudi Hollandi Bank) (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 March 2017, and the related interim consolidated income statement, statements of comprehensive income, changes in shareholders' equity and cash flows for the three month period then ended and explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") and Saudi Arabian Monetary Authority's ("SAMA") guidance on accounting for zakat and tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review:

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

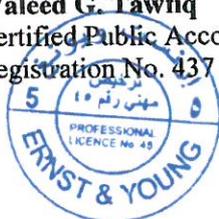
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements as at 31 March 2017 are not prepared, in all material respects, in accordance with IAS 34 and SAMA guidance on accounting for zakat and tax.

Other Regulatory Matters:

As required by SAMA, certain capital adequacy information has been disclosed in note (16) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (16) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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15 Sha'aban 1438H
11 May 2017

Alawwal bank
(Formerly known as Saudi Hollandi Bank)
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR'000

	<i>Notes</i>	<i>March 31, 2017 (Un-audited)</i>	<i>December 31, 2016 (Audited) Restated</i>	<i>March 31, 2016 (Un-audited) Restated</i>
Assets				
Cash and balances with SAMA		7,401,391	7,487,379	5,221,667
Due from banks and other financial institutions		4,140,968	1,024,369	280,324
Positive fair value derivatives	9	368,929	393,779	488,942
Investments, net	5	15,717,195	21,258,498	22,425,418
Loans and advances, net	6	70,481,330	72,743,097	78,370,309
Investment in an associate		40,316	35,697	11,885
Property and equipment, net		1,292,742	1,281,023	880,412
Other assets, net	7	926,119	766,212	829,355
Total assets		100,368,990	104,990,054	108,508,312
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		1,295,036	1,347,732	4,738,597
Negative fair value derivatives	9	242,591	270,793	340,526
Customers' deposits	8	80,296,964	85,358,788	85,548,466
Subordinated debt		3,945,464	3,909,905	3,933,068
Other liabilities		1,651,820	1,440,111	1,766,919
Total liabilities		87,431,875	92,327,329	96,327,576
Shareholders' equity				
Share capital		11,430,720	11,430,720	5,715,360
Statutory reserve		266,183	266,183	1
General reserve		130,000	130,000	130,000
Other reserves		10,358	41,147	(79,505)
Reserve for bonus shares		-	-	5,715,360
Retained earnings		1,155,201	854,003	628,406
Proposed dividends		-	-	137,858
Share based plan reserve		(55,347)	(59,328)	(66,744)
Total shareholders' equity		12,937,115	12,662,725	12,180,736
Total liabilities and shareholders' equity		100,368,990	104,990,054	108,508,312

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements

Alawwal bank
(Formerly known as Saudi Hollandi Bank)
(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED INCOME STATEMENT

For the three month period ended March 31,
Amounts in SAR'000 (Un-audited)

	<i>Note</i>	<u>2017</u>	<u>2016</u>
Special commission income		994,743	894,112
Special commission expense		348,714	297,579
Net special commission income		646,029	596,533
Fee and commission income, net		182,068	207,889
Exchange income, net		32,515	47,339
Trading income, net		34,155	61,765
Dividend income from available for sale investments		-	1,975
Gains on non-trading investments		24,790	-
Total operating income		919,557	915,501
Salaries and employee-related expenses		162,968	167,084
Rent and premises-related expenses		38,393	31,302
Depreciation and amortisation		32,301	29,997
General and administrative expenses		75,722	73,667
Impairment charge for credit losses, net		290,839	101,250
Total operating expenses		600,223	403,300
Operating income		319,334	512,201
Share in earnings / (loss) of an associate		4,619	(682)
Net income for the period		323,953	511,519
Basic and diluted earnings per share (Expressed in SAR per share)	14	0.28	0.45

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements

Alawwal bank
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INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three month period ended March 31,

Amounts in SAR'000 (Un-audited)

	<u>2017</u>	<u>2016</u>
Net income for the period	323,953	511,519
Other comprehensive income:		
<i>Other comprehensive income to be reclassified to interim consolidated income statement in subsequent periods</i>		
Available for sale investments:		
- Net change in fair values	(6,358)	(42,100)
- Net amounts transferred to the interim consolidated income statement	(24,514)	286
	<u>(30,872)</u>	<u>(41,814)</u>
Cash flow hedges:		
- Net change in fair values	83	-
Total other comprehensive income	<u>(30,789)</u>	<u>(41,814)</u>
Total comprehensive income for the period	<u><u>293,164</u></u>	<u><u>469,705</u></u>

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Alawwal bank
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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three month period ended March 31, 2017

Amounts in SAR'000 (Un-audited)

Note	Share capital	Statutory reserve	General reserve	Other reserves		Reserve for bonus shares	Retained earnings	Proposed dividends	Share based plan reserve	Total shareholders' equity
				Available for sale investments	Cash flow hedges					
2017										
Balance at beginning of the period - as reported	11,430,720	266,183	130,000	40,868	279	-	1,054,072	-	(59,328)	12,862,794
Effect of restatement – provision for Zakat and income tax	17	-	-	-	-	-	(200,069)	-	-	(200,069)
Balance at beginning of the period - restated	11,430,720	266,183	130,000	40,868	279	-	854,003	-	(59,328)	12,662,725
Net income for the period	-	-	-	-	-	-	323,953	-	-	323,953
Net change in fair values	-	-	-	(6,358)	83	-	-	-	-	(6,275)
Net amounts transferred to the interim consolidated income statement	-	-	-	(24,514)	-	-	-	-	-	(24,514)
Total comprehensive income for the period	-	-	-	(30,872)	83	-	323,953	-	-	293,164
Zakat for the current period	17	-	-	-	-	-	(3,767)	-	-	(3,767)
Tax for the current period	17	-	-	-	-	-	(18,988)	-	-	(18,988)
Share based plan transactions	-	-	-	-	-	-	-	-	3,981	3,981
Balance at end of the period	11,430,720	266,183	130,000	9,996	362	-	1,155,201	-	(55,347)	12,937,115
2016										
Balance at beginning of the period - as reported	5,715,360	1	130,000	(37,691)	-	5,715,360	255,528	297,199	(48,563)	12,027,194
Effect of restatement – provision for Zakat and income tax	17	-	-	-	-	-	(80,446)	(159,341)	-	(239,787)
Balance at beginning of the period - restated	5,715,360	1	130,000	(37,691)	-	5,715,360	175,082	137,858	(48,563)	11,787,407
Net income for the period	-	-	-	-	-	-	511,519	-	-	511,519
Net change in fair values	-	-	-	(42,100)	-	-	-	-	-	(42,100)
Net amounts transferred to the interim consolidated income statement	-	-	-	286	-	-	-	-	-	286
Total comprehensive income for the period	-	-	-	(41,814)	-	-	511,519	-	-	469,705
Zakat for the current period	17	-	-	-	-	-	(9,189)	-	-	(9,189)
Tax for the current period	17	-	-	-	-	-	(49,006)	-	-	(49,006)
Share based plan transactions	-	-	-	-	-	-	-	-	(18,181)	(18,181)
Balance at end of the period	5,715,360	1	130,000	(79,505)	-	5,715,360	628,406	137,858	(66,744)	12,180,736

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Alawwal bank
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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three month period ended March 31, 2017

Amounts in SAR'000 (Un-audited)

	<i>Note</i>	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES			
Net income for the period		323,953	511,519
Adjustments to reconcile net income to net cash used in operating activities:			
(Accretion of discounts) and amortisation of premium on non-trading investments, net		(5,715)	(45,407)
Gains on non-trading investments		(24,790)	-
Depreciation and amortisation		32,301	29,997
(Gain) / loss on disposal of property and equipment		(9)	1,345
Derivatives fair value, net		(3,352)	10,705
Subordinated debt		35,559	26,093
Share based plan transactions		4,177	4,773
Impairment charge for credit and other losses, net		290,839	101,250
Share in (earnings) / loss of an associate		(4,619)	682
		<u>648,344</u>	<u>640,957</u>
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		196,740	155,525
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(25,000)	-
Loans and advances, net		1,970,928	(2,059,369)
Other assets		(160,103)	49,131
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(52,696)	3,381,430
Customers' deposits		(5,061,824)	(3,539,708)
Other liabilities		188,954	(73,411)
		<u>(2,294,657)</u>	<u>(1,445,445)</u>
Net cash used in operating activities			
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		5,791,019	6,974,551
Purchase of non-trading investments		(250,000)	(8,133,366)
Purchase of property and equipment		(44,020)	(110,708)
Proceeds from disposal of property and equipment		9	-
Net cash from / (used in) investing activities		<u>5,497,008</u>	<u>(1,269,523)</u>
Net increase / (decrease) in cash and cash equivalents		3,202,351	(2,714,968)
Cash and cash equivalents at beginning of the period		<u>3,939,264</u>	<u>3,896,332</u>
Cash and cash equivalents at end of the period	11	<u>7,141,615</u>	<u>1,181,364</u>
Special commission received during the period		<u>933,946</u>	<u>736,269</u>
Special commission paid during the period		<u>356,890</u>	<u>384,940</u>
Supplemental non-cash information			
Net changes in fair value and transfers to interim consolidated income statement		<u>(30,789)</u>	<u>(41,814)</u>

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements

Alawwal bank
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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2017

1. GENERAL

Alawwal bank (Formerly known as Saudi Hollandi Bank) (the "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and was formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 21, 1976). The Bank commenced business on 16 Shaaban 1397H (corresponding to August 1, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumada II 1407H (corresponding to February 5, 1987) through its 65 branches (December 31, 2016: 65 branches and March 31, 2016: 60 branches) in the Kingdom of Saudi Arabia. The postal address of the Bank's head office is:

Alawwal bank (Formerly known as Saudi Hollandi Bank)
Head Office
Al - Dhabab Street
P O Box 1467
Riyadh 11431
Kingdom of Saudi Arabia

The objective of the Bank and its subsidiaries listed below (collectively referred to as "the Group") is to provide a full range of banking and investment services. The Group also provides to its customers Islamic (non commission based) banking products which are approved and supervised by an independent Shariah Board established by the Bank.

With effect from 27 Safar 1438H (Corresponding to November 27, 2016), the name of the Bank was changed from Saudi Hollandi Bank to Alawwal bank.

The interim condensed consolidated financial statements include the financial statements of the Bank and its subsidiaries. The details of the Bank's subsidiaries are set out below:

Alawwal Invest (AI) (Formerly known As Saudi Hollandi Capital) (SHC)

Alawwal Invest, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank, was formed in accordance with the Capital Market Authority's (CMA) Resolution number 1-39-2007 under commercial registration number 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to January 9, 2008) to take over and manage the Group's Investment Services and Asset Management activities regulated by CMA related to dealing, managing, arranging, advising and taking custody of securities. Alawwal Invest commenced its operations effective on 2 Rabi'II 1429H (corresponding to April 8, 2008).

Alawwal Real Estate Company (AREC) (Formerly Known As Saudi Hollandi Real Estate Company) (SHREC)

AREC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010250772 dated 21 Jumada I 1429H (corresponding to May 26, 2008) with the approval of the Saudi Arabian Monetary Authority (SAMA). The Company was formed to register real estate assets under its name which are received by the Bank from its borrowers as collaterals.

Alawwal Insurance Agency Company (AIAC) (Formerly Known As Saudi Hollandi Insurance Agency Company) (SHIAC)

AIAC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company was formed to act as an agent for Wataniya Insurance Company (WIC), an associate, for selling its insurance products.

In addition to the subsidiaries stated above, during the current quarter, the Bank established a Special Purpose Vehicle (the "SPV") which is formed with the approval of SAMA solely to facilitate trading of certain derivative financial instruments. Being a subsidiary, the SPV is consolidated in these interim condensed consolidated financial statements as the Bank controls the SPV.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2017

2. BASIS OF PREPARATION

2.1 Statement of compliance

During 2017, SAMA issued a Circular no. 381000074519 dated April 11, 2017 relating to the accounting of Zakat and income tax and subsequent amendments to the circular were made through certain clarifications relating to the accounting for Zakat and income tax. The impact of these amendments is as follows:

- The Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from January 1, 2017; and
- Zakat and income tax provisions to be accrued on a quarterly basis and recognized in interim consolidated statement of changes in shareholders' equity with a corresponding liability to be recognized in the interim consolidated statement of financial position.

Applying the above framework, the interim condensed consolidated financial statements of the Group as at and for the three month period ended 31 March 2017 have been prepared using the International Accounting Standard (IAS) 34 – “Interim Financial Reporting” and SAMA guidance for the accounting of Zakat and income tax. Until 2016, the consolidated financial statements of the Group were prepared in accordance with the Accounting Standards for Commercial Banks promulgated by SAMA and International Financial Reporting Standards (“IFRSs”). This change in framework resulted in a change in accounting policy for Zakat and income tax (as disclosed in note 4) and the effects of this change are disclosed in note 17 to the interim condensed consolidated financial statements.

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies are the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2016.

2.2 Basis of measurement

These interim condensed consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held for trading, financial assets held at Fair Value through Income Statement (FVIS) and available for sale investments. In addition, financial assets or liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

2.3 Functional and presentation currency

These interim condensed consolidated financial statements are presented in Saudi Arabian Riyals (SAR) which is the Bank's functional currency and have been rounded off to the nearest thousand Saudi Riyals, except as otherwise indicated.

3. BASIS OF CONSOLIDATION

The interim condensed financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank and changes have been made to their accounting policies where necessary to align them with the accounting policies of the Bank.

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 interim condensed financial statements of subsidiaries are included in the interim condensed consolidated financial statements from the date that control commences until the date that control ceases.

The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated income statement from the date of the acquisition or up to the date of disposal, as appropriate. The interim condensed consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2017

3. BASIS OF CONSOLIDATION (Continued)

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 its returns

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired during the year are included in the interim condensed consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these interim condensed consolidated financial statements except when the Group controls the entity.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for:

- a) Change in the accounting policy in relation to accounting for Zakat and income tax.

The Group has amended its accounting policy relating to Zakat and income tax and has started to accrue Zakat and income tax on a quarterly basis and charge it to retained earnings. Previously, Zakat and income tax were deducted from dividends upon payment to the shareholders. In case no dividends were paid, Zakat and income tax were accounted for on a payment basis. The effect of this change has been accounted for retrospectively and is disclosed in note 17 to the interim condensed consolidated financial statements.

- b) Amendment to following existing standard has no significant financial impact on the interim condensed consolidated financial statements of the Group on the current or prior period and is expected to have no significant effect in future periods:

Amendments to existing standard

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

This amendment introduced 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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2017

Amounts in SAR '000s

5. INVESTMENTS, NET

a) Investment securities are classified as follows:

	<i>March 31, 2017 (Un-audited)</i>	<i>December 31, 2016 (Audited)</i>	<i>March 31, 2016 (Un-audited)</i>
Available for sale (AFS)	322,504	462,989	626,468
Other investments held at amortized cost (OI)	15,334,552	20,733,718	21,725,252
Held to maturity (HTM)	60,139	61,791	73,698
Total	<u>15,717,195</u>	<u>21,258,498</u>	<u>22,425,418</u>

b) Investments reclassification

On July 1, 2008, management identified certain AFS investments, for which, it had a clear intention to hold the instruments for the foreseeable future rather than to sell these instruments in short term. As a result, these instruments were reclassified at that date from AFS to OI at fair value and the difference between the carrying amount and the fair value was retained in AFS reserve. Had the reclassification not been done, other reserves would have included unrealized fair value gains amounting to SAR 9.37 million (December 31, 2016: SAR 8.59 million and March 31, 2016: SAR 6.16 million). During the period a loss of SAR 0.28 million (March 31, 2016: SAR 0.29 million) was transferred to the interim consolidated income statement being the amortization of AFS reserve at the time of reclassification. The following table shows carrying values and fair values of the reclassified investments.

	<i>Carrying value</i>			<i>Fair value</i>		
	<i>March 31, 2017 (Un-audited)</i>	<i>December 31, 2016 (Audited)</i>	<i>March 31, 2016 (Un-audited)</i>	<i>March 31, 2017 (Un-audited)</i>	<i>December 31, 2016 (Audited)</i>	<i>March 31, 2016 (Un-audited)</i>
AFS securities reclassified	<u>65,616</u>	<u>65,725</u>	<u>68,527</u>	<u>65,628</u>	<u>64,860</u>	<u>65,801</u>

6. LOANS AND ADVANCES, NET

	<i>March 31, 2017 (Un-audited)</i>	<i>December 31, 2016 (Audited)</i>	<i>March 31, 2016 (Un-audited)</i>
Consumer loans	18,912,947	19,257,443	17,003,592
Commercial loans and overdrafts	51,822,061	53,612,322	61,621,153
Credit cards	355,455	370,036	329,695
Performing loans and advances	71,090,463	73,239,801	78,954,440
Non-performing loans and advances	1,750,355	1,655,536	874,495
Gross loans and advances	72,840,818	74,895,337	79,828,935
Allowance for impairment of credit losses	(2,359,488)	(2,152,240)	(1,458,626)
Loans and advances, net	<u>70,481,330</u>	<u>72,743,097</u>	<u>78,370,309</u>

7. OTHER ASSETS, NET

As at March 31, 2017, other assets of the Group included an amount of SAR 437.15 million (December 31, 2016: SAR 437.15 million and March 31, 2016: SAR 437.49 million). This amount was originally disbursed to a third party who defaulted on payment and the management expects to recover this balance from a related party. The Group has reached a settlement agreement with the related party for recovery of this amount. The Group has maintained an impairment allowance of SAR 149.91 million as at March 31, 2017 (December 31, 2016: SAR 149.91 million and March 31, 2016: SAR 149.91 million) against the outstanding balance due to uncertainty around the timing of recoverability of this balance.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended March 31, 2017

Amounts in SAR '000s

8. CUSTOMERS' DEPOSITS

	<i>March 31, 2017 (Un-audited)</i>	<i>December 31, 2016 (Audited)</i>	<i>March 31, 2016 (Un-audited)</i>
Time	45,960,874	51,208,243	49,989,522
Demand	31,954,776	31,752,853	34,126,438
Saving	412,823	463,904	438,446
Others	1,968,491	1,933,788	994,060
Total	80,296,964	85,358,788	85,548,466

9. DERIVATIVES

The table below sets out the positive and negative fair values and notional amounts of derivative financial instruments. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

<i>March 31, 2017 (Un-audited)</i>	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
<i>Derivative financial instruments</i>			
Held for trading:			
Commission rate swaps	122,229	49,348	30,103,615
Foreign exchange and commodity forward contracts	93,856	54,171	15,742,157
Currency and commodity options	143,879	133,137	18,406,567
Commission rate options	8,965	4,957	2,317,720
Held as fair value hedges:			
Commission rate swaps	-	794	37,502
Held as cash flow hedges:			
Commission rate swaps	-	184	2,400,061
Total	368,929	242,591	69,007,622
Fair values of derivatives subject to netting arrangements	1,249,742	1,249,742	
Fair values of derivatives on gross basis	1,618,671	1,492,333	
 <i>December 31, 2016 (Audited)</i>			
<i>Derivative financial instruments</i>			
Held for trading:			
Commission rate swaps	116,100	50,653	25,076,726
Foreign exchange and commodity forward contracts	96,914	45,370	17,856,697
Currency and commodity options	175,345	167,044	24,792,586
Commission rate options	5,420	3,638	1,021,720
Held as fair value hedges:			
Commission rate swaps	-	928	37,519
Held as cash flow hedges:			
Commission rate swaps	-	3,160	5,103,617
Total	393,779	270,793	73,888,865
Fair values of derivatives subject to netting arrangements	1,414,441	1,414,441	
Fair values of derivatives on gross basis	1,808,220	1,685,234	

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9. DERIVATIVES (Continued)

<i>March 31, 2016 (Un-audited)</i>	<i>Positive</i>	<i>Negative</i>	<i>Notional</i>
<i>Derivative financial instruments</i>	<i>fair value</i>	<i>fair value</i>	<i>amount</i>
Held for trading:			
Commission rate swaps	132,747	48,353	27,309,403
Foreign exchange and commodity forward contracts	129,695	92,037	42,454,840
Currency and commodity options	222,293	195,553	42,412,528
Commission rate options	4,207	2,682	670,800
Held as cash flow hedges:			
Commission rate swaps	-	1,901	37,506
Total	488,942	340,526	112,885,077
Fair values of derivatives subject to netting arrangements	1,509,593	1,509,593	
Fair values of derivatives on gross basis	1,998,535	1,850,119	

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

The Group's credit related commitments and contingencies are as follow:

	<i>March 31,</i>	<i>December 31,</i>	<i>March 31,</i>
	<i>2017</i>	<i>2016</i>	<i>2016</i>
	<i>(Un-audited)</i>	<i>(Audited)</i>	<i>(Un-audited)</i>
Letters of guarantee	19,362,722	19,578,987	22,653,508
Letters of credit	4,374,179	4,962,218	4,605,848
Acceptances	2,220,295	2,231,042	3,537,501
Irrevocable commitments to extend credit	2,794,136	2,129,409	3,571,959
Total	28,751,332	28,901,656	34,368,816

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the interim consolidated statement of cash flows comprise the following:

	<i>March 31,</i>	<i>December 31,</i>	<i>March 31,</i>
	<i>2017</i>	<i>2016</i>	<i>2016</i>
	<i>(Un-audited)</i>	<i>(Audited)</i>	<i>(Un-audited)</i>
Cash and balances with SAMA	7,401,391	7,487,379	5,221,667
Statutory deposit	(4,230,744)	(4,427,484)	(4,320,627)
	3,170,647	3,059,895	901,040
Due from banks and other financial institutions maturing within three months or less from the acquisition date	3,970,968	879,369	280,324
Total	7,141,615	3,939,264	1,181,364

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12. OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the senior management responsible for operational decision making in the Bank in order to allocate resources to the segments and to assess performance. Transactions between operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers. Commission is charged to operating segments based on a pool rate, which approximates the marginal cost of funds. The revenue from external parties reported to the senior management, is measured in a manner consistent with that in the interim consolidated income statement. There have been no changes in measurement basis for the segment profit or loss since December 31, 2016. Following are the reportable operating segments of the Group:

Corporate Banking

The corporate banking segment offers a range of products and services to corporate and institutional customers. It accepts customer deposits and provides financing, including term loans, overdrafts, syndicated loans and trade finance services. Services provided to customers include internet banking, global transaction services and a centralised service that manages all customer transfers, electronic or otherwise.

Personal Banking

The personal banking group operates through a national network of branches and ATMs supported by a 24-hour phone banking centre. This segment accepts customers' deposits in various savings and deposit accounts and provides retail banking products and services, including consumer loans, overdrafts and credit cards to individuals and small-to-medium-sized enterprises.

Investment banking and investment services

The investment banking and investment services segment offers security dealing, managing, arranging, advising and maintaining custody services in relation to securities.

Central treasury and ALCO

Treasury transacts mainly in money market, foreign exchange, commission rate and other derivatives for corporate and institutional customers as well as for the Group's own benefit. It is also responsible for managing the Group's funding and centralized risk management and investment portfolio. ALCO include the group-wide assets and liabilities other than the business and treasury's core activities maintaining Group-wide liquidity and managing its consolidated financial position. It also includes the net interdepartmental revenues / charges on Funds Transfer Pricing as approved by ALCO and unallocated income and expenses relating to Head Office and other departments. The following is an analysis of the Group's assets, revenue and results by operating segments for the periods ended March 31.

March 31, 2017 (Un-audited)	<i>Corporate banking</i>	<i>Retail banking</i>	<i>Investment banking and investment services</i>	<i>Central treasury and ALCO</i>	<i>Total</i>
External revenue, net:					
Net special commission income	508,164	266,721	470	(129,326)	646,029
Net fee and commission income	142,196	39,347	7,940	(7,415)	182,068
Net trading income	18,963	1,627	920	12,645	34,155
Other revenue	20,906	11,609	-	24,790	57,305
Inter-segment (expense) / revenue	(248,101)	57,827	3,261	187,013	-
Total segment revenue, net	442,128	377,131	12,591	87,707	919,557
Total operating expenses excluding impairment charges	(99,652)	(181,786)	(9,933)	(18,013)	(309,384)
Other material non-cash items:					
Impairment charges for credit losses, net	(207,914)	(82,925)	-	-	(290,839)
Non-operating income	-	-	-	4,619	4,619
Segment profit	134,562	112,420	2,658	74,313	323,953

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12. OPERATING SEGMENTS (Continued)

March 31, 2016 (Un-audited)	<u>Corporate banking</u>	<u>Retail banking</u>	<u>Investment banking and investment services</u>	<u>Central treasury and ALCO</u>	<u>Total</u>
External revenue, net:					
Net special commission income	473,100	221,197	-	(97,764)	596,533
Net fee and commission income	157,303	48,228	14,658	(12,300)	207,889
Net trading income, net	59,026	11,694	166	(9,121)	61,765
Other revenue	38,644	8,695	-	1,975	49,314
Inter-segment (expense) / revenue	(166,176)	50,828	1,847	113,501	-
Total segment revenue, net	561,897	340,642	16,671	(3,709)	915,501
Total operating expenses excluding impairment charges	(98,502)	(174,811)	(10,340)	(18,397)	(302,050)
Other material non-cash items:					
Impairment charges for credit losses, net	(55,964)	(45,286)	-	-	(101,250)
Non-operating loss	-	-	-	(682)	(682)
Segment profit / (loss)	407,431	120,545	6,331	(22,788)	511,519

March 31, 2017 (Un-audited)	<u>Corporate banking</u>	<u>Retail banking</u>	<u>Investment banking and investment services</u>	<u>Central treasury & ALCO</u>	<u>Total</u>
Segment assets	49,534,345	20,946,985	740,832	29,146,828	100,368,990
Segment liabilities	22,400,483	27,929,177	207,047	36,895,168	87,431,875
December 31, 2016 (Audited) restated					
Segment assets	51,273,700	21,469,397	554,329	31,692,628	104,990,054
Segment liabilities	26,267,101	27,681,449	16,269	38,362,510	92,327,329
March 31, 2016 (Un-audited) restated					
Segment assets	58,985,485	19,384,824	550,165	29,587,838	108,508,312
Segment liabilities	30,948,085	26,030,653	23,853	39,324,985	96,327,576

13. ZAKAT AND INCOME TAX

The Bank has filed its Zakat and income tax returns for the financial years up-to and including the year 2016 with the General Authority of Zakat and Tax ("GAZT"). The Bank has received Zakat and income tax assessments for the years 2005 to 2013 raising additional demands aggregating to SAR 282.1 million. This additional exposure is mainly relating to Zakat arising on account of disallowances of certain long term investments and addition of long term financing to Zakat base by the GAZT. The basis for this additional liability is being contested by the Bank in conjunction with all the other banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from GAZT. Management is confident of a favourable outcome on the aforementioned appeals and have therefore not made any provisions in respect of the above.

Assessments for the years 2014 and 2015 are yet to be raised. However, in line with the assessments finalized by the GAZT for the years 2005 to 2013, if long-term investments are disallowed and long-term financing is added to the Zakat base, this would result in an additional Zakat exposure which remains an industry wide issue and disclosure of which might affect the Bank's position in this matter.

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14. BASIC AND DILUTED EARNINGS PER SHARE (EPS)

Basic and diluted earnings per share for the three months periods ended March 31, 2017 and 2016 are calculated by dividing the net income for the period attributable to the equity shareholders by 1,143.07 million to give a retrospective effect of change in the number of shares increased as a result of bonus shares issued during 2016.

15. 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 takes place either:

- In the accessible 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.

Carrying amounts and fair value

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
March 31, 2017 (Un-audited)					
Financial assets measured at fair value					
Derivative financial instruments	368,929	-	368,929	-	368,929
Financial investments available for sale	322,504	151,048	168,018	3,438	322,504
Financial assets not measured at fair value					
Due from banks and other financial institutions	4,140,968	-	4,140,968	-	4,140,968
Held to maturity investments	60,139	-	59,389	-	59,389
Other investments held at amortised cost	15,334,552	-	15,315,675	-	15,315,675
Loans and advances, net	70,481,330	-	-	70,215,135	70,215,135
Total	90,708,422	151,048	20,052,979	70,218,573	90,422,600
Financial liabilities measured at fair value					
Derivative financial instruments	242,591	-	242,591	-	242,591
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	1,295,036	-	1,295,036	-	1,295,036
Customers' deposits	80,296,964	-	80,296,964	-	80,296,964
Subordinated debt	3,945,464	-	3,945,464	-	3,945,464
Total	85,780,055	-	85,780,055	-	85,780,055

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15 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

December 31, 2016 (Audited)	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:					
Derivative financial instruments	393,779	-	393,779	-	393,779
Financial investments available for sale	462,989	290,200	169,351	3,438	462,989
Financial assets not measured at fair value:					
Due from banks and other financial institutions	1,024,369	-	1,024,369	-	1,024,369
Held to maturity investments	61,791	-	60,073	-	60,073
Other investments at amortised cost	20,733,718	-	20,698,630	-	20,698,630
Loans and advances, net	72,743,097	-	-	72,614,833	72,614,833
Total	95,419,743	290,200	22,346,202	72,618,271	95,254,673
Financial liabilities measured at fair value:					
Derivative financial instruments	270,793	-	270,793	-	270,793
Financial liabilities not measured at fair value:					
Due to banks and other financial institutions	1,347,732	-	1,347,732	-	1,347,732
Customers' deposits	85,358,788	-	85,358,788	-	85,358,788
Subordinated debt	3,909,905	-	3,909,905	-	3,909,905
Total	90,887,218	-	90,887,218	-	90,887,218

The fair values of financial instruments included in the interim consolidated statement of financial position, except for those held to maturity, other investments held at amortised cost and loans and advances that are carried at amortised cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements. The estimated fair values of other investments held at amortised cost and held-to-maturity investments are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair value of customers' deposits are not significantly different from their book values since the current market commission rates for similar financial assets are not significantly different from the contracted rates.

The fair values of cash and balances with SAMA, due from banks and other financial institutions, due to banks and other financial institutions and other assets and other liabilities are not significantly different from the carrying values since the underlying amounts for these categories are for shorter durations which indicates that their booking rates are not significantly different from the current market rates. The fair value of subordinated debt approximates carrying value since this is a floating rate liability with special commission rates re-priced every six months. The value obtained from a valuation model may differ from the transaction price of a financial instrument on transaction date. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data or realised through disposal. Subsequent changes in fair value are recognised immediately in the consolidated income statement without reversal of deferred day one profits and losses.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Group uses widely recognized valuation models for determining the fair value of common and simpler financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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15. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following table shows the valuation techniques used in measuring fair values at March 31, 2017, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter- relationship between significant unobservable inputs and fair value measurement
Available for sale investment	Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.	None	Not applicable
Other investments held at amortised cost	Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.	None	Not applicable
Loans and advances, net	Fair valued using discounted cash flow techniques that use observable market data inputs for yield curves and credit spread	Credit spreads	the wider the credit spread the higher the difference between the carrying values and fair values

16. CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA and to safeguard the Group's ability to continue as a going concern by maintaining a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by the management. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the Risk-Weighted Assets (RWA) at or above the agreed minimum of 8%.

Management monitors the adequacy of its capital using ratios established by SAMA. These ratios expressed as a percentage, measure capital adequacy by comparing the Group's eligible capital with its interim consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at amounts weighted to reflect their relative risk.

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16 CAPITAL ADEQUACY (Continued)

The following table summarises the Bank's Pillar-I RWA, Tier I & Tier II capital and capital adequacy ratios.

	March 31, 2017 (Un-audited)	December 31, 2016 (Audited) restated	March 31, 2016 (Un-audited) restated
Credit Risk RWA	89,873,558	90,133,950	99,729,916
Operational Risk RWA	5,684,463	5,498,588	4,934,925
Market Risk RWA	167,242	210,754	399,840
Total Pillar-I RWA	<u>95,725,263</u>	<u>95,843,292</u>	<u>105,064,681</u>
Tier I Capital	12,937,115	12,662,725	12,180,736
Tier II Capital	4,248,461	4,220,937	4,104,942
Total Tier I & II Capital	<u>17,185,576</u>	<u>16,883,662</u>	<u>16,285,678</u>
Capital Adequacy Ratio %			
Tier I ratio	13.51	13.21	11.59
Tier I + Tier II ratio	17.95	17.62	15.50

17 COMPARATIVE FIGURES

The change in the accounting policy for Zakat and income tax, as explained in note 4, has the following impacts on the line items of interim consolidated statements of financial position and changes in shareholders' equity:

	As reported January 1, 2016	Restatement	Amounts as restated January 1, 2016
Other assets	901,154	(80,446)	820,708
Other liabilities	1,542,348	159,341	1,701,689
Total retained earnings	255,528	(80,446)	175,082
Proposed dividends	297,199	(159,341)	137,858
Total shareholders' equity	12,027,194	(239,787)	11,787,407
	As reported March 31, 2016	Restatement	Amounts as restated March 31, 2016
Other assets	909,801	(80,446)	829,355
Other liabilities	1,549,383	217,536	1,766,919
Total retained earnings	767,047	(138,641)	628,406
Proposed dividends	297,199	(159,341)	137,858
Total shareholders' equity	12,478,718	(297,982)	12,180,736

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17. COMPARATIVE FIGURES (continued)

	As reported December 31, 2016	Restatement	Amounts as restated December 31, 2016
Other assets	846,658	(80,446)	766,212
Other liabilities	1,320,488	119,623	1,440,111
Total retained earnings	1,054,072	(200,069)	854,003
Total shareholders' equity	12,862,794	(200,069)	12,662,725

The effect of change in accounting framework on the Group's equity during the current and prior period is as follows:

	March 31, 2017	March 31, 2016
Zakat for the current period	3,767	9,189
Tax for the current period	18,988	49,006

The above change in accounting policy did not have any impact on interim consolidated income statement, statements of comprehensive income and cash flows for any of the period or year presented above.

Certain other prior period figures have been reclassified or restated to conform to the current period's presentation.

18 SUBSEQUENT EVENT

Subsequent to the reporting period end, the board of directors of the Bank, in its meeting dated 25 April 2017, resolved to enter into preliminary discussions with The Saudi British Bank (SABB), a bank listed in Kingdom of Saudi Arabia, to study the possibility of merging the two banks. The entry into these discussions does not mean that the merger will happen between the two banks. If a merger is agreed, it will be subject to various conditions including, without limitation, approval at the Extra Ordinary general assembly of each bank and approval of the Saudi Arabian regulatory authorities.

19 BOARD OF DIRECTORS' APPROVAL

The interim condensed consolidated financial statements were approved by the Board of Directors on Shaban 14, 1438H (corresponding to May 10, 2017).