



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

(A Saudi Joint Stock Company)

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

**FOR THE SIX MONTH PERIOD ENDED
JUNE 30, 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 30 June 2017, and the related interim consolidated income statement and statement of comprehensive income for the three and six month periods then ended and related interim consolidated statements of changes in shareholders' equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") and Saudi Arabian Monetary Authority'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 to 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 that are 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 30 June 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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4 Dhul-Qadah 1438H
27 July 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>June 30, 2017 (Un-audited)</i>	<i>December 31, 2016 (Audited) Restated</i>	<i>June 30, 2016 (Un-audited) Restated</i>
Assets				
Cash and balances with SAMA		10,561,739	7,487,379	6,106,154
Due from banks and other financial institutions		2,720,819	1,024,369	1,325,703
Positive fair value of derivatives	9	347,333	393,779	445,576
Investments, net	5	14,993,016	21,258,498	20,815,503
Loans and advances, net	6	70,739,012	72,743,097	77,900,227
Investment in an associate		42,472	35,697	12,495
Property and equipment, net		1,326,196	1,281,023	1,079,441
Other assets, net	7	903,976	766,212	869,620
Total assets		101,634,563	104,990,054	108,554,719
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		1,092,384	1,347,732	3,593,063
Negative fair value of derivatives	9	201,638	270,793	356,311
Customers' deposits	8	81,769,893	85,358,788	86,413,533
Subordinated debt		3,908,857	3,909,905	3,909,761
Other liabilities		1,684,301	1,440,111	1,735,871
Total liabilities		88,657,073	92,327,329	96,008,539
Shareholders' equity				
Share capital		11,430,720	11,430,720	11,430,720
Statutory reserve		266,183	266,183	1
General reserve		130,000	130,000	130,000
Other reserves		11,596	41,147	(61,346)
Retained earnings		1,190,357	854,003	1,106,731
Share based plan reserve		(51,366)	(59,328)	(59,926)
Total shareholders' equity		12,977,490	12,662,725	12,546,180
Total liabilities and shareholders' equity		101,634,563	104,990,054	108,554,719

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

Alawwal bank
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INTERIM CONSOLIDATED INCOME STATEMENT

Amounts in SAR'000 (Un-audited)

	<i>Note</i>	For the three month period ended		For the six month period ended	
		<i>June 30,</i>	<i>June 30,</i>	<i>June 30,</i>	<i>June 30,</i>
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Special commission income		974,019	983,750	1,968,762	1,877,862
Special commission expense		273,458	374,660	622,172	672,239
Net special commission income		700,561	609,090	1,346,590	1,205,623
Fee and commission income, net		166,816	214,364	348,884	422,253
Exchange income, net		34,559	43,955	67,074	91,294
Trading income, net		19,828	24,629	53,983	86,394
Dividend income from available for sale investments		-	4,140	-	6,115
Gain on non-trading investments, net		5,470	52,279	30,260	52,279
Total operating income		927,234	948,457	1,846,791	1,863,958
Salaries and employee-related expenses		171,575	169,509	334,543	336,593
Rent and premises-related expenses		38,512	33,085	76,905	64,387
Depreciation and amortisation		37,755	29,432	70,056	59,429
General and administrative expenses		74,154	76,061	149,876	149,728
Impairment charge for credit losses, net		285,336	87,009	576,175	188,259
Impairment charge for available for sale investments		-	14,241	-	14,241
Total operating expenses		607,332	409,337	1,207,555	812,637
Operating income		319,902	539,120	639,236	1,051,321
Share in earnings / (loss) of an associate		2,156	610	6,775	(72)
Net income for the period		322,058	539,730	646,011	1,051,249
Basic and diluted earnings per share (Expressed in SAR per share)	14	0.28	0.47	0.57	0.92

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

Alawwal bank
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INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in SAR'000 (Un-audited)

	For the three month period ended		For the six month period ended	
	<i>June 30,</i> <u>2017</u>	<i>June 30,</i> <u>2016</u>	<i>June 30,</i> <u>2017</u>	<i>June 30,</i> <u>2016</u>
Net income for the period	322,058	539,730	646,011	1,051,249
Other comprehensive income				
<i>Items that are or may be reclassified to interim consolidated income statement in subsequent periods</i>				
Available for sale investments:				
- Net change in fair value	1,417	3,549	(4,941)	(38,551)
- Net amounts transferred to the interim consolidated income statement	154	14,527	(24,360)	14,813
	<u>1,571</u>	<u>18,076</u>	<u>(29,301)</u>	<u>(23,738)</u>
Cash flow hedges:				
- Net change in fair value	(333)	83	(250)	83
Total other comprehensive income / (loss) for the period	<u>1,238</u>	<u>18,159</u>	<u>(29,551)</u>	<u>(23,655)</u>
Total comprehensive income for the period	<u><u>323,296</u></u>	<u><u>557,889</u></u>	<u><u>616,460</u></u>	<u><u>1,027,594</u></u>

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

Alawwal bank
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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six month period ended June 30, 2017

Amounts in SAR'000 (Un-audited)

				<u>Other reserves</u>		<u>Reserve for</u>				<u>Total</u>	
	<u>Notes</u>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>General reserve</u>	<u>Available for sale investments</u>	<u>Cash flow hedges</u>	<u>bonus shares</u>	<u>Retained earnings</u>	<u>Proposed dividends</u>	<u>Share based plan reserve</u>	<u>shareholders' equity</u>
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
Changes in shareholders' equity for the period											
Net income for the period		-	-	-	-	-	-	646,011	-	-	646,011
Net change in fair values		-	-	-	(4,941)	(250)	-	-	-	-	(5,191)
Net amounts transferred to the consolidated income statement		-	-	-	(24,360)	-	-	-	-	-	(24,360)
Total comprehensive income for the period		-	-	-	(29,301)	(250)	-	646,011	-	-	616,460
Provision for Zakat for the period	17	-	-	-	-	-	-	(8,800)	-	-	(8,800)
Provision for income tax for the period	17	-	-	-	-	-	-	(43,476)	-	-	(43,476)
Provision for Zakat and income tax for prior years	13	-	-	-	-	-	-	(257,381)	-	-	(257,381)
Share based plan transactions		-	-	-	-	-	-	-	-	7,962	7,962
Balance at end of the period		11,430,720	266,183	130,000	11,567	29	-	1,190,357	-	(51,366)	12,977,490
2016											
Balance at beginning of the period - as reported	17	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		-	-	-	-	-	-	(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
Changes in shareholders' equity for the period											
Net income for the period		-	-	-	-	-	-	1,051,249	-	-	1,051,249
Net change in fair values		-	-	-	(38,551)	83	-	-	-	-	(38,468)
Net amounts transferred to the consolidated income statement		-	-	-	14,813	-	-	-	-	-	14,813
Total comprehensive income for the period		-	-	-	(23,738)	83	-	1,051,249	-	-	1,027,594
Bonus shares issued		5,715,360	-	-	-	-	(5,715,360)	-	-	-	-
Dividends		-	-	-	-	-	-	-	(137,858)	-	(137,858)
Provision for Zakat for the period – restated	17	-	-	-	-	-	-	(18,884)	-	-	(18,884)
Provision for income tax for the period – restated	17	-	-	-	-	-	-	(100,716)	-	-	(100,716)
Share based plan transactions		-	-	-	-	-	-	-	-	(11,363)	(11,363)
Balance at end of the period		11,430,720	1	130,000	(61,429)	83	-	1,106,731	-	(59,926)	12,546,180

The accompanying notes 1 to 18 form an integral part of these interim condensed consolidated financial statements.

Alawwal bank
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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six month period ended June 30, 2017

Amounts in SAR'000 (Un-audited)

	<i>Note</i>	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES			
Net income for the period		646,011	1,051,249
Adjustments to reconcile net income to net cash used in operating activities:			
(Accretion of discount) and amortisation of premium on non-trading investments, net		(6,484)	(61,876)
Gain on non-trading investments		(30,260)	(52,279)
Depreciation and amortisation		70,056	59,429
(Gain) / loss on disposal of property and equipment		(14)	1,362
Fair value of derivatives, net		(22,709)	69,856
Share based plan transactions		7,932	9,546
Impairment charge for credit losses, net		576,175	188,259
Impairment charge for available for sale investments		-	14,241
Share in (earnings) / loss of an associate		(6,775)	72
		1,233,932	1,279,859
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		189,276	(19,535)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(45,000)	(10,000)
Loans and advances, net		1,427,910	(1,676,296)
Other assets		(137,734)	(69,738)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		(255,348)	2,235,896
Subordinated debt		(1,048)	2,786
Customers' deposits		(3,588,895)	(2,674,641)
Other liabilities		(65,467)	(85,418)
Net cash used in operating activities		(1,242,374)	(1,017,087)
INVESTING ACTIVITIES			
Proceeds from sale and maturity of non-trading investments		7,122,675	10,859,835
Purchase of non-trading investments		(850,000)	(10,335,866)
Purchase of property and equipment		(115,229)	(339,186)
Proceeds from disposal of property and equipment		14	-
Net cash from investing activities		6,157,460	184,783
FINANCING ACTIVITY			
Dividends paid		-	(137,858)
Cash used in financing activity		-	(137,858)
Net increase / (decrease) in cash and cash equivalents		4,915,086	(970,162)
Cash and cash equivalents at beginning of the period		3,939,264	3,896,332
Cash and cash equivalents at end of the period	11	8,854,350	2,926,170
Special commission received during the period		1,905,451	1,702,273
Special commission paid during the period		738,607	639,179
Supplemental non-cash information			
Net changes in fair value and transfers to interim consolidated income statement		(29,551)	(23,655)

The accompanying notes 1 to 18 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 six month period ended June 30, 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 66 branches (December 31, 2016: 65 branches and June 30, 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.

During the current period, 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.

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 period, the Bank established a Special Purpose Vehicle (the "SPV") Alawwal Financial Markets Limited, a wholly owned subsidiary of the Bank, 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 six month period ended June 30, 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 and six month periods ended 30 June 2017 have been prepared using the International Accounting Standard (IAS) 34 – "Interim Financial Reporting" and SAMA guidance for accounting of Zakat and tax. The Bank also prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia. The interim condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2016.

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 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 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 six month period ended June 30, 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 in accordance with SAMA guidance on Zakat and income tax. 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:

Amendment to existing standard

Amendment 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 six month period ended June 30, 2017

Amounts in SAR '000s

5. INVESTMENTS, NET

a) Investment securities are classified as follows:

	<i>June 30, 2017 (Un-audited)</i>	<i>December 31, 2016 (Audited)</i>	<i>June 30, 2016 (Un-audited)</i>
Available for sale (AFS)	325,643	462,989	625,191
Other investments held at amortized cost (OI)	14,607,236	20,733,718	20,117,213
Held to maturity (HTM)	<u>60,137</u>	<u>61,791</u>	<u>73,099</u>
Total	<u>14,993,016</u>	<u>21,258,498</u>	<u>20,815,503</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. These investments were fully matured during the period and a loss of SAR 0.43 million (June 30, 2016: SAR 0.57 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 for the comparative periods.

	<i>Carrying value</i>			<i>Fair value</i>		
	<i>June 30, 2017 (Un-audited)</i>	<i>December 31, 2016 (Audited)</i>	<i>June 30, 2016 (Un-audited)</i>	<i>June 30, 2017 (Un-audited)</i>	<i>December 31, 2016 (Audited)</i>	<i>June 30, 2016 (Un-audited)</i>
AFS securities reclassified	<u>-</u>	<u>65,725</u>	<u>68,828</u>	<u>-</u>	<u>64,860</u>	<u>68,827</u>

6. LOANS AND ADVANCES, NET

	<i>June 30, 2017 (Un-audited)</i>	<i>December 31, 2016 (Audited)</i>	<i>June 30, 2016 (Un-audited)</i>
Consumer loans	18,649,974	19,257,443	18,656,748
Commercial loans and overdrafts	52,351,877	53,612,322	59,519,926
Credit cards	<u>359,914</u>	<u>370,036</u>	<u>340,841</u>
Performing loans and advances	71,361,765	73,239,801	78,517,515
Non-performing loans and advances	<u>1,969,898</u>	<u>1,655,536</u>	<u>910,489</u>
Gross loans and advances	73,331,663	74,895,337	79,428,004
Allowance for impairment of credit losses	<u>(2,592,651)</u>	<u>(2,152,240)</u>	<u>(1,527,777)</u>
Loans and advances, net	<u>70,739,012</u>	<u>72,743,097</u>	<u>77,900,227</u>

7. OTHER ASSETS, NET

As at June 30, 2017, other assets of the Group included an amount of SAR 437.15 million (December 31, 2016: SAR 437.15 million and June 30, 2016: SAR 438.54 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 June 30, 2017 (December 31, 2016: SAR 149.91 million and June 30, 2016: SAR 149.91 million) against the outstanding balance due to uncertainty around the timing of recoverability of this balance.

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8. CUSTOMERS' DEPOSITS

	<i>June 30, 2017 (Un-audited)</i>	<i>December 31, 2016 (Audited)</i>	<i>June 30, 2016 (Un-audited)</i>
Time	46,514,917	51,208,243	50,310,145
Demand	32,834,495	31,752,853	34,072,068
Saving	436,355	463,904	448,359
Others	1,984,126	1,933,788	1,582,961
Total	81,769,893	85,358,788	86,413,533

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>June 30, 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	123,804	50,996	29,696,150
Foreign exchange and commodity forward contracts	93,580	39,172	14,771,872
Currency and commodity options	120,192	104,960	12,906,383
Commission rate options	9,757	5,736	2,255,625
Held as fair value hedges:			
Commission rate swaps	-	731	37,505
Held as cash flow hedges:			
Commission rate swaps	-	43	1,037,839
Total	347,333	201,638	60,705,374
Fair values of derivatives subject to netting arrangements	1,027,169	1,027,169	
Fair values of derivatives on gross basis	1,374,502	1,228,807	

<i>December 31, 2016 (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	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>June 30, 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	163,097	87,079	27,037,947
Foreign exchange and commodity forward contracts	102,959	95,089	22,681,014
Currency and commodity options	174,698	161,803	38,308,698
Commission rate options	4,822	3,667	1,018,800
Held as fair value hedges:			
Commission rate swaps	-	1,889	37,508
Held as cash flow hedges:			
Commission rate swaps	-	6,784	7,030,404
Total	445,576	356,311	96,114,371
Fair values of derivatives subject to netting arrangements	1,357,653	1,357,653	
Fair values of derivatives on gross basis	1,803,229	1,713,964	

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

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

	<i>June 30,</i>	<i>December 31,</i>	<i>June 30,</i>
	<i>2017</i>	<i>2016</i>	<i>2016</i>
	<i>(Un-audited)</i>	<i>(Audited)</i>	<i>(Un-audited)</i>
Letters of guarantee	19,319,143	19,578,987	22,417,921
Letters of credit	3,740,389	4,962,218	4,607,786
Acceptances	1,874,012	2,231,042	2,987,986
Irrevocable commitments to extend credit	2,242,717	2,129,409	2,013,820
Total	27,176,261	28,901,656	32,027,513

11. CASH AND CASH EQUIVALENTS

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

	<i>June 30,</i>	<i>December 31,</i>	<i>June 30,</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	10,561,739	7,487,379	6,106,154
Statutory deposit	(4,238,208)	(4,427,484)	(4,495,687)
	6,323,531	3,059,895	1,610,467
Due from banks and other financial institutions maturing within three months or less from the acquisition date	2,530,819	879,369	1,315,703
Total	8,854,350	3,939,264	2,926,170

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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, liabilities, revenue and results by operating segments, as at and for the period ended June 30 and December 31.

June 30, 2017 (Un-audited)	<i>Corporate banking</i>	<i>Personal banking</i>	<i>Investment banking and investment services</i>	<i>Central treasury and ALCO</i>	<i>Total</i>
External revenue, net:					
Special commission income, net	1,027,312	536,059	1,041	(217,822)	1,346,590
Fee and commission income, net	265,112	81,501	15,007	(12,736)	348,884
Trading income, net	30,273	1,704	957	21,049	53,983
Other revenue	41,002	26,072	-	30,260	97,334
Inter-segment (expense) / revenue	(509,108)	119,557	5,258	384,293	-
Total revenue, net	854,591	764,893	22,263	205,044	1,846,791
Total operating expenses excluding impairment charges	(201,628)	(375,130)	(19,392)	(35,230)	(631,380)
Other material non-cash items:					
Impairment charges for credit losses, net	(443,755)	(132,420)	-	-	(576,175)
Non-operating income	-	-	-	6,775	6,775
Net income for the period	209,208	257,343	2,871	176,589	646,011

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12. OPERATING SEGMENTS (continued)

	<u>Corporate banking</u>	<u>Personal banking</u>	<u>Investment banking and investment services</u>	<u>Central treasury and ALCO</u>	<u>Total</u>
June 30, 2016 (<i>Un-audited</i>)					
External revenue, net:					
Special commission income, net	987,873	475,020	-	(257,270)	1,205,623
Fee and commission income, net	326,702	93,617	26,720	(24,786)	422,253
Trading income, net	79,150	16,903	803	(10,462)	86,394
Other revenue	70,647	20,647	-	58,394	149,688
Inter-segment (expense) / revenue	(396,892)	99,484	4,633	292,775	-
Total revenue, net	1,067,480	705,671	32,156	58,651	1,863,958
Total operating expenses excluding impairment charges	(200,347)	(352,339)	(20,851)	(36,600)	(610,137)
Other material non-cash items:					
Impairment charges for credit losses, net	(81,955)	(106,304)	-	-	(188,259)
Impairment charge for available for sale investments	-	-	-	(14,241)	(14,241)
Non-operating loss	-	-	-	(72)	(72)
Net income for the period	785,178	247,028	11,305	7,738	1,051,249

	<u>Corporate banking</u>	<u>Personal banking</u>	<u>Investment banking and investment services</u>	<u>Central treasury and ALCO</u>	<u>Total</u>
June 30, 2017 (<i>Un-audited</i>)					
Segment assets	50,179,665	20,559,347	713,534	30,182,017	101,634,563
Segment liabilities	20,935,213	30,665,979	179,108	36,876,773	88,657,073
December 31, 2016 (<i>Audited</i>) 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
June 30, 2016 (<i>Un-audited</i>) restated					
Segment assets	56,935,768	20,964,459	549,091	30,105,401	108,554,719
Segment liabilities	25,131,065	26,882,387	16,792	43,978,295	96,008,539

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 expects a favourable outcome on the aforementioned appeals, however, the Bank has recorded appropriate provisions against the aforementioned exposure.

Assessments for the years 2014 to 2016 are yet to be raised. However, in line with the assessments raised 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 and six month periods ended June 30, 2017 and 2016 are calculated by dividing the net income for the period attributable to the equity shareholders by 1,143.07 million shares.

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	
June 30, 2017 (Un-audited)					
Financial assets measured at fair value:					
Derivative financial instruments	347,333	-	347,333	-	347,333
Financial investments available for sale	325,643	152,466	169,739	3,438	325,643
Financial assets not measured at fair value:					
Due from banks and other financial institutions	2,720,819	-	2,720,819	-	2,720,819
Held to maturity investments	60,137	-	59,846	-	59,846
Other investments held at amortised cost	14,607,236	-	14,578,165	-	14,578,165
Loans and advances, net	70,739,012	-	-	70,460,767	70,460,767
Total	88,800,180	152,466	17,875,902	70,464,205	88,492,573
Financial liabilities measured at fair value:					
Derivative financial instruments	201,638	-	201,638	-	201,638
Financial liabilities not measured at fair value:					
Due to banks and other financial institutions	1,092,384	-	1,092,384	-	1,092,384
Customers' deposits	81,769,893	-	81,769,893	-	81,769,893
Subordinated debt	3,908,857	-	3,908,857	-	3,908,857
Total	86,972,772	-	86,972,772	-	86,972,772

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15 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	<u>Carrying value</u>	<u>Fair value</u>			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2016 (Audited)					
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 interim 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 June 30, 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:

	June 30, 2017 (Un-audited)	December 31, 2016 (Audited) Restated	June 30, 2016 (Un-audited) Restated
Credit Risk RWA	86,259,155	90,133,950	97,566,886
Operational Risk RWA	5,834,538	5,498,588	5,148,825
Market Risk RWA	238,718	210,754	232,440
Total Pillar-I RWA	<u>92,332,411</u>	<u>95,843,292</u>	<u>102,948,151</u>
Tier I Capital	12,977,490	12,662,725	12,546,180
Tier II Capital	4,271,106	4,220,937	4,145,162
Total Tier I & II Capital	<u>17,248,596</u>	<u>16,883,662</u>	<u>16,691,342</u>
Capital Adequacy Ratio %			
Tier I ratio	14.06	13.21	12.19
Tier I + Tier II ratio	18.68	17.62	16.21

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 June 30, 2016	Restatement	Amounts as restated June 30, 2016
Other assets	950,066	(80,446)	869,620
Other liabilities	1,616,271	119,600	1,735,871
Total retained earnings	1,306,777	(200,046)	1,106,731
Total shareholders' equity	12,746,226	(200,046)	12,546,180

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17. COMPARATIVE FIGURES *(continued)*

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

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

	June 30, 2017	June 30, 2016
Provision for Zakat for the period	8,800	18,884
Provision for income tax for the period	<u>43,476</u>	<u>100,716</u>
	<u>52,276</u>	<u>119,600</u>

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 to conform to the current period's presentation.

18 BOARD OF DIRECTORS' APPROVAL

The interim condensed consolidated financial statements were approved by the Board of Directors on July 25, 2017 (corresponding to Dhul-Al-Qa'dah 2, 1438).