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INDEPENDENT AUDITORS' REVIEW REPORT ON The INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO: THE SHAREHOLDERS OF
RIYAD BANK
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Riyad Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group") as of 31 March 2018, and the related interim condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three month period then ended 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") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income 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"* as 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 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 are not prepared, in all material respects, in accordance with IAS 34 as modified by SAMA for the accounting of zakat and income 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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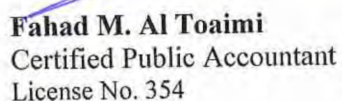

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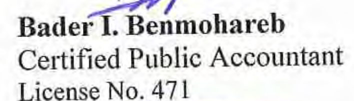

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 March 2018 (Unaudited) SAR'000	31 December 2017 (Audited) SAR'000	31 March 2017 (Unaudited) SAR'000
ASSETS				
Cash and balances with SAMA		**16,365,820**	18,504,255	20,219,891
Due from banks and other financial institutions		**4,910,855**	9,372,200	8,149,190
Positive fair value of derivatives	6	**312,050**	115,890	114,165
Investments, net	7	**46,713,997**	46,369,903	43,317,883
Loans and advances, net	8	**141,222,247**	138,837,618	140,915,244
Investment in associates		**577,879**	564,769	549,307
Other real estate		**232,119**	235,119	238,057
Property and equipment, net		**1,744,969**	1,752,408	1,851,001
Other assets		**1,590,129**	530,009	968,749
Total assets		**213,670,065**	216,282,171	216,323,487
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		**7,459,378**	7,056,168	8,544,059
Negative fair value of derivatives	6	**220,110**	77,923	96,801
Customer deposits	9	**151,921,098**	154,365,549	154,187,711
Debt securities in issue		**8,049,211**	8,016,639	8,050,461
Other liabilities		**9,851,267**	8,142,899	8,483,180
Total liabilities		**177,501,064**	177,659,178	179,362,212
Shareholders' equity				
Share capital		**30,000,000**	30,000,000	30,000,000
Statutory reserve		**3,922,592**	3,922,592	2,936,093
Other reserves		**464,530**	686,865	593,788
Retained earnings		**1,781,879**	2,873,536	3,431,394
Proposed dividends		**-**	1,140,000	-
Total shareholders' equity		**36,169,001**	38,622,993	36,961,275
Total liabilities and shareholders' equity		**213,670,065**	216,282,171	216,323,487

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	For the three month period ended 31 March	
	2018 SAR'000	2017 SAR'000
Special commission income	1,868,328	1,837,649
Special commission expense	346,985	412,337
Net special commission income	1,521,343	1,425,312
Fee and commission income, net	424,852	401,068
Exchange income, net	68,634	72,366
Trading income, net	31,844	(157)
Dividend income	6,570	5,595
Gains on available for sale investments, net	-	92,585
Losses on investments held at amortised cost, net	(1,850)	-
Gains on FVOCI debt instruments, net	70,561	-
Other operating income	7,592	10,517
Total operating income, net	2,129,546	2,007,286
Salaries and employee-related expenses	414,833	397,734
Rent and premises-related expenses	82,854	80,150
Depreciation of property and equipment	71,267	72,029
Other general and administrative expenses	227,079	183,461
Impairment charge for credit losses, net	196,444	217,113
Impairment charge for investments, net	45,102	-
Impairment charge / (reversal) for other financial assets	(36,760)	-
Other operating expenses	6,074	11,009
Total operating expenses, net	1,006,893	961,496
Net operating income	1,122,653	1,045,790
Share in earnings of associates, net	14,180	1,565
Net income for the period	1,136,833	1,047,355
Basic and diluted earnings per share (in SAR)	0.38	0.35

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

	For the three month period ended 31 March	
	2018	2017
	SAR'000	SAR'000
Net income for the period	**1,136,833**	1,047,355
Other comprehensive income:		
Items that will be reclassified to consolidated statement of income in subsequent periods		
- Fair value through other comprehensive income (FVOCI- debt instruments)		
- Net change in fair value	**(235,376)**	-
- Net amounts transferred to interim condensed consolidated statement of income	**(73,877)**	-
- Net changes in allowance for expected credit losses of debt instruments	**42,866**	-
- Available for sale investments		
Net change in fair value	-	149,515
Net amounts transferred to interim condensed consolidated statement of income	-	(88,656)
- Impairment of investments		-
- Gain on sale of investments	-	(88,656)
Items that cannot be reclassified back to consolidated statement of income in subsequent periods	-	-
- Net change on equity instruments at fair value through other comprehensive income (FVOCI-equity instruments)	**160,530**	-
Other comprehensive income for the period	**(105,857)**	60,859
Total comprehensive income for the period	**1,030,976**	1,108,214

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
For the three month period ended 31 March 2018 & 2017

SAR'000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
31 March 2018						
Balance at the beginning of the period	30,000,000	3,922,592	686,865	2,873,536	1,140,000	38,622,993
Impact of adopting IFRS 9 at 1 January 2018 (Note 4)	-	-	(116,478)	(2,008,490)	-	(2,124,968)
Restated balance at the beginning of the period	30,000,000	3,922,592	570,387	865,046	1,140,000	36,498,025
Total comprehensive income						
Net changes in fair values of						
- FVOCI equity instruments	-	-	160,530	-	-	160,530
- FVOCI debt instruments	-	-	(235,376)	-	-	(235,376)
Net amount reclassified to the interim condensed consolidated statement of income for debt instruments at FVOCI	-	-	(73,877)	-	-	(73,877)
Net changes in allowance for expected credit losses of debt instruments at FVOCI	-	-	42,866	-	-	42,866
Net income for the period	-	-	-	1,136,833	-	1,136,833
Total comprehensive income	-	-	(105,857)	1,136,833	-	1,030,976
Final dividends - 2017	-	-	-	-	(1,140,000)	(1,140,000)
Provision for zakat	-	-	-	(220,000)	-	(220,000)
Balance at the end of the period	30,000,000	3,922,592	464,530	1,781,879	-	36,169,001
31 March 2017						
Balance at the beginning of the period	30,000,000	2,936,093	532,929	2,604,039	900,000	36,973,061
Total comprehensive income						
Net change in fair value of available for sale investments	-	-	149,515	-	-	149,515
Net amounts relating to available for sale investments transferred to interim condensed consolidated statement of income	-	-	(88,656)	-	-	(88,656)
Net income for the period	-	-	-	1,047,355	-	1,047,355
Total comprehensive income	-	-	60,859	1,047,355	-	1,108,214
Final dividends - 2016					(900,000)	(900,000)
Provision for zakat	-	-	-	(220,000)	-	(220,000)
Balance at the end of the period	30,000,000	2,936,093	593,788	3,431,394	-	36,961,275

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

	Note	For the three month period ended 31 March 2018 SAR'000	2017 SAR'000
OPERATING ACTIVITIES			
Net income for the period		**1,136,833**	1,047,355
Adjustments to reconcile net income for the period to net cash used in operating activities:			
Accretion of discounts and amortisation of premium, net on non-FVIS instruments, net		**16,715**	18,858
Gains on non-trading investments, net		**(68,711)**	(92,585)
Gains on trading investments, net		**(3,796)**	(136)
Depreciation of property and equipment		**71,267**	72,029
Share in earnings of associates, net		**(14,180)**	(1,565)
Impairment charge for investments, net		**45,102**	-
Impairment charge / (reversal) for other financial assets		**(36,760)**	-
Impairment charge for credit losses, net		**196,444**	217,113
		1,342,914	1,261,069
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		**(240,739)**	146,238
Due from banks and other financial institutions maturing after three months from date of acquisition		**2,506,662**	(1,144,000)
Positive fair value of derivatives		**(196,160)**	75,130
Fair value through income statement (FVIS)		**110,115**	(100,000)
Loans and advances, net		**(4,007,140)**	1,777,010
Other real estate		**3,000**	6,960
Other assets		**(1,060,120)**	(91,083)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**403,210**	(292,654)
Negative fair value of derivatives		**142,187**	(41,837)
Customer deposits		**(2,444,451)**	(2,495,992)
Other liabilities		**(266,549)**	395,046
Net cash used in operating activities		**(3,707,071)**	(504,113)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments not held as FVIS instruments		**5,657,200**	8,509,623
Purchase of investments not held as FVIS instruments		**(6,209,977)**	(6,402,463)
Purchase of property and equipment, net		**(63,828)**	(60,681)
Net cash (used in) from investing activities		**(616,605)**	2,046,479
FINANCING ACTIVITIES			
Dividend and zakat paid		**(1,806)**	(379)
Cash used in financing activities		**(1,806)**	(379)
Net (decrease) increase in cash and cash equivalents		**(4,325,482)**	1,541,987
Cash and cash equivalents at beginning of the period		**16,151,643**	16,082,760
Cash and cash equivalents at end of the period	11	**11,826,161**	17,624,747
Special commission received during the period		**1,884,730**	1,820,909
Special commission paid during the period		**482,264**	486,469
Supplemental non-cash information			
Net changes in fair value and transfers to interim condensed consolidated statement of income		**(105,857)**	60,859

The accompanying notes 1 to 17 form an integral part of these interim condensed consolidated financial statements.

1. GENERAL

Riyad Bank (the "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to 23 November 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to 18 November 1957G) through its 340 branches (31 March 2017: 334) in the Kingdom of Saudi Arabia, a branch in London, United Kingdom, an agency in Houston, United States, and a representative office in Singapore. The registered address of the Bank's Head Office is as follows:

Riyad Bank
King Abdulaziz Road – Al-Murabba District
P.O. Box 22622
Riyadh 11416
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services. The Bank also provides to its customers Islamic (non-interest based) banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The interim condensed consolidated financial statements comprise the financial statements of Riyad Bank and its wholly owned subsidiaries, a) Riyad Capital (engaged in investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority), b) Ithra Al-Riyad Real Estate Company (formed with the objective to hold, manage, sell and purchase real estate assets for owners or third parties for financing activities); c) Riyad Company for Insurance Agency (which acts as an agent for selling insurance products owned and managed by another principal insurance company), incorporated in the Kingdom of Saudi Arabia; d) Curzon Street Properties Limited incorporated in the Isle of Man; and e) Riyad Financial Markets incorporated in the Cayman Islands - a netting and bankruptcy jurisdiction country, to execute derivative transactions with international counterparties on behalf of Riyad Bank. These entities are collectively referred to as "the Group".

2. BASIS OF PREPARATION

The interim consolidated financial statements for the three months ended 31 March 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017.

The Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018 and accounting policies for these new standards are disclosed in the Note 5 Significant Accounting Policies. The impact of changes in accounting policies due to adoption of these Standards are discussed in note 4. Significant judgments and estimates relating to impairrment are disclosed in note 14- financial risk management note considering IFRS 9 first time adoption.

3. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements include the financial statements of the subsidiaries which are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee.

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

Balances between the Bank and its subsidiaries, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

Effective 1 January 2018 the Group has adopted two new accounting standards, the impact of the adoption of these standards is explained below:

4.1 IFRS 15 Revenue from Contracts with Customers

The Group adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Group in relation to its contracts with customers.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring services to a customer.

The Group has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity. The adoption of IFRS 15 did not result in material impact in interim condensed consolidated financial statements.

4.2 IFRS 9 – Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018.The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

4.2 IFRS 9 – Financial Instruments

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and Fair value through income statement ("FVIS"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see respective section of significant accounting policies.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in income statement, under IFRS 9 fair value changes are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the issuer is presented in OCI; and
- The remaining amount of change in the fair value is presented in income statement.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see respective section of significant accounting policies.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVIS, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

4.2 IFRS 9 – Financial Instruments

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

i. The determination of the business model within which a financial asset is held.

ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVIS.

iii. The designation of certain investments in equity instruments not held for trading as FVOCI.

It is assumed that the credit risk has not increased significantly for those debt securities which carry low credit risk at the date of initial application of IFRS 9.

a) The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

SAR 000s	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
Financial assets				
Cash and balances with SAMA	Loans and receivables	Amortised Cost	18,504,255	18,501,026
Due from banks and other financial institutions	Loans and receivables	Amortised Cost	9,372,200	9,367,478
Positive fair value derivatives	FVIS	FVIS (mandatory)	115,890	115,890
Loans and advances, net	Loans and receivables	Amortised Cost	138,837,618	137,411,556
Investment securities –debt	Available for sale	FVOCI	12,224,295	12,224,295
Investment securities – debt	Available for sale	FVIS (mandatory)	884,900	884,900
Investment securities – debt	Held at amortised cost	Amortised Cost	31,436,344	31,399,298
Investment securities – equity	Available for sale	FVOCI	1,520,604	1,520,604
Investment securities – equity	Held for Trading	FVIS	303,760	303,760
Other assets – receivables	Held at amortised cost	Amortised Cost	530,009	530,009
			213,729,875	212,258,816
Financial liabilities				
Due to banks and other financial institutions	Held at amortised cost	Amortised Cost	7,056,168	7,056,168
Negative fair value derivatives	FVIS	FVIS	77,923	77,923
Customer deposits	Held at amortised cost	Amortised Cost	154,365,549	154,365,549
Debt securities in issue	Held at amortised cost	Amortised Cost	8,016,639	8,016,639
Other liabilities	Held at amortised cost	Amortised Cost	8,142,899	8,796,808
			177,659,178	178,313,087

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

4.2 IFRS 9 – Financial Instruments

b) The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

SAR 000s	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re-measurement (ECL)	IFRS 9 carrying amount as at 1 January 2018
Financial assets				
Amortised cost				
Cash and balances with SAMA	18,504,255		(3,229)	18,501,026
Due from banks and other financial institutions	9,372,200	-	(4,722)	9,367,478
Loans and advances	138,837,618	-	(1,426,062)	137,411,556
Investment securities - Debt	31,436,344	-	(37,046)	31,399,298
Other assets	530,009	-		530,009

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

4.2 IFRS 9 – Financial Instruments

b) The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

SAR 000s	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re-measurement (ECL)	IFRS 9 carrying amount as at 1 January 2018
Financial assets				
Available for sale				
31 December 2017	14,629,799	-	-	-
Transferred to:	-	-	-	-
FVOCI – equity	-	(1,520,604)	-	-
FVOCI – debt	-	(12,224,295)	-	-
FVIS	-	(884,900)	-	-
1 January 2018				-
FVOCI - equity				-
31 December 2017	-	-	-	-
From available for sale	-	1,520,604	-	-
1 January 2018				**1,520,604**
FVOCI - debt				-
31 December 2017	-	-	-	-
From available for sale	-	12,224,295	-	-
1 January 2018				**12,224,295**
FVIS				
Investment:				
31 December 2017	303,760	-	-	-
From available for sale	-	884,900	-	-
1 January 2018				**1,188,660**
Positive fair value of derivatives	115,890	-	-	-
1 January 2018				115,890
Financial liabilities				
Amortized cost				
Due to banks and other financial institutions	7,056,168	-	-	-
Customers' deposits	154,365,549	-	-	-
Debt securities in issue	8,016,639	-	-	-
Other liabilities	8,142,899	-	653,909	-
Total amortized cost				178,235,164
FVIS				
Negative fair value of derivatives	77,923	-	-	-
1 January 2018				77,923

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

4.2 IFRS 9 – Financial Instruments (continued)

c) There were no reclassifications of financial assets and financial liabilities into amortized cost under IFRS 9

d) Impact on retained earnings and other reserves

The following table shows the effects of the reclassification of financial assets and financial liabilities from IAS 39 categories under IFRS 9.

	Retained earnings	Other reserves
Closing balance under IAS 39 (31 December 2017)	2,873,536	686,865
Reclassifications under IFRS 9*	171,761	(171,761)
Recognition of expected credit losses under IFRS 9	(2,180,251)	55,283
Opening balance under IFRS 9 (1 January 2018)	865,046	570,387

* This comprise of reclassification of AFS instruments to FVIS

e) The following table reconciles the opening impairment recorded as per the requirements of IAS 39 to that of IFRS 9:

The closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 (IAS 39 / IAS 37)	Re classification	Re measurement	1 January 2018 (IFRS 9)
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS-9)				
Cash and balances with SAMA	-	-	3,229	3,229
Due from banks and other financial institutions	-	-	4,722	4,722
Investments, net	-	-	37,046	37,046
Loans and advances, net	2,084,926	-	1,426,062	3,510,988
Total	2,084,926	-	1,471,059	3,555,985
Investment, net - FVOCI - Debt (IFRS-9)	-	-	55,283	55,283
Loan commitments and financial guarantee contracts	-	-	653,909	653,909
Total	-	-	709,192	709,192

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

4.2 IFRS 9 – Financial Instruments (continued)

f) The following table provides carrying value of financial assets and financial liabilities in the statement of financial position as of 31 March 2018

	Mandatorily at FVIS	FVOCI – debt instruments	FVOCI – equity	Amortized cost	Total carrying amount
Financial assets					
Cash and balances with SAMA	-	-	-	16,365,820	16,365,820
Due from banks and other financial institutions	-	-	-	4,910,855	4,910,855
Positive fair value of derivatives	312,050	-	-	-	312,050
Investments, net	1,149,596	10,338,374	1,664,913	33,561,114	46,713,997
Loans and advances, net	-	-	-	141,222,247	141,222,247
Other assets	-	-	-	1,590,129	1,590,129
Total financial assets	**1,461,646**	**10,338,374**	**1,664,913**	**197,650,165**	**211,115,098**
Financial liabilities					
Due to banks and other financial institutions	-	-	-	7,459,378	7,459,378
Negative fair value of derivatives	220,110	-	-	-	220,110
Customer deposits	-	-	-	151,921,098	151,921,098
Debt securities in issue	-	-	-	8,049,211	8,049,211
Other liabilities	-	-	-	9,851,267	9,851,267
Total financial liabilities	**220,110**	**-**	**-**	**177,280,954**	**177,501,064**

The following table provides carrying value of financial assets and financial liabilities in the statement of financial position as of 31 December 2017

	Trading	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount
Financial assets					
Cash and balances with SAMA	-	-	-	18,504,255	18,504,255
Due from banks and other financial institutions	-	-	-	9,372,200	9,372,200
Positive fair value of derivatives	115,890	-	-	-	115,890
Investments, net	303,760	-	14,629,799	31,436,344	46,369,903
Loans and advances, net	-	138,837,618	-	-	138,837,618
Other assets	-	-	-	530,009	530,009
Total financial assets	**419,650**	**138,837,618**	**14,629,799**	**59,842,808**	**213,729,875**
Financial liabilities					
Due to banks and other financial institutions	-	-	-	7,056,168	7,056,168
Negative fair value of derivatives	77,923	-	-	-	77,923
Customers' deposits	-	-	-	154,365,549	154,365,549
Debt securities in issue	-	-	-	8,016,639	8,016,639
Other liabilities	-	-	-	8,142,899	8,142,899
Total financial liabilities	**77,923**	**-**	**-**	**177,581,255**	**177,659,178**

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2017 except for the policies explained below. Based on the adoption of new standards explained in note 4, the following accounting policies are applicable effective 1 January 2018 replacing / amending or adding to the corresponding accounting policies set out in 2017 financial statements.

5.1 Classification of financial assets

On initial recognition, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

a) Financial Asset at amortised cost (AC)

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

b) Financial Asset at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVIS:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss.

Equity Instruments: On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Equity instruments at FVOCI are not subject to an impairment assessment.

c) Financial Asset at FVIS

Financial assets at FVIS comprise derivative instruments, quoted equity instruments held for trading and debt securities not classified neither as AC or FVOCI. In addition, on initial recognition, the Group may irrevocably designate a financial asset as FVIS, that otherwise meets the requirements to be measured at amortized cost or at FVOCI, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.1 Classification of financial assets (continued)

The details of business model assessment and SPPI test are explained below.

Business model assessment

The Group assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVIS because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and interest

As a second step of its classification process the Group assesses the contractual terms of financial to identify whether they meet the SPPI test.

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of interest rates.

Designation at Fair value through income statement

At initial recognition, the Group has designated certain financial assets at FVIS. Before 1 January 2018, the Group also designated certain financial assets as at FVIS because the assets were managed, evaluated and reported internally on a fair value basis.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR.

5.3 Derecognition

a- Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

From 1 January 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and- repurchase transactions, as the Group retains all or substantially all of the risks and rewards of ownership of such assets.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Derecognition (continued)

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Before 1 January 2018, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

5.4 Modifications of financial assets and financial liabilities

a) Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

b) Financial liabilities

The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

5.5 Impairment

The Group recognizes loss allowances for ECL on the following financial instruments that are not measured at FVIS:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.5 Impairment (continued)

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

If the expected restructuring will not result in derecognition of the existing asset, and then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise ;
- it is becoming probable that the borrower will enter Groupruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.5 Impairment (continued)

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.
- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve. Impairment losses are recognised in profit and loss and changes between the amortised cost of the assets and their fair value are recognised in OCI.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Collateral repossessed

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group's policy.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.5 Impairment (continued)

Collateral repossessed (continued)

In its normal course of business, the Group does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position.

5.6 Financial guarantees and loan commitments

Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of this unamortized amount and the amount of loss allowance; and
- Before 1 January 2018: at the higher of this unamortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitments that are measured at FVIS. For other loan commitments:

- from 1 January 2018: the Group recognizes loss allowance based on the ECL requirement.
- before 1 January 2018: the Group recognizes a provision in accordance with IAS 37 if the contract was considered to be onerous.

5.7 Foreign currencies

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the Bank's functional currency. Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into SAR at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the reporting date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective profits rate and payments during the year and the amortized cost in foreign currency translated at exchange rate at the end of the year.

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

Foreign currency differences arising from the translation of the following items are recognized in OCI:

available-for-sale equity instruments (before 1 January 2018) or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (from 1 January 2018);

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

As at the reporting date, the assets and liabilities of foreign operations are translated into SAR at the rate of exchange as at the reporting date, and their statement of incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the statement of income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.8 Revenue / expenses recognition

Special commission income and expenses

Special commission income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortized cost of the financial instrument.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Measurement of amortized cost and special commission income

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

5.9 Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as modified by SAMA for accounting of zakat and income taxrequires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

5.9 Critical accounting judgements, estimates and assumptions (continued)

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Impairment losses on loans & advances
ii. Fair value Measurement
iii. Classification of investments as amortised cost, FVOCI and FVIS
iii. Determination of control over investees
iv. Depreciation and amortisation
v. Defined benefit plan

6. DERIVATIVES

The table below sets out the positive and negative fair values of derivative financial instruments, together with their notional amounts. 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 to market risk.

	31 March 2018 (Unaudited)			31 December 2017 (Audited)			31 March 2017 (Unaudited)		
	Positive fair value SAR'000	**Negative fair value SAR'000**	**Notional amount SAR'000**	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000
Held for trading:									
Special commission rate swaps	**221,277**	**(181,952)**	**15,509,834**	78,724	(45,809)	9,914,179	52,784	(25,280)	8,349,887
Forward foreign exchange contracts	**80,902**	**(33,419)**	**21,630,404**	30,538	(27,886)	19,767,301	47,448	(57,494)	25,412,678
Currency options	**4,735**	**(4,739)**	**2,251,449**	4,228	(4,228)	3,233,155	13,933	(13,933)	7,117,408
Held as fair value hedges:									
Special commission rate swaps	**5,136**	**-**	**805,318**	2,400	-	187,503	-	(94)	75,000
Total	**312,050**	**(220,110)**	**40,197,005**	115,890	(77,923)	33,102,138	114,165	(96,801)	40,954,973

7 INVESTMENTS, NET

	31 March 2018 (Unaudited) SAR'000	31 December 2017 (Audited) SAR'000	31 March 2017 (Unaudited) SAR'000
Investment at Amortized cost	**33,561,114**	31,436,344	27,439,112
Investments at FVOCI			
- Equity	**1,664,913**	-	-
- Debt	**10,338,374**	-	-
	12,003,287	-	-
Available for sale investments (2017)	**-**	14,629,799	15,777,124
Investment at FVIS	**1,149,596**	303,760	100,136
Held to maturity investments (2017)	**-**	-	1,511
Total	**46,713,997**	**46,369,903**	**43,317,883**

Investments include SAR 112.5 million (2017:SAR 78.3 million), which have been pledged under repurchase agreements with other banks and customers. The market value of such investment is SAR 109.5 million (2017: SAR 78.5 million).

8. LOANS AND ADVANCES, NET

Loans and advances held at amortised cost comprise the following:

8.1 Loans and advances held at amortised cost

These comprise the following:

31 March 2018 SAR'000	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing Loans and Advances-Gross	7,022,582	712,592	42,613,450	92,320,771	281,998	142,951,393
Non-performing loans and advances	128,534	-	212,284	984,602	1,046	1,326,466
Total Loans and advances	7,151,116	712,592	42,825,734	93,305,373	283,044	144,277,859
Allowance for impairment	(668,337)	(43,279)	(702,701)	(1,639,588)	(1,707)	(3,055,612)
Loans & advances, net	6,482,779	669,313	42,123,033	91,665,785	281,337	141,222,247

31 December 2017 SAR'000	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing Loans and Advances-Gross	6,571,229	733,646	41,611,191	90,329,203	265,118	139,510,387
Non-performing loans and advances	418,781	-	200,318	791,799	1,259	1,412,157
Total Loans and advances	6,990,010	733,646	41,811,509	91,121,002	266,377	140,922,544
Allowance for impairment	(284,471)	(16,420)	(386,892)	(1,380,709)	(16,434)	(2,084,926)
Loans & advances, net	6,705,539	717,226	41,424,617	89,740,293	249,943	138,837,618

8.2 The movement in the allowance for impairment of Loans and advances to customers for the quarter ended 31 March is as follows:

	31 March 2108 (Unaudited) SAR'000
Closing loss allowance as at 31 December 2017 (calculated under IAS 39)	2,084,926
Amounts restated through opening retained earnings	1,426,062
Opening loss allowance as at 1 January 2018 (calculated under IFRS 9)	3,510,988
Provided during the period	259,955
Bad debts written off against provision	(715,331)
	3,055,612

	31 December 2017 SAR'000
Balance as at 01 Jan 2017	2,577,515
Provided during the year	2,122,460
Bad debts written off	(2,323,641)
Recoveries/ reversals of previously provided amounts	(263,822)
Other movements	(27,586)
Balance at end of the year	2,084,926

9. CUSTOMER DEPOSITS

Customer deposits comprise the following:

	31 March 2018 (Unaudited) SAR'000	31 December 2017 (Audited) SAR'000	31 March 2017 (Unaudited) SAR'000
Current	**80,902,959**	81,011,365	81,933,454
Saving	**380,823**	366,380	326,595
Time	**60,483,506**	61,430,076	62,341,141
Others	**10,153,810**	11,557,728	9,586,521
Total	**151,921,098**	154,365,549	154,187,711

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES AND OTHERS

a) The Group's credit related commitments and contingencies are as follows:

	31 March 2018 (Unaudited) SAR'000	31 December 2017 (Audited) SAR'000	31 March 2017 (Unaudited) SAR'000
Letters of credit	**8,156,294**	8,328,114	7,664,431
Letters of guarantee	**62,704,532**	64,588,190	67,570,650
Acceptances	**2,070,712**	2,026,574	2,121,728
Irrevocable commitments to extend credit	**15,561,989**	9,889,536	12,343,317
Total	**88,493,527**	84,832,414	89,700,126

As at 31 March 2018, ECL allowance in respect of above amounted to SAR 501 million.

b) Others

During the period ended 31 March 2018, there has been no change in the status of the Group's Zakat assessments. The Group's position with respect to stance on these assessments, has remained the same as that disclosed in the annual consolidated financial statements for the year ended 31 December 2017.

11. CASH AND CASH EQUIVALENTS

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

	31 March 2018 (Unaudited) SAR'000	31 December 2017 (Audited) SAR'000	31 March 2017 (Unaudited) SAR'000
Cash and balances with SAMA excluding statutory deposit	**8,190,729**	10,564,443	12,204,557
Due from banks and other financial institutions maturing within three months from date of acquisition	**3,635,432**	5,587,200	5,420,190
Total	**11,826,161**	16,151,643	17,624,747

12. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

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.

Following are the financial instruments carried at fair value in the interim condensed consolidated financial statements.

Fair value and fair value hierarchy

31 March 2018 **SAR'000 (Unaudited)**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
- Derivative financial instruments	**-**	**312,050**	**-**	**312,050**
- FVIS	**1,149,596**	**-**	**-**	**1,149,596**
- FVOCI	**11,687,074**		**316,213**	**12,003,287**
Financial liabilities				
- Derivative financial instruments	**-**	**220,110**	**-**	**220,110**

31 December 2017 SAR'000 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
- Derivative financial instruments	-	115,890	-	115,890
- Held for trading investments	303,760	-	-	303,760
- Available for sale investments	14,313,044	843	315,912	14,629,799
Financial liabilities				
- Derivative financial instruments	-	77,923	-	77,923

12. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Continued)

	Three month period ended	
	31 March 2018	31 March 2017
	(Unaudited)	(Unaudited)
Reconciliation of movement in Level 3 (Unaudited)	**SAR'000S**	SAR'000
Opening balance	**315,912**	266,649
Total gains or losses		
- recognised in interim condensed consolidated statement of income	**301**	108
Closing balance	**316,213**	266,757

There were no transfers between the fair value hierarchy levels during the current or prior period.

The fair values of on-statement of financial position financial instruments, except for loans and advances and other investments held at amortised cost are not significantly different from the carrying values included in the interim condensed consolidated financial statements. The fair values of customer deposits, debt securities in issue, cash and balances with SAMA, due from and due to banks and other financial institutions, other assets and other liabilities which are carried at amortised cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from and due to banks and other financial institutions, other assets and other liabilities .

The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. The estimated fair values of loans and advances was SAR 147.42 billion at 31 March 2018 (31 December 2017: SAR 143.05 billion).

The estimated investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. The estimated fair values of these investments was SAR 33.6 billion at 31 March 2018 (31 December 2017: SAR 31.5 billion).

13. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The Group’s primary business is conducted in the Kingdom of Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group’s overall consolidated financial statements and as a result have not been separately disclosed. The transactions between the Group's operating segments are recorded as per the Bank's transfer pricing system.There are no other material items of income or expenses between the operating segments.

13. OPERATING SEGMENTS (continued)

The Group's reportable segments under IFRS 8 are as follows:

Retail banking

Deposits, credit and investment products for individuals and small to medium sized businesses.

Investment banking and brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Corporate banking

Principally handling corporate customers' current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative products.

Treasury and investment

Principally providing money market, trading and treasury services as well as the management of the Group's investment portfolios.

The Group's total assets and liabilities at 31 March 2018 and 2017 and its total operating income, total operating expenses and net income for the three months periods then ended, by operating segments, are as follows:

31 March 2018 SAR'000 (Unaudited)	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investment	Total
Total assets	53,735,433	963,130	103,437,150	55,534,352	213,670,065
Total liabilities	73,655,519	73,580	89,296,383	14,475,582	177,501,064
Total operating income, net of which	714,075	88,209	843,978	483,284	2,129,546
- Net special commission income	631,234	20,862	550,147	319,100	1,521,343
- Fee and commission income, net	85,296	61,049	278,391	116	424,852
Inter segment revenues	105,211	20,860	(216,555)	90,484	-
Total operating expenses, net of which	447,318	35,185	450,213	74,177	1,006,893
- Depreciation of property and equipment	53,239	41	14,177	3,810	71,267
- Impairment charge for credit losses, net	(85,752)	-	282,196	-	196,444
- Impairment charge for investments	-	-	-	45,102	45,102
- Impairment in other financial assets	-	-	(36,760)	-	(36,760)
Share in earnings of associates, net	-	-	-	14,180	14,180
Net income	266,757	53,024	393,765	423,287	1,136,833

31 March 2017 SAR'000 (Unaudited)	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investment	Total
Total assets	49,744,023	856,656	106,869,268	58,853,540	216,323,487
Total liabilities	65,013,299	64,591	98,215,187	16,069,135	179,362,212
Total operating income, net of which	651,854	67,246	841,426	446,760	2,007,286
- Net special commission income	575,506	16,025	568,672	265,109	1,425,312
- Fee and commission income, net	75,730	51,037	269,248	5,053	401,068
Inter segment revenues	97,084	14,835	(168,888)	56,969	-
Total operating expenses, net of which	428,250	33,820	448,046	51,380	961,496
- Depreciation of property and equipment	50,995	21	15,505	5,508	72,029
- Impairment charge for credit losses, net	(27,484)	-	244,597	-	217,113
Share in earnings of associates, net	-	-	-	1,565	1,565
Net income	223,604	33,426	393,380	396,945	1,047,355

14. FINANCIAL RISK MANAGEMENT

14 Credit Risk

Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Group uses internal credit rating tools to assess credit standing of its counterparties and assigns credit ratings accordingly. Also the Group uses the external ratings, of the major rating agency, where applicable. A potential credit loss might arise due to lack of proper credit analysis of the borrower's credit worthiness, inability to service the debt, lack of appropriate documentation, etc..

The Group attempts to control credit risk by appropriate credit structuring, credit review process, post-disbursal monitoring of credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Group's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Concentration Risk refers to the risk from an uneven distribution of counterparties in credit or in other business relationship or from concentration in business sectors or geographical regions. Accordingly, concentration risk in the credit portfolios comes into existence through a skewed distribution of financing to (a) individual borrower (name concentration) (b) industry /service sector (sector concentration) and (c) geographical regions (regional concentration). Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting any particular category of concentration.

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

Management monitors the market value of collateral recurrently, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

14. FINANCIAL RISK MANAGEMENT

14.2 Credit quality analysis

a) The following table sets out information about the credit quality of financial assets where the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

31st March 2018	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Due from banks and Other financial institutions and balances with SAMA				-
Investment grade	12,769,809	-	-	12,769,809
Non-investment grade	3,747,811	158,094	-	3,905,905
Gross Carrying amount	16,517,620	158,094	-	16,675,714
Loans and advances				-
Performing	126,923,812	-	-	126,923,812
Underperforming	-	12,959,094	-	12,959,094
Watch list	-	-	3,068,487	3,068,487
Non performing			1,326,466	1,326,466
Gross Carrying amount	126,923,812	12,959,094	4,394,953	144,277,859
				-
Investments				
Performing	46,648,629	-	-	46,648,629
Underperforming	-	94,979	-	94,979
Non performing	-	-	9,669	9,669
Gross Carrying amount	46,648,629	94,979	9,669	46,753,277
Commitments				
Performing	66,166,378	-	-	66,166,378
Underperforming	-	5,881,082	-	5,881,082
Watch list			437,521	437,521
Non performing	-	-	446,557	446,557
Gross Carrying amount	66,166,378	5,881,082	884,078	72,931,538

14. FINANCIAL RISK MANAGEMENT

14.2 Credit quality analysis

b) Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining 12 month probability of default (PD) as at the reporting date; with
- the remaining 12 month PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades
The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.
Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.
Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of exposures involves use of the following data.

Corporate exposures	Retail exposures	All exposures
Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes.	Internally collected data and customer behavior – e.g. utilization of credit card facilities	Payment record – this includes overdue status as well as a range of variables about payment ratios
Data from credit reference agencies, press articles, changes in external credit ratings	Affordability metrics	Utilization of the granted limit
Quoted bond and credit default swap (CDS) prices for the borrower where available	External data from credit reference agencies including industry-standard credit scores	Requests for and granting of forbearance
Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities		Existing and forecast changes in business, financial and economic conditions

14. FINANCIAL RISK MANAGEMENT

14.2 Credit quality analysis (continued)

c) Amounts arising from ECL – Significant increase in credit risk (continued)

i) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group's Chief Economist and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

ii) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modeling.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Disclosure of relevant qualitative indicators, including different criteria used for different portfolios- e.g. retail mortgages, credit cards, commercial real estate etc.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due, on a material exposure. Days past due are determined by counting the number of days since the due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

iii) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of PD at the reporting date based on the modified terms and the PD estimated based on data at initial recognition and the original contractual terms.

14. FINANCIAL RISK MANAGEMENT

14.2 Credit quality analysis (continued)

c) Amounts arising from ECL – Significant increase in credit risk (continued)

iv) Modified financial assets

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Audit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

v) Definition of 'Default'

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding. In assessing whether a borrower is in default. The Group considers indicators that are:
- qualitative- e.g. breaches of covenant ;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

14. FINANCIAL RISK MANAGEMENT

14.2 Credit quality analysis

c) Amounts arising from ECL – Significant increase in credit risk (continued)

v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing different economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and other sources.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 March 2018 included the following ranges of key indicators.

- Unemployment rates
- Interest rates
- GDP growth etc.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

vi) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

i. probability of default (PD);
ii. loss given default (LGD);
iii. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data.

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

14. FINANCIAL RISK MANAGEMENT

14.2 Credit quality analysis

c) Amounts arising from ECL – Significant increase in credit risk (continued)

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL based on the existing expiry date of the credit card. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group has the right to cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk. The Group does not offer retail overdraft facilities, and any technical overdrafts originating in retail current accounts are considered payable immediately; such technical overdrafts are also subjected to Group's staging criteria.

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include:

- product/instrument type;
- credit risk categorization;
- collateral;
- recovery and cure rates; date of initial recognition;
- remaining term to maturity;

The Grouping is subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

14. FINANCIAL RISK MANAGEMENT

14.2 Credit quality analysis

c) Amounts arising from ECL – Significant increase in credit risk (continued)

vii). Loss allowance

The following table shows reconciliations from the opening to the closing balance of the loss allowance for Loans and advances.

	31st March 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January	367,358	662,765	2,480,865	3,510,988
Transfer to 12-month ECL	16,747	(3,566)	(13,181)	-
Transfer to lifetime ECL - not Credit Impaired	(6,269)	28,817	(22,548)	-
Transfer to lifetime ECL - Credit Impaired	-	(920)	920	-
Net re-measurement of loss allowance	(13,644)	171,618	135,682	293,656
Write-offs	-	-	(715,331)	(715,331)
Net Retail ECL movement	(21,235)	(28,515)	16,049	(33,701)
Balance as at 31 March	**342,957**	**830,199**	**1,882,456**	**3,055,612**

viii) Collateral

The Groups in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk

15. BASIC & DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the period ended 31 March 2018 and 2017 are calculated by dividing the net income for the period by 3,000 million outstanding shares.

16. CAPITAL ADEQUACY

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

The Group monitors the adequacy of its capital using the methodologies and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA, with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA.

The Group management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers the Group's business plans along with economic conditions which directly and indirectly affects its business environment.

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

The following table summarizes the Bank's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	31 March 2018 (Unaudited) SAR Millions	31 December 2017 (Audited) SAR Millions	31 March 2017 (Unaudited) SAR Millions
Risk weighted assets			
Credit	198,549	207,783	220,245
Operational	14,118	14,035	13,921
Market	3,534	1,251	2,031
Total Pillar-I Risk Weighted Assets	216,201	223,069	236,197
Eligible capital			
Tier I Capital	36,169	38,623	36,961
Tier II Capital	4,552	5,072	5,072
Total Tier I & II Capital	40,721	43,695	42,033
Tier I Capital Adequacy Ratio %	16.7%	17.3%	15.6%
Total Capital Adequacy Ratio %	18.8%	19.6%	17.8%

17. COMPARATIVE FIGURES

Certain comparative amounts have been reclassified to conform with the current period presentation