



**THE SAUDI INVESTMENT BANK**  
(A Saudi joint stock company)

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**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**For the three-month period ended March 31, 2018**

**(Unaudited)**

**THE SAUDI INVESTMENT BANK**  
(A Saudi joint stock company)

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
Amounts in SAR'000

	Notes	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
<b>ASSETS</b>				
Cash and balances with SAMA	7	5,012,236	5,263,438	7,844,243
Due from banks and other financial institutions, net	8,19	1,435,531	3,513,073	1,592,439
Investments	9,19	23,144,327	21,713,976	21,308,580
Positive fair values of derivatives	16,19	1,013,172	669,170	1,497,101
Loans and advances, net	10,19	57,895,602	59,588,284	60,290,073
Investments in associates	11	1,021,837	1,019,961	1,028,085
Property, equipment, and intangibles, net		1,030,688	1,002,910	974,041
Other real estate		718,724	718,724	418,723
Other assets, net	12	259,118	306,683	223,707
<b>Total assets</b>		<b>91,531,235</b>	<b>93,796,219</b>	<b>95,176,992</b>
<b>LIABILITIES AND TOTAL EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions	19	10,445,719	7,609,686	11,329,298
Customers' deposits	13,19	61,032,444	66,942,620	64,437,295
Negative fair values of derivatives	16,19	348,783	116,655	975,271
Term loans	14,19	2,006,900	2,014,823	1,998,347
Subordinated debt	15,19	2,020,923	2,003,068	2,021,180
Other liabilities	12	955,391	830,300	753,484
<b>Total liabilities</b>		<b>76,810,160</b>	<b>79,517,152</b>	<b>81,514,875</b>
<b>Equity</b>				
Share capital	21,26	7,500,000	7,500,000	7,000,000
Statutory reserve		4,563,000	4,563,000	4,210,000
Other reserves	9	147,502	204,478	517,515
Retained earnings		328,102	1,284,858	1,154,352
Proposed dividends	21	450,000	-	350,000
Shares held for employee options, net	25	(52,529)	(58,269)	(69,750)
<b>Shareholders' equity</b>		<b>12,936,075</b>	<b>13,494,067</b>	<b>13,162,117</b>
Tier I Sukuk	24	1,785,000	785,000	500,000
<b>Total equity</b>		<b>14,721,075</b>	<b>14,279,067</b>	<b>13,662,117</b>
<b>Total liabilities and equity</b>		<b>91,531,235</b>	<b>93,796,219</b>	<b>95,176,992</b>

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

**THE SAUDI INVESTMENT BANK**  
(A Saudi joint stock company)

**INTERIM CONSOLIDATED INCOME STATEMENT (Unaudited)**  
Amounts in SAR'000

	Notes	Three-month period ended	
		Mar. 31, 2018	Mar. 31, 2017
Special commission income		889,530	876,564
Special commission expense		362,740	413,547
Net special commission income		526,790	463,017
Fee income from banking services, net		123,281	110,293
Exchange income, net		31,599	32,436
Fair value through profit and loss (FVTPL)		4,614	-
Gains on FVOCI debt securities		40	-
Gains on AFS investments, net		-	19,216
Total operating income		686,324	624,962
Salaries and employee-related expenses		148,180	147,621
Rent and premises-related expenses		43,274	38,835
Depreciation and amortization		24,125	23,027
Other general and administrative expenses		50,032	53,285
Provisions for credit losses	8,9,10,12	88,545	45,000
Total operating expenses		354,156	307,768
Income from operating activities		332,168	317,194
Share in earnings of associates	11	29,065	27,748
Net income		361,233	344,942
Basic and diluted earnings per share (expressed in SAR per share)	20	0.48	0.46

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

**THE SAUDI INVESTMENT BANK**  
(A Saudi joint stock company)

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)**  
Amounts in SAR'000

	Notes	Three-month period ended	
		Mar. 31, 2018	Mar. 31, 2017
<b>Net income</b>		<u>361,233</u>	<u>344,942</u>
<b>Other comprehensive income (loss)</b>			
Items that cannot be reclassified to the interim consolidated income statement in subsequent periods:			
Movement in equity investments fair value		<u>15,688</u>	<u>-</u>
Items that can be reclassified to the interim consolidated income statement in subsequent periods:			
Net change in fair value of debt instruments at fair value through other comprehensive income		(106,178)	-
Fair value gains transferred to interim consolidated income statement on disposal of debt securities		<u>(40)</u>	<u>-</u>
Subtotal		<u>(106,218)</u>	<u>-</u>
Items that are or may be reclassified to the interim consolidated income statement in subsequent periods:			
Net change in fair value of available for sale investments		-	16,080
Fair value gains transferred to interim consolidated income statement on disposal		<u>-</u>	<u>(8,216)</u>
Subtotal		<u>-</u>	<u>7,864</u>
Share in other comprehensive income of associates	11	<u>(568)</u>	<u>-</u>
Total other comprehensive (loss) income		<u>(91,098)</u>	<u>7,864</u>
Total comprehensive income		<u><u>270,135</u></u>	<u><u>352,806</u></u>

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

## THE SAUDI INVESTMENT BANK

### INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

For the three-month period ended March 31

		2018 (SAR'000)								
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Shares held for employee options, net	Shareholders' equity	Tier 1 Sukuk	Total equity
Balances at the beginning of the period (Audited)		7,500,000	4,563,000	204,478	1,284,858	-	(58,269)	13,494,067	785,000	14,279,067
Effect of the adoption of IFRS 9 on January 1, 2018	4	-	-	50,603	(873,159)	-	-	(822,556)	-	(822,556)
Balances at the beginning of the period as adjusted		7,500,000	4,563,000	255,081	411,699	-	(58,269)	12,671,511	785,000	13,456,511
Net income		-	-	-	361,233	-	-	361,233	-	361,233
Total other comprehensive loss		-	-	(91,098)	-	-	-	(91,098)	-	(91,098)
Total comprehensive income		-	-	(91,098)	361,233	-	-	270,135	-	270,135
Gains on sales of FVOCI equity investments		-	-	(16,481)	16,481	-	-	-	-	-
Foreign shareholder Income Tax Reimbursement		-	-	-	4,063	-	-	4,063	-	4,063
Zakat for current period		-	-	-	(6,329)	-	-	(6,329)	-	(6,329)
Income Tax for current period		-	-	-	(8,895)	-	-	(8,895)	-	(8,895)
Proposed dividends	21	-	-	-	(450,000)	450,000	-	-	-	-
Net movement in shares held for employee options	25	-	-	-	-	-	5,740	5,740	-	5,740
Tier 1 Sukuk proceeds	24	-	-	-	-	-	-	-	1,000,000	1,000,000
Tier I Sukuk Costs		-	-	-	(150)	-	-	(150)	-	(150)
Balances at the end of the period (Unaudited)		<u>7,500,000</u>	<u>4,563,000</u>	<u>147,502</u>	<u>328,102</u>	<u>450,000</u>	<u>(52,529)</u>	<u>12,936,075</u>	<u>1,785,000</u>	<u>14,721,075</u>

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

## THE SAUDI INVESTMENT BANK

### INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Continued (Unaudited)

For the three-month period ended March 31

		2017 (SAR'000)								
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Shares held for employee Options, net	Total Shareholders' equity	Tier 1 Sukuk	Total equity
Balances at the beginning of the period (Audited)		7,000,000	4,210,000	509,651	826,775	350,000	(62,884)	12,833,542	500,000	13,333,542
Net income		-	-	-	344,942	-	-	344,942	-	344,942
Total other comprehensive income		-	-	7,864	-	-	-	7,864	-	7,864
Total comprehensive income		-	-	7,864	344,942	-	-	352,806	-	352,806
Zakat for current period		-	-	-	(9,045)	-	-	(9,045)	-	(9,045)
Zakat for prior periods, net		-	-	-	(6,229)	-	-	(6,229)	-	(6,229)
Income Tax for current period		-	-	-	(2,091)	-	-	(2,091)	-	(2,091)
Net movement in shares held for employee options	25	-	-	-	-	-	(6,866)	(6,866)	-	(6,866)
Balances at the end of the period (Unaudited)		7,000,000	4,210,000	517,515	1,154,352	350,000	(69,750)	13,162,117	500,000	13,662,117

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

**THE SAUDI INVESTMENT BANK**  
(A Saudi joint stock company)

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)**

Amounts in SAR'000

For the three-month periods ended March 31

	Notes	2018	2017
<b>OPERATING ACTIVITIES</b>			
Net income		361,233	344,942
<b>Adjustments to reconcile net income to net cash from (used in) operating activities</b>			
Net accretion of discounts and net amortization of premiums on investments, net		12,803	14,322
Net change in accrued special commission income		(47,154)	(57,342)
Net change in accrued special commission expense		(13,720)	(81,623)
Net change in deferred loan fees		(14,147)	31,364
Gains on investments, net		(40)	(19,216)
FVTPL unrealized gains		(2,089)	-
FVTPL realized gains		(2,525)	-
Depreciation and amortization	18	24,125	23,027
Provisions for credit losses	8,9,10,12	88,545	45,000
Share in earnings of associates	11	(29,065)	(27,748)
Share based provisions	25	1,800	4,316
		<u>379,766</u>	<u>277,042</u>
<b>Net (increase) decrease in operating assets:</b>			
Statutory deposit with SAMA		132,638	275,211
Due from banks and other financial institutions maturing after ninety days from acquisition date		(244,671)	(2,992)
Loans and advances		1,046,218	(70,775)
Positive fair values of derivatives		(340,727)	(792,870)
Other assets		46,999	20,127
<b>Net increase (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		2,857,935	2,322,213
Customer deposits		(5,891,091)	(1,111,162)
Negative fair values of derivatives		214,793	785,812
Other liabilities		(74,911)	(129,508)
<b>Net cash (used in) provided from operating activities</b>		<u>(1,873,051)</u>	<u>1,573,098</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sales and maturities of investments		322,383	1,148,930
Purchases of investments		(1,835,451)	(974,078)
Acquisitions of property, equipment, and intangibles	18	(51,903)	(9,468)
<b>Net cash (used in) provided from investing activities</b>		<u>(1,564,971)</u>	<u>165,384</u>
<b>FINANCING ACTIVITIES</b>			
Zakat and Income Tax payments, net of shareholder reimbursements		4,063	(2,091)
Purchases of shares for employee options	25	-	(17,574)
Vesting of share options	25	3,940	6,392
Proceeds from Tier I Sukuk	24	1,000,000	-
Tier 1 Sukuk costs		(150)	-
<b>Net cash provided from (used in) financing activities</b>		<u>1,007,853</u>	<u>(13,273)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>		<u>(2,430,169)</u>	<u>1,725,209</u>

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.

**THE SAUDI INVESTMENT BANK**  
(A Saudi joint stock company)

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS - Continued (Unaudited)**  
Amounts in SAR'000  
For the three-month periods ended March 31

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
<b>Cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the period		5,444,306	4,382,652
Net (decrease) increase in cash and cash equivalents		<u>(2,430,169)</u>	<u>1,725,209</u>
Cash and cash equivalents at the end of the period	7	<u><u>3,014,137</u></u>	<u><u>6,107,861</u></u>
<b>Supplemental special commission information</b>			
Special commission received		<u>842,376</u>	<u>819,222</u>
Special commission paid		<u>377,248</u>	<u>495,707</u>
<b>Supplemental non-cash information</b>			
Total other comprehensive (loss) income		<u>(91,098)</u>	<u>7,864</u>
Adoption of IFRS 9 on January 1, 2018		<u>822,556</u>	<u>-</u>
Proposed dividends	21	<u><u>450,000</u></u>	<u><u>-</u></u>

The accompanying notes 1 to 28 form an integral part of these interim condensed consolidated financial statements.



# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2018 and 2017

### 1. General

The Saudi Investment Bank (the "Bank"), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 50 branches (December 31, 2017: 49 branches; and Mar 31, 2017: 49 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank  
Head Office  
P.O. Box 3533  
Riyadh 11481, Kingdom of Saudi Arabia

The Bank offers a full range of commercial and retail banking services. The Bank also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board.

### 2. Basis of preparation

On April 11, 2017, the Saudi Arabian Monetary Authority (SAMA) issued Circular no. 381000074519 with amendments regarding certain clarifications relating to the accounting for Zakat and Income tax. The impact of the Circular and amendments are as follows:

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

Applying the above SAMA circular and amendments to the Framework, these interim condensed consolidated financial statements have been prepared using International Accounting Standards (IAS) 34 - "Interim Financial Reporting", as modified by SAMA for the accounting for Zakat and Income Tax.

These interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2017.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand, except where indicated herein.

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

In preparing these interim condensed consolidated financial statements, the Bank has adopted IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers from January 1, 2018. As such, accounting policies for these new standards are disclosed in notes 4 and 5. Significant judgments and estimates relating to financial risk management and credit losses are disclosed in note 6. All other significant judgments made by management in applying the accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the annual consolidated financial statements as of and for the year ended December 31, 2017.

# THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

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## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Amounts in SAR'000

For the three-month periods ended March 31, 2018 and 2017

### 2. Basis of preparation – (continued)

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on May 07, 2018.

### 3. Basis of consolidation

These interim condensed consolidated financial statements are comprised of the financial statements of the Bank and the financial statements of the following subsidiaries (collectively referred to as the "Group"):

- a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a Saudi closed joint stock company, which is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory, and custody services relating to financial securities.
- b) "Saudi Investment Real Estate Company", a limited liability company, which is registered in the Kingdom of Saudi Arabia under commercial registration No.1010268297 issued on 29 Jumada Awwal 1430H (corresponding to May 25, 2009), and is owned 100% by the Bank. The Company has not commenced any significant operations.
- c) "Saudi Investment First Company", a limited liability company, which is registered in the Kingdom of Saudi Arabia under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014), and is owned 100% by the Bank. The Company has not commenced any significant operations.
- d) "SAIB Markets Limited Company", a Cayman Islands limited liability company, registered in the Cayman Islands on July 18, 2017, and is 100% owned by the Bank. The objective of the Company is to conduct derivatives and repurchase activities on behalf of the Bank. The Company has not commenced significant operations.

References to the "Bank" hereafter in these interim condensed consolidated financial statements refer to disclosures that are relevant only to the Bank and not collectively to the "Group".

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Bank.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the interim condensed consolidated financial statements from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee. The financial statements of any such structured entities are consolidated from the date the Group obtains control and until the date when the Group ceases to control the investee.

These interim condensed consolidated financial statements have been prepared using uniform accounting policies and valuation methods for similar transactions and other events in similar circumstances.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**Amounts in SAR'000**  
**For the three-month periods ended March 31, 2018 and 2017**

**3. Basis of consolidation – (continued)**

The Group manages assets held in investment entities on behalf of investors. The financial statements of these entities are not included in these interim condensed consolidated financial statements except when the Group controls the entity.

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

**4. Impact of changes in accounting policies due to adoption of new standards**

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements as of and for the year ended December 31, 2017, except for the adoption of the following new standards.

**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 January 1, 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 recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

There was no significant impact as of January 1, 2018 resulting from the application of IFRS 15 on the Group's interim condensed consolidated financial statements.

**IFRS 9 Financial Instruments**

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

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 on January 1, 2018 are summarized below.

IFRS 9 contains three principal classification categories for financial assets including

- Measured at amortized cost ("AC");
- Fair value through other comprehensive income ("FVOCI"); and
- Fair value through profit or loss ("FVTPL").

These classification categories are generally based, except for equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows.

IFRS 9 eliminates the existing IAS 39 categories of held-to-maturity, held for trading, 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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**Amounts in SAR'000**  
**For the three-month periods ended March 31, 2018 and 2017**

**4. Impact of changes in accounting policies due to adoption of new standards – (continued)**

For an explanation of how the Group classifies financial assets under IFRS 9, see the respective sections of significant accounting policies included in note 5.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. Under IAS 39 any fair value changes of liabilities designated under the fair value option were recognized in profit or loss, while 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 liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under IFRS 9, refer to the respective section of significant accounting policies included in note 5.

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. IFRS 9 requires the Group to record an allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECL 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 previously recognized under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see the respective section of significant accounting policies included in note 5.

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. The difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other reserves as of January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore are 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 financial assets and financial liabilities previously measured at FVTPL.
  - iii. The designation of certain investments in equity instruments not held for trading as FVOCI.
  - iv. The determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss for any financial liabilities designated at FVTPL.

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.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**Amounts in SAR'000**  
**For the three-month periods ended March 31, 2018 and 2017**

**4. Impact of changes in accounting policies due to adoption of new standards – (continued)**

The following table shows the measurement categories in accordance with IAS 39 as of December 31, 2017 and the measurement categories under IFRS 9 for the Group's financial and other assets and financial and other liabilities as of January 1, 2018.

	<u>IAS 39 Measurement category</u>	<u>IFRS 9 Measurement category</u>	<u>IAS 39 Carrying value</u>	<u>IFRS 9 Carrying value</u>
<b>Financial and other assets</b>				
Cash and balances with SAMA	Amortized cost	Amortized cost	5,263,438	5,263,438
Due from banks and other financial institutions	Amortized cost	Amortized cost	3,513,073	3,499,509
Investments, net	Available for sale	FVTPL/FVOCI	21,713,976	21,713,976
Positive fair values of derivatives	FVTPL	FVTPL	669,170	669,170
Loans and advances	Amortized cost	Amortized cost	59,588,284	58,944,983
Other assets	Amortized cost	Amortized cost	306,683	306,406
Total			<u>91,054,624</u>	<u>90,397,482</u>
<b>Financial and other liabilities</b>				
Due to banks and other financial institutions	Amortized cost	Amortized cost	7,609,686	7,609,686
Customers' deposits	Amortized cost	Amortized cost	66,942,620	66,942,620
Negative fair values of derivatives	FVTPL	FVTPL	116,655	116,655
Term loans	Amortized cost	Amortized cost	2,014,823	2,014,823
Subordinated debt	Amortized cost	Amortized cost	2,003,068	2,003,068
Other liabilities	Amortized cost	Amortized cost	830,300	969,094
Total			<u>79,517,152</u>	<u>79,655,946</u>

The following table reconciles the carrying amounts of financial and other assets, financial and other liabilities, and investments in associates under IAS 39 to the adjusted carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018 due to re-measurement.

	<u>IAS 39 carrying amount as of December 31, 2017</u>	<u>IFRS 9 Re-measurement</u>	<u>IFRS 9 carrying amounts as of January 1, 2018</u>
<b>Financial and other assets</b>			
Due from banks and other financial institutions	3,513,073	(13,564)	3,499,509
Investments	21,713,976	-	21,713,976
Loans and advances	59,588,284	(643,301)	58,944,983
Investments in associates	1,019,961	(26,621)	993,340
Other assets	306,683	(277)	306,406
Total financial and other assets	<u>86,141,977</u>	<u>(683,763)</u>	<u>85,458,214</u>
<b>Financial and other liabilities</b>			
Other liabilities	830,300	138,794	969,094
Total financial and other liabilities	<u>830,300</u>	<u>138,794</u>	<u>969,094</u>

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**4. Impact of changes in accounting policies due to adoption of new standards – (continued)**

The following table reconciles the carrying amounts of investments before allowance for credit losses under IAS 39 as of December 31, 2017 to the carrying amounts of investments before allowance for credit losses on transition to IFRS 9 on January 1, 2018 due to reclassifications:

	Available for sale investments	FVOCI Equities	FVOCI Debt securities	FVTPL All other securities	Total Investments
Carrying amounts under IAS 39 as of December 31, 2017	21,717,976	-	-	-	21,717,976
Reclassifications	(21,717,976)	461,003	21,107,295	149,678	-
Carrying amounts under IFRS 9 as of January 1, 2018	-	461,003	21,107,295	149,678	21,717,976

The following summarizes the impact on retained earnings and other reserves from the adoption of IFRS 9 on January 1, 2018:

	Retained earnings	Other reserves
Balances under IAS 39 as of December 31, 2017	1,284,858	204,478
Reclassifications of available for sale investments to FVTPL	10,374	(10,374)
Recognition of expected credit losses:		
Due from banks	(13,564)	-
Investments	(60,977)	60,977
Loans and advances	(643,301)	-
Other assets	(276)	-
Loan commitments and financial guarantee contracts	(138,794)	-
Total recognition of expected credit losses	(856,912)	60,977
Recognition of the effect of IFRS 9 on associate companies	(26,621)	-
Adjusted balances under IFRS 9 as of January 1, 2018	411,699	255,081

The following table reconciles the closing allowances for credit losses for financial and other assets, loan commitments, and financial guarantee contracts as of December 31, 2017, to the opening allowances for credit losses as of January 1, 2018:

	Due from banks and other financial institutions	Investments	Loans and advances	Other assets	Commitments and financial guarantee contracts	Total
Balances as of December 31, 2017	-	4,000	1,074,781	-	-	1,078,781
Recognition of expected credit losses	13,564	60,977	643,301	276	138,794	856,912
Adjusted balances as of January 1, 2018	13,564	64,977	1,718,082	276	138,794	1,935,693



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**4. Impact of changes in accounting policies due to adoption of new standards – (continued)**

The following table summarizes the balances of financial and other assets and financial and other liabilities by measurement category in the interim consolidated statement of financial position as of March 31, 2018:

	Amortized cost	Mandatorily at FVTPL	FVOCI – equity securities	FVOCI – debt securities	FVTPL – other securities	Total carrying amount
<b>Financial and other assets</b>						
Cash and balances with SAMA	5,012,236	-	-	-	-	5,012,236
Due from banks and other financial institutions, net	1,435,531	-	-	-	-	1,435,531
Investments, net	-	-	401,235	22,491,807	251,285	23,144,327
Positive fair values of derivatives	-	1,013,172	-	-	-	1,013,172
Loans and advances, net	57,895,602	-	-	-	-	57,895,602
Other assets	259,118	-	-	-	-	259,118
<b>Total financial and other assets</b>	<b>64,602,487</b>	<b>1,013,172</b>	<b>401,235</b>	<b>22,491,807</b>	<b>251,285</b>	<b>88,759,986</b>
<b>Financial and other liabilities</b>						
Due to banks and other financial institutions	10,445,719	-	-	-	-	10,445,719
Customers' deposits	61,032,444	-	-	-	-	61,032,444
Negative fair values of derivatives	-	348,783	-	-	-	348,783
Term loans	2,006,900	-	-	-	-	2,006,900
Subordinated debt	2,020,923	-	-	-	-	2,020,923
Other liabilities	955,391	-	-	-	-	955,391
<b>Total financial and other liabilities</b>	<b>76,461,377</b>	<b>348,783</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,810,160</b>

**5. Summary of Significant Accounting Policies**

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 the new standards disclosed in note 4, the following accounting policies are applicable effective January 1, 2018 replacing / amending or adding to the corresponding accounting policies set out in the December 31, 2017 consolidated financial statements.

**a. Classification of financial assets**

On initial recognition, a financial asset is classified and measured at either amortized cost, FVOCI or FVTPL.

**i) Financial assets at amortised cost**

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

- 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.

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**5. Summary of Significant Accounting Policies – (continued)**

**ii) Financial Assets at FVOCI**

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

- 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 recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss.

On initial recognition, for an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

**iii) Financial Assets at FVTPL**

All other financial assets are classified as measured at FVTPL. On initial recognition, the Bank may also irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL 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 Bank changes its business model for managing financial assets.

**iv) Business model assessment**

The Group assesses the objective of a business model in which an asset may be 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 commission revenue, maintaining a particular commission 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 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, including 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 the expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how stated objectives for managing the financial assets are achieved and how cash flows are realized.



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**5. Summary of Significant Accounting Policies – (continued)**

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 realized 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 may be held for trading and for which performance may be evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

For the purpose of this assessment, principal is the fair value of the financial asset on initial recognition. Commission 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 commission rates.

**vi) Designation at fair value through profit or loss**

At initial recognition, the Group may designate certain financial assets at FVTPL. Before January 1, 2018, the Group could have designated certain financial assets at FVTPL if the assets were managed, evaluated, and reported internally on a fair value basis.

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**5. Summary of Significant Accounting Policies – (continued)**

**b. Classification of financial liabilities**

The Group's accounting policy for the classification of financial liabilities applicable before January 1, 2018 was as follows.

- Derivatives embedded in other financial instruments were treated as separate derivatives and recorded at fair value if their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of income.
- Due from banks and other financial institutions, customer deposits, term loans, and subordinated debt were initially recognized at fair value less transaction costs.
- Financial liabilities were subsequently measured at amortized cost, unless they were required to be measured at fair value through profit or loss.
- For financial liabilities that may have been classified at FVTPL using the fair value option, after initial recognition for such liabilities, changes in fair value related to changes in own credit risk were presented separately in OCI and all other fair value changes were presented in income.
- Amounts in OCI relating to credit were not recycled to income even when the liability was derecognized and the amounts were realized.
- Loan and financial guarantee commitments that the Group may have chosen to measure at FVTPL had all fair value movements recognized in income.

The Group's accounting policy for the classification of financial liabilities applicable on January 1, 2018 is as follows.

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 issued debt, and costs that are an integral part of the effective rate.

**c. Embedded derivatives**

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when the separated embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss, unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are then presented in the interim consolidated statement of financial position together with the host contract.

**d. Derecognition**

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 does not retain control of the financial asset.

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**5. Summary of Significant Accounting Policies – (continued)**

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 income.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated at FVOCI is not recognized in profit or loss on derecognition of such securities. Realized gains and losses are transferred to retained earnings from other reserves. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank 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 Bank retains all or substantially all of the risks and rewards of ownership of such assets.

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 may retain the obligation to service the transferred financial asset for a fee. The transferred asset is then derecognized if it meets the derecognition criteria. An asset or liability is recognized for a servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

**e. Modifications of financial assets and financial liabilities**

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 income. 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 commission income.

**f. Derecognition of 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 income.

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**5. Summary of Significant Accounting Policies – (continued)**

**g. Expected credit loss (ECL)**

The Group recognizes provisions for ECL on the following financial instruments that are not measured at FVTPL:

- Due from banks and other financial institutions;
- Debt securities;
- Loans and advances;
- Other financial assets; and
- Commitments and financial guarantee contracts.

No impairment losses are recognized on equity investments.

The Group measures allowances for credit losses at an amount equal to lifetime ECL, except for the following, for which they are measured at an amount equal to a 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.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

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

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

- For financial assets that are not credit-impaired at the reporting date, ECL's are measured 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);
- For financial assets that are credit-impaired at the reporting date, ECL's are measured as the difference between the gross carrying amount and the present value of estimated future cash flows;
- For undrawn loan commitments, ECL's are measured as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- For financial guarantee contracts, ECL's are measured as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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 the ECL is then measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, 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 commission rate of the existing financial asset.

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**5. Summary of Significant Accounting Policies – (continued)**

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 Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy 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 consumer loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank 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; and
- 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 fulfill the required criteria.

Allowances for credit losses are presented in the interim consolidated statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the assets;
- For loan commitments and financial guarantee contracts, included in other liabilities.
- 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 then 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 included in other liabilities.
- For debt instruments measured at FVOCI, no loss allowance is recognized in the interim consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance are disclosed and is recognized in other reserves. Any impairment losses are recognised in income and changes between the amortized cost of the assets and their fair value are recognised in OCI.

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**5. Summary of Significant Accounting Policies – (continued)**

**h. Write-offs**

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 credit 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 provisions for credit losses.

**i. 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 interim 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, or are based on market price indices.

**j. 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.

In its normal course of business, the Group does not physically repossess properties or other assets in its consumer portfolio, but exercises other available options to recover funds.

**k. Commitments and financial guarantees contracts**

Loan commitments are commitments to provide credit under pre-specified terms and conditions. Financial guarantees are contracts that require the Bank 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.

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 from January 1, 2018 as follows:

- At the higher of this amortized amount and the amount of the credit loss allowance; and
- At the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

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**5. Summary of Significant Accounting Policies – (continued)**

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

- Before January 1, 2018: the Bank recognized a provision in accordance with IAS 37 if the contract was considered to be onerous; and
- From January 1, 2018: the Group recognizes a credit loss allowance.

**l. Foreign currencies**

The interim consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the Group'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 date of the interim consolidated statement of financial position.

The foreign currency gain or loss on monetary items is the difference between amortized 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 comprehensive income as follows:

- Foreign currency differences arising from the translation of the following items are recognized in OCI; and
- Available-for-sale equity instruments (before January 1, 2018) or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (from January 1, 2018).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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.

**m. Revenue and expense recognition**

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



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**5. Summary of Significant Accounting Policies – (continued)**

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

**n. 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 commission 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 commission income and expense, the effective commission 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. For financial assets that have become credit-impaired subsequent to initial recognition, commission income is calculated by applying the effective commission rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of commission income reverts to the gross basis.

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

**o. Critical accounting judgements, estimates and assumptions**

The preparation of the consolidated financial statements in conformity with IFRS requires 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 Bank's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized 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.

Significant areas where management has used estimates, assumptions, and exercised judgments are as follows:

- Classification of assets and liabilities;
- Estimation of expected credit losses and impairment;
- Fair value measurement;
- Provisions for liabilities and charges ; and
- Employee benefit plans.



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**6. Financial risk management**

**Credit risk**

The Bank's Board of Directors (the Board) is responsible for the overall risk management approach and for approving the Bank's risk management strategies and principles. The Board of Directors, through the Board Risk Committee, has the responsibility to monitor the overall risk processes within the Bank which includes the development, review, and approval of risk strategies, and implementing principles, frameworks, policies, and limits.

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk associated with loan commitments and financial guarantee contracts.

The Bank assesses the probability of default of counterparties using internal rating tools. The Bank also uses international recognized ratings agencies where possible.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and monitor risks, 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 Bank manages the credit exposure relating to any trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

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

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

Management also monitors the market value of collateral, requests additional collateral in accordance with underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

**Credit analysis of investments held at FVTPL**

The Bank's investments held at FVTPL are comprised of Mutual fund investments and other securities which are unrated.

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**6. Financial risk management – (continued)**

**Credit risk grades**

The Bank allocates exposures 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 5 and 6.

Each non-consumer 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.

Non-Consumer exposures	Consumer exposures	All exposures
<ul style="list-style-type: none"> <li>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.</li> <li>Data from credit reference agencies, press articles, changes in external credit ratings</li> <li>Quoted bond and credit default swap (CDS) prices for the borrower where available</li> <li>Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities</li> </ul>	<ul style="list-style-type: none"> <li>Internally collected data and customer behavior – e.g. utilization of credit card facilities</li> <li>External data from credit reference agencies including industry-standard credit scores</li> </ul>	<ul style="list-style-type: none"> <li>Payment record – this includes overdue status as well as a range of variables about payment ratios</li> <li>Utilization of the granted limit</li> <li>Requests for and granting of forbearance</li> <li>Existing and forecast changes in business, financial and economic conditions</li> </ul>

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**6. Financial risk management – (continued)**

**Generating the term structure of the Probability of Default (PD)**

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank 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 sourced from external credit reference agencies is also used.

The Bank employs models to analyze the data collected and generates 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. For most exposures, key macro-economic indicators include GDP growth and oil prices.

Based on consideration of a variety of external actual and forecasted information, the Bank formulates a base case view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Bank then uses these forecasts to adjust its estimates of PDs.

**Determining whether credit risk has increased significantly**

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank 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 Bank's historical experience and credit assessments and including forward-looking information.

The criteria for determining whether credit risk has increased significantly varies by portfolio and includes quantitative as well as qualitative factors, including a backstop based on delinquency. One of the key quantitative indicators used by the Bank is the relative downgrade of the internal rating of a borrower and thereby the consequent change in the PD.

Using credit judgment and, where possible, relevant historical experience, the Bank 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 which effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. The qualitative indicators include cross facility defaults and forbearance.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed 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 Bank 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 the credit loss allowance resulting from transfers between 12-month PD (Stage 1) and lifetime PD (Stages 2 or 3).

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**6. Financial risk management – (continued)**

**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 credit of the customer. An existing loan for which the terms have been modified may be derecognized and the renegotiated loan is recognized as a new loan at fair value in accordance with the Bank's policies.

The Bank may renegotiate loans to customers in financial difficulties (referred to as forbearance activities) to maximize collection opportunities and minimize the risk of default. Loan forbearance is granted on a selective basis 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 can include extending the maturity, changing the timing of commission and/or principal payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect commission and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank 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. A customer needs to demonstrate consistently good payment behavior over a period of time before the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

**Definition of Default**

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank 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 Bank.

Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative, e.g. breaches of covenants;
- quantitative, e.g. overdue status; 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.

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**6. Financial risk management – (continued)**

**Incorporation of forward looking information**

Based on a consideration of a variety of external actual and forecasted information, the Bank 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 two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities and selected private sector forecasters.

The base case represents a most likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank identifies 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 of March 31, 2018 included GDP growth and oil prices.

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.

**Collateral**

The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk for its portfolio of loans and advances. Collateral can include time, demand, and other cash deposits, financial guarantees, local and international shares, real estate, and other assets. The collateral is held primarily against commercial and non-consumer retail 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

**Measurement of ECL**

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

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

These parameters are generally derived from internally developed models and external benchmarks. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on internal rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this can lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties as well as external benchmarks. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry, and the net recovery amount of any collateral that is integral to the financial asset.

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**6. Financial risk management – (continued)**

EAD represents the expected exposure in the event of a default. The Bank 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.

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 Bank 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 Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period which may be longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect. This contractual right may not be enforced in the normal day-to-day management but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These can include a reduction in limits, or cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include the instrument type, collateral type, industry; and geographic location of the borrower. Regular reviews are also conducted to ensure that exposures within a particular portfolio remain appropriately homogeneous.

For portfolios where the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

	PD	LGD
Due from Banks	Moody's default study	SAMA LGD Estimates
Investments	Moody's default study	SAMA LGD Estimates

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

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**7. Cash and balances with SAMA and cash and cash equivalents**

Cash and balances with SAMA are summarized as follows:

	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
Cash on hand	731,164	725,972	839,675
Reverse repurchase agreements with SAMA	1,157,000	1,282,000	3,738,000
Other balances with SAMA	(75,495)	(76,739)	(33,984)
Cash and balances with SAMA before statutory deposit	1,812,669	1,931,233	4,543,691
Statutory deposit with SAMA	3,199,567	3,332,205	3,300,552
Cash and balances with SAMA	<u>5,012,236</u>	<u>5,263,438</u>	<u>7,844,243</u>

In accordance with the Banking Control Law and regulations issued by The Saudi Arabian Monetary Authority (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposits with SAMA are not available to finance the Bank's day to day operations and therefore do not form a part of cash and cash equivalents.

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

	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	1,812,669	1,931,233	4,543,691
Due from banks and other financial institutions maturing within ninety days from the date of placement	1,201,468	3,513,073	1,564,170
Cash and cash equivalents	<u>3,014,137</u>	<u>5,444,306</u>	<u>6,107,861</u>

**8. Due from banks and other financial institutions, net**

Due from banks and other financial institutions, net are summarized as follows:

	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
Current accounts	362,119	913,181	384,619
Money market placements	1,085,140	2,599,892	1,207,820
Total due from banks and other financial institutions	1,447,259	3,513,073	1,592,439
Allowance for credit losses	(11,728)	-	-
Due from banks and other financial institutions, net	<u>1,435,531</u>	<u>3,513,073</u>	<u>1,592,439</u>

The movement of the allowance for credit losses is summarized as follows:

	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
Balances at the beginning of the year/period	-	-	-
Effect of the adoption of IFRS 9 on January 1, 2018	13,564	-	-
Provision for credit losses	(1,836)	-	-
Balances at the end of the year/period	<u>11,728</u>	<u>-</u>	<u>-</u>



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**8. Due from banks and other financial institutions, net – (continued)**

The following table sets out information about the credit quality of due from banks and other financial institutions measured at amortized cost of March 31, 2018.

	Stage 1 12 month ECL	Stage 2 Life time ECL not credit impaired	Stage 3 Life time ECL credit impaired	Total
Investment grade	1,429,228	-	-	1,429,228
Non-investment grade	-	1,242	-	1,242
Unrated	16,789	-	-	16,789
Total due from banks and other financial institutions	<u>1,446,017</u>	<u>1,242</u>	<u>-</u>	<u>1,447,259</u>

The following table provides a reconciliation from the opening to the closing balances of the allowance for credit losses for due from banks and other financial institutions for the three month period ended March 31, 2018.

	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	12,667	897	-	13,564
Changes in exposures and re- measurement	(2,180)	-	-	(2,180)
Transfers from Stage 1 to Stage 2	(1)	345	-	344
Balances as of March 31, 2018	<u>10,486</u>	<u>1,242</u>	<u>-</u>	<u>11,728</u>

**9. Investments**

Investments are summarized as follows:

	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
Fixed rate debt securities	18,036,188	16,957,476	15,445,897
Floating rate debt securities	4,455,619	4,039,257	4,813,629
Total debt securities	22,491,807	20,996,733	20,259,526
Allowance for credit losses	-	(4,000)	(4,000)
Debt securities, net	22,491,807	20,992,733	20,255,526
Equities	401,235	462,041	826,310
Mutual funds	205,975	212,530	168,688
Other securities	45,310	46,672	58,056
Investments	<u>23,144,327</u>	<u>21,713,976</u>	<u>21,308,580</u>

As of March 31 and December 31, 2017, all investments were classified as available for sale. As of March 31, 2018, fixed rate and floating rate debt securities and equities are classified at FVOCI, and mutual funds and other securities are classified at FVTPL.



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**9. Investments – (continued)**

As of March 31, 2018, investments include SAR 4.8 billion (December 31, 2017: SAR 3.0 billion, and March 31, 2017: SAR 4.3 billion) which have been pledged under repurchase agreements with other financial institutions.

The Group's investments in equities include SAR 201.3 million as of March 31, 2018 which the Bank acquired in prior years in connection with the settlement of certain loans and advances. During the three month period ended March 31, 2018, the Bank sold a portion of these holdings. The fair value of the shares sold totalled SAR 76.9 million, resulting in a realized gain of approximately SAR 10.6 million. The SAR 10.6 million realized gain was subsequently transferred from other reserves to retained earnings during the three month period ended March 31, 2018.

The Bank also holds additional strategic investments in equities totaling SAR 199.9 million as of March 31, 2018 including the Mediterranean and Gulf Cooperative Insurance and Reinsurance Co., SIMAH (Saudi Credit Bureau), and the Saudi Company for Registration of Finance Lease Contracts.

The movement of the allowance for credit losses included in other reserves is as follows:

	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
Balances at the beginning of the year/period	4,000	4,000	4,000
Effect of the adoption of IFRS 9 on January 1, 2018	60,977	-	-
Provision for credit losses	17,162	-	-
Balances at the end of the year/period	<u>82,139</u>	<u>4,000</u>	<u>4,000</u>

The following table sets out information about the credit quality of debt securities at FVOCI as of March 31, 2018.

	Stage 1 12 month ECL	Stage 2 Life time ECL not credit impaired	Stage 3 Life time ECL credit impaired	Total
Grades 1-6	22,488,124	-	-	22,488,124
Grades 7-9	-	3,683	-	3,683
Total debt securities	<u>22,488,124</u>	<u>3,683</u>	<u>-</u>	<u>22,491,807</u>

The following table provides a reconciliation from the opening to the closing balances of the allowance for credit losses for debt investments for the three month period ended March 31, 2018.

	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	64,977	-	-	64,977
Changes in exposures and re-measurement	13,490	-	-	13,490
Transfers from Stage 1 to Stage 2	(11)	3,683	-	3,672
Balances as of March 31, 2018	<u>78,456</u>	<u>3,683</u>	<u>-</u>	<u>82,139</u>

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**9. Investments – (continued)**

Other reserves classified in shareholders' equity are comprised of the following:

	Mar. 31, 2018 <u>(Unaudited)</u>	Dec. 31, 2017 <u>(Audited)</u>	Mar. 31, 2017 <u>(Unaudited)</u>
Unrealized gains on revaluation of debt securities at FVOCI before allowance for credit losses	38,019	-	-
Allowance for credit losses on debt securities at FVOCI	<u>82,139</u>	<u>-</u>	<u>-</u>
Unrealized gains on revaluation of debt securities at FVOCI after allowance for credit losses	120,158	-	-
Unrealized gains on revaluation of equities held at FVOCI	26,937	-	-
Unrealized gains on available for sale investments	-	204,298	515,923
Share of other comprehensive income of associates	<u>407</u>	<u>180</u>	<u>1,592</u>
Other reserves	<u><u>147,502</u></u>	<u><u>204,478</u></u>	<u><u>517,515</u></u>

**10. Loans and advances, net**

Loans and advances, net are classified as held at amortized cost and comprised of the following:

	Mar. 31, 2018 <u>(Unaudited)</u>	Dec. 31, 2017 <u>(Audited)</u>	Mar. 31, 2017 <u>(Unaudited)</u>
Performing loans and advances:			
Consumer loans	16,284,388	16,599,693	16,613,529
Commercial loans and overdrafts	42,273,050	42,964,222	43,314,067
Others	<u>328,536</u>	<u>326,002</u>	<u>298,280</u>
Total performing loans and advances	58,885,974	59,889,917	60,225,876
Non performing loans and advances	<u>741,902</u>	<u>773,148</u>	<u>1,086,916</u>
Total loans and advances	59,627,876	60,663,065	61,312,792
Allowance for credit losses	<u>(1,732,274)</u>	<u>(1,074,781)</u>	<u>(1,022,719)</u>
Loans and advances, net	<u><u>57,895,602</u></u>	<u><u>59,588,284</u></u>	<u><u>60,290,073</u></u>

The performing loans and advances as of Mar 31, 2018 include SAR 4,668 million that are past due but not impaired (December 31, 2017: SAR 3,175 million).

The movement of the allowance for credit losses for loans and advances is summarized as follows:

	Mar. 31, 2018 <u>(Unaudited)</u>	Dec. 31, 2017 <u>(Audited)</u>	Mar. 31, 2017 <u>(Unaudited)</u>
Balances at the beginning of the year/period	1,074,781	994,844	994,844
Effect of the adoption of IFRS 9 on January 1, 2018	643,301	-	-
Provision for credit losses	26,944	213,000	45,000
Write-offs, net	<u>(12,752)</u>	<u>(133,063)</u>	<u>(17,125)</u>
Balances at the end of the year/period	<u><u>1,732,274</u></u>	<u><u>1,074,781</u></u>	<u><u>1,022,719</u></u>

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**10. Loans and advances, net – (continued)**

The following table sets out information about the credit quality of loans and advances measured at amortized cost as of March 31, 2018.

	Stage 1 12 month ECL	Stage 2 Life time ECL not credit impaired	Stage 3 Life time ECL credit impaired	Total
Commercial loans, overdrafts, and other loans	33,939,272	6,558,535	2,845,731	43,343,538
Consumer loans (Unrated)	16,047,747	70,365	166,226	16,284,338
Total loans and advances	<u>49,987,019</u>	<u>6,628,900</u>	<u>3,011,957</u>	<u>59,627,876</u>

As of March 31, 2018, the Group holds collateral in the form of shares, real estate, and cash margins totaling SAR 4,497 million and SAR 6,714 million against the above stage 2 and stage 3 exposures, respectively.

The following table provides a reconciliation from the opening to the closing balance of the allowance for credit losses for the loans and advances for the three month period ended March 31, 2018.

	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	294,950	124,378	1,298,754	1,718,082
Changes in exposures and re-measurement	(25,528)	63,164	(235,378)	(197,742)
Transfers from Stage 1 to Stage 2	(170)	3,759	-	3,589
Transfers from Stage 1 to Stage 3	(21)	-	2,862	2,841
Transfers from Stage 2 to Stage 3	-	(55,591)	273,847	218,256
Write-offs	-	-	(12,752)	(12,752)
Balances as of March 31, 2018	<u>269,231</u>	<u>135,710</u>	<u>1,327,333</u>	<u>1,732,274</u>

**11. Investments in associates**

Investments in associates as of March 31, 2018, December 31, 2017 and March 31, 2017 include the Bank's ownership interest in American Express Saudi Arabia (AMEX) of 50%, in Saudi Orix Leasing Company (ORIX) of 38%, and in Amlak International for Finance and Real Estate Development Co. (AMLAK) of 32%. The movement of investments in associates for the three-month periods ended March 31, 2018 and 2017, and for the year ended December 31, 2017, is summarized as follows:

	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
Balance at the beginning of the period / year	1,019,961	1,000,337	1,000,337
Effect of the adoption of IFRS 9 on January 1, 2018	(26,621)	-	-
Share in earnings	29,065	131,851	27,748
Dividends	-	(98,815)	-
Share of other comprehensive loss	(568)	(1,412)	-
Write off	-	(12,000)	-
Balance at the end of the period / year	<u>1,021,837</u>	<u>1,019,961</u>	<u>1,028,085</u>

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**11. Investments in associates – (continued)**

The Bank's share in the associates' assets, liabilities, and equity as of March 31, 2018 and 2017, and the income and expense for the three-month periods then ended, is summarized below:

	Mar. 31, 2018			Mar. 31, 2017		
	AMEX	ORIX	AMLAK	AMEX	ORIX	AMLAK
Total assets	393,436	484,643	1,030,728	435,719	608,294	1,059,590
Total liabilities	167,598	166,713	658,815	221,312	286,468	687,143
Total equity	225,839	317,930	371,913	214,407	321,826	372,447
Total income	46,844	11,598	15,060	47,883	15,957	11,458
Total expenses	29,373	7,411	7,061	27,982	11,543	5,511

The head office of each associate company is located in Riyadh in the Kingdom of Saudi Arabia, with all operations conducted entirely in the Kingdom of Saudi Arabia.

One of the associate companies above has a potential additional Zakat liability as of December 31, 2017. If the method of the Zakat assessment by the General Authority for Zakat and Tax is upheld through all levels of the appeal process, the Group has agreed with the associate company that it is unconditionally liable in case a liability materializes, for its share amounting to approximately SAR 97.6 million as of December 31, 2017 (2016: SAR 63.6 million).

**12. Other assets, net and other liabilities**

Other assets, net are summarized as follows:

	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
Property, equipment, and intangibles costs pending completion	87,504	122,769	108,146
Customer and other receivables	83,599	67,442	28,873
Prepaid expenses	80,044	92,601	67,878
All other assets	8,538	23,871	18,810
Total other assets	259,685	306,683	223,707
Less allowance for credit losses	(567)	-	-
Other assets, net	259,118	306,683	223,707

The movement of the allowance for credit losses is summarized as follows:

	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
Balances at the beginning of the year/period	-	-	-
Effect of the adoption of IFRS 9 on January 1, 2018	277	-	-
Provision for credit losses	290	-	-
Balances at the end of the year/period	567	-	-

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**12. Other assets, net and other liabilities – (continued)**

Other liabilities are summarized as follows:

	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
Accrued salaries and employee related benefits	292,425	362,188	295,723
Allowance for credit losses for commitments and financial guarantee contracts	184,779	-	-
Accrued expenses and other reserves	140,310	122,841	69,488
Deferred fee income	21,191	17,934	5,484
Customer related liabilities	182,432	210,155	272,473
Accrued Zakat and Income Tax	95,323	80,081	74,406
All other liabilities	38,931	37,101	35,910
<b>Total</b>	<b>955,391</b>	<b>830,300</b>	<b>753,484</b>

The movement of the allowance for credit losses for commitments and financial guarantee contracts is as follows (SAR'000):

	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
Balances at the beginning of the year/period	-	-	-
Effect of the adoption of IFRS 9 on January 1, 2018	138,794	-	-
Provided during the period	45,985	-	-
<b>Balances at the end of the year/period</b>	<b>184,779</b>	<b>-</b>	<b>-</b>

The following table provides a reconciliation from the opening to the closing balance of the allowance for credit losses for commitments and financial guarantee contracts for the three month period ended March 31, 2018.

	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	98,681	14,676	25,437	138,794
Changes in exposures and re-measurement	29,337	1,155	-	30,492
Transfers from Stage 1 to Stage 2	(1,203)	6,938	-	5,735
Transfers from Stage 2 to Stage 3	-	(4,150)	13,908	9,758
<b>Balances as of March 31, 2018</b>	<b>126,815</b>	<b>18,619</b>	<b>39,345</b>	<b>184,779</b>

**13. Customers' deposits**

Customers' deposits are comprised of the following:

	Mar. 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Mar. 31, 2017 (Unaudited)
Time deposits	34,234,862	39,308,674	34,708,719
Savings deposits	749,033	2,174,702	4,729,508
Total special commission bearing deposits	34,983,895	41,483,376	39,438,227
Demand deposits	25,130,876	24,585,587	23,961,010
Other deposits	917,673	873,657	1,038,058
<b>Customers' deposits</b>	<b>61,032,444</b>	<b>66,942,620</b>	<b>64,437,295</b>

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**14. Term loans**

On June 24, 2012, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was due and repaid on September 5, 2017.

On June 19, 2016, the Bank entered into a five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on June 19, 2021. On September 26, 2017, the Bank entered into another five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized on October 4, 2017 and is repayable on September 26, 2022.

The term loans bear commission at market based variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. The Bank also has not had any defaults of principal or commission on the term loans.

**15. Subordinated debt**

On June 5, 2014 the Bank concluded the issuance of a SAR 2.0 billion subordinated debt issue through a private placement of a Shariah compliant Tier II Sukuk in the Kingdom of Saudi Arabia.

The Sukuk carries a half yearly profit equal to six month SIBOR plus 1.45%. The Sukuk has a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five year period, subject to certain regulatory approvals. The Bank has not had any defaults of principal or commission on the subordinated debt.

**16. 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/year, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are not indicative of market risk nor of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives.

	Mar. 31, 2018 (Unaudited)			Dec. 31, 2017 (Audited)			Mar. 31, 2017 (Unaudited)		
	Fair value		Notional amount	Fair value		Notional amount	Fair value		Notional amount
	Positive	Negative		Positive	Negative		Positive	Negative	
Held for trading:									
Forward foreign exchange contracts	44,096	28,085	4,693,673	36,689	25,403	6,114,481	74,012	48,091	8,212,294
Foreign exchange options	1,324	1,324	1,247,640	12,407	12,407	1,484,679	8,955	8,955	1,487,060
Commission rate swaps	324,572	147,437	13,597,857	154,306	56,431	12,270,252	868,764	870,579	9,281,234
Caps and Floors:									
Commission rate options	120,541	120,541	3,406,032	-	-	-	-	-	-
Held as fair value hedges:									
Commission rate swaps	87,218	51,396	9,266,497	30,347	22,414	7,617,063	98,949	47,646	5,437,790
Associated company put option	435,421	-	-	435,421	-	-	446,421	-	-
<b>Totals</b>	<b>1,013,172</b>	<b>348,783</b>	<b>32,211,699</b>	<b>669,170</b>	<b>116,655</b>	<b>27,486,475</b>	<b>1,497,101</b>	<b>975,271</b>	<b>24,418,378</b>

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**16. Derivatives – (continued)**

The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivatives Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Bank are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Bank to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Bank or the counterparty.

For commission rate swaps entered into with European counterparties, the Bank and the European counterparty both comply with the European Market Infrastructure Regulation (EMIR). EMIR is a body of European legislation for the central clearing and regulation of Over the Counter (OTC) derivatives. The regulation includes requirements for reporting of derivatives contracts and implementation of risk management standards, and establishes common rules for central counterparties and trade repositories. Accordingly, all such standardized OTC derivatives contracts are traded on exchanges and cleared through a Central Counter Party (CCP) through netting arrangements and exchanges of cash to reduce counter party credit and liquidity risk.

As of March 31, 2018, the CSA and EMIR net cash collateral amounts held by the Bank totaled SAR 59.4 million (March 31, 2017: SAR 34.3 million). As of December 31, 2017, the CSA and EMIR net cash collateral held by counterparties totaled SAR 5.7 million.

The positive and negative fair values of derivatives including CSA and EMIR cash margins have been netted/offset when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the assets and settle the liability simultaneously.

The associated company put option included in the table above represents the estimated fair value of an option arising from an existing master agreement entered into by the Bank relating to an associated company. The terms of the agreement give the Bank a put option that is exercisable for the remaining term of the agreement. The put option grants the Bank the right to receive a payment in exchange for its shares one year after the option is exercised, based on pre-determined formulas included in the agreement.

**17. Commitments, contingencies, and financial guarantee contracts**

The Group's credit-related commitments and contingencies are as follows (SAR'000):

	Mar. 31, 2018 <u>(Unaudited)</u>	Dec. 31, 2017 <u>(Audited)</u>	Mar. 31, 2017 <u>(Unaudited)</u>
Letters of credit	2,177,046	1,845,674	2,015,159
Letters of guarantee	8,479,133	8,395,752	8,037,391
Acceptances	782,963	732,318	461,964
Irrevocable commitments to extend credit	<u>322,906</u>	<u>380,723</u>	<u>306,027</u>
Credit-related commitments and contingencies	<u><u>11,762,048</u></u>	<u><u>11,354,467</u></u>	<u><u>10,820,541</u></u>

The movement of the allowance for credit losses commitments and financial guarantee contracts is summarized in note 12.



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**17. Commitments, contingencies, and financial guarantee contracts – (continued)**

The following table sets out information about the credit quality of commitments and financial guarantee contracts as of March 31, 2018.

	Stage1 12 month ECL	Stage2 Life time ECL not credit impaired	Stage3 Life time ECL credit impaired	Total
Grades 1-6	<u>10,915,158</u>	<u>492,095</u>	<u>354,795</u>	<u>11,762,048</u>

The Group is subject to legal proceedings in the ordinary course of business. No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome based on professional advice.

**18. Operating segments**

Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance. Performance is measured based on segment profit, as management believes that this indicator is the most relevant in evaluating the results of certain segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by management. The revenue from external parties reported to the Board is measured in a manner consistent with that in the interim consolidated income statement. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in the Kingdom of Saudi Arabia.

There has been no change to the measurement basis for the segment profit or loss. The segment assets, liabilities, and income and expense for March 31, 2017 has been reclassified to conform to changes in the basis of segmentation made during 2018. The Group's reportable segments are as follows:

**Retail banking.** Loans, deposits, and other credit products for individuals and small to medium-sized businesses.

**Corporate banking.** Loans, deposits and other credit products for corporate and institutional customers.

**Treasury and Investments.** Money market, investments and treasury services, and investments in associates and related activities.

**Asset management and brokerage.** Dealing, managing, advising and custody of securities services.

**Other.** Support functions, special credit, and other management and control units.

Commission is charged to operating segments based on Funds Transfer Price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits (FTP net transfers). All other segment income is from external customers.



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**18. Operating segments – (continued)**

The segment information provided to the Bank's Board of Directors for the reportable segments for the Group's total assets and liabilities as of March 31, 2018 and 2017, and its total operating income, expenses, and net income for the three-month periods then ended, are as follows:

	March 31, 2018 (Unaudited)					Total
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	
Total assets	27,537,064	34,620,443	27,866,424	423,328	1,083,976	91,531,235
Total liabilities	46,793,701	8,889,912	20,154,945	54,288	917,314	76,810,160
Net special commission income	95,902	360,412	63,531	5,119	1,826	526,790
FTP net transfers	152,422	(148,674)	-	-	(3,748)	-
Net FTP contribution	248,324	211,738	63,531	5,119	(1,922)	526,790
Fee income (loss) from banking services, net	22,791	81,040	27,472	19,331	(27,353)	123,281
Other operating income (loss)	13,968	11,564	34,661	1,592	(25,532)	36,253
Total operating income	285,083	304,342	125,664	26,042	(54,807)	686,324
Direct operating expenses	97,025	17,650	7,688	16,372	-	138,735
Indirect operating expenses	73,954	27,709	25,213	-	-	126,876
Provisions for credit losses	(20,207)	93,137	15,326	289	-	88,545
Total operating expenses	150,772	138,496	48,227	16,661	-	354,156
Income (loss) from operating activities	134,311	165,846	77,437	9,381	(54,807)	332,168
Share in earnings of associates	-	-	29,065	-	-	29,065
Net income for the period	134,311	165,846	106,502	9,381	(54,807)	361,233
Property, equipment, and intangibles additions	29,475	17	35	7	22,369	51,903
Depreciation and amortization	11,586	257	42	662	11,578	24,125

  

	March 31, 2017 (Unaudited)					Total
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	
Total assets	28,489,845	35,752,721	29,027,185	331,149	1,576,092	95,176,992
Total liabilities	46,904,638	17,447,153	16,525,495	(28,530)	666,119	81,514,875
Net special commission income	68,226	326,988	56,396	3,869	7,538	463,017
FTP net transfers	154,305	(124,369)	(24,857)	-	(5,079)	-
Net FTP contribution	222,531	202,619	31,539	3,869	2,459	463,017
Fee income from banking services, net	25,262	68,995	19,098	23,904	(26,966)	110,293
Other operating income (loss)	15,158	11,024	46,396	(243)	(20,683)	51,652
Total operating income	262,951	282,638	97,033	27,530	(45,190)	624,962
Direct operating expenses	93,070	17,230	6,908	21,515	-	138,723
Indirect operating expenses	62,084	43,355	18,606	-	-	124,045
Provisions for credit losses	22,502	22,498	-	-	-	45,000
Total operating expenses	177,656	83,083	25,514	21,515	-	307,768
Income (loss) from operating activities	85,295	199,555	71,519	6,015	(45,190)	317,194
Share in earnings of associates	-	-	27,748	-	-	27,748
Net income for the period	85,295	199,555	99,267	6,015	(45,190)	344,942
Property, equipment, and intangibles additions	299	-	-	371	8,798	9,468
Depreciation and amortization	11,665	312	45	974	10,031	23,027

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**19. Fair values of financial instruments**

The Group measures certain financial instruments at fair value at each interim consolidated statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, while maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the interim condensed consolidated financial statements are categorized within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1. Quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date (i.e., without modification or proxy);

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.

For assets and liabilities that are recognized in the interim condensed consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each financial reporting date.

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted available for sale financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External valuers are involved from time to time in the valuation of certain assets. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained.

At each financial reporting date, the Group analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

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**19. Fair values of financial instruments – (continued)**

The following table summarizes the fair values of financial assets and financial liabilities by level of fair value hierarchy for financial instruments carried at fair value. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

March 31, 2018 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	577,751	435,421	1,013,172
Investments at FVOCI	14,807,424	7,613,268	472,350	22,893,042
Investments at FVTPL	205,975	-	45,310	251,285
<b>Total</b>	<b>15,013,399</b>	<b>8,191,019</b>	<b>953,081</b>	<b>24,157,499</b>
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	348,783	-	348,783
<b>Total</b>	<b>-</b>	<b>348,783</b>	<b>-</b>	<b>348,783</b>
December 31, 2017 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments	-	233,749	435,421	669,170
Available for sale investments	13,821,026	7,379,684	513,266	21,713,976
<b>Total</b>	<b>13,821,026</b>	<b>7,613,433</b>	<b>948,687</b>	<b>22,383,146</b>
Financial liabilities carried at fair value:				
Derivative financial instruments	-	116,655	-	116,655
<b>Total</b>	<b>-</b>	<b>116,655</b>	<b>-</b>	<b>116,655</b>
March 31, 2017 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments	-	1,050,680	446,421	1,497,101
Available for sale financial investments	13,143,905	7,640,746	523,929	21,308,580
<b>Total</b>	<b>13,143,905</b>	<b>8,691,426</b>	<b>970,350</b>	<b>22,805,681</b>
Financial liabilities carried at fair value:				
Derivative financial instruments	-	975,271	-	975,271
<b>Total</b>	<b>-</b>	<b>975,271</b>	<b>-</b>	<b>975,271</b>

The value obtained from any relevant valuation model may differ with a transaction price of a financial instrument. The difference between the transaction price and the value derived by the model is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated income statement without reversal of deferred day one profits and losses.

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The total amount of the changes in fair value recognized in the March 31, 2018 interim consolidated income statement, which was estimated using valuation models, is a gain of SAR 0.07 million (2017: SAR 11.0 million).

Level 2 investments include debt securities which are comprised of Saudi corporate and bank securities, and Saudi Arabian Government securities. These securities are generally unquoted. In the absence of a quoted price in an active market, these securities are valued using observable inputs such as yield information for similar instruments or last executed transaction prices in securities of the same issuer or based on indicative market quotes. Adjustments are also considered as part of the valuations when necessary to account for the different features of the instruments including difference in tenors. Because the significant inputs for these investments are observable, the Bank categorizes these investments within Level 2.

Level 2 derivative financial instruments include various derivatives contracts including forward foreign exchange contracts, foreign exchange options, currency swaps, commission rate options, and commission rate swaps. These derivatives are valued using widely recognized valuation models. The most frequently applied valuation techniques include the use of forward pricing standard models using present value calculations and well-recognized Black - Scholes option pricing models. These models incorporate various market observable inputs including foreign exchange rates, forward rates, and yield curves, and are therefore included within Level 2.

Level 3 investments include Gulf Cooperation Council Government securities, and also investments in hedge funds, private equity funds, and asset backed securities. These securities are generally not quoted in an active market, and therefore are valued using indicative market quotes from an issuer / counterparty or valued at cost in the absence of any such alternative reliable indicative estimate.

Level 3 derivative financial instruments include the embedded derivative put option arising from an existing master agreement entered into by the Bank relating to its investment in an associated company (see note 11). For purposes of determining the fair value of the put option, the Bank uses a well-recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. These other inputs may require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

Should the net effect of significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 106.6 million as of March 31, 2018 (March 31, 2017: SAR 107.7 million and December 31, 2017: SAR 141.2 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 54.6 million as of March 31, 2018 (March 31, 2017: SAR 54.7 million and December 31, 2017: SAR 53.9 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and could increase or decrease by approximately SAR 30.5 million as of March 31, 2018 (March 31, 2017: SAR 27.5 million and December 31, 2017: SAR 30.5 million) due to estimating the fair value of the underlying investment.

In all respects, the Bank's significant estimates are based on experience and judgement relevant to each input, and in all cases, due care is taken to ensure that the inputs are conservative to ensure that the estimation of fair value is reasonable in the circumstances. However, any amounts which may be realized in the future may differ from the Bank's estimates of fair value.

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**19. Fair values of financial instruments – (continued)**

The following table summarizes the movement of the Level 3 fair values for the three-month periods ended March 31, 2018 and 2017, and for the year ended December 31, 2017.

	Mar. 31, 2018	Dec. 31, 2017	Mar. 31, 2017
	<u>(Unaudited)</u>	<u>(Audited)</u>	<u>(Unaudited)</u>
Fair values at the beginning of the period/year	948,687	964,470	964,470
Net change in fair value	5,370	896	11,331
Investments purchased	-	920	-
Investments sold	<u>(976)</u>	<u>(17,599)</u>	<u>(5,451)</u>
Fair values at the end of the period/year	<u>953,081</u>	<u>948,687</u>	<u>970,350</u>

The following table summarizes the estimated fair values of financial assets and financial liabilities as of March 31, 2018, and 2017 and December 31, 2017 that are not carried at fair value in the interim condensed consolidated financial statements, along with the comparative carrying amounts for each.

	<u>Carrying values</u>	<u>Estimated fair values</u>
<u>March 31, 2018 (Unaudited)</u>		
Financial assets:		
Due from banks and other financial institutions, net	1,435,531	1,435,531
Loans and advances, net	<u>57,951,988</u>	<u>59,188,780</u>
Total	<u>59,387,519</u>	<u>60,624,311</u>
Financial liabilities:		
Due to banks and other financial institutions	10,445,719	10,445,719
Customer deposits	61,032,444	59,858,268
Term loans, net	2,006,900	2,006,900
Subordinated debt, net	<u>2,020,923</u>	<u>2,020,923</u>
Total	<u>75,505,986</u>	<u>74,331,810</u>
<u>December 31, 2017 (Audited)</u>		
Financial assets:		
Due from banks and other financial institutions	3,513,073	3,513,073
Loans and advances, net	<u>59,588,284</u>	<u>61,454,199</u>
Total	<u>63,101,357</u>	<u>64,967,272</u>
Financial liabilities:		
Due to banks and other financial institutions	7,609,686	7,609,686
Customer deposits	66,942,620	65,964,590
Term loans, net	2,014,823	2,014,823
Subordinated debt, net	<u>2,003,068</u>	<u>2,003,068</u>
Total	<u>78,570,197</u>	<u>77,592,167</u>

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**19. Fair values of financial instruments – (continued)**

	Carrying values	Estimated fair values
<u>March 31, 2017 (Unaudited)</u>		
Financial assets:		
Due from banks and other financial institutions	1,592,439	1,592,439
Loans and advances, net	<u>60,290,073</u>	<u>62,412,739</u>
Total	<u>61,882,512</u>	<u>64,005,178</u>
Financial liabilities:		
Due to banks and other financial institutions	11,329,298	11,329,298
Customer deposits	64,437,295	63,559,348
Term loans, net	1,998,347	1,998,347
Subordinated debt, net	<u>2,021,180</u>	<u>2,021,180</u>
Total	<u>79,786,120</u>	<u>78,908,173</u>

The estimated fair values of loans and advances, net are calculated using market based discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual loan portfolio. The estimated fair values of customer deposits are calculated using market based discounted cash flow models of individual deposit classes using the weighted average estimated maturities of each individual deposit class. These fair value estimates are considered as level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the interim condensed consolidated financial statements at fair value are not significantly different from the carrying values. The fair values of term loans, subordinated debt, due from banks and other financial institutions and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contractual rates, and because of the short duration of due from banks and other financial institutions, and due to banks and other financial institutions.

**20. Basic and diluted earnings per share**

Basic and diluted earnings per share for the three-month period ended March 31, 2018 and 2017 are calculated by dividing net income for the period by 750 million shares, after giving effect to the bonus shares issued on April 17, 2017. As a result, basic and diluted earnings per share for the three-month period ended March 31, 2017 has been retroactively adjusted to reflect the issuance of the bonus shares.

**21. Dividends**

In 2018, the Board of Directors proposed a cash dividend of SAR 450 million equal to SAR 0.60 per share, net of Zakat to be withheld from the Saudi shareholders. The proposed cash dividend was approved by the Bank's shareholders in an extraordinary general assembly meeting held on 8 Shaban, 1439 H (corresponding to April 24, 2018). The net dividends were paid to the Bank's shareholders thereafter.

In 2016, the Board of Directors proposed a cash dividend of SAR 350 million equal to SAR 0.50 per share, net of Zakat to be withheld from the Saudi shareholders. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each fourteen shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on 20 Rajab, 1438 H (corresponding to April 17, 2017). The net dividends were paid and the bonus shares were issued to the Bank's shareholders thereafter.

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**22. Capital adequacy**

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

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position assets, commitments, and notional amount of derivatives, at a weighted amount to reflect their relative risk.

SAMA through its circular number 391000029731 which relates to the interim approach and transitional arrangements for the Bank's Tier 1 Capital calculations relating to IFRS 9, provides that the effect of adopting IFRS 9 on January 1, 2018 may be transitioned over five years.

The following table summarises the Bank's Pillar I Risk Weighted Assets (RWA), Tier I and Tier II Capital, and corresponding Capital Adequacy Ratio percentages.

	Mar. 31, 2018 <u>(Unaudited)</u>	Dec. 31, 2017 <u>(Audited)</u>	Mar. 31, 2017 <u>(Unaudited)</u>
Credit Risk RWA	76,783,786	75,882,891	79,542,633
Operational Risk RWA	4,605,141	4,605,140	4,294,667
Market Risk RWA	152,833	1,897,923	2,005,873
Total Pillar- I RWA	<u>81,541,760</u>	<u>82,385,954</u>	<u>85,843,173</u>
Tier I Capital	15,360,825	14,260,772	13,643,822
Tier II Capital	2,495,289	2,526,993	2,557,244
Total Tier I plus Tier II Capital	<u>17,856,114</u>	<u>16,787,765</u>	<u>16,201,066</u>
Capital Adequacy Ratios:			
Tier I Ratio	<u>18.84%</u>	<u>17.31%</u>	<u>15.89%</u>
Tier I plus Tier II Ratio	<u>21.90%</u>	<u>20.38%</u>	<u>18.87%</u>

Capital adequacy and the use of Regulatory Capital are regularly monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of Regulatory Capital and maintain a ratio of total Regulatory Capital to Risk Weighted Assets at or above the requirement of 9.25%, which includes additional buffers as required by the Basel Committee on Banking Supervision.

The following additional disclosures are required under the Basel III framework.

- Pillar III, Qualitative disclosures (Annually);
- Pillar III, Quantitative disclosures (Semi-annually);
- Capital Structure (Quarterly);
- Liquidity Coverage Ratio (Quarterly); and
- Leverage Ratio (Quarterly).

These disclosures are made available to the public on the Bank's website within the prescribed time frames as required by SAMA.

**23. Related party disclosures**

In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia. This update specifies the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.



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**23. Related party disclosures – (continued)**

The Bank's related party identification and disclosure of transactions policy complies with the guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These guidelines include the following definitions of related parties:

- Management of the Bank and/or members of their immediate family;
- Principal shareholders of the Bank and/or members of their immediate family;
- Affiliates of the Bank and entities for which the investment is accounted for using the equity method of accounting;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, and members of the Bank management that require a no objection approval from SAMA.

Immediate family members include parents, spouses, and offspring and whom either a principal shareholder or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank. The balances as of March 31, 2018 and 2017 and December 31, 2017, resulting from such transactions included in the interim condensed consolidated financial statements are as follows:

	Mar. 31, 2018 <u>(Unaudited)</u>	Dec. 31, 2017 <u>(Audited)</u>	Mar. 31, 2017 <u>(Unaudited)</u>
Management of the Bank and/or members of their immediate family:			
Loans and advances	82,771	88,334	84,189
Customer deposits	177,141	227,848	169,800
Tier 1 Sukuk	2,000	2,000	-
Commitments and contingencies	2,254	1,880	-
Principal shareholders of the Bank and/or members of their immediate family:			
Due from banks and other financial institutions	38,128	12,241	3,014
Loans and advances	126,214	126,214	608,713
Customer deposits	6,003,571	10,416,049	9,939,082
Subordinated debt	700,000	700,000	700,000
Commitments and contingencies	372,991	372,991	2,713,005



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**23. Related party disclosures – (continued)**

	Mar. 31, 2018	Dec. 31, 2017	Mar. 31, 2017
	<u>(Unaudited)</u>	<u>(Audited)</u>	<u>(Unaudited)</u>
Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting:			
Loans and advances	638,078	596,117	671,883
Customer deposits	41,278	104,094	163,703
Commitments and contingencies	104,608	106,317	993,045
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:			
Customer deposits and other liabilities	148,740	152,572	104,205

Income and expense for the three-month periods ended March 31, 2018 and 2017, pertaining to transactions with related parties included in the interim condensed consolidated financial statements are as follows:

	Mar. 31, 2018	Mar. 31, 2017
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Management of the Bank and/or members of their immediate family:		
Special commission income	743	720
Special commission expense	18	19
Fee income from banking services	5	5
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission income	-	12,236
Special commission expense	5,473	7,147
Rent and premises-related expenses (Building rental)	1,913	1,913
Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting:		
Special commission income	4,019	3,252
Special commission expense	-	1
Fee income from banking services	1,460	1,405
Board of Directors and other Board Committee member remuneration	1,527	1,561

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**24. Tier I Sukuk**

The Bank completed the establishment of a Shari'a compliant Tier 1 Sukuk Program (the Program) in 2016. The Program was approved by the Bank's regulatory authorities and shareholders. The Bank has issued the following Tier 1 Sukuk securities under the program on the dates indicated:

November 16, 2016	500,000
June 6, 2017	285,000
March 21, 2018	<u>1,000,000</u>
Total	<u><u>1,785,000</u></u>

The Tier 1 Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Bank classified under equity. However, the Bank has the exclusive right to redeem or call the Tier 1 Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Program.

The applicable profit rate on the Tier 1 Sukuk is payable semi-annually in arrears on each periodic distribution date, except upon the occurrence of a non-payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such a non-payment event or non-payment election are not considered to be an event of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

**25. Shares held for employee options, net**

A summary of the movement in shares held for employee options, net for the three-month periods ended March 31, 2018 and 2017, and for the year ended December 31, 2017 is as follows:

	Mar. 31, 2018 <u>(Unaudited)</u>	Dec. 31, 2017 <u>(Audited)</u>	Mar. 31, 2017 <u>(Unaudited)</u>
Balances at the beginning of the period/year	<u>(58,269)</u>	<u>(62,884)</u>	<u>(62,884)</u>
Shares acquired	-	(17,574)	(17,574)
Share based provisions	1,800	9,948	4,316
Share vesting and granting, net of employee contributions	<u>3,940</u>	<u>12,241</u>	<u>6,392</u>
Net movement in shares held for employee options	<u>5,740</u>	<u>4,615</u>	<u>(6,866)</u>
Balances at the end of the period/year	<u><u>(52,529)</u></u>	<u><u>(58,269)</u></u>	<u><u>(69,750)</u></u>

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**26. Zakat and Income Tax**

A summary of the Bank's share capital and percentages of ownership follows.

	Mar. 31, 2018		Dec. 31, 2017		Mar. 31, 2017	
	SAR'000	%	SAR'000	%	SAR'000	%
Saudi shareholders	6,750,000	90.0	6,750,000	90.0	6,300,000	90.0
Foreign shareholders:						
J.P. Morgan International Finance Limited	562,500	7.5	562,500	7.5	525,000	7.5
Mizuho Corporate Bank Limited	187,500	2.5	187,500	2.5	175,000	2.5
<b>Total</b>	<b>7,500,000</b>	<b>100.0</b>	<b>7,500,000</b>	<b>100.0</b>	<b>7,000,000</b>	<b>100.00</b>

As of March 31, 2018, the authorized, issued and fully paid-in share capital of the Bank consists of 750 million shares of SAR 10 each. On April 17, 2017, 50 million bonus shares were issued by the Bank increasing the issued number of shares outstanding from 700 million shares to the current 750 million shares.

The Bank's Zakat and Income Tax calculations and corresponding accruals and payments of Zakat and Income Tax are based on the above ownership percentages in accordance with the relevant provisions of the Saudi Arabian Zakat and Income Tax regulations.

The Bank has received final assessments for additional Zakat, Income tax, and withholding tax totalling approximately SAR 277 million relating to the Bank's 2003 to 2009 Zakat, Income tax, and withholding tax filings. Also refer to note 11 to these consolidated financial statements for pending Zakat assessments related to an associate company. The Bank has also received partial assessments for additional Zakat totalling approximately SAR 383 million relating to its 2010, 2011 and 2013 Zakat filings.

These final and partial assessments include approximately SAR 573 million in Zakat assessments which are primarily due to the disallowance of deductions for certain long-term investments from the Zakat base of the Bank.

The Bank, in consultation with its professional Tax and Zakat advisors, has filed appeals for the above final and partial assessments with the General Authority for Zakat and Tax, and while management is confident of a favorable outcome on the basis of the appeals filed, it is awaiting responses and final decisions from the appeal and other available processes. Accordingly, no provisions for these amounts have been made in the Bank's consolidated financial statements as of December 31, 2017.

Further assessments, if any, for the years 2012, 2014, 2015, and 2016 are yet to be raised by the General Authority for Zakat and Tax. However, if the deductions for certain long-term investments from the Zakat base of the Bank are disallowed for these years, in line with the assessments already made, it would result in a significant additional Zakat exposure. This remains an industry wide issue and disclosure of such amounts might affect the Bank's position in this matter.

**27. Issued IFRS but not effective**

IFRS 16 – "Leases" has been issued but not yet adopted by the Group, as the effective date of adoption is January 1, 2019. IFRS 16 sets out new lease accounting requirements for lessees and lessors. The Group is currently assessing the impact of adopting IFRS 16.

**28. Comparative figures**

Certain prior period figures have been reclassified/adjusted to conform to the current period presentation. These reclassifications/adjustments do not affect the Bank's net income.

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