THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS PERIOD ENDED

31 MARCH 2018

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Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders of The National Commercial Bank
(A Saudi Arabian Joint Stock Company)

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of The National Commercial Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 March 2018 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended and the notes which form an integral part of these interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ('IAS 34') as modified by Saudi Arabian Monetary Authority ('SAMA') for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in note 20 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 20 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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(Corresponding to 29 April 2018)

The National Commercial Bank

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 March 2018 (Unaudited) SAR '000**	31 December 2017 (Audited) SAR '000	31 March 2017 (Unaudited) SAR '000
ASSETS				
Cash and balances with SAMA		**30,909,880**	37,969,234	50,636,779
Due from banks and other financial institutions		**18,312,749**	21,966,218	20,189,018
Investments, net	4	**113,555,101**	114,577,825	107,977,027
Financing and advances, net	5	**252,776,847**	249,234,246	254,202,491
Positive fair value of derivatives, net	6	**2,894,036**	2,688,458	2,309,077
Investments in associates, net		**452,009**	450,048	431,070
Other real estate, net		**952,528**	861,523	826,189
Property, equipment and software, net		**5,353,864**	5,280,672	4,885,641
Goodwill		**290,418**	303,037	315,258
Other assets		**12,008,857**	10,534,606	7,223,139
Total assets		**437,506,289**	443,865,867	448,995,689
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		**37,967,852**	48,557,941	50,586,831
Customers' deposits	7	**309,000,832**	308,942,120	313,646,400
Debt securities issued	19	**10,528,284**	10,250,310	9,859,145
Negative fair value of derivatives, net	6	**2,301,620**	1,945,440	2,430,631
Other liabilities		**12,846,753**	9,894,458	10,610,491
Total liabilities		**372,645,341**	379,590,269	387,133,498
EQUITY				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK				
Share capital	14	**20,000,000**	20,000,000	20,000,000
Treasury shares	15	**(338,011)**	(226,011)	(121,011)
Statutory reserve		**20,266,514**	20,266,514	20,230,366
Other reserves (cumulative changes in fair values)		**191,774**	142,449	503,235
Employees' share based payments reserve	15	**121,830**	96,886	43,054
Retained earnings		**18,956,564**	18,158,718	15,795,770
Proposed dividend	17	**1,196,879**	1,196,879	1,996,904
Foreign currency translation reserve		**(3,711,879)**	(3,594,886)	(3,478,666)
Equity attributable to shareholders of the Bank		**56,683,671**	56,040,549	54,969,652
Tier 1 Sukuk	12	**7,000,000**	7,000,000	5,700,000
Equity attributable to equity holders of the Bank		**63,683,671**	63,040,549	60,669,652
NON-CONTROLLING INTERESTS		**1,177,277**	1,235,049	1,192,539
Total equity		**64,860,948**	64,275,598	61,862,191
Total liabilities and equity		**437,506,289**	443,865,867	448,995,689

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH

	Notes	2018 SAR '000	2017 SAR '000
Special commission income		**4,342,418**	4,220,644
Special commission expense		**(923,845)**	(861,188)
Net special commission income		**3,418,573**	3,359,456
Fee income from banking services, net		**852,437**	802,024
Exchange income, net		**262,237**	324,721
Income from FVIS instruments, net		**326,808**	95,322
Dividend income		**1,189**	5,726
Gains on non-FVIS financial instruments, net		**30,583**	359,832
Other operating (expenses), net		**(112,586)**	(87,260)
Total operating income		**4,779,241**	4,859,821
Salaries and employee-related expenses		**919,245**	873,142
Rent and premises-related expenses		**192,936**	183,799
Depreciation/amortisation of property, equipment and software		**156,170**	195,141
Other general and administrative expenses		**405,081**	436,122
Impairment (reversal)/charge for financing and advances losses, net		**(7,809)**	421,981
Impairment charge on investments, net		**85,523**	758
Total operating expenses		**1,751,146**	2,110,943
Income from operations, net		**3,028,095**	2,748,878
Other income/(expenses), net			
Other non-operating income/(expenses), net		**826**	(15,407)
Other income/(expenses), net		**826**	(15,407)
Net income for the period		**3,028,921**	2,733,471
Net income for the period attributable to:			
Equity holders of the Bank		**2,986,877**	2,702,559
Non-controlling interests		**42,044**	30,912
Net income for the period		**3,028,921**	2,733,471
Basic earnings per share (expressed in SAR per share)	11	**1.45**	1.32
Diluted earnings per share (expressed in SAR per share)	11	**1.45**	1.31

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH

	2018	2017
	SAR ’000	SAR ’000
Net income for the period	**3,028,921**	2,733,471
Other comprehensive income		
Items that cannot be reclassified to the interim condensed consolidated statement of income in subsequent periods		
- Movement in fair value reserve (equity instruments):	**(3,567)**	-
Other comprehensive (loss) income items that are or may be reclassified to the interim condensed consolidated statement of income in subsequent periods:		
Foreign currency translation reserve (losses)	**(168,334)**	(138,072)
FVOCI debt instruments:		
- Net change in fair values	**(362,375)**	-
- Transfers to the interim condensed consolidated statement of income	**(5,227)**	-
Available for sale financial assets:		
- Net change in fair values	**-**	(16,679)
- Transfers to the interim condensed consolidated statement of income	**-**	(253,691)
Cash flow hedges:		
- Effective portion of change in fair values	**(113,923)**	61,471
- Transfers to the interim condensed consolidated statement of income	**93,354**	(10,356)
Total other comprehensive (loss)	**(560,072)**	(357,327)
Total comprehensive income for the period	**2,468,849**	2,376,144
Attributable to:		
Equity holders of the Bank	**2,477,069**	2,379,703
Non-controlling interests	**(8,220)**	(3,559)
Total comprehensive income for the period	**2,468,849**	2,376,144

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH

		Attributable to equity holders of the Bank														
					Other reserves											
	Notes	Share capital	Treasury shares	Statutory reserve	Available for sale financial assets reserve	Cash flow hedge reserves	FVOCI reserve	Employees' share based payments reserve	Retained earnings	Proposed dividend	Foreign currency translation reserve	Total equity attributable to shareholders of the Bank	Tier 1 Sukuk	Total equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
		SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000
Balance as at 1 January 2018		**20,000,000**	**(226,011)**	**20,266,514**	**132,096**	**10,353**	**-**	**96,886**	**18,158,718**	**1,196,879**	**(3,594,886)**	**56,040,549**	**7,000,000**	**63,040,549**	**1,235,049**	**64,275,598**
IFRS 9 first time adoption impact	2.5	**-**	**-**	**-**	**(132,096)**	**-**	**574,236**	**-**	**(1,711,069)**	**-**	**-**	**(1,268,929)**	**-**	**(1,268,929)**	**(40,084)**	**(1,309,013)**
Balance as at 1 January 2018 (restated)		**20,000,000**	**(226,011)**	**20,266,514**	**-**	**10,353**	**574,236**	**96,886**	**16,447,649**	**1,196,879**	**(3,594,886)**	**54,771,620**	**7,000,000**	**61,771,620**	**1,194,965**	**62,966,585**
Other comprehensive (loss) for the period		**-**	**-**	**-**	**-**	**(24,338)**	**(368,477)**	**-**	**-**	**-**	**(116,993)**	**(509,808)**	**-**	**(509,808)**	**(50,264)**	**(560,072)**
Net income for the period		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,986,877**	**-**	**-**	**2,986,877**	**-**	**2,986,877**	**42,044**	**3,028,921**
Total comprehensive (loss)/income for the period		**-**	**-**	**-**	**-**	**(24,338)**	**(368,477)**	**-**	**2,986,877**	**-**	**(116,993)**	**2,477,069**	**-**	**2,477,069**	**(8,220)**	**2,468,849**
Adjustments in non-controlling interests and subsidiaries		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,741)**	**-**	**-**	**(1,741)**	**-**	**(1,741)**	**-**	**(1,741)**
Tier 1 Sukuk related costs	12	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(90,999)**	**-**	**-**	**(90,999)**	**-**	**(90,999)**	**-**	**(90,999)**
Purchase of treasury shares for employee's based payment plan	15.2	**-**	**(112,000)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(112,000)**	**-**	**(112,000)**	**-**	**(112,000)**
Employees' share based payments plan reserve - charged to the interim condensed consolidated statement of income	15.1	**-**	**-**	**-**	**-**	**-**	**-**	**24,944**	**-**	**-**	**-**	**24,944**	**-**	**24,944**	**-**	**24,944**
Zakat and tax	13	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(385,222)**	**-**	**-**	**(385,222)**	**-**	**(385,222)**	**(9,468)**	**(394,690)**
Balance as at 31 March 2018		**20,000,000**	**(338,011)**	**20,266,514**	**-**	**(13,985)**	**205,759**	**121,830**	**18,956,564**	**1,196,879**	**(3,711,879)**	**56,683,671**	**7,000,000**	**63,683,671**	**1,177,277**	**64,860,948**
Balance as at 1 January 2017		20,000,000	(121,011)	20,230,366	720,507	9,581	-	34,443	13,549,488	1,996,904	(3,382,663)	53,037,615	5,700,000	58,737,615	1,188,103	59,925,718
Other comprehensive (loss)/income for the period		-	-	-	(276,276)	49,423	-	-	-	-	(96,003)	(322,856)	-	(322,856)	(34,471)	(357,327)
Net income for the period		-		-	-	-	-	-	2,702,559	-	-	2,702,559	-	2,702,559	30,912	2,733,471
Total comprehensive (loss)/income for the period		-	-	-	(276,276)	49,423	-	-	2,702,559	-	(96,003)	2,379,703	-	2,379,703	(3,559)	2,376,144
Adjustments in non-controlling interests and subsidiaries		-	-	-	-	-	-	-	(489)	-	-	(489)	-	(489)	7,995	7,506
Tier 1 Sukuk related costs	12	-	-	-	-	-	-	-	(74,788)	-	-	(74,788)	-	(74,788)	-	(74,788)
Employees' share based payments plan reserve - charged to the interim condensed consolidated statement of income	15.1	-	-	-	-	-	-	8,611	-	-	-	8,611	-	8,611	-	8,611
Zakat and tax	13	-	-	-	-	-	-	-	(381,000)	-	-	(381,000)	-	(381,000)	-	(381,000)
Balance as at 31 March 2017		20,000,000	(121,011)	20,230,366	444,231	59,004	-	43,054	15,795,770	1,996,904	(3,478,666)	54,969,652	5,700,000	60,669,652	1,192,539	61,862,191

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
FOR THE THREE MONTHS PERIOD ENDED 31 MARCH

	Notes	2018 SAR '000	2017 SAR '000
OPERATING ACTIVITIES			
Net income for the period		**3,028,921**	2,733,471
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading financial instruments, net		**73,904**	87,448
(Gains) on non-FVIS financial instruments, net		**(30,583)**	(359,832)
(Gains) on disposal of property, equipment and software, net		**(4,191)**	(4,657)
(Gains) on disposal of other real estate, net		**(954)**	(8,250)
Loss on disposal of other repossessed assets		**18,792**	36,513
Depreciation/amortisation of property, equipment and software		**156,170**	195,141
Impairment (reversal) charge for financing and advances, net	5(c)	**(7,809)**	421,981
Impairment charge on investments, net		**85,523**	758
Impairment charge on other real estate		**150**	-
Share of results of associates, net		**(1,961)**	587
Share based payments plan expense		**24,944**	8,611
		3,342,906	3,111,771
Net (increase) decrease in operating assets:			
Statutory deposits with SAMA		**(339,883)**	683,252
Due from banks and other financial institutions with original maturity of more than three months, net		**4,091,995**	(4,871,223)
Held at fair value through income statement (FVIS) investments		**1,817,042**	63,106
Financing and advances, net		**(6,185,629)**	(2,155,785)
Positive fair value of derivatives, net		**(212,336)**	118,159
Other real estate		**3,343**	28,681
Other assets		**(2,582,397)**	(1,904,694)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(10,390,525)**	5,335,241
Customers' deposits		**974,241**	(1,252,374)
Negative fair value of derivatives, net		**367,952**	711,067
Other liabilities		**3,694,541**	1,162,745
Net cash (used in) from operating activities		**(5,418,750)**	1,029,946
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-(FVIS) investments		**3,105,116**	10,208,525
Purchase of non-FVIS investments		**(4,130,466)**	(6,866,490)
Purchase of property, equipment and software		**(262,265)**	(251,646)
Proceeds from disposal of property, equipment and software		**5,238**	20,029
Net cash (used in) from investing activities		**(1,282,377)**	3,110,418
FINANCING ACTIVITIES			
Net movement in debt securities	19	**215,862**	139,747
Net movement in non-controlling interests		**-**	7,503
Tier 1 Sukuk related costs		**(90,999)**	(74,788)
Purchase of treasury shares	15.2	**(112,000)**	-
Net cash from financing activities		**12,863**	72,462
Net (decrease) increase in cash and cash equivalents		**(6,688,264)**	4,212,826
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the period		**(107,339)**	(91,869)
Cash and cash equivalents at the beginning of the period		**28,802,159**	35,661,453
Cash and cash equivalents at the end of the period	9	**22,006,556**	39,782,410
Special commission income received during the period		**3,490,904**	4,085,108
Special commission expense paid during the period		**949,236**	709,668
Supplemental non-cash information			
Movement in other reserve and transfers to the interim condensed consolidated statement of income		**(391,738)**	(219,255)

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

1. GENERAL

(1.1) Introduction

The National Commercial Bank (the Bank) is a Saudi Joint Stock Company formed pursuant to Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration No. 4030001588 issued on 27 Dhul Hijjah 1376H (24 July 1957). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company. The Bank's shares have been trading on Saudi Stock Exchange (Tadawul) since 12 November 2014.

The Bank's Head Office is located at the following address:

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Jeddah 21481, Saudi Arabia
www.alahli.com

The objective of the Group is to provide a full range of banking services. The Group also provides non-special commission based banking products in compliance with *Shariah* rules, which are approved and supervised by an independent *Shariah* Board.

The interim condensed consolidated financial statements comprise the financial statements of The National Commercial Bank and its subsidiaries (the Group) (see note 1.2).

The Board of Directors in their meeting dated 23 November 2015 resolved to close the Bank's branch operations domiciled in Beirut, Lebanon (the "branch"). The required regulatory approvals have been received and the legal formalities in respect of closure of the branch are in progress.

(1.2) Group's subsidiaries

The details of the Group's significant subsidiaries are as follows:

	Ownership %			
Name of subsidiaries	**31 March 2018**	31 December 2017	31 March 2017	**Description**
NCB Capital Company (NCBC)	**97.34%**	97.34%	97.10%	A Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activities.

1. GENERAL (continued)

(1.2) **Group's subsidiaries (continued)**

	Ownership %			
Name of subsidiaries	**31 March 2018**	31 December 2017	31 March 2017	**Description**
NCB Capital Dubai Inc. (formerly Eastgate Capital Holdings Inc.)	**97.34%**	97.34%	97.10%	An exempt company with limited liability incorporated in the Cayman Islands to source, structure and invest in private equity and real estate development opportunities across emerging markets, with a particular focus on the MENA region.
NCBC Investment Management Umbrella Company Plc	**97.34%**	97.34%	97.10%	A company incorporated in Ireland under the provisions of the European Communities (Undertakings for Collective Investment in Transferable Securities "UCITS") Regulation 2011. The authorization certificate for the commencement of operations of the Umbrella Company was received in November 2012 from the Central Bank of Ireland, pursuant to which it launched two funds ("NCB Capital Saudi Arabian Equity Fund" and "NCB Capital GCC Equity Fund"), which were registered in Dublin and pre-approved by the Capital Markets Authority through its letter dated May 6, 2010 to carry out their activities in the Kingdom of Saudi Arabia. On 29 August 2016, the Company resolved to voluntarily liquidate the operations of Umbrella Company with immediate effect. As at 31 March 2018 the liquidation proceedings are under process.
Türkiye Finans Katılım Bankası A.Ş. (TFKB)	**67.03%**	67.03%	67.03%	A participant bank that collects funds through current accounts, profit sharing accounts and lends funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. As at 31 March 2018, TFKB fully owns the issued share capital of TF Varlık Kiralama AŞ, (TFVK) and TFKB Varlik Kiralama A.Ş., which are special purpose entities (SPEs) established in connection with issuance of sukuks by TFKB.

1. GENERAL (continued)

(1.2) **Group's subsidiaries (continued)**

	Ownership %			
Name of subsidiaries	**31 March 2018**	31 December 2017	31 March 2017	**Description**
Real Estate Development Company (REDCO)	**100%**	100%	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia. REDCO is engaged in keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.
Alahli Insurance Service Marketing Company	**100%**	100%	100%	A Limited Liability Company, engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.
Saudi NCB Markets Limited	**100%**	100%	100%	A Limited Liability Company registered in the Cayman Islands, engaged in trading in derivatives and Repos/Reverse Repos on behalf of the Bank.
Eastgate MENA Direct Equity L.P.	**100%**	100%	100%	A private equity fund domiciled in the Cayman Islands and managed by NCB Capital Dubai. The Fund's investment objective is to generate returns via investments in Shari'ah compliant direct private equity opportunities in high growth businesses in countries within the Middle East and North Africa.
AlAhli Outsourcing Company	**100%**	100%	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia, engaged in recruitment services within the
Peregrine Aviation Topco Limited ("Peregrine")	-	100%	-	A special purpose vehicle for the purpose of investing in a company which will acquire, lease and sell aircrafts located and registered in the Cayman Islands. During the period ended 31 March 2018 the Group has lost control over Peregrine and accordingly it has not been consolidated in the interim condensed consolidated financial statements.

2. BASIS OF PREPARATION

(2.1) Statement of compliance

These interim condensed consolidated financial statements are prepared in accordance with IAS 34 - Interim Financial Reporting as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and income tax. The Bank prepares its interim condensed consolidated financial statements to comply with the Banking Control Law and the Regulation for Companies in the Kingdom of Saudi Arabia and the Bank's By-laws. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

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

The Group has adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018 and accounting policies for these new standards are disclosed in note 2.5. In preparing these interim condensed consolidated financial statements, the significant judgments made by management are the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2017, except for as disclosed in note 3.18 considering IFRS 9 first time adoption.

(2.2) Basis of measurement

These interim condensed consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets held at fair value [derivatives, financial assets held at fair value through income statement (FVIS), FVOCI - debt instruments and FVOCI - equity instruments (31 December 2017 and 31 March 2017: also included financial assets held for trading and available for sale investments measured at fair value)]. In addition, financial assets or liabilities that are carried at amortized cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

(2.3) Functional and presentation currency

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

(2.4) Basis of consolidation

These interim condensed consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Group, using consistent accounting policies.

(a) Subsidiaries

Subsidiaries are entities which are controlled by the Group. To meet the definition of control, all three of the following criteria must be met:

i) the Group has power over an entity;
ii) the Group has exposure, or rights, to variable returns from its involvement with the entity; and
iii) the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

2. BASIS OF PREPARATION (continued)

(b) Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the interim condensed consolidated statement of income and within equity in the interim condensed consolidated statement of financial position, separately from the Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(c) Associates

Associates are enterprises over which the Group exercises significant influence. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting and are carried in the interim condensed consolidated statement of financial position at the lower of the equity-accounted or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements) less impairment, if any.

The previously recognised impairment loss in respect of investment in associate can be reversed through the interim condensed consolidated statement of income, such that the carrying amount of the investment in the statement of financial position remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount. On derecognition the difference between the carrying amount of investment in associate and the fair value of the consideration received is recognised in the interim condensed consolidated statement of income.

(d) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the interim condensed consolidated financial statements.

(2.5) Impact of changes in accounting policies due to adoption of new standards

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the following new standards and amendments to existing standards mentioned below:

(2.5.1) Implication of new standards

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

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Group in relation to its contracts with customers. IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which was found currently across several Standards and Interpretations within IFRSs. It establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has opted for the modified retrospective application permitted by IFRS 15 upon adotption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity. Based on a detailed impact assesssment exercise carried out by management, it has been concluded that the adoption of IFRS 15 does not have any material impact on the Group's financial numbers.

2. BASIS OF PREPARATION (continued)

(2.5) Impact of changes in accounting policies due to adoption of new standards (continued)

(2.5.1) Implication of new standards (continued)

IFRS 9 – Financial instruments

The Group has adopted IFRS 9 - "Financial Instruments" issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 "Financial Instruments: Recognition and Measurement". The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial 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 are summarized below and are also stated in note 3.

Classification of financial assets and financial liabilities
Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost (“AC”), fair value through other comprehensive income (“FVOCI”) and fair value through statement of income (“FVIS”). This classification is generally based on the business model in which a financial asset is managed and the nature/composition of its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see respective section of significant accounting policies (note 3.1.)

Financial liabilities

Classification of financial liabilities under IFRS 9 remained the same as of IAS 39.

Impairment of financial assets

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

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9 (see note 3.7).

2. BASIS OF PREPARATION (continued)

(2.5) Impact of changes in accounting policies due to adoption of new standards (continued)

(2.5.1) Implication of new standards (continued)

IFRS 9 – Financial instruments (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied as follows:

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

• The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application (1 January 2018):

i) The determination of the business model within which a financial asset is held.
ii) The designation and revocation of previous designated financial assets and financial liabilities as measured at FVIS.
iii) The designation of certain investments in equity instruments not held for trading as FVOCI.

It was concluded that the credit risk has not increased significantly for those debt securities who carry low credit risk at the date of initial application of IFRS 9.

Financial assets and indirect facilities

i) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The classification for the Group's financial assets are effectively consistent between IAS 39 and IFRS 9, except for the changes in the classification for investments. The following table shows the original classification in accordance with IAS 39 and the new classification under IFRS 9 for the Group's investments as at 1 January 2018.

	SAR '000		
Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying value under IAS 39**	**New carrying value under IFRS 9**
Held as FVIS (Fair Value through Income Statement)	FVIS	**1,960,023**	**1,960,023**
	FVOCI - equity	**18,750**	**18,750**
Available for sale	FVOCI-debt instruments	**13,182,868**	**13,178,699**
	Amortized Cost	**800,640**	**772,316**
	FVIS	**3,374,596**	**3,374,596**
	FVOCI-equity	**14,531**	**14,531**
Held to maturity	Amortized Cost	**697,281**	**697,281**
Other investments held at amortised cost	FVIS	**941,857**	**921,607**
	Amortized Cost	**62,982,352**	**62,894,397**
	FVOCI-debt instruments	**30,604,927**	**30,987,527**
Total		**114,577,825**	**114,819,727**

2. BASIS OF PREPARATION (continued)

(2.5) Impact of changes in accounting policies due to adoption of new standards (continued)

(2.5.1) Implication of new standards (continued)

Financial assets and indirect facilities (continued)

ii) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9

The following table reconciles the carrying amounts of Group's financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 as at 1 January 2018:

	SAR '000			
	IAS 39 carrying amount as at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 January 2018
Amortised cost				
Cash and balances with SAMA	37,969,234	-	-	37,969,234
Due from banks and other financial institutions:				
Opening balance	21,966,218	-	-	21,966,218
Remeasurement	-	-	(15,898)	(15,898)
Closing balance	21,966,218	-	(15,898)	21,950,320
Financing and advances:				
Opening balance	249,234,246	-	-	249,234,246
Remeasurement	-	-	(1,434,618)	(1,434,618)
Closing balance	249,234,246	-	(1,434,618)	247,799,628
Other investments held at amortised cost:				
Opening balance	94,529,136	-	-	94,529,136
From available for sale	-	800,640	(28,324)	772,316
From held to maturity	-	697,281	-	697,281
Transferred to:				
FVOCI	-	(30,604,927)	-	(30,604,927)
FVIS	-	(941,857)	-	(941,857)
Remeasurement	-	-	(87,955)	(87,955)
Closing balance	94,529,136	(30,048,863)	(116,279)	64,363,994
Held to maturity				
Opening balance	697,281	-	-	697,281
Transferred to amortized cost	-	(697,281)	-	(697,281)
Closing balance	697,281	(697,281)	-	-
Available for sale financial assets:				
Opening balance	17,372,635	-	-	17,372,635
Transferred to:				
FVOCI - equity	-	(14,531)	-	(14,531)
FVOCI - debt	-	(13,182,868)	-	(13,182,868)
FVIS	-	(3,374,596)	-	(3,374,596)
Other investments held at amortised cost	-	(800,640)	-	(800,640)
Closing balance	17,372,635	(17,372,635)	-	-
FVOCI Investments:				
Opening balance	-	-	-	-
From FVIS	-	18,750	-	18,750
From available for sale	-	13,197,399	-	13,197,399
From other investments held at amortised cost	-	30,604,927	378,431	30,983,358
Closing balance	-	43,821,076	378,431	44,199,507
FVIS Investments:				
Opening balance	1,978,773	-	-	1,978,773
Transferred to FVIS	-	(18,750)	-	(18,750)
From available for sale	-	3,374,596	-	3,374,596
From other investments held at amortised cost	-	941,857	(20,250)	921,607
Closing balance	1,978,773	4,297,703	(20,250)	6,256,226

2. BASIS OF PREPARATION (continued)

(2.5) Impact of changes in accounting policies due to adoption of new standards (continued)

(2.5.1) Implication of new standards (continued)

Financial assets and indirect facilities (continued)

iii) Impact on retained earnings and other reserves

	SAR '000		
		Other reserves	
	Retained earnings	Available for sale financial assets reserve	FVOCI reserve
Balance as at 31 December 2017 - under IAS 39	**18,158,718**	**132,096**	**-**
Reclassifications due to IFRS 9 adoption	**-**	**(132,096)**	**574,236**
Recognition of expected credit losses under IFRS 9	**(1,711,069)**	**-**	**-**
Restated balance as at 1 January 2018	**16,447,649**	**-**	**574,236**

Fair value gain that would have been recognized during 2018 in interim condensed consolidated statement of income if the available for sale assets had not been reclassified is SAR 11.2 million.

iv) Impact on impairment allowance for financial assets and indirect facilities

The following table reconciles the impairment allowance recorded as per the requirements of IAS 39 to that of IFRS 9 as at 1 January 2018:

	SAR '000			
	31 December 2017 (under IAS 39)	Reclassification	Remeasurement	1 January 2018 (under IFRS 9)
Due from banks and other financial institutions	**-**	**-**	**15,898**	**15,898**
Investments, net	**54,290**	**(23,557)**	**198,513**	**229,246**
Financing and advances, net	**6,800,896**	**-**	**1,434,618**	**8,235,514**
	6,855,186	**(23,557)**	**1,649,029**	**8,480,658**
Indirect facilities	**308,793**	**-**	**100,399**	**409,192**

2. BASIS OF PREPARATION (continued)

(2.5) Impact of changes in accounting policies due to adoption of new standards (continued)

(2.5.1) Implication of new standards (continued)

IFRS 7 (revised) financial instruments: disclosures (IFRS 7R)

IFRS 7 was updated to reflect the differences between IFRS 9 and IAS 39 and the Group has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 2.5, detailed qualitative and quantitative information about the ECL calculations such as the assumptions, inputs used, reconciliations etc are also disclosed in the other respective notes.

IFRS 7 also requires additional and more detailed disclosures for hedge accounting which will be disclosed in the annual consolidated financial statements for 2018, since the adoption of IFRS 9 for hedge accounting did not have a material impact on the hedging activities/accounting of the Group.

(2.5.2) Amendments to existing Standards

The adoption of the following below amendments to the existing standards had no significant financial impact on the interim condensed consolidated financial statements of the Group on the current period or prior period and is expected to have no significant effect in future periods:

- Amendments to IFRS 2 – “Share based payments”, applicable for the annual periods beginning on or after 1 January 2018. The amendments address three main areas:

• The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments.

• The classification of a share-based payment transaction with net settlement features for withholding tax obligations.

• The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity- settled.

- The amendment clarifies that, if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. Any difference (whether a debit or a credit) between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in interim condensed consolidated statement of income.

- IFRIC 22 – “Foreign Currency Transactions and Advance Consideration”, the interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration.

Furthermore, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

3. 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 31 December 2017, except for the policies explained below. Based on the adoption of new standards explained in note 2.5, the following accounting policies are applicable effective 1 January 2018 replacing / amending or adding to the corresponding accounting policies set out in the consolidated financial statements of the Group for the year ended 31 December 2017.

3.1) Classification of financial assets

On initial recognition, a financial asset is classified as held at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through income statement ("FVIS").

Financial asset at amortised cost

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

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

Financial asset at FVOCI

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTCS); 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.

Equity instruments
On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in the statement of other comprehensive income. This election is made on an investment-by-investment basis.

Financial asset at FVIS

All financial assets, not classified as held at amortised cost or FVOCI are classified as FVIS.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVIS if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Business model assessment

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

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

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

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

3.3 Assessments whether contractual cash flows are solely payments of principal and interest ("SPPI" criteria)

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

All money market deposits, customer deposits, term loans and other debt securities in issue are initially recognised at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through income statement or the Group has opted to measure a liability at fair value through income statement.

Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective special commission rate.

3.5 Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) 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 recognised in OCI is recognised in the interim condensed consolidated statement of income.

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

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

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.

3.6 Modifications of financial assets and financial liabilities

a) Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised 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 the interim condensed consolidated statement of 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 special commission income.

b) Financial liabilities

The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the interim condensed consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

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

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

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

The Group categorizes its financial assets into following three stages in accordance with the IFRS-9 methodology:

- Stage 1 – financial assets that are not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months Probability of Default (PD).
- Stage 2 – financial assets that has significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on lifetime ECL. The impairment allowance is recorded based on life time PD.
- Stage 3 – for Financial assets that are impaired, the Group recognizes the impairment allowance based on life time PD.

The Group also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g., unemployment, GDP growth, inflation, profit rates and house prices) and economic forecasts obtained through internal and external sources.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Measurement of ECL

ECL represent probability-weighted estimates of credit losses. These are measured as follows:

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

3.9 Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are 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 special commission rate of the existing financial asset.

3.10 Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised 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 (refer to note 18.iv).

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the interim condensed statement of financial position as follows:

Financial assets measured at amortised cost
- as a deduction from the gross carrying amount of the assets;

Loan commitments and financial guarantee contracts
- generally, as a provision;

Financial instrument includes both a drawn and an undrawn component
- where the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

Debt instruments measured at FVOCI
- no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve. Impairment losses are recognised in profit and loss and changes between the amortised cost of the assets and their fair value are recognised in OCI.

3.12 Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3.13 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 is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group’s in the interim condensed consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

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

3.14 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

The Group has issued no loan commitments that are measured at FVIS. For other loan commitments, the Group recognises loss allowance.

3.16 Foreign Currencies

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

Equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI.

3.17 Revenue / expenses recognition

Special commission income and expenses

Special commission income and expense are recognised in the interim condensed consolidated statement of income using the effective interest method. The 'special commission rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortised cost of the financial instrument.

When calculating the special 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 special commission rate is calculated using estimated future cash flows including expected credit losses.

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Impact of changes in accounting judgements policies due to adoption of new standards

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

• The Group's internal credit grading model, which assigns Probabilities of Default (PDs) to the individual grades.

• The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment

• The segmentation of financial assets when their ECL is assessed on a collective basis

• Development of ECL models, including the various formulas and the choice of inputs

• Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels, and the effect on PDs.

• Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

4. INVESTMENTS, NET

	31 March 2018 (Unaudited) SAR ’000	31 December 2017 (Audited) SAR ’000	31 March 2017 (Unaudited) SAR ’000
Held at FVIS	**4,426,985**	1,978,773	2,464,263
Held at FVOCI	**43,225,809**	-	-
Available for sale, net	**-**	17,372,635	20,194,282
Held to maturity, net	**-**	697,281	1,096,276
Investments held at amortised cost, net	**65,902,307**	94,529,136	84,222,206
Total	**113,555,101**	114,577,825	107,977,027

a) Investments, net, include securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SAR 45,831 million (31 December 2017: SAR 44,126 million and 31 March 2017: SAR 27,079 million) and also include investment in sukuks amounting to SAR 24,322 million (31 December 2017: SAR 24,283 million and 31 March 2017: SAR 28,599 million).

b) Investments held at amortised cost include investments having an amortised cost of SAR 5,501 million (31 December 2017: SAR 13,200 and 31 March 2017: SAR 4,581 million) which are held under a fair value hedge relationship. As at 31 March 2018, the fair value of these investments amounts to SAR 5,328 million (31 December 2017: SAR 13,031 million and 31 March 2017: SAR 4,602 million).

c) FVOCI investments include equity investment securities designated as at FVOCI amounting to SAR 204 million.

d) Investments include SAR 14,199 million (2017: SAR 27,919 million), which have been pledged under repurchase agreements with other banks and customers. The market value of such investment is SAR 14,072 (2017: SAR 27,849 million).

e) Movement in loss allowance for investments at amortised cost and FVOCI debt instruments for the period is as follows:

	SAR ’000			
	31 March 2018 (Unaudited)			
	Stage 1	**Stage 2**	**Stage 3**	
	12 month ECL	**ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Investments				
Balance as at 1 January (note 2.5.1 - iv)	**145,298**	**83,948**	**-**	**229,246**
Net charge/ (release)	**(8,693)**	**602**	**-**	**(8,091)**
Foreign exchange and other movements	**(4,169)**	**-**	**-**	**(4,169)**
Balance as at 31 March	**132,436**	**84,550**	**-**	**216,986**

5. FINANCING AND ADVANCES, NET

	SAR '000				
	Consumer & Credit card	**Corporate**	**International**	**Others**	**Total**
31 March 2018 (Unaudited)					
Performing financing and advances	**90,802,745**	**128,341,045**	**24,772,159**	**11,906,471**	**255,822,420**
Non-performing financing and advances	**516,275**	**2,796,315**	**1,396,544**	**11,766**	**4,720,900**
Total financing and advances	**91,319,020**	**131,137,360**	**26,168,703**	**11,918,237**	**260,543,320**
Allowance for financing losses	**(1,496,068)**	**(4,791,494)**	**(1,381,017)**	**(97,894)**	**(7,766,473)**
Financing and advances, net	**89,822,952**	**126,345,866**	**24,787,686**	**11,820,343**	**252,776,847**

	SAR '000				
	Consumer & Credit card	Corporate	International	Others	Total
31 December 2017 (Audited)					
Performing financing and advances	89,927,400	125,440,573	25,977,050	9,921,127	251,266,150
Non-performing financing and advances	530,515	2,836,678	1,399,993	1,806	4,768,992
Total financing and advances	90,457,915	128,277,251	27,377,043	9,922,933	256,035,142
Allowance for financing losses (specfic and collective)	(1,298,874)	(4,182,616)	(1,261,038)	(58,368)	(6,800,896)
Financing and advances, net	89,159,041	124,094,635	26,116,005	9,864,565	249,234,246

	SAR '000				
	Consumer & Credit card	Corporate	International	Others	Total
31 March 2017 (Unaudited)					
Performing financing and advances	86,207,749	134,690,366	26,507,884	8,853,702	256,259,701
Non-performing financing and advances	499,867	2,118,122	1,476,322	1,784	4,096,095
Total financing and advances	86,707,616	136,808,488	27,984,206	8,855,486	260,355,796
Allowance for financing losses (specfic and collective)	(1,169,792)	(3,671,214)	(1,271,904)	(40,395)	(6,153,305)
Financing and advances, net	85,537,824	133,137,274	26,712,302	8,815,091	254,202,491

Others include private banking customers and bank loans.

a) Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SAR 212,300 million (31 December 2017: SAR 210,751 million and 31 March 2017: SAR 209,156 million).

5. FINANCING AND ADVANCES, NET (continued)

b) Movement in loss allowance for financing and advances at amortised cost and finance lease receivables for the period is as follows:

	SAR '000			
	31 March 2018 (Unaudited)			
	Stage 1 12 month ECL	Stage 2 Life time ECL not credit	Stage 3 Lifetime ECL credit impaired	Total
Balance as at 1 January (note 2.5.1 - iv)	**2,713,436**	**1,700,263**	**3,821,815**	**8,235,514**
Net impairment (reversal) charge (including transfer between stages)	**(55,646)**	**(343,703)**	**754,518**	**355,169**
Bad debts written off	**-**	**-**	**(770,044)**	**(770,044)**
Foreign currency translation differences	**(10,312)**	**(18,071)**	**(25,783)**	**(54,166)**
Balance as at 31 March	**2,647,478**	**1,338,489**	**3,780,506**	**7,766,473**

c) Impairment charge for financing losses recognised in the interim condensed consolidated statement of income.

	SAR '000			
	31 March 2018 (Unaudited)			
	Stage 1 12 month ECL	Stage 2 Life time ECL not credit	Stage 3 Lifetime ECL credit impaired	Total
Net impairment (reversal) charge (including transfer between stages)	**(55,646)**	**(343,703)**	**754,518**	**355,169**
Provision against indirect facilities	**(24,865)**	**25,216**	**(14,461)**	**(14,110)**
Direct write-off of financing and advances	**-**	**-**	**511**	**511**
Others	**(1,719)**	**(3,486)**	**-**	**(5,205)**
Sub total of charge for the period	**(82,230)**	**(321,973)**	**740,568**	**336,365**
Recoveries of debts previously written-off	**-**	**-**	**(344,174)**	**(344,174)**
Net charge for the period	**(82,230)**	**(321,973)**	**396,394**	**(7,809)**

6. DERIVATIVES

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

	31 March 2018 (Unaudited) SAR'000			31 December 2017 (Audited) SAR'000			31 March 2017 (Unaudited) SAR'000		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading:									
Special commission rate instruments	**1,528,210**	**(1,549,219)**	**168,217,988**	1,727,770	(1,119,688)	132,471,806	1,392,103	(1,429,432)	103,045,101
Forward foreign exchange contracts	**346,491**	**(33,224)**	**86,927,408**	318,781	(48,284)	77,702,130	341,826	(66,242)	78,039,947
Options	**18,015**	**(11,036)**	**364,456**	13,173	(9,482)	326,049	75,240	(62,688)	8,573,109
Structured derivatives	**68,188**	**(73,609)**	**13,639,824**	86,233	(90,513)	19,345,542	140,016	(138,678)	39,336,556
Held as fair value hedges:									
Special commission rate instruments	**761,247**	**(308,197)**	**15,053,202**	365,744	(276,401)	16,306,897	232,214	(280,001)	7,586,594
Held as cash flow hedges:									
Special commission rate instruments	**171,885**	**(326,335)**	**11,820,194**	176,757	(401,072)	12,487,217	127,678	(453,590)	11,875,248
Total	**2,894,036**	**(2,301,620)**	**296,023,072**	2,688,458	(1,945,440)	258,639,641	2,309,077	(2,430,631)	248,456,555

7. CUSTOMERS' DEPOSITS

	31 March 2018 (Unaudited) SAR '000	31 December 2017 (Audited) SAR '000	31 March 2017 (Unaudited) SAR '000
Current accounts	**237,052,409**	237,768,744	235,774,629
Savings	**123,509**	120,628	152,579
Time	**60,583,928**	57,974,382	66,128,282
Others	**11,240,986**	13,078,366	11,590,910
Total	**309,000,832**	308,942,120	313,646,400

International segment deposits included in customers' deposits comprise of:

	31 March 2018 (Unaudited) SAR '000	31 December 2017 (Audited) SAR '000	31 March 2017 (Unaudited) SAR '000
Current accounts	**5,950,424**	6,831,719	5,856,501
Savings	**-**	-	-
Time	**14,585,692**	14,702,820	14,849,722
Others	**465,688**	451,496	577,468
Total	**21,001,804**	21,986,035	21,283,691

8. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	31 March 2018 (Unaudited) SAR '000	31 December 2017 (Audited) SAR '000	31 March 2017 (Unaudited) SAR '000
Letters of credit	**10,079,052**	10,017,194	8,920,760
Guarantees	**39,365,115**	40,858,305	44,364,607
Acceptances	**2,183,872**	2,515,109	2,950,126
Irrevocable commitments to extend credit	**10,427,335**	12,054,997	11,857,105
Total	**62,055,374**	65,445,605	68,092,598

9. CASH AND CASH EQUIVALENTS

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

	31 March 2018 (Unaudited) SAR '000	31 December 2017 (Audited) SAR '000	31 March 2017 (Unaudited) SAR '000
Cash and balances with SAMA excluding statutory deposits	**12,524,885**	19,924,122	32,989,205
Due from banks and other financial institutions with original maturity of three months or less	**9,481,671**	8,878,037	6,793,205
Total	**22,006,556**	28,802,159	39,782,410

10. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's management.

The Group has five reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Retail — Provides banking services, including lending and current accounts in addition to products in compliance with Shariah rules which are supervised by the independent Shariah Board, to individuals and private banking customers.

Corporate — Provides banking services including all conventional credit-related products and financing products in compliance with Shariah rules to small sized businesses, medium and large establishments and companies.

Treasury — Provides a full range of treasury and correspondent banking products and services, including money market and foreign exchange, to the Group's clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).

Capital Market — Provides wealth management, asset management, investment banking and shares brokerage services (local, regional and international).

International — Comprises banking services provided outside Saudi Arabia including TFK.

Transactions between the operating segments are recorded as per the Bank and its subsidiaries' transfer pricing system.

The supports and Head Office expenses are allocated to segments using activity-based costing.

10. OPERATING SEGMENTS (continued)

The Group's total assets and liabilities at period end, its operating income and expenses (total and main items) and net income for the period, by operating segments, are as follows:

	SAR'000					
31 March 2018 (Unaudited)	**Retail**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Total assets	**104,445,383**	**141,464,987**	**153,884,010**	**1,512,929**	**36,198,980**	**437,506,289**
Total liabilities	**216,327,228**	**81,404,541**	**43,787,942**	**254,867**	**30,870,763**	**372,645,341**
Customers' deposits	**208,680,529**	**70,503,100**	**8,811,407**	**3,875**	**21,001,921**	**309,000,832**
Total operating income from external customers	**1,594,633**	**1,551,035**	**1,008,093**	**227,588**	**397,892**	**4,779,241**
- Intersegment operating income (expense)	**683,110**	**(561,118)**	**(96,157)**	**-**	**(25,835)**	**-**
Total operating income	**2,277,743**	**989,917**	**911,936**	**227,588**	**372,057**	**4,779,241**
of which:						
Net special commission income	**1,900,921**	**714,521**	**495,252**	**1,542**	**306,337**	**3,418,573**
Fee income from banking services, net	**309,649**	**221,611**	**36,897**	**222,108**	**62,172**	**852,437**
Exchange income, net	**167,131**	**54,783**	**7,735**	**7**	**32,581**	**262,237**
Total operating expenses	**932,842**	**231,266**	**218,611**	**88,841**	**279,586**	**1,751,146**
of which:						
- Depreciation/amortisation of property, equipment and software	**97,412**	**21,836**	**11,922**	**3,746**	**21,254**	**156,170**
- Impairment (reversal)/charge for financing and advances losses, net	**(44,997)**	**(39,890)**	**13,815**	**-**	**63,263**	**(7,809)**
- Impairment charge on investments, net			**85,523**	**-**	**-**	**85,523**
Other non-operating (expenses), net	**(6,490)**	**(7,183)**	**(9,846)**	**-**	**24,345**	**826**
Net income for the period attributable to:	**1,338,411**	**751,468**	**683,479**	**138,747**	**116,816**	**3,028,921**
- Equity holders of the Bank	**1,338,411**	**751,468**	**683,479**	**135,063**	**78,456**	**2,986,877**
- Non-controlling interests	**-**	**-**	**-**	**3,684**	**38,360**	**42,044**

	SAR'000					
31 March 2017 (Unaudited)	Retail	Corporate	Treasury	Capital Market	International	Total
Total assets	105,663,118	142,027,095	160,485,897	1,394,300	39,425,279	448,995,689
Total liabilities	217,963,909	75,023,114	60,299,007	186,536	33,660,932	387,133,498
Customers' deposits	213,502,653	71,626,616	7,230,351	2,972	21,283,808	313,646,400
Total operating income from external customers	1,482,426	1,822,637	976,223	163,660	414,875	4,859,821
- Intersegment operating income (expense)	455,983	(587,024)	157,696	-	(26,655)	-
Total operating income	1,938,409	1,235,613	1,133,919	163,660	388,220	4,859,821
of which:						
Net special commission income	1,567,948	921,609	553,686	359	315,854	3,359,456
Fee income from banking services, net	279,300	267,117	25,354	159,538	70,715	802,024
Exchange income, net	155,507	46,933	88,275	23	33,983	324,721
Total operating expenses	1,057,913	516,120	153,590	83,459	299,861	2,110,943
of which:						
- Depreciation/amortisation of property, equipment and software	123,901	26,630	16,271	8,481	19,858	195,141
- Impairment charge for financing and advances losses, net	78,250	259,515	-	-	84,216	421,981
- Impairment charge on investments, net	-	-	758	-	-	758
Other non-operating (expenses), net	(2,590)	(3,144)	(4,577)	(525)	(4,571)	(15,407)
Net income for the period attributable to:	877,906	716,349	975,752	79,676	83,788	2,733,471
- Equity holders of the Bank	877,906	716,349	975,752	77,364	55,188	2,702,559
- Non-controlling interests	-	-	-	2,312	28,600	30,912

11. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the periods ended 31 March 2018 and 31 March 2017 is calculated by dividing the net income attributable to common equity holders of the Bank (adjusted for Tier 1 sukuk costs) for the periods by the weighted average number of shares outstanding during the period.

Diluted earnings per share for the periods ended 31 March 2018 and 31 March 2017 is calculated by dividing the fully diluted net income attributable to equity holders of the Bank for the period by the weighted average number of outstanding shares. The diluted earnings per share are adjusted with the impact of the employees' share based payment plan.

12. TIER 1 SUKUK

During 2017, the Bank through a Shariah compliant arrangement ("the arrangement") issued further Tier 1 Sukuk (the "Sukuk"), amounting to SAR 1.3 billion. The initial issue amounting to SAR 5.7 billion took place during the year ended 31 December 2015 under similar arrangement. These arrangements were approved by the regulatory authorities and the shareholders of the Bank.

These Sukuks are perpetual securities in respect of which there is no fixed redemption dates and represents an undivided ownership interest of the Sukukholders in the Sukuk assets, with each Sakk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. However, the Bank shall have the exclusive right to redeem or call the Sukuks in a specific period of time, subject to the terms and conditions stipulated in the Sukuk Agreement.

The applicable profit rate on the Sukuks is payable quarterly 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 non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

13. ZAKAT

Zakat assessments have been finalised with the General Authority of Zakat and Tax (GAZT) for all years up to 2011. The Bank has submitted Zakat returns for the years 2012 to 2016 and obtained final Zakat certificates. The Zakat returns for the years 2012 to 2016 are currently under review by GAZT and Zakat assessment for these years is awaited.

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,000,000,000 shares of SAR 10 each (31 December 2017: 2,000,000,000 shares of SAR 10 each and 31 March 2017: 2,000,000,000 shares of SAR 10 each). The capital of the Bank excluding treasury shares consists of 1,992,939,607 shares of SAR 10 each (31 December 2017: 1,994,798,024 shares of SAR 10 each and 31 March 2017: 1,996,903,527 shares of SAR 10 each).

The Board of Directors of the Bank has recommended on 28 December 2017, corresponding to 10 Rabi al-thani 1439H to an Extraordinary General Shareholders Assembly, an increase of 50% of the Bank's existing capital through bonus shares with 1 bonus share for every 2 shares owned. The number of shares will increase by 1,000,000,000 shares to reach 3,000,000,000 shares and the capital of the Bank will increase by SAR 10,000,000,000 to reach SAR 30,000,000,000 subject to approval from the official authorities and the Extraordinary General Assembly.

15. SHARE BASED PAYMENTS RESERVE AND TREASURY SHARES

15.1 Employee share based payment plan

The Bank established a share based compensation scheme for its key management that entitles the related personnel to be awarded shares in the Bank subject to successfully meeting certain service and performance conditions. Under the share based compensation scheme, the Bank launched various plans. Significant features of these plans are as follows:

Maturity dates	Between Dec. 2018 and Dec. 2020
Total number of shares granted on the grant date	7,060,393
Vesting period	3 years
Method of settlement	Equity
Fair value per share on grant date	Average SAR 44.54

15.2 Treasury shares

During the three months period ended 31 March 2018, the Bank in connection with its employee share based payment plan (see note 15.1), purchased its own shares amounting to SAR 112 million to reach SAR 338 million (31 December 2017: SAR 226 million and 31 March 2017: SAR 121 million) which have been classified as treasury shares and presented under shareholders' equity in the interim condensed consolidated statement of changes in equity.

The Bank has secured all necessary regulatory approvals in respect of the share based payment plan and purchase of treasury shares.

16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUE HIERARCHY

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

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

Fair value information of the Group's financial instruments is analysed below.

a. Fair value information for financial instruments at fair value

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

Level 2: quoted prices in active markets for similar assets and liabilities or valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

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

16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUE HIERARCHY (continued)

a. Fair value information for financial instruments at fair value (continued)

		SAR'000		
31 March 2018 (Unaudited)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	-	**2,894,036**	-	**2,894,036**
Financial assets held at FVIS	**588,964**	**3,417,689**	**420,332**	**4,426,985**
Financial assets held at FVOCI	**36,393,967**	**6,667,185**	**164,657**	**43,225,809**
Investments held at amortised cost, net - fair value hedged	**-**	**5,327,907**	**-**	**5,327,907**
Total	**36,982,931**	**18,306,817**	**584,989**	**55,874,737**
Financial liabilities				
Derivative financial instruments	**-**	**2,301,620**	**-**	**2,301,620**
Total	**-**	**2,301,620**	**-**	**2,301,620**

		SAR'000		
31 December 2017 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	2,688,458	-	2,688,458
Financial assets held at FVIS	-	1,291,844	40,277	1,332,121
Financial assets available for sale	11,597,666	5,338,726	436,243	17,372,635
Held for trading	646,652	-	-	646,652
Other investments held at amortised cost, net - fair value hedged	-	13,031,739	-	13,031,739
Total	12,244,318	22,350,767	476,520	35,071,605
Financial liabilities				
Derivative financial instruments	-	1,945,440	-	1,945,440
Total	-	1,945,440	-	1,945,440

		SAR'000		
31 March 2017 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	2,309,077	-	2,309,077
Financial assets held at FVIS	-	1,649,018	106,735	1,755,753
Financial assets available for sale	11,605,900	8,101,840	486,542	20,194,282
Held for trading	708,510	-	-	708,510
Other investments held at amortised cost, net - fair value hedged	-	4,601,859	-	4,601,859
Total	12,314,410	16,661,794	593,277	29,569,481
Financial liabilities				
Derivative financial instruments	-	2,430,631	-	2,430,631
Total	-	2,430,631	-	2,430,631

16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES AND FAIR VALUE HIERARCHY (continued)

b. Fair value information for financial instruments not measured at fair value

The fair value of financing and advances, net amounts to SAR 258,699 million (31 December 2017: SAR 249,850 million and 31 March 2017: SAR 257,302 million).

The fair values of due from banks and other financial institutions, investments held at amortised cost, due to banks and other financial institutions, customers deposits and debt securities issued at 31 March 2018, 31 December 2017 and 31 March 2017 approximate their carrying values.

c. Valuation technique and significant unobservable inputs for financial instruments at fair value

The Group uses various valuation techniques for determination of fair values for financial instruments classified under levels 2 and 3 of the fair value hierarchy. These techniques and the significant unobservable inputs used therein are analysed below.

The Group utilises fund manager reports (and appropriate discounts or haircuts where required) for the determination of fair values of private equity funds and hedge funds. The fund manager deploys various techniques (such as discounted cash flow models and multiples method) for the valuation of underlying financial instruments classified under level 2 and 3 of the respective fund's fair value hierarchy. Significant unobservable inputs embedded in the models used by the fund manager include risk adjusted discount rates, marketability and liquidity discounts and control premiums.

For the valuation of unquoted debt securities and derivative financial instruments, the Group obtains fair value estimates from reputable third party valuers, who use techniques such as discounted cash flows, option pricing models and other sophisticated models.

d. Transfer between Level 1 and Level 2

There were no transfers between level 1 and level 2 during 31 March 2018 (31 December 2017: Nil and 31 March 2017: Nil).

17. DIVIDEND

On 28 December 2017, the Board of Directors has recommeded the distribution of final dividend of SAR 1,197 million (SAR 0.60 per share) and accordingly, the dividend will be paid in full during the second quarter 2018, upon approval at the Annual General Assembly Meeting.

18. FINANCIAL RISK MANAGEMENT - CREDIT RISK

a. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31 March 2018 (Unaudited) SAR'000			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Due from Bank and Other financial institutions				
Investment grade	12,585,031	-	-	12,585,031
Non-investment grade	4,351,421	586,240	-	4,937,661
Unrated	798,479	-	-	798,479
Individually impaired	-	-	-	-
Gross carrying amount	17,734,931	586,240	-	18,321,171
Financing and advances				
Investment Grade	55,713,411	17,484	-	55,730,895
Non-investment Grade	86,263,661	13,258,082	1,293,344	100,815,087
Unrated	99,499,989	1,069,795	-	100,569,784
Individually impaired	-	-	3,427,556	3,427,556
Gross carrying amount	241,477,061	14,345,361	4,720,900	260,543,322
Debt investment securities at amortised cost				
Investment Grade	62,408,899	519,124	-	62,928,023
Non-investment Grade	1,707,173	1,378,316	-	3,085,489
Gross carrying amount	64,116,072	1,897,440	-	66,013,512
Debt investment securities at FVOCI				
Investment Grade	41,749,924	-	-	41,749,924
Non-investment Grade	527,006	733,072	-	1,260,078
Gross carrying amount	42,276,930	733,072	-	43,010,002
Commitment and contingencies				
Investment Grade	19,814,589	11,819	17,551	19,843,959
Non-investment Grade	35,844,847	3,946,457	586,202	40,377,506
Unrated	1,370,541	452,079	11,289	1,833,909
Total	57,029,977	4,410,355	615,042	62,055,374

18. FINANCIAL RISK MANAGEMENT - CREDIT RISK (continued)

b. Amounts arising from ECL – significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure based on approved stages of criteria.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of exposures involves use of the following data.

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

i) Generating the term structure of PD

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

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors include GDP growth, benchmark interest rates, unemployment etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

18. FINANCIAL RISK MANAGEMENT - CREDIT RISK (continued)

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

i) Generating the term structure of PD (continued)

Based on advice from Group economics department and consideration of a variety of external actual and forecast 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 (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

ii) Determining whether credit risk has increased significantly

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

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition, which is determined under basis of Group's staging criteria.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due unless reasonable evidences are present to prove otherwise. 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 Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

iii) Modified financial assets

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

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly is completed on the basis of the approved staging criteria.

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

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

18. FINANCIAL RISK MANAGEMENT - CREDIT RISK (continued)

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

iii) Modified financial assets (continued)

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

iv) Definition of 'Default'

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The obligor is past due for 90 days or more on any material credit obligations to the Group including principal instalments, interest payments and fees. The materiality threshold for recognition of default is 5% of the total outstanding credit obligations of the client.
- The Group considers that the obligor 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).

The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group economics department experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing 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 in the Kingdom and selected private sector and academic forecasters.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

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

vi) Measurement of ECL

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

a) probability of default (PD);
b) loss given default (LGD);
c) exposure at default (EAD).

18. FINANCIAL RISK MANAGEMENT - CREDIT RISK (continued)

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

vi) Measurement of ECL (continued)

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

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For Financing and advances secured by retail property, LTV (Lending to Value) ratios are a key parameter in determining LGD.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

The Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a Financing and advances commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a Financing and advances and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group'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 Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits. Cancellation of the facility and/or turning the outstanding balance into a Financing and advances with fixed repayment terms.

c. Collateral

The Group uses a wide variety of techniques to reduce credit risk on its lending; one important credit risk mitigation technique is accepting guarantees and collaterals with appropriate coverage. The Group ensures that the collateral held is sufficiently liquid, legally effective and regularly valued. The method and frequency of revaluation depends on the nature of the collateral involved. Types of acceptable collateral to the Group include time and other cash deposits, financial guarantees, equities, real estate, other fixed assets and salary assignment in case of individuals. The collateral is held mainly against commercial and individual financings and is managed against relevant exposures at its net realizable values. The Group monitors the market value of collaterals, requests additional collaterals in accordance with the underlying agreements. Whenever possible, finances are secured by acceptable forms of collateral in order to mitigate credit risk. Group’s policy is to lend against the cash flow of an operating commercial entity as a first way and primary source of repayment. Collaterals provided by the customer shall be considered only as a secondary source for repayment.

19. DEBT SECURITIES

As at the reporting date, debt securities issued comprise of non-convertible sukuks issued by the Bank and TFK, carrying profit at fixed rates, with maturities up to 2024. Below is a reconciliation of liabilities arising from financing activities:

	31 March 2018 (Unaudited) SAR '000	31 December 2017 (Audited) SAR '000	31 March 2017 (Unaudited) SAR '000
Debt securities issued:			
At beginning of the period	**10,250,310**	9,917,765	9,917,765
Net movement in debt securities	**215,862**	263,900	139,747
Foreign currency translation adjustment	**62,112**	68,645	(198,367)
At end of the period	**10,528,284**	10,250,310	9,859,145

20. CAPITAL ADEQUACY

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

The Group monitors the adequacy of its capital using the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statement of financial position assets, commitments and contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires Banks to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risks which comprise the Pillar 1 minimum capital requirements.

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

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

	Risk weighted assets		
	31 March 2018 (Unaudited) SAR '000	31 December 2017 (Audited) SAR '000	31 March 2017 (Unaudited) SAR '000
Credit risk	**311,381,078**	317,684,135	340,590,155
Operational risk	**34,324,423**	33,970,252	33,292,844
Market risk	**12,248,465**	9,452,340	7,894,115
Total Pillar-1 - risk weighted assets	**357,953,966**	361,106,727	381,777,114
Core capital (Tier 1)	**64,979,658**	63,825,327	61,592,873
Supplementary capital (Tier 2)	**7,989,687**	8,232,300	8,059,000
Core and supplementary capital (Tier 1 and Tier 2)	**72,969,345**	72,057,627	69,651,873
Capital Adequacy Ratio (Pillar 1):-			
Core capital (Tier 1)	**18.2%**	17.7%	16.1%
Core and supplementary capital (Tier 1 and Tier 2)	**20.4%**	20.0%	18.2%

20. CAPITAL ADEQUACY (continued)

Tier 1 capital of the Group comprises share capital, statutory reserve, other reserves, proposed dividend, retained earnings, tier 1 eligible debt securities and non-controlling interests less treasury shares, goodwill, intangible assets, foreign currency translation reserve and other prescribed deductions. Tier 2 capital comprises of eligible debt securities issued and prescribed amounts of eligible portfolio (collective) provisions less prescribed deductions.

The Group uses the Standardized approach of Basel III to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and operational risk). The Group's Risk Management is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel III requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

21. COMPARATIVE FIGURES

Certain prior period figures have been reclassified to conform to current period presentation, which are not material in nature.

22. BOARD OF DIRECTORS' APPROVAL

The interim condensed consolidated financial statements were approved by the Board of Directors on 13 Shabaan 1439H (corresponding to 29 April 2018).