BANQUE SAUDI FRANSI

INTERIM CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

FOR THE THREE MONTHS PERIOD ENDED

March 31, 2019

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KPMG Al Fozan & Partners
Certified Public Accountants

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

TO: THE SHAREHOLDERS OF BANQUE SAUDI FRANSI
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Banque Saudi Fransi and its subsidiaries (the "Bank") as at March 31, 2019, and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

KPMG Al Fozan & Partners
Certified Public Accountants

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 (15) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (15) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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4 Ramadhan 1440H
May 9, 2019

BANQUE SAUDI FRANSI

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at

SAR '000	Notes	Mar 31, 2019 (Unaudited)	Dec 31, 2018 (Audited)	Mar 31, 2018 (Unaudited)
ASSETS				
Cash and balances with SAMA		**13,716,802**	20,925,860	15,539,923
Due from banks and other financial institutions		**15,265,425**	15,938,529	12,346,783
Investments, net	6	**33,683,206**	28,371,980	27,428,486
Positive fair value of derivatives	9	**2,525,327**	1,932,464	1,998,282
Loans and advances, net	7	**121,274,031**	120,631,634	123,882,872
Investment in associates		**9,695**	9,695	42,195
Property and equipment, net		**1,401,621**	690,369	722,209
Other real estate		**453,509**	463,509	504,830
Other assets		**1,659,952**	1,236,666	1,552,047
Total assets		**189,989,568**	**190,200,706**	**184,017,627**
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions		**2,334,553**	2,145,481	3,020,136
Customers' deposits	8	**144,820,128**	148,368,004	141,943,684
Negative fair value of derivatives	9	**1,713,285**	1,414,128	1,474,839
Debt securities and sukuks		**2,003,342**	2,003,340	2,002,644
Other liabilities		**6,920,720**	5,457,374	3,882,361
Total liabilities		**157,792,028**	**159,388,327**	**152,323,664**
Equity				
Share capital		**12,053,572**	12,053,572	12,053,572
Statutory reserve		**12,053,572**	12,053,572	12,053,572
General reserve		**982,857**	982,857	982,857
Other reserves		**209,962**	(318,304)	(442,544)
Retained earnings		**6,055,907**	5,200,042	6,813,455
Proposed dividend		**958,081**	958,081	355,237
Treasury shares		**(116,411)**	(117,441)	(122,186)
Total equity		**32,197,540**	**30,812,379**	**31,693,963**
Total liabilities and equity		**189,989,568**	**190,200,706**	**184,017,627**

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

Abdulelah N. Alharoura
Chief Financial Officer

Rayan M. Fayez
Managing Director & CEO

BANQUE SAUDI FRANSI
INTERIM CONSOLIDATED STATEMENT OF INCOME
Unaudited

SAR '000	For the three months ended	
	Mar 31, 2019	**Mar 31, 2018**
Special commission income	**1,845,714**	1,606,654
Special commission expense	**572,774**	350,651
Net special commission income	**1,272,940**	**1,256,003**
Fee and commission income	**384,014**	350,266
Fee and commission expense	**78,934**	72,635
Net fee and commission income	**305,080**	277,631
Exchange income, net	**80,915**	78,669
Trading income, net	**46,496**	21,177
Dividend income	**-**	248
Losses on FVOCI / non-trading investments, net	**(127)**	-
Gains on sale of associate	**-**	97,310
Other operating income	**17,377**	13,445
Total operating income	**1,722,681**	**1,744,483**
Salaries and employee related expenses	**291,439**	338,286
Rent and premises related expenses	**16,469**	39,791
Depreciation and amortization	**58,538**	37,402
Other general and administrative expenses	**113,791**	128,984
Impairment charge for credit losses, net	**144,169**	89,743
Reversal of impairment charge for investments and other financial assets, net	**(38,576)**	(31,077)
Other operating expenses	**10,426**	31,764
Total operating expenses	**596,256**	**634,893**
Net operating income	**1,126,425**	1,109,590
Share in earnings of associates, net	**-**	2,529
Net income for the period	**1,126,425**	**1,112,119**
Basic and diluted earnings per share for the period (SAR)	**0.94**	0.93

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

Abdulelah N. Alharoura
Chief Financial Officer

Rayan M. Fayez
Managing Director & CEO

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited

SAR '000	For the three months ended	
	Mar 31, 2019	Mar 31, 2018
Net income for the period	**1,126,425**	1,112,119
Other comprehensive income / (loss):		
Items that cannot be recycled back to consolidated statement of income in subsequent periods		
Fair value through other comprehensive income (FVOCI) equity investments		
Net change in the fair value	**(576)**	2,567
Items that can be recycled back to consolidated statement of income in subsequent periods		
Debt instruments at fair value through other comprehensive income (FVOCI)		
Net change in the fair value	**47,259**	(28,640)
Cash flow hedge		
Effective portion of net change in the fair value	**436,974**	(48,175)
Net amount transferred to consolidated statement of income	**44,609**	(83,124)
Total comprehensive income for the period	**1,654,691**	**954,747**

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

Abdulelah N. Alharoura

Chief Financial Officer

Rayan M. Fayez

Managing Director & CEO

BANQUE SAUDI FRANSI
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Unaudited

SAR '000	Share capital	Statutory reserve	General reserve	Retained earnings	Other reserves		Proposed dividend	Treasury shares	Total
					FVOCI	Cash flow hedge			
For the three months period ended Mar 31, 2019									
Balance at the beginning of the year	**12,053,572**	**12,053,572**	**982,857**	**5,200,042**	**(9,786)**	**(308,518)**	**958,081**	**(117,441)**	**30,812,379**
Impact of adopting IFRS 16 as at 01 January 2019 (note 4)	-	-	-	(62,666)	-	-	-	-	(62,666)
Restated balance as at 1 January 2019	**12,053,572**	**12,053,572**	**982,857**	**5,137,376**	**(9,786)**	**(308,518)**	**958,081**	**(117,441)**	**30,749,713**
Net income for the period	-	-	-	1,126,425	-	-	-	-	1,126,425
Net change in the fair value	-	-	-	-	46,683	436,974	-	-	483,657
Net amount transferred to consolidated statement of income	-	-	-	-	-	44,609	-	-	44,609
Zakat liability	-	-	-	(165,836)	-	-	-	-	(165,836)
Tax liability	-	-	-	(42,058)	-	-	-	-	(42,058)
Net change in treasury shares	-	-	-	-	-	-	-	1,030	1,030
Balance at the end of the period	**12,053,572**	**12,053,572**	**982,857**	**6,055,907**	**36,897**	**173,065**	**958,081**	**(116,411)**	**32,197,540**
For the three months period ended Mar 31, 2018									
Balance at the beginning of the year	12,053,572	12,053,572	982,857	6,628,963	10,118	(295,290)	355,237	(127,648)	**31,661,381**
Impact of adopting IFRS 9 as at 01 January 2018	-	-	-	(862,875)	-	-	-	-	**(862,875)**
Restated balance as at 1 January 2018	**12,053,572**	**12,053,572**	**982,857**	**5,766,088**	**10,118**	**(295,290)**	**355,237**	**(127,648)**	**30,798,506**
Net income for the period	-	-	-	1,112,119	-	-	-	-	**1,112,119**
Net change in the fair value	-	-	-	-	(26,073)	(48,175)	-	-	**(74,248)**
Net amount transferred to interim consolidated statement of income	-	-	-	-	-	(83,124)	-	-	**(83,124)**
Zakat liability	-	-	-	(30,848)	-	-	-	-	**(30,848)**
Tax liability	-	-	-	(33,904)	-	-	-	-	**(33,904)**
Net change in treasury shares	-	-	-	-	-	-	-	5,462	**5,462**
Balance at the end of the period	**12,053,572**	**12,053,572**	**982,857**	**6,813,455**	**(15,955)**	**(426,589)**	**355,237**	**(122,186)**	**31,693,963**

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

Abdulelah N. Alharoura

Chief Financial Officer

Rayan M. Fayez

Managing Director & CEO

SAR '000	Note	For the three months ended Mar 31, 2019	Mar 31, 2018
OPERATING ACTIVITIES			
Net income for the period		**1,126,425**	1,112,119
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of (premium) / discounts on investments not held as FVTPL, net		**(35,132)**	1,779
Gains on sale of associate		**-**	(97,310)
Losses / (gains) on FVOCI / non-trading investments, net		**127**	-
Depreciation and amortization		**58,538**	37,402
Gains on disposal of property and equipment, net		**(494)**	-
Impairment charge for credit losses, net		**144,169**	89,743
Reversal of impairment charge for investments and other financial assets, net		**(38,576)**	(31,077)
Share in earnings of associates, net		**-**	(2,529)
Long term incentive scheme provision		**1,030**	5,462
Provision on other real estate		**10,000**	-
Change in fair value of financial instruments		**22**	(2,417)
Operating income before changes in operating assets and liabilities		**1,266,109**	**1,113,172**
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**63,571**	190,318
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**2,127,000**	(1,649,000)
Investments held as FVIS, trading		**65,770**	(437,819)
Loans and advances		**(786,566)**	(2,696,273)
Other assets		**(524,089)**	(485,788)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**189,072**	56,863
Customers' deposits		**(3,547,876)**	(9,010,503)
Other liabilities		**1,086,951**	(164,508)
Net cash (used in) / generated from operating activities		**(60,058)**	**(13,083,538)**
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investment not held as FVTPL		**1,266,913**	619,097
Purchase of investments not held as FVTPL		**(6,544,475)**	(2,236,383)
Purchases of property and equipment		**(51,784)**	(22,684)
Proceeds from sale of property and equipment		**494**	-
Net cash used in investing activities		**(5,328,852)**	**(1,639,970)**
FINANCING ACTIVITIES			
Zakat paid		**(302,134)**	-
Net cash used in financing activities		**(302,134)**	**-**
(Decrease) / increase in cash and cash equivalents		**(5,691,044)**	**(14,723,508)**
Cash and cash equivalents at the beginning of the period		**23,989,879**	27,715,920
Cash and cash equivalents at the end of the period	11	**18,298,835**	**12,992,412**
Special commission received during the period		**1,671,269**	**1,514,207**
Special commission paid during the period		**461,538**	**383,865**
Supplemental non-cash information			
Net changes in fair value and transfers to interim consolidated statement of income		**528,266**	**(157,372)**

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

Abdulelah N. Alharoura
Chief Financial Officer

Rayan M. Fayez
Managing Director & CEO

1. General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 87 branches (March 31, 2018: 86 branches) in the Kingdom of Saudi Arabia, employing 2,976 people (March 31, 2018: 3,044 people).

The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at King Saud Road, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Bank owns a subsidiary, Saudi Fransi Capital (100% share in equity) engaged in brokerage, asset management and corporate finance business. The Bank also owns Saudi Fransi Insurance Agency (SAFIA), Saudi Fransi Financing & Leasing and Sofinco Saudi Fransi having 100% share in equity. The Bank owns 100% (95% direct ownership and 5% indirect ownership through its subsidiary) share in Sakan Real Estate Financing. These subsidiaries are incorporated in the Kingdom of Saudi Arabia.

The Bank also formed a subsidiary, BSF Markets Limited registered in Cayman Islands having 100% share in equity. The objective of this company is derivative trading and Repo activities.

The Bank owns 27% shareholding in Banque BEMO Saudi Fransi ("Associate"), incorporated in Syria.

2. Basis of preparation

The interim condensed consolidated financial statements of the Bank as at and for the quarter ended 31 March 2019 have been 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 interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018. The Bank has adopted IFRS 16 Leases from 1 January 2019 and accounting policies for these new standards are disclosed in the Note 4.

3. Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries; Saudi Fransi Capital, Saudi Fransi Insurance Agency, Saudi Fransi Financing & Leasing, Sofinco Saudi Fransi, Sakan real estate financing and BSF Markets Limited. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments are made wherever necessary in the financial statements of the subsidiaries to align with the Bank's interim condensed consolidated financial statements.

Subsidiaries are the entities that are controlled by the Bank. The Bank controls an entity when it is exposed, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity.

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 during the period, if any, are included in the interim condensed consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

3. Basis of consolidation (continued)

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

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

Effective 1 January 2019 the Group has adopted a new accounting standard, the impact of the adoption of this standard is explained below:

Before January 01, 2019, the Bank follows Accounting for leases (if applicable):

(i) <u>Where the Bank is the lessee</u>

Leases that do not transfer to the bank substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the (consolidated) statement of income on a straight-line basis over the period of the lease.

(ii) <u>Where the Bank is the lessor</u>

When assets are transferred under a finance lease, including assets under Islamic lease arrangement (e.g. Ijara Muntahia Bittamleek or Ijara with ownership promise) (if applicable) the present value of the lease payments is recognised as a receivable and disclosed under “Loans and advances”. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

The bank adopted IFRS 16 ‘Leases’ the standard replaces the existing guidance on leases, including IAS 17 ‘Leases”, IFRIC 4 ‘Determining whether an Arrangement contains a Lease”, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognize in the Bank’s Financial Position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 “Leases” into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Bank has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018, using the interest rate at the time of first time application. The net impact on retained earnings on 01 January 2019 was a decrease of SAR 63 million.

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

RECONCILIATION OF LEASE LIABILITIES

	SAR' 000
Off-balance sheet lease obligations (with extended period) as of December 31, 2018	980,292
Current leases with a lease term of 12 months or less & low-value leases	(247)
Operating lease obligations as of January 1, 2019 (Gross without discounting)	980,045
Discounting to present value	(271,568)
Operating lease obligations as of January 1, 2019 (net, discounted)	708,477

The Bank applied the weighted average incremental borrowing rate to lease liabilities recognized in the statement of financial position at the date of initial application.

The bank has lease contracts for Branch premises, ATM premises and leasehold improvements thereon. The Right of Use Asset (including prepaid rent) recognized by the Bank as at 1 January 2019 amounted to SR 683 million.The net impact on retained earnings, due to adoption of IFRS 16, on 01 January 2019 was a decrease of SAR 63 million.

Right of Use assets have been presented as part of property and equipment, net and lease liability has been included under other liabilities on the statement of financial position.

5. Significant Accounting Policies

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2018 except for the policies explained below. Based on the adoption of new standards explained in note 4, the following accounting policies are applicable effective 1 January 2019 replacing / amending or adding to the corresponding accounting policies set out in 2018 financial statements.

Right of Use Asset / Lease Liabilities

On initial recognition, at inception of the contract, the Bank shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Bank and the Bank can direct the usage of such assets.

Right of Use Assets

Bank applies cost model, and measure right of use asset at cost;

1. less any accumulated depreciation and any accumulated impairment losses;
2. adjusted for any re-measurement of the lease liability for lease modifications

Generally, RoU asset would be equal to the lease liability. However, if there are additional costs such as Site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the RoU asset value.

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor.
After the commencement date, Bank measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

6. Investments, net

Investments are classified as follows:

SAR'000	Mar 31, 2019 (Unaudited)	Dec 31, 2018 (Audited)	Mar 31, 2018 (Unaudited)
Investment at amortized cost	27,315,099	22,596,255	20,505,072
Investments at FVOCI – Debt instruments	6,153,840	5,511,719	6,446,336
Investments at FVOCI – Equity/ other investments	132,783	135,133	147,222
Investment at FVTPL – Debt instruments	290,978	356,748	568,509
Less: Impairment	(209,494)	(227,875)	(238,653)
Total	33,683,206	28,371,980	27,428,486

7. Loans and advances, net

Loans and advances held at amortised cost

SAR '000	March 31, 2019 (Unaudited)			
	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Total
Performing loans and advances - gross	107,534,749	442,693	14,101,075	122,078,517
Non performing loans and advances, net	3,032,522	76,978	278,408	3,387,908
Total loans and advances	110,567,271	519,671	14,379,483	125,466,425
Allowance for impairment	(3,725,857)	(93,683)	(372,854)	(4,192,394)
Loans and advances held at amortised cost, net	106,841,414	425,988	14,006,629	121,274,031

SAR' 000	December 31, 2018 (Audited)			
	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Total
Performing loans and advances - gross	107,544,030	456,779	13,066,013	121,066,822
Non performing loans and advances, net	3,257,188	80,568	287,410	3,625,166
Total loans and advances	110,801,218	537,347	13,353,423	124,691,988
Allowance for impairment	(3,631,806)	(80,775)	(347,773)	(4,060,354)
Loans and advances held at amortised cost, net	107,169,412	456,572	13,005,650	120,631,634

7. Loans and advances, net (continued)

SAR' 000	March 31, 2018 (Unaudited)			
	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Total
Performing loans and advances - gross	112,265,109	471,398	11,888,831	124,625,338
Non performing loans and advances, net	3,194,098	61,158	167,577	3,422,833
Total loans and advances	115,459,207	532,556	12,056,408	128,048,171
Allowance for impairment	(3,847,890)	(74,455)	(242,954)	(4,165,299)
Loans and advances held at amortised cost, net	111,611,317	458,101	11,813,454	123,882,872

The movement in the allowance for impairment of Loans and advances to customers for the period ended 31 March 2019 is as follows:

SAR' 000	March 31, 2019 (Unaudited)
Opening loss allowance as at 1 January 2019	4,060,354
Charge for the period, net	144,169
Bad debts written off against provision	(12,129)
Balance at the end of the period	4,192,394

8. Customers' deposits

SAR' 000	Mar 31, 2019 (Unaudited)	December 31, 2018 (Audited)	Mar 31, 2018 (Unaudited)
Demand	71,175,225	67,792,228	79,051,673
Saving	563,542	547,702	547,300
Time	68,529,165	75,682,178	58,187,720
Other	4,552,196	4,345,896	4,156,991
Total	144,820,128	148,368,004	141,943,684

9. Derivatives

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For currency rate swaps, fixed and floating commission payments and principal are exchanged in different currencies.

9. Derivatives (continued)

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over the counter market. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

e) Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers, Banks and other financial institutions in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products. The bank also holds structured derivative which are fully back to back in accordance with the bank's risk management strategy.

f) Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and the management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to an acceptable level as determined by the Board of Directors in accordance with the guidelines issued by SAMA.

The Board of Directors has established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency rate swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

9. Derivatives (continued)

g) Cash flow hedges

The Bank is exposed to variability in future special commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The Bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps.

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

SAR '000	March 31, 2019 (Unaudited)			December 31, 2018 (Audited)			March 31, 2018 (Unaudited)		
	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									
Commission rate swaps	1,337,725	1,257,037	155,114,952	1,087,606	1,033,434	154,889,392	979,297	830,698	155,688,340
Commission rate futures and options	311,063	311,063	56,437,900	241,720	241,720	55,743,725	333,029	333,029	52,403,162
Forward foreign exchange contracts	140,915	8,730	20,526,476	134,446	18,682	28,146,685	208,580	23,440	42,775,000
Currency options	2,579	2,579	458,858	1,577	1,577	694,355	2,704	2,704	1,598,945
Others	12,846	12,846	694,123	7,791	7,791	709,920	9,304	9,304	556,945
Held as fair value hedges									
Commission rate swaps	-	-	-	-	-	-	209	-	264,000
Held as cash flow hedges									
Commission rate swaps	720,199	121,030	55,119,212	459,324	110,924	60,041,236	465,159	275,664	69,891,058
Total	2,525,327	1,713,285	288,351,521	1,932,464	1,414,128	300,225,313	1,998,282	1,474,839	323,177,450

10. Commitments and contingencies

The Bank's credit related commitments and contingencies are as follows:

SAR '000	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
Letters of credit	7,635,723	7,918,102	8,161,348
Letters of guarantee	40,109,854	41,289,519	44,931,015
Acceptances	2,008,183	1,872,827	2,014,373
Irrevocable commitments to extend credit	3,282,476	2,815,479	3,575,579
Total	53,036,236	53,895,927	58,682,315

The bank has made impairment provision amounting to SAR 559 million (December 31, 2018: 577 million) against credit related commitments and contingencies which has been classified into other liabilities. The Group is subject to legal proceedings in the ordinary course of business. There was no change in the status of legal proceedings as disclosed at December 31, 2018.

11. Cash and cash equivalents

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

SAR '000	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	5,630,011	12,775,498	7,094,629
Due from banks and other financial institutions maturing within three months from the date of acquisition	12,668,824	11,214,381	5,897,783
Total	18,298,835	23,989,879	12,992,412

Cash and cash equivalents include amount of SAR 907 million (December 31, 2018: 1,419 million) held with CA-CIB group (major shareholder).

12. Fair values of financial assets and liabilities

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values aims also to reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

12. Fair values of financial assets and liabilities (continued)

Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Market Risk Department, which is independent of Front Office management and reports to the Chief Risk Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging)
Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data: and
Level 3: valuation techniques for which any significant input is not based on observable market data.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Derivative products valued using a valuation technique with market observable inputs are mainly commission rate swaps and options, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates and commission rate curves. Other investments in level 2 are valued based on market observable date including broker rates etc.

SAR '000	Level 1	Level 2	Level 3	Total
March 31, 2019 (Unaudited)				
Financial assets				
Derivative financial instruments positive fair value	-	2,525,327	-	2,525,327
Financial investments designated at FVTPL	270,749	20,229	-	290,978
Financial investments at FVOCI	2,092,621	4,179,983	6,984	6,279,588
Total	2,363,370	6,725,539	6,984	9,095,893
Financial Liabilities				
Derivative financial instruments negative fair value	-	1,713,285	-	1,713,285
Total	-	1,713,285	-	1,713,285

SAR '000	Level 1	Level 2	Level 3	Total
December 31, 2018 (Audited)				
Financial assets				
Derivative financial instruments positive fair value	-	1,932,464	-	1,932,464
Financial investments designated at FVIS (trading)	336,521	20,227	-	356,748
Financial investments available for sale	1,468,311	4,166,211	6,984	5,641,506
Total	1,804,832	6,118,902	6,984	7,930,718
Financial Liabilities				
Derivative financial instruments negative fair value	-	1,414,128	-	1,414,128
Total	-	1,414,128	-	1,414,128

12. Fair values of financial assets and liabilities (continued)

SAR '000	Level 1	Level 2	Level 3	Total
March 31, 2018 (Unaudited)				
Financial assets				
Derivative financial instruments positive fair value	-	1,998,282	-	1,998,282
Financial investments designated at FVIS (trading)	359,333	209,176	-	568,509
Financial investments available for sale	2,036,028	4,543,833	7,176	6,587,037
Total	2,395,361	6,751,291	7,176	9,153,828
Financial Liabilities				
Derivative financial instruments negative fair value	-	1,474,839	-	1,474,839
Total	-	1,474,839	-	1,474,839

The fair values of investments held at amortized cost are SAR 27,051 million (December 31, 2018: SAR 22,085 million and March 31, 2018: SAR 20,157 million) against carrying value of SAR 27,106 million (December 31, 2018: SAR 22,374 million and March 31, 2018: SAR 20,273 million).The fair values of commission bearing customers' deposits, debt securities, due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of due from and due to banks and other financial institutions. An active market for these instruments is not available and the Bank intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

The estimated fair values of investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique. The Bank uses the discounted cash flow method using current yield curve to arrive at the fair value of loans and advances after adjusting internal credit spread which is SAR 121,669 million (December 31, 2018: SAR 122,432 million and March 31, 2018: SAR 126,025 million). The carrying values of those loans and advances are SAR 121,274 million (December 31, 2018: SAR 120,632 million and March 31, 2018 SAR 123,883 million).

13. Segment information

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's Board of Directors in its function as chief decision maker in order to allocate resources to the segments and to assess its performance.

Transactions between operating segments are approved by the management as per agreed terms and are reported according to the Bank's internal transfer pricing policy. These terms are in line with normal commercial terms and conditions. The revenue from external parties report to the Board is measured in a manner consistent with that in the consolidated statement of income.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2018.

The Bank is organised into the following main operating segments:

Retail banking – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, certain forex products and auto leasing.

13. Segment information (continued)

Corporate banking – incorporates corporate and medium establishment customers' demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

Treasury – incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

Investment banking and brokerage – Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, corporate finance and international and local shares brokerage services and insurance.

The Bank's total assets and liabilities, together with total operating income, total operating expenses and net income for the three months then ended, by operating segments, are as follows:

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
March 31, 2019 (Unaudited)					
Total assets	20,643,169	102,604,133	65,342,651	1,399,615	189,989,568
Total liabilities	71,156,802	74,966,905	10,304,220	1,364,101	157,792,028
Total operating income	459,733	780,740	404,558	77,650	1,722,681
Total operating expenses	302,782	202,114	46,374	44,986	596,256
Share in earnings of associates, net	-	-	-	-	-
Net income for the period	156,951	578,626	358,184	32,664	1,126,425
Inter-segment revenue	262,971	59,613	(322,584)	-	-
Depreciation and amortization	36,920	15,058	5,579	981	58,538
Impairment charges for financial assets, net	42,894	64,828	(2,129)	-	105,593

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
December 31, 2018 (Audited)					
Total assets	19,763,892	102,522,524	66,579,789	1,334,501	190,200,706
Total liabilities	70,767,490	78,633,093	8,734,008	1,253,736	159,388,327

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
March 31, 2018 (Unaudited)					
Total assets	17,959,850	109,389,567	55,001,795	1,666,415	184,017,627
Total liabilities	69,036,176	73,660,159	8,100,806	1,526,523	152,323,664
Total operating income	407,504	758,452	519,073	59,454	1,744,483
Total operating expenses	287,143	223,562	82,257	41,931	634,893
Share in earnings of associates, net	-	-	2,529	-	2,529
Net income for the period	120,361	534,890	439,345	17,523	1,112,119
Inter-segment revenue	222,578	67,247	(289,825)	-	-
Depreciation and amortization	20,726	10,901	4,573	1,202	37,402
Impairment charges for financial assets, net	10,692	51,010	(3,036)	-	58,666

14. Share capital and Earnings per share

The authorised, issued and fully paid share capital of the Bank consists of 1,205 million shares of SAR 10 each (December 31, 2018: 1,205 million shares of SAR 10 each and March 31, 2018: 1,205 million shares of SAR 10 each).

Basic and diluted earnings per share for the periods ended March 31, 2019 and 2018 are calculated on a weighted average basis by dividing the net income for the period by 1,205 million shares after excluding treasury shares consists of 5.7 million shares as of March 31, 2019 (December 31, 2018: 6 million shares and March 31, 2018: 6 million shares).

The final net dividend of SAR 0.80 per share for the year ended 2018 has been approved by the shareholders at the General Assembly Meeting held on May 01, 2019.

15. Capital Adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management.

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

SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset (RWA) at or above the agreed minimum of 8%.

SAMA through its circular number 391000029731 Dated 15/03/1439AH, which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS shall be transitioned over five years.

Bank's total risk weighted assets and total Tier I & Tier I + Tier II Capital are as follows:

SAR '000	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
Credit Risk RWA	166,147,259	165,236,811	172,342,691
Operational Risk RWA	12,515,463	12,481,250	12,328,975
Market Risk RWA	1,922,709	1,863,538	2,638,708
Total RWA	180,585,431	179,581,599	187,310,374
Tier I Capital	32,542,200	31,811,197	32,293,127
Tier II Capital	3,838,854	3,685,383	3,953,975
Total Tier I & II Capital	36,381,054	35,496,580	36,247,102
Capital Adequacy Ratio %			
Tier I ratio	18.02%	17.71%	17.24%
Tier I + Tier II ratio	20.15%	19.77%	19.35%

16. Comparative figures

Certain prior period figures have been reclassified to conform to current period's presentation.

17. Board of Directors Approval

The interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 29 April 2019 corresponding to 24 Sha'ban 1440H.