البنك الأول
Alawwal bank

(A Saudi Joint Stock Company)

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Un-audited)

## FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2018

EY
Building a better working world

KPMG Al Fozan & Partners
Certified Public Accountants

**Independent Auditors' Review Report on the**
**Interim Condensed Consolidated Financial Statements**

**To the Shareholders of Alawwal bank**
**(A Saudi Joint Stock Company)**

**Introduction:**
We have reviewed the accompanying interim consolidated statement of financial position of Alawwal bank (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2018, and the related interim consolidated income statement and statement of comprehensive income for the three and six month periods then ended and interim consolidated statements of changes in shareholders' equity and cash flows for the six month period then ended and explanatory notes (the "interim condensed consolidated financial statements").

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

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

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

**Other Regulatory Matters:**
As required by SAMA, certain capital adequacy information has been disclosed in note (18) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (18) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

**Ernst & Young**
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

**Abdulaziz A. Al-Sowailim**
Certified Public Accountant
Registration No. 277

**KPMG Al Fozan & Partners**
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

**Nasser Ahmed Al Shutairy**
Certified Public Accountant
Registration No. 454

17 Dhul-Qa'dah 1439H
30 July 2018

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

كي بي ام جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

# Alawwal bank

**(A Saudi Joint Stock Company)**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in SAR'000

| | Notes | June 30, 2018 (Un-audited) | December 31, 2017 (Audited) | June 30, 2017 (Un-audited) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances with SAMA | | **5,437,033** | 15,137,005 | 10,561,739 |
| Due from banks and other financial institutions | | **1,530,873** | 2,115,271 | 2,720,819 |
| Positive fair value of derivatives | 10 | **165,948** | 212,218 | 347,333 |
| Investments, net | 6 | **16,573,762** | 16,688,747 | 14,993,016 |
| Loans and advances, net | 7 | **59,127,757** | 63,639,483 | 70,739,012 |
| Investment in an associate | | **51,512** | 45,507 | 42,472 |
| Property and equipment, net | | **1,303,614** | 1,347,009 | 1,326,196 |
| Other assets, net | 8 | **693,779** | 684,590 | 903,976 |
| **Total assets** | | **84,884,278** | 99,869,830 | 101,634,563 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Liabilities** | | | | |
| Due to banks and other financial institutions | | **922,084** | 3,344,671 | 1,092,384 |
| Negative fair value of derivatives | 10 | **80,070** | 91,679 | 201,638 |
| Customers' deposits | 9 | **66,180,048** | 78,274,963 | 81,769,893 |
| Subordinated debt | | **2,505,524** | 2,505,026 | 3,908,857 |
| Other liabilities | | **1,738,258** | 2,053,795 | 1,684,301 |
| **Total liabilities** | | **71,425,984** | 86,270,134 | 88,657,073 |
| **Shareholders' equity** | | | | |
| Share capital | | **11,430,720** | 11,430,720 | 11,430,720 |
| Statutory reserve | | **600,062** | 600,062 | 266,183 |
| General reserve | | **130,000** | 130,000 | 130,000 |
| Other reserves | | **366** | 13,129 | 11,596 |
| Retained earnings | | **1,332,269** | 1,297,728 | 1,190,357 |
| Proposed dividends | 15 | **-** | 171,461 | - |
| Share based plan reserve | | **(35,123)** | (43,404) | (51,366) |
| **Total shareholders' equity** | | **13,458,294** | 13,599,696 | 12,977,490 |
| **Total liabilities and shareholders' equity** | | **84,884,278** | 99,869,830 | 101,634,563 |

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.



Abdullah Aloraini
Chief Financial Officer

Maha Al-Sudairi
Chief Compliance and Governance Officer

سورين نيكولايزن
Soren Nikolajsen
A - 2

21

# Alawwal bank
**(A Saudi Joint Stock Company)**

INTERIM CONSOLIDATED INCOME STATEMENT
Amounts in SAR'000 (Un-audited)

| | Notes | For the three month period ended June 30, 2018 | For the three month period ended June 30, 2017 | For the six month period ended June 30, 2018 | For the six month period ended June 30, 2017 |
|---|---|---|---|---|---|
| Special commission income | | **906,283** | 974,019 | **1,805,037** | 1,968,762 |
| Special commission expense | | **237,861** | 273,458 | **466,496** | 622,172 |
| **Net special commission income** | | **668,422** | 700,561 | **1,338,541** | 1,346,590 |
| Fee and commission income, net | | **152,032** | 166,816 | **287,567** | 348,884 |
| Exchange income, net | | **31,443** | 34,559 | **61,159** | 67,074 |
| Trading income, net | | **16,916** | 19,828 | **45,074** | 53,983 |
| Unrealized gain on FVTPL financial instruments, net | | **8,214** | - | **4,740** | - |
| Gain on non-trading investments, net | | **-** | 5,470 | **-** | 30,260 |
| **Total operating income** | | **877,027** | 927,234 | **1,737,081** | 1,846,791 |
| Salaries and employee-related expenses | | **163,650** | 171,575 | **332,746** | 334,543 |
| Rent and premises-related expenses | | **30,570** | 38,512 | **69,539** | 76,905 |
| Depreciation and amortisation | | **42,602** | 37,755 | **85,724** | 70,056 |
| General and administrative expenses | | **69,137** | 74,154 | **140,777** | 149,876 |
| Impairment charge for credit and other losses, net | 7 | **320,370** | 285,336 | **577,751** | 576,175 |
| Impairment reversal for other financial assets, net | | **(215)** | - | **(3,091)** | - |
| **Total operating expenses** | | **626,114** | 607,332 | **1,203,446** | 1,207,555 |
| **Operating income** | | **250,913** | 319,902 | **533,635** | 639,236 |
| Share in earnings of an associate | | **2,672** | 2,156 | **6,005** | 6,775 |
| **Net income for the period** | | **253,585** | 322,058 | **539,640** | 646,011 |
| Basic and diluted earnings per share (Expressed in SAR per share) | 15 | **0.22** | 0.28 | **0.47** | 0.57 |

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Abdullah Aloraini
Chief Financial Officer

Maha Al-Sudairi
Chief Compliance and Governance Officer

سورين نيكولايزن
Soren Nikolajsen
A - 2

# INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in SAR'000 (Un-audited)

| | For the three month period ended | | For the six month period ended | |
|---|---|---|---|---|
| | *June 30, 2018* | *June 30, 2017* | *June 30, 2018* | *June 30, 2017* |
| **Net income for the period** | **253,585** | 322,058 | **539,640** | 646,011 |
| **Other comprehensive income** | | | | |
| ***Items that are or may be reclassified to interim consolidated income statement in subsequent periods*** | | | | |
| **Available for sale investments:** | | | | |
| - Net change in fair value | - | 1,417 | - | (4,941) |
| - Net amounts transferred to the interim consolidated income statement | - | 154 | - | (24,360) |
| | - | 1,571 | - | (29,301) |
| **Cash flow hedges:** | | | | |
| - Net change in fair value | **398** | (333) | **(315)** | (250) |
| **Other comprehensive income / (loss) for the period** | **398** | 1,238 | **(315)** | (29,551) |
| **Total comprehensive income for the period** | **253,983** | 323,296 | **539,325** | 616,460 |

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Abdullah Aloraini
Chief Financial Officer



Maha Al-Sudairi
Chief Compliance and Governance Officer

سورين نيكولايزن
Soren Nikolajsen
A - 2

# Alawwal bank
## (A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the six month period ended June 30, 2018
**Amounts in SAR'000 (Un-audited)**

| | | | | | *Other reserves* | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ***2018*** | ***Notes*** | ***Share capital*** | ***Statutory reserve*** | ***General reserve*** | ***Available for sale investments*** | ***Cash flow hedges*** | ***Retained earnings*** | ***Proposed dividends*** | ***Share based plan reserve*** | ***Total shareholders' equity*** |
| **Balance at beginning of the period - *as reported*** | | 11,430,720 | 600,062 | 130,000 | 12,448 | 681 | 1,297,728 | 171,461 | (43,404) | 13,599,696 |
| Impact of adoption of new standards at January 1, 2018 | 4 | - | - | - | (12,448) | - | (448,853) | - | - | (461,301) |
| **Balance at beginning of the period - *restated*** | | 11,430,720 | 600,062 | 130,000 | - | 681 | 848,875 | 171,461 | (43,404) | 13,138,395 |
| Net income for the period | | - | - | - | - | - | 539,640 | - | - | 539,640 |
| Net change in fair values | | - | - | - | - | (315) | - | - | - | (315) |
| **Total comprehensive income for the period** | | - | - | - | - | (315) | 539,640 | - | - | 539,325 |
| Zakat for the current period | | - | - | - | - | - | (11,507) | - | - | (11,507) |
| Tax for the current period | | - | - | - | - | - | (44,739) | - | - | (44,739) |
| Dividends paid | 15 | - | - | - | - | - | - | (171,461) | - | (171,461) |
| Share based plan transactions | | - | - | - | - | - | - | - | 8,281 | 8,281 |
| **Balance at end of the period** | | 11,430,720 | 600,062 | 130,000 | - | 366 | 1,332,269 | - | (35,123) | 13,458,294 |
| ***2017*** | | | | | | | | | | |
| **Balance at beginning of the period** | | 11,430,720 | 266,183 | 130,000 | 40,868 | 279 | 854,003 | - | (59,328) | 12,662,725 |
| **Changes in shareholders' equity for the period** | | | | | | | | | | |
| Net income for the period | | - | - | - | - | - | 646,011 | - | - | 646,011 |
| Net change in fair values | | - | - | - | (4,941) | (250) | - | - | - | (5,191) |
| Net amounts transferred to the consolidated income statement | | - | - | - | (24,360) | - | - | - | - | (24,360) |
| **Total comprehensive income for the period** | | - | - | - | (29,301) | (250) | 646,011 | - | - | 616,460 |
| Zakat for the current period | | - | - | - | - | - | (8,800) | - | - | (8,800) |
| Tax for the current period | | - | - | - | - | - | (43,476) | - | - | (43,476) |
| Zakat and income tax for prior years | | - | - | - | - | - | (257,381) | - | - | (257,381) |
| Share based plan transactions | | - | - | - | - | - | - | - | 7,962 | 7,962 |
| **Balance at end of the period** | | 11,430,720 | 266,183 | 130,000 | 11,567 | 29 | 1,190,357 | - | (51,366) | 12,977,490 |

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Abdullah Aloraini
Chief Financial Officer

Maha Al-Sudairi
Chief Compliance and Governance Officer

سورين نيكولايسن
Soren Nikolajsen
A - 2

**Alawwal bank**
**(A Saudi Joint Stock Company)**

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six month period ended June 30, 2018
Amounts in SAR'000 (Un-audited)

| | *Note* | *2018* | *2017* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Net income for the period** | | 539,640 | 646,011 |
| **Adjustments to reconcile net income to net cash used in operating activities:** | | | |
| Amortisation of premium and (accretion of discount) on non-trading investments, net | | 2,081 | (6,484) |
| Gain on non-trading investments | | - | (30,260) |
| Depreciation and amortisation | | 85,724 | 70,056 |
| Gain on disposal of property and equipment | | - | (14) |
| Derivatives fair value, net | | 34,346 | (22,709) |
| Subordinated debt | | 498 | (1,048) |
| Share based plan transactions | | 6,043 | 7,932 |
| Impairment charge for credit and other losses, net | 7 | 577,751 | 576,175 |
| Unrealized gain on revaluation of investment as FVTPL | | (4,740) | - |
| Impairment reversal for other financial assets, net | | (3,091) | - |
| Share in earnings of an associate | | (6,005) | (6,775) |
| | | 1,232,247 | 1,232,884 |
| **Net (increase) / decrease in operating assets:** | | | |
| Statutory deposit with SAMA | | 631,489 | 189,276 |
| Due from banks and other financial institutions maturing after ninety days from the date of acquisition | | 90,000 | (45,000) |
| Loans and advances, net | | 3,583,684 | 1,427,910 |
| Other assets | | (6,951) | (137,734) |
| **Net decrease in operating liabilities:** | | | |
| Due to banks and other financial institutions | | (2,422,733) | (255,348) |
| Customers' deposits | | (12,094,915) | (3,588,895) |
| Other liabilities | | (455,555) | (65,467) |
| **Net cash used in operating activities** | | (9,442,734) | (1,242,374) |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from sale of non-trading investments | | 93,643 | 7,122,675 |
| Purchase of non-trading investments | | - | (850,000) |
| Purchase of property and equipment | | (42,329) | (115,229) |
| Proceeds from disposal of property and equipment | | - | 14 |
| **Net cash from investing activities** | | 51,314 | 6,157,460 |
| **FINANCING ACTIVITY** | | | |
| Dividends paid | 15 | (171,461) | - |
| **Cash used in financing activity** | | (171,461) | - |
| **Net (decrease) / increase in cash and cash equivalents** | | (9,562,881) | 4,915,086 |
| **Cash and cash equivalents at beginning of the period** | | 13,006,065 | 3,939,264 |
| **Cash and cash equivalents at end of the period** | 12 | 3,443,184 | 8,854,350 |
| Special commission received during the period | | 1,747,283 | 1,905,451 |
| Special commission paid during the period | | 508,275 | 738,607 |
| **Supplemental non-cash information** | | | |
| Impact of first time adoption of IFRS 9 | 4 | 461,301 | - |
| Net changes in fair value and net transfers to interim consolidated income statement | | (315) | (29,551) |

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.



Abdullah Aloraini
Chief Financial Officer

Maha Al-Sudairi
Chief Compliance and Governance Officer

سورين نيكولايزن
Soren Nikolajsen
A - 2

## 1. GENERAL

Alawwal bank (the "Bank"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and was formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 21, 1976). The Bank commenced business on 17 Shaaban 1397H (corresponding to August 2, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumada II 1407H (corresponding to February 5, 1987) through its 67 branches as at June 30, 2018 (2017: 66 branches) in the Kingdom of Saudi Arabia. The registered address of the Bank's head office is:

Alawwal bank
Head Office
Al - Dhabab Street
P O Box 1467, Riyadh 11431
Kingdom of Saudi Arabia

The objective of the Bank and its subsidiaries (collectively referred to as "the Group") is to provide a full range of banking and investment services. The Group also provides to its customers Islamic (non-commission based) banking products which are approved and supervised by an independent Shariah Board established by the Bank. The interim condensed consolidated financial statements include the financial statements of the Bank and its subsidiaries. The details of the Bank's subsidiaries are set out below:

**Alawwal Invest (AI)**

Alawwal Invest, is a Saudi Closed Joint Stock Company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank, was formed in accordance with the Capital Market Authority's (CMA) Resolution number 1-39-2007 under commercial registration number 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to January 9, 2008) to take over and manage the Group's Investment Services and Asset Management activities regulated by CMA related to dealing, managing, arranging, advising and taking custody of securities. Alawwal Invest commenced its operations effective on 2 Rabi'II 1429H (corresponding to April 8, 2008).

**Alawwal Real Estate Company (AREC)**

AREC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010250772 dated 21 Jumada I 1429H (corresponding to May 26, 2008) with the approval of the Saudi Arabian Monetary Authority (SAMA). The Company was formed to register real estate assets under its name which are received by the Bank from its borrowers as collaterals.

**Alawwal Insurance Agency Company (AIAC)**

AIAC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company was formed to act as an agent for Wataniya Insurance Company (WIC), an associate, for selling its insurance products.

In addition to the subsidiaries stated above, the Bank has established a Special Purpose Vehicle (the "SPV") Alawwal Financial Markets Limited, a wholly owned subsidiary of the Bank, which is formed with the approval of SAMA solely to facilitate trading of certain derivative financial instruments. The SPV is consolidated in these interim condensed consolidated financial statements as the Bank controls the SPV.

During 2017, the Board of Directors of the Bank, in its meeting dated 25 April 2017, resolved to enter into preliminary discussions with The Saudi British Bank (SABB), a bank listed in Kingdom of Saudi Arabia, to study the possibility of merging the two banks.

The Bank, through a follow-up announcement on 16 May 2018, confirmed that discussions in relation to the possible merger are at an advanced stage and that the board of directors of the Bank and SABB have reached a preliminary, non-binding agreement on the share exchange ratio, subject to a number of important steps to follow (including completion of confirmatory due diligence, finalisation of the merger agreement and agreement on a number of other commercial issues). Based on this preliminary agreement, the Bank's shareholders would receive 0.485 SABB shares for each the Bank's share.

A binding agreement is yet to be entered into between the Bank and SABB. Any such binding agreement to proceed with the merger will be subject to a number of conditions, including approval from SAMA, other regulatory authorities and the shareholders.

The above announcement on Tadawul does not mean that the proposed merger will be agreed between the two parties or that an offer will be eventually made by SABB to the Bank's shareholders in relation to the proposed merger. Further announcements on relevant developments will be made in due course.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

The interim condensed consolidated financial statements for the period ended June 30, 2018 have been prepared in accordance with IAS 34 "Interim Financial Reporting Standards" as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and income tax. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2017.

The Group has adopted IFRS 9 "*Financial Instruments"* and IFRS 15 "*Revenue from Contracts with Customers"* from January 1, 2018 and accounting policies for these new standards are disclosed in the Note 4. The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies are the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2017, except relating to IFRS 9 and IFRS 15, as mentioned above.

### 2.2 Basis of measurement

These interim condensed consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held at Fair Value through Profit and Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI). In addition, financial assets or liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

### 2.3 Functional and presentation currency

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

## 3. BASIS OF CONSOLIDATION

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank and changes have been made to their accounting policies where necessary to align them with the accounting policies of the Bank.

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

The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim consolidated income statement from the date of the acquisition or up to the date of disposal, as appropriate. The financial statements of the subsidiaries have been prepared using uniform accounting policies and valuation methods as the Group for like transactions and other events in similar circumstances. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights granted by equity instruments such as shares

## 3. BASIS OF CONSOLIDATION (CONTINUED)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired during the year are included in the interim condensed consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these interim condensed consolidated financial statements except when the Group controls the entity.

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

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

### 4.1 IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after January 1, 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes previous revenue guidance, which was available across several Standards and Interpretations within the IFRSs. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. There is no significant impact of IFRS 15 adoption in these interim condensed consolidated financial statements.

### 4.2 IFRS 9 – Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of January 1, 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 the adoption of IFRS 9 are summarized below:

***i) Classification of financial assets and financial liabilities***

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

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

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

***ii) 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 FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

***iii) Transition***

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

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

  i. The determination of the business model within which a financial asset is held.
  ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.
  iii. The designation of certain investments in equity instruments not held for trading as FVOCI. For financial liabilities to be designated as at FVTPL, the determination of whether presenting the effects of changes in the issuer's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. It is assumed that the credit risk has not increased significantly for those debt securities which carry low credit risk at the date of initial application of IFRS 9.

***iv) Financial assets and financial liabilities***

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

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

| | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying value under IAS 39 | New carrying value under IFRS 9 |
|---|---|---|---|---|
| | | | SAR in '000' | |
| **Financial assets** | | | | |
| Cash and balances with SAMA | Amortised cost | Amortised cost | **15,137,005** | **15,137,005** |
| Due from banks and other financial institutions | Amortised cost | Amortised cost | **2,115,271** | **2,115,125** |
| Positive fair value of derivatives | FVTPL | FVTPL | **212,218** | **212,218** |
| Investments, net | HTM | Amortised cost | **60,151** | **60,151** |
| | AFS | FVOCI | **174,125** | **174,006** |
| | AFS | FVTPL | **153,347** | **153,347** |
| | Amortised cost | Amortised cost | **16,112,843** | **16,103,815** |
| | Amortised cost | FVTPL | **188,281** | **170,337** |
| | | | **16,688,747** | **16,661,656** |
| Loans and advances | Loans and receivables | Amortised cost | **63,639,483** | **63,289,192** |
| Other assets | Amortised cost | Amortised cost | **684,590** | **684,590** |
| | | | **98,477,314** | **98,099,786** |

Amounts in SAR'000 (unaudited)

**a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)**

| **Financial liabilities** | **Original classification under IAS 39** | **New classification under IFRS 9** | **Original carrying value under IAS 39** | **New carrying value under IFRS 9** |
|---|---|---|---|---|
| Due to banks and other financial institutions | Amortised cost | Amortised cost | **3,344,671** | **3,344,671** |
| Negative fair value of derivatives | FVTPL | FVTPL | **91,679** | **91,679** |
| Customers' deposits | Amortised cost | Amortised cost | **78,274,963** | **78,274,963** |
| Subordinated debt | Amortised cost | Amortised cost | **2,505,026** | **2,505,026** |
| Other liabilities | Amortised cost | Amortised cost | **2,053,795** | **2,137,568** |
| | | | **86,270,134** | **86,353,907** |

**b) 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 under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018.

| | **IAS 39 carrying amount as at December 31, 2017** | **Reclassification** | **Re-measurement** | **IFRS 9 carrying amount as at January 1, 2018** |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| **Amortized cost:** | | | | |
| Cash and balances with SAMA | **15,137,005** | **-** | **-** | **15,137,005** |
| Due from banks and other financial institutions | **2,115,271** | **-** | **(146)** | **2,115,125** |
| Loans and advances | **63,639,483** | **-** | **(350,291)** | **63,289,192** |
| Investments (HTM and OI) | **16,361,275** | **(188,281)** | **(9,028)** | **16,163,966** |
| Other assets | **684,590** | **-** | **-** | **684,590** |
| **Total amortized cost** | **97,937,624** | **(188,281)** | **(359,465)** | **97,389,878** |
| | | | | |
| **Available for Sale Investments** | **327,472** | **(327,472)** | **-** | **-** |
| **FVOCI – Investment:** | | | | |
| From available for sale | **-** | **174,125** | **(119)** | **174,006** |
| **Total FVOCI** | **-** | **174,125** | **(119)** | **174,006** |
| | | | | |
| **FVTPL:** | | | | |
| Positive fair value derivatives | **212,218** | **-** | **-** | **212,218** |
| | | | | |
| **Investment:** | | | | |
| From available for sale | **-** | **153,347** | **-** | **153,347** |
| From amortised cost | **-** | **188,281** | **(17,944)** | **170,337** |
| **Total investment** | **-** | **341,628** | **(17,944)** | **323,684** |
| **Total FVTPL** | **212,218** | **341,628** | **(17,944)** | **535,902** |
| **Financial liabilities:** | | | | |
| **Amortized cost:** | | | | |
| Due to banks and other financial institutions | **3,344,671** | **-** | **-** | **3,344,671** |
| Customers' deposits | **78,274,963** | **-** | **-** | **78,274,963** |
| Subordinated debt | **2,505,026** | **-** | **-** | **2,505,026** |
| Other liabilities | **2,053,795** | **-** | **83,773** | **2,137,568** |
| **Total amortized cost** | **86,178,455** | **-** | **83,773** | **86,262,228** |
| **FVTPL:** | | | | |
| Negative fair value derivatives | **91,679** | **-** | **-** | **91,679** |

Available for sale investments reclassification includes SAR 174 million reclassified to FVOCI and SAR 153 million reclassified to FVTPL.

Amounts in SAR'000 (unaudited)

**c) Impact on retained earnings and other reserves**

| | Retained earnings | Other reserves |
|---|---|---|
| Closing balance under IAS 39 as at December 31, 2017 | **1,297,728** | **13,129** |
| Re-measurement on reclassifications under IFRS 9 | **(17,944)** | **-** |
| Available for sale investments reserve transferred to retained earnings | **12,448** | **(12,448)** |
| Recognition of ECL under IFRS 9 | **(443,357)** | **-** |
| Opening balance under IFRS 9 as at January 1, 2018 | **848,875** | **681** |

Recognition of ECL under IFRS 9 comprises ECL for loans and advances, indirect exposure, investments and due from banks and other financial institutions amounting to SAR 350.29 million, SAR 83.77 million, SAR 9.15 million and SAR 0.15 million, respectively.

## 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, 2017 except for the policies explained below. Based on the adoption of new standards explained in note 4, the following accounting policies are applicable effective 1 January 2018 replacing , amending or adding to the corresponding accounting policies set out in the annual consolidated financial statements 2017.

**Classification of financial assets**
On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVTPL.

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

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

***Financial asset at FVOCI***

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

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

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

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

***Financial asset at FVTPL***

All other financial assets are classified as measured at FVTPL.

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

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

**Business model assessment**

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile,
- matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- 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 FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

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

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

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

The Group may designate financial assets at FVTPL where these are managed, evaluated and reported internally on a fair value basis.

**Financial liabilities**

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

**Embedded derivatives**

Derivatives embedded in a hybrid contract that contains a host which is not an asset within the scope of IFRS 9 are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. Separated embedded derivatives are presented in the interim condensed consolidated statement of financial position together with the host contract

**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 derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

From 1 January 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and- repurchase transactions, as the Group retains all or substantially all of the risks and rewards of ownership of such assets.

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.

**Modification of financial assets and financial liabilities**

**a- Financial assets**

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value. If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

**b- Financial liabilities**

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

**Impairment**

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

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

No impairment loss is recognized on equity investments. The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

**Impairment (Continued)**

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

***Measurement of ECL***

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

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

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

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

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

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

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

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a 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 bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

**Presentation of allowance for ECL in the consolidated statement of financial position**

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

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

**Write-off**

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

**Collateral valuation**

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Group’s accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39.

Amounts in SAR '000s

## 6. INVESTMENTS, NET

**Investment securities are classified as follows:**

| | ***June 30, 2018 (Un-audited)*** | *December 31, 2017 (Audited)* | *June 30, 2017 (Un-audited)* |
|---|---|---|---|
| Investments held at amortized cost | **16,073,927** | - | - |
| Other investments held at amortized cost (OI) | **-** | 16,301,124 | 14,607,236 |
| Investment at FVTPL | **325,580** | - | - |
| Available for sale investments(AFS) | **-** | 327,472 | 325,643 |
| Investments at FVOCI | **174,255** | - | - |
| Investments held to maturity (HTM) | **-** | 60,151 | 60,137 |
| **Total** | **16,573,762** | 16,688,747 | 14,993,016 |

## 7. LOANS AND ADVANCES, NET

### a) Loans and advances held at amortized cost:

| | ***June 30, 2018 (Un-audited)*** | *December 31, 2017 (Audited)* | *June 30, 2017 (Un-audited)* |
|---|---|---|---|
| **Held at amortised cost:** | | | |
| Commercial loans and overdrafts | **42,781,926** | 45,797,325 | 52,351,877 |
| Consumer loans | **17,276,953** | 18,248,471 | 18,649,974 |
| Credit cards | **361,470** | 380,945 | 359,914 |
| Performing loans and advances | **60,420,349** | 64,426,741 | 71,361,765 |
| Non-performing loans and advances | **2,449,095** | 1,985,604 | 1,969,898 |
| Gross loans and advances | **62,869,444** | 66,412,345 | 73,331,663 |
| Allowance for impairment of credit losses | **(3,741,687)** | (2,772,862) | (2,592,651) |
| **Loans and advances, net** | **59,127,757** | 63,639,483 | 70,739,012 |

### b) The movement in the allowance for impairment of credit losses for the period is as follows:

| | ***June 30, 2018 (Un-audited)*** | *June 30, 2017 (Un-audited)* |
|---|---|---|
| Impairment allowance as at January 1, (under IAS 39) | **2,772,862** | 2,152,240 |
| Amounts re-stated through opening retained earnings | **346,355** | - |
| Impairment allowance as at January 1, (under IFRS 9 / IAS39) | **3,119,217** | 2,152,240 |
| Provided during the year | **804,103** | 609,903 |
| Recoveries of amounts previously provided | **(46,853)** | (4,800) |
| | **757,250** | 605,103 |
| Impairment allowance against indirect exposure transferred to other liabilities | **(26,459)** | (44,972) |
| | **730,791** | 560,131 |
| Bad debts written off | **(108,321)** | (119,720) |
| **Balance at end of the period** | **3,741,687** | 2,592,651 |

### c) Impairment charge for credit and other losses, net

| | | |
|---|---|---|
| Provided during the year | **804,103** | 609,903 |
| Less: Recoveries of amounts previously provided | **(46,853)** | (4,800) |
| Recoveries of amounts previously written off | **(179,499)** | (28,928) |
| **Impairment charge for the credit and other losses, net** | **577,751** | 576,175 |

Amounts in SAR '000s

## 8. OTHER ASSETS, NET

As at June 30, 2018, other assets of the Group included an amount of SAR 437.15 million (December 31, 2017: SAR 437.15 million and June 30, 2017: SAR 437.15 million). This amount was originally disbursed to a third party who defaulted on payment and the management expects to recover this balance from a related party. The Group has reached a settlement agreement with the related party for recovery of this amount. The Group has maintained an impairment allowance of SAR 149.91 million as at June 30, 2018 (December 31, 2017: SAR 149.91 million and June 30, 2017: SAR 149.91 million) against the outstanding balance due to uncertainty around the timing of recoverability of this balance.

## 9. CUSTOMERS' DEPOSITS

Customer deposits are comprised of the following:

| | ***June 30, 2018 (Un-audited)*** | *December 31, 2017 (Audited)* | *June 30, 2017 (Un-audited)* |
|---|---|---|---|
| Time | **36,580,105** | 47,387,509 | 46,514,917 |
| Demand | **28,050,633** | 29,370,600 | 32,834,495 |
| Saving | **399,931** | 403,046 | 436,355 |
| Others | **1,149,379** | 1,113,808 | 1,984,126 |
| **Total** | **66,180,048** | 78,274,963 | 81,769,893 |

## 10. DERIVATIVES

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

***Derivative financial instruments;***

| ***June 30, 2018 (Un-audited)*** | ***Positive fair value*** | ***Negative fair value*** | ***Notional amount*** |
|---|---|---|---|
| **Held for trading:** | | | |
| Special commission rate swaps | **114,127** | **52,618** | **25,386,608** |
| Foreign exchange and commodity forward contracts | **24,256** | **11,357** | **7,052,834** |
| Currency and commodity options | **21,897** | **13,472** | **5,290,260** |
| Special commission rate options | **5,653** | **2,589** | **1,939,750** |
| **Held as fair value hedges:** | | | |
| Special commission rate swaps | **-** | **34** | **37,503** |
| **Held as cash flow hedges:** | | | |
| Special commission rate swaps | **15** | **-** | **1,462,500** |
| **Total** | **165,948** | **80,070** | **41,169,455** |
| Fair values of derivatives subject to netting arrangements | **710,290** | **710,290** | |
| Fair values of derivatives on gross basis | **876,238** | **790,360** | |
| *December 31, 2017 (Audited)* | | | |
| Held for trading: | | | |
| Special commission rate swaps | 125,130 | 53,192 | 31,843,039 |
| Foreign exchange and commodity forward contracts | 59,419 | 29,916 | 11,062,273 |
| Currency and commodity options | 20,208 | 3,765 | 6,179,525 |
| Special commission rate options | 7,461 | 3,871 | 2,121,768 |
| Held as fair value hedges: | | | |
| Special commission rate swaps | - | 366 | 37,500 |
| Held as cash flow hedges: | | | |
| Special commission rate swaps | - | 569 | 4,196,137 |
| Total | 212,218 | 91,679 | 55,440,242 |
| Fair values of derivatives subject to netting arrangements | 843,727 | 843,727 | |
| Fair values of derivatives on gross basis | 1,055,945 | 935,406 | |

Amounts in SAR '000s

### 10. DERIVATIVES *(Continued)*

| *June 30, 2017 (Un-audited)* | *Positive fair value* | *Negative fair value* | *Notional amount* |
|---|---|---|---|
| Held for trading: | | | |
| Special commission rate swaps | 123,804 | 50,996 | 29,696,150 |
| Foreign exchange and commodity forward contracts | 93,580 | 39,172 | 14,771,872 |
| Currency and commodity options | 120,192 | 104,960 | 12,906,383 |
| Special commission rate options | 9,757 | 5,736 | 2,255,625 |
| Held as fair value hedges: | | | |
| Special commission rate swaps | - | 731 | 37,505 |
| Held as cash flow hedges: | | | |
| Special commission rate swaps | - | 43 | 1,037,839 |
| Total | 347,333 | 201,638 | 60,705,374 |
| Fair values of derivatives subject to netting arrangements | 1,027,169 | 1,027,169 | |
| Fair values of derivatives on gross basis | 1,374,502 | 1,228,807 | |

### 11. COMMITMENTS AND CONTINGENCIES

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

| | ***June 30, 2018 (Un-audited)*** | *December 31, 2017 (Audited)* | *June 30, 2017 (Un-audited)* |
|---|---|---|---|
| Letters of guarantee | **16,327,017** | 17,142,441 | 19,319,143 |
| Letters of credit | **4,332,631** | 5,275,410 | 3,740,389 |
| Acceptances | **1,466,730** | 1,734,903 | 1,874,012 |
| Irrevocable commitments to extend credit | **2,339,032** | 2,012,202 | 2,242,717 |
| **Total** | **24,465,410** | 26,164,956 | 27,176,261 |

### 12. CASH AND CASH EQUIVALENTS

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

| | ***June 30, 2018 (Un-audited)*** | *December 31, 2017 (Audited)* | *June 30, 2017 (Un-audited)* |
|---|---|---|---|
| Cash and balances with SAMA | **5,437,033** | 15,137,005 | 10,561,739 |
| Statutory deposit | **(3,474,722)** | (4,106,211) | (4,238,208) |
| | **1,962,311** | 11,030,794 | 6,323,531 |
| Due from banks and other financial institutions maturing within ninety days from the date of acquisition | **1,480,873** | 1,975,271 | 2,530,819 |
| **Total** | **3,443,184** | 13,006,065 | 8,854,350 |

Amounts in SAR '000s

## 13. OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the senior management responsible for operational decision making in the Bank in order to allocate resources to the segments and to assess performance. Transactions between operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers. Commission is charged to operating segments based on a pool rate, which approximates the marginal cost of funds. The revenue from external parties reported to the senior management, is measured in a manner consistent with that in the interim consolidated income statement. There have been no changes in measurement basis for the segment profit or loss since December 31, 2017. Following are the reportable operating segments of the Group:

***Corporate banking***
The corporate banking segment offers a range of products and services to corporate and institutional customers. It accepts customer deposits and provides financing, including term loans, overdrafts, syndicated loans and trade finance services. Services provided to customers include internet banking, global transaction services and a centralised service that manages all customer transfers, electronic or otherwise.

***Personal banking***
The personal banking group operates through a national network of branches and ATMs supported by a 24-hour phone banking centre. This segment accepts customers' deposits in various savings and deposit accounts and provides retail banking products and services, including consumer loans, overdrafts and credit cards to individuals and small-to-medium-sized enterprises.

***Investment banking and investment services***
The investment banking and investment services segment offers security dealing, managing, arranging, advising and maintaining custody services in relation to securities.

***Central treasury and ALCO***
Treasury transacts mainly in money market, foreign exchange, commission rate and other derivatives for corporate and institutional customers as well as for the Group's own benefit. It is also responsible for managing the Group's funding and centralized risk management and investment portfolio. ALCO include the group-wide assets and liabilities other than the business and treasury's core activities maintaining Group-wide liquidity and managing its consolidated financial position. It also includes the net interdepartmental revenues / charges on Funds Transfer Pricing as approved by ALCO and unallocated income and expenses relating to Head Office and other departments. The following is an analysis of the Group's assets, revenue and results by operating segments for the periods ended June 30.

| **June 30, 2018** ***(Un-audited)*** | ***Corporate banking*** | ***Personal banking*** | ***Investment banking and investment services*** | ***Central treasury and ALCO*** | ***Total*** |
|---|---|---|---|---|---|
| **External revenue, net:** | | | | | |
| Net special commission income | **937,104** | **477,220** | **861** | **(76,644)** | **1,338,541** |
| Fee and commission income, net | **215,743** | **73,015** | **12,989** | **(14,180)** | **287,567** |
| Trading income, net | **15,557** | **438** | **1,449** | **27,630** | **45,074** |
| Other revenue | **36,770** | **24,389** | **-** | **4,740** | **65,899** |
| **Inter-segment (expense) / revenue** | **(397,173)** | **132,580** | **4,437** | **260,156** | **-** |
| **Total segment revenue, net** | **808,001** | **707,642** | **19,736** | **201,702** | **1,737,081** |
| Total operating expenses excluding impairment charges | **(182,122)** | **(396,753)** | **(19,711)** | **(30,200)** | **(628,786)** |
| **Other material non-cash items:** | | | | | |
| Impairment charges for credit and other losses, net | **(475,587)** | **(102,164)** | **-** | **-** | **(577,751)** |
| Impairment reversal for other financial assets, net | **-** | **-** | **-** | **3,091** | **3,091** |
| Non-operating income | **-** | **-** | **-** | **6,005** | **6,005** |
| **Segment profit** | **150,292** | **208,725** | **25** | **180,598** | **539,640** |

Amounts in SAR '000s

**13. OPERATING SEGMENTS *(Continued)***

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

| | ***Corporate banking*** | ***Personal banking*** | ***Investment banking and investment services*** | ***Central treasury and ALCO*** | ***Total*** |
|---|---|---|---|---|---|
| **June 30, 2018 *(Un-audited)*** | | | | | |
| Segment assets | **40,210,017** | **18,917,740** | **789,663** | **24,966,858** | **84,884,278** |
| Segment liabilities | **12,913,486** | **29,015,084** | **261,283** | **29,236,131** | **71,425,984** |
| December 31, 2017 *(Audited)* | | | | | |
| Segment assets | 43,661,906 | 19,977,577 | 748,030 | 35,482,317 | 99,869,830 |
| Segment liabilities | 22,392,629 | 27,180,681 | 208,884 | 36,487,940 | 86,270,134 |
| June 30, 2017 *(Un-audited)* | | | | | |
| Segment assets | 50,179,665 | 20,559,347 | 713,534 | 30,182,017 | 101,634,563 |
| Segment liabilities | 20,935,213 | 30,665,979 | 179,108 | 36,876,773 | 88,657,073 |

**14. ZAKAT AND INCOME TAX**

The Bank has filed its Zakat and income tax returns for the financial years up-to and including the year 2017 with the General Authority of Zakat and Tax ("GAZT"). The Bank has received Zakat and income tax assessments for the years 2005 to 2013 raising net additional demands aggregating to SAR 282.1 million. This additional exposure mainly relates to Zakat arising on account of disallowances of certain long term investments and addition of long term financing to Zakat base by the GAZT. The basis for this additional liability is being contested by the Bank in conjunction with all the other banks in Saudi Arabia. The Bank has also formally contested these assessments and is awaiting a response from GAZT. Management expects a favourable outcome on the aforementioned appeals, however, the Bank has recorded appropriate provisions against the aforementioned exposure.

Assessments for the years 2014 to 2017 are yet to be raised. However, in line with the assessments raised by GAZT for the years 2005 to 2013, if long-term investments are disallowed and long-term financing is added to the Zakat base, this would result in an additional Zakat exposure which remains an industry wide issue and disclosure of which might affect the Bank's position in this matter.

Amounts in SAR '000s

## 15. DIVIDENDS AND EARNINGS PER SHARE (EPS)

The Board of Directors in its meeting held on December 25, 2017 proposed a dividend of SAR 400.1 million, which was approved by the Extra Ordinary General Assembly meeting held on March 27, 2018. After deducting Zakat, the dividend resulted in a net payment of SAR 0.25 per share to Saudi shareholders during the current period. The income tax liability of the foreign shareholders is adjusted from their share of current and future dividends.

Basic and diluted earnings per share for the three and six months periods ended June 30, 2018 and 2017 are calculated by dividing the net income for the periods attributable to the shareholders by 1,143.07 million shares.

## 16. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

**Determination of fair value and fair value hierarchy**

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;
Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
Level 3: valuation techniques for which any significant input is not based on observable market data.

**Carrying amounts and fair value**

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

| | | Fair value | | | |
|---|---|---|---|---|---|
| | **Carrying value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **June 30, 2018** ***(Un-audited)*** | | | | | |
| **Financial assets measured at fair value** | | | | | |
| Derivative financial instruments | **165,948** | **-** | **165,948** | **-** | **165,948** |
| Investments held as FVTPL | **325,580** | **157,332** | **168,248** | **-** | **325,580** |
| Investments held as FVOCI | **174,255** | **-** | **169,925** | **4,330** | **174,255** |
| **Financial assets not measured at fair value** | | | | | |
| Due from banks and other financial institutions | **1,530,873** | **-** | **1,530,873** | **-** | **1,530,873** |
| Investments at amortised cost | **16,073,927** | **239,498** | **15,727,713** | **-** | **15,967,211** |
| Loans and advances, net | **59,127,757** | **-** | | **58,909,055** | **58,909,055** |
| Total | **77,398,340** | **565,078** | **17,594,459** | **58,913,385** | **77,072,922** |
| **Financial liabilities measured at fair value** | | | | | |
| Derivative financial instruments | **80,070** | **-** | **80,070** | **-** | **80,070** |
| **Financial liabilities not measured at fair value** | | | | | |
| Due to banks and other financial institutions | **922,084** | **-** | **922,084** | **-** | **922,084** |
| Customers' deposits | **66,180,048** | **-** | **66,180,048** | **-** | **66,180,048** |
| Subordinated debt | **2,505,524** | **-** | **2,505,524** | **-** | **2,505,524** |
| Total | **69,687,726** | **-** | **69,687,726** | **-** | **69,687,726** |

Amounts in SAR '000s

### 16. FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

| December 31, 2017 (*Audited*) | Carrying value | Fair value Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Financial assets measured at fair value: | | | | | |
| Derivative financial instruments | 212,218 | - | 212,218 | - | 212,218 |
| Available for sale investments | 327,472 | 153,347 | 169,795 | 4,330 | 327,472 |
| Financial assets not measured at fair value: | | | | | |
| Due from banks and other financial institutions | 2,115,271 | - | 2,115,271 | - | 2,115,271 |
| Held to maturity investments (HTM) | 60,151 | - | 60,052 | - | 60,052 |
| Other investments at amortised cost (OI) | 16,301,124 | - | 16,224,881 | - | 16,224,881 |
| Loans and advances, net | 63,639,483 | - | - | 63,388,863 | 63,388,863 |
| Total | 82,655,719 | 153,347 | 18,782,217 | 63,393,193 | 82,328,757 |
| Financial liabilities measured at fair value: | | | | | |
| Derivative financial instruments | 91,679 | - | 91,679 | - | 91,679 |
| Financial liabilities not measured at fair value: | | | | | |
| Due to banks and other financial institutions | 3,344,671 | - | 3,344,671 | - | 3,344,671 |
| Customers' deposits | 78,274,963 | - | 78,274,963 | - | 78,274,963 |
| Subordinated debt | 2,505,026 | - | 2,505,026 | - | 2,505,026 |
| Total | 84,216,339 | - | 84,216,339 | - | 84,216,339 |

The fair values of financial instruments included in the interim consolidated statement of financial position, except for those investments held at amortised cost, previously classified as OI and HTM, and loans and advances that are carried at amortised cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements. The estimated fair values of investments held at amortised cost, previously classified as OI and HTM, are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair value of customers' deposits are not significantly different from their book values since the current market commission rates for similar financial assets are not significantly different from the contracted rates.

The fair values of cash and balances with SAMA, due from banks and other financial institutions, due to banks and other financial institutions and other assets and other liabilities are not significantly different from the carrying values since the underlying amounts for these categories are for shorter durations which indicates that their booking rates are not significantly different from the current market rates. The fair value of subordinated debt approximates carrying value since this is a floating rate liability with special commission rates re-priced every six months. The value obtained from a valuation model may differ from the transaction price of a financial instrument on transaction date. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data or realised through disposal. Subsequent changes in fair value are recognised immediately in the consolidated income statement without reversal of deferred day one profits and losses.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Group uses widely recognized valuation models for determining the fair value of common and simpler financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

## 16. FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

The following table shows the valuation techniques used in measuring fair values at June 30, 2018, as well as the significant unobservable inputs used.

| Type | Valuation technique | Significant unobservable inputs | Inter- relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|
| FVOCI / Available for sale investment (2017) | Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates. | None | Not applicable |
| Corporate debt securities | Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates. | None | Not applicable |
| Loans and advances, net | Fair valued using discounted cash flow techniques that use observable market data inputs for yield curves and credit spread | Credit spreads | The wider the movement in credit spread, the higher the difference between the carrying values and fair values |

## 17. FINANCIAL RISK MANAGEMENT

### i) Credit risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also a credit risk on credit related commitments, contingencies and derivatives. The Group controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases management may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk on derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation. To control the level of credit risk taken, management assesses counterparties using the same techniques as for its lending activities. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

Management seeks to manage concentration of credit risk within Board approved Risk Appetite and in line with SAMA guidelines, through a system of limits and strategies designed to ensure appropriate diversification of lending activities and to prevent undue concentration of risks with individuals or groups of customers in specific locations or businesses. The Group also takes security when appropriate. Management monitors on a regular basis the market value of collateral

Amounts in SAR '000s

**i) Credit risk (continued)**

and requests additional collateral in accordance with the underlying agreement, if required. In addition it also specifically monitors the market value of collateral during its review of the adequacy of the allowances for impairment losses. Management regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

**ii) 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 an assessment of the change in probability of default (PD) as at the reporting date with the PD at the time of initial recognition of the exposure. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group's policy on allocation of credit risk grades to each exposure, determination of the term structure of PD for exposures, determining whether credit risk has increased significantly, criteria for modification of financial assets, incorporation of forward looking information and parameters used for measurement of ECL are consistent to that disclosed in the interim condensed consolidated financial statements March 31, 2018.

**iii) Loss allowance**

The following table shows reconciliation from the opening to the closing balances of impairment charge for credit losses, net:

| | 12 month ECL | Life time ECL not credit impaired | Lifetime ECL credit impaired | Total |
|---|---|---|---|---|
| **Balance as at January 1, 2018** | **220,014** | **1,155,890** | **1,743,313** | **3,119,217** |
| Transfer to 12 month ECL | **9,646** | **(9,646)** | **-** | **-** |
| Transfer to lifetime ECL not credit–impaired | **(11,277)** | **11,277** | **-** | **-** |
| Transfer to lifetime ECL credit-impaired | **-** | **(88,526)** | **88,526** | **-** |
| Net charge for the period | **3,731** | **374,090** | **352,970** | **730,791** |
| Write-offs | **-** | **-** | **(108,321)** | **(108,321)** |
| **Balance as at June 30, 2018** | **222,114** | **1,443,085** | **2,076,488** | **3,741,687** |

Movement in retail ECL has been presented on a net basis.

## 18. CAPITAL ADEQUACY

The Group's objectives when managing capital are to comply with the capital requirements set by SAMA and to safeguard the Group's ability to continue as a going concern by maintaining a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by the management. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the Risk-Weighted Assets (RWA) at or above the agreed minimum of 8%. Management monitors the adequacy of its capital using ratios established by SAMA. These ratios expressed as a percentage, measure capital adequacy by comparing the Group's eligible capital with its interim consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at amounts weighted to reflect their relative risk. SAMA through its circular number 391000029731, dated 15/03/1439AH, which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS 9, has directed banks that the initial impact

Amounts in SAR '000s

## 18 CAPITAL ADEQUACY (continued)

on the capital adequacy ratio as a result of applying IFRS shall be transitioned over five years. The following table summarises the Bank's Pillar-I RWA, Tier I & Tier II capital and capital adequacy ratios.

| | ***June 30, 2018 (Un-audited)*** | *December31, 2017 (Audited)* | *June 30, 2017 (Un-audited)* |
|---|---|---|---|
| Credit Risk RWA | **70,131,416** | 77,414,670 | 86,259,155 |
| Operational Risk RWA | **6,376,721** | 6,262,700 | 5,834,538 |
| Market Risk RWA | **306,313** | 223,114 | 238,718 |
| **Total Pillar-I RWA** | **76,814,450** | 83,900,484 | 92,332,411 |
| | | | |
| Tier I Capital | **13,827,335** | 13,599,696 | 12,977,490 |
| Tier II Capital | **3,376,643** | 3,467,683 | 4,271,106 |
| **Total Tier I & II Capital** | **17,203,978** | 17,067,379 | 17,248,596 |
| | | | |
| Capital Adequacy Ratio % | | | |
| Tier I ratio | **18.00** | 16.21 | 14.06 |
| Tier I + Tier II ratio | **22.40** | 20.34 | 18.68 |

## 19. BOARD OF DIRECTORS' APPROVAL

These interim condensed consolidated financial statements were approved by the Board of Directors on July 29, 2018 (corresponding to Dhu-Al-Qa'dah 16, 1439).