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

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Riyad Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group") as of 31 March 2019, and the related interim condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended and other explanatory notes (the "interim condensed consolidated financial statements").

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

Scope of review

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

Conclusion

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

Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in note (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.

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20 Sha'aban 1440H
(25 April 2019)

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

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت: ١٠١٠٣٧١٦٢٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25
C.R.1010371622

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 March 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	31 March 2018 (Unaudited) SAR'000
ASSETS				
Cash and balances with SAMA		18,684,788	16,323,172	16,365,820
Due from banks and other financial institutions		9,023,062	11,029,176	4,910,855
Positive fair value of derivatives	6	403,858	286,625	312,050
Investments, net	7	49,293,805	47,992,772	46,713,997
Loans and advances, net	8	158,241,632	151,024,830	141,222,247
Investment in associates	17	733,616	595,493	577,879
Other real estate		241,950	227,405	232,119
Property and equipment, net	4	2,148,442	1,699,462	1,744,969
Other assets		745,924	720,641	1,590,129
Total assets		239,517,077	229,899,576	213,670,065
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		11,494,025	8,580,514	7,459,378
Negative fair value of derivatives	6	434,138	274,270	220,110
Customer deposits	9	173,491,122	169,822,156	151,921,098
Debt securities in issue		4,046,346	4,003,783	8,049,211
Other liabilities		12,406,416	10,444,637	9,851,267
Total liabilities		201,872,047	193,125,360	177,501,064
Shareholders' equity				
Share capital		30,000,000	30,000,000	30,000,000
Statutory reserve		5,101,613	5,101,613	3,922,592
Other reserves		631,386	58,047	464,530
Retained earnings		1,912,031	414,556	1,781,879
Proposed dividends		-	1,200,000	-
Total shareholders' equity		37,645,030	36,774,216	36,169,001
Total liabilities and shareholders' equity		239,517,077	229,899,576	213,670,065

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	Notes	For the three month period ended 31 March	
		2019	2018
		SAR'000	SAR'000
Special commission income		2,430,592	1,868,328
Special commission expense		621,876	345,142
Net special commission income		1,808,716	1,523,186
Fee and commission income		746,186	589,473
Fee and commission expense		195,647	164,621
Fee and commission income, net		550,539	424,852
Exchange income, net		78,574	65,770
Trading income, net		63,611	32,865
Dividend income		16,353	6,570
Gains on disposal of non-trading investments, net		60,157	68,711
Other operating income		2,194	7,592
Total operating income, net		2,580,144	2,129,546
Salaries and employee-related expenses		455,898	414,833
Rent and premises-related expenses		51,653	82,854
Depreciation of property and equipment		107,073	71,267
Other general and administrative expenses		222,012	227,079
Impairment charge for credit losses and other financial assets, net	8.4	211,439	159,684
Impairment (reversal) charge for investments, net		(2,928)	45,102
Other operating expenses		8,591	6,074
Total operating expenses, net		1,053,738	1,006,893
Net operating income		1,526,406	1,122,653
Share in earnings of associates, net	17	118,388	14,180
Net income for the period		1,644,794	1,136,833
Basic and diluted earnings per share (in SAR)	16	0.55	0.38

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

	For the three month period ended 31 March	
	2019	2018
	SAR'000	SAR'000
Net income for the period	1,644,794	1,136,833
Other comprehensive income (OCI):		
a) Items that will be reclassified to interim condensed consolidated statement of income in subsequent periods		
- Fair value through other comprehensive income (FVOCI- debt instruments)		
- Net change in fair value	405,318	(235,376)
- Net amounts transferred to interim condensed consolidated statement of income	(46,911)	(73,877)
- Net changes in allowance for expected credit losses of debt instruments	(8,713)	42,866
b) Items that cannot be reclassified to interim condensed consolidated statement of income in subsequent periods		
- Net change in fair value of equity instruments at fair value through other comprehensive income (FVOCI- equity instruments)	236,326	160,530
Other comprehensive income for the period	586,020	(105,857)
Total comprehensive income for the period	2,230,814	1,030,976

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
For the three month period ended 31 March 2019 & 2018

SAR'000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
31 March 2019						
Balance at the beginning of the period	30,000,000	5,101,613	58,047	414,556	1,200,000	36,774,216
Total comprehensive income						
Net changes in fair values of						
- FVOCI equity instruments	-	-	236,326	-	-	236,326
- FVOCI debt instruments	-	-	405,318	-	-	405,318
Net amount reclassified to the interim				-	-	-
condensed consolidated statement of income for FVOCI -debt instruments	-	-	(46,911)	-	-	(46,911)
Net changes in allowance for expected credit						
losses on FVOCI -debt instruments	-	-	(8,713)	-	-	(8,713)
Net income for the period	-	-	-	1,644,794	-	1,644,794
Total comprehensive income	-	-	586,020	1,644,794	-	2,230,814
Disposal loss, net on FVOCI -equity instruments	-	-	(12,681)	12,681	-	-
Final dividends - 2018 (note 15)	-	-	-	-	(1,200,000)	(1,200,000)
Provision for zakat (note 15)	-	-	-	(160,000)	-	(160,000)
Balance at the end of the period	30,000,000	5,101,613	631,386	1,912,031	-	37,645,030
31 March 2018						
Balance at the beginning of the period	30,000,000	3,922,592	686,865	2,873,536	1,140,000	38,622,993
Impact of adopting IFRS 9 at 1 January 2018	-	-	(116,478)	(2,008,490)	-	(2,124,968)
Restated balance at the beginning of the period	30,000,000	3,922,592	570,387	865,046	1,140,000	36,498,025
Total comprehensive income						
Net changes in fair values of						
- FVOCI equity instruments	-	-	160,530	-	-	160,530
- FVOCI debt instruments	-	-	(235,376)	-	-	(235,376)
Net amount reclassified to the interim condensed						
consolidated statement of income for FVOCI -debt instruments	-	-	(73,877)	-	-	(73,877)
Net changes in allowance for expected credit losses						
losses on FVOCI -debt instruments	-	-	42,866	-	-	42,866
Net income for the period	-	-	-	1,136,833	-	1,136,833
Total comprehensive income	-	-	(105,857)	1,136,833	-	1,030,976
Final dividends - 2017	-	-	-	-	(1,140,000)	(1,140,000)
Provision for zakat (note 15)	-	-	-	(220,000)	-	(220,000)
Balance at the end of the period	30,000,000	3,922,592	464,530	1,781,879	-	36,169,001

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

	Note	For the three month period ended 31 March 2019 SAR'000	2018 SAR'000
OPERATING ACTIVITIES			
Net income for the period		1,644,794	1,136,833
Adjustments to reconcile net income for the period to net cash from operating activities:			
Accretion of discounts and amortisation of premium, net on non-FVIS instruments, net		13,081	16,715
Gains on disposals of non-trading investments, net		(60,157)	(68,711)
Gains on trading investments, net		2,380	(3,796)
Dividend income		(16,353)	(6,570)
Depreciation of property and equipment		107,073	71,267
Share in earnings of associates, net		(118,388)	(14,180)
Impairment (reversal) charge for investments, net		(2,928)	45,102
Impairment charge for credit losses and other financial assets, net	8.4	211,439	159,684
		1,780,941	1,336,344
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(104,322)	(240,739)
Due from banks and other financial institutions maturing after three months from date of acquisition		761,381	2,865,940
Positive fair value of derivatives		(117,233)	(196,160)
Fair value through income statement (FVIS)		(179,404)	110,115
Loans and advances, net		(7,379,176)	(4,007,140)
Other real estate		(14,545)	3,000
Other assets		(73,962)	(1,060,120)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		2,913,511	403,210
Negative fair value of derivatives		159,868	142,187
Customer deposits		3,668,966	(2,444,451)
Other liabilities		119,728	(266,549)
Net cash from (used in) operating activities		1,535,753	(3,354,363)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments not held as FVIS instruments		21,147,296	5,657,200
Purchase of investments not held as FVIS instruments		(21,596,236)	(6,203,407)
Purchase of property and equipment, net		(69,011)	(63,828)
Net cash used in investing activities		(517,951)	(610,035)
FINANCING ACTIVITIES			
Dividend and zakat paid		(7,919)	(1,806)
Cash used in financing activities		(7,919)	(1,806)
Net increase (decrease) in cash and cash equivalents		1,009,883	(3,966,204)
Cash and cash equivalents at beginning of the period		17,443,889	16,151,643
Cash and cash equivalents at end of the period	11	18,453,772	12,185,439
Special commission received during the period		2,390,180	1,884,730
Special commission paid during the period		534,463	482,264
Supplemental non-cash information			
Net changes in fair value and transfers to interim condensed consolidated statement of income		594,733	(105,857)
ROU Assets		487,042	-
Lease liability		438,363	-

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

1. GENERAL

Riyad Bank (the "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to 23 November 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to 18 November 1957G) through its 340 branches (31 March 2018 : 340) in the Kingdom of Saudi Arabia, a branch in London, United Kingdom, an agency in Houston, United States, and a representative office in Singapore. The registered address of the Bank's Head Office is as follows:

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

Riyad Bank announced the transfer of its headquarters (Head Office) in Riyadh starting from April 01, 2019, corresponding to 25 Rajab 1440H and the new address of Riyad Bank Head Office will be Granada Oasis - A1 Tower, Al Shuhada District, Eastern Ring Road, Riyadh, Kingdom of Saudi Arabia

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

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

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the three months ended 31 March 2019 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018. The Bank has adopted IFRS 16 Leases from 1 January 2019 and accounting policies for this new standard are disclosed in the Note 5.

3. BASIS OF CONSOLIDATION

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

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

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

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

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

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

Effective 1 January 2019, the Group 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 recognized in the Bank's consolidated statement of financial position, unless the term is 12 months or less or the lease is 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, using the interest rate at the time of first time application.

Before January 01, 2019, the Bank followed accounting for leases as per IAS 17- 'Leases with the payments made under operating leases charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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

Transition IFRS 16

The Bank elected to apply the standard to contracts that were previously identified as lease applying IAS 17 and IFRIC 4. The Bank therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Bank elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

On adoption of IFRS 16, the Group has recognised lease liabilities recorded under other liabilities, net amounting to SAR 391.2 million and associated right-of-use assets, net amounting to SAR 456.5 million recorded under property and equipment in relation to contracts that have been concluded as leases under the principles of IFRS 16. The liabilities have been measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The associated rights-of-use assets have been measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

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 31 December 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

The Bank shall apply the cost model, and measure the right of use asset at cost;

a) less any accumulated depreciation and any accumulated impairment losses; and
b) adjusted for any re-measurement of the lease liability for lease modifications

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. DERIVATIVES

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

	31 March 2019 (Unaudited)			31 December 2018 (Audited)			31 March 2018 (Unaudited)		
	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000
Held for trading:									
Special commission rate swaps	344,009	(273,971)	36,796,674	239,364	(167,805)	31,853,110	221,277	(181,952)	15,509,834
Forward foreign exchange contracts	59,545	(44,218)	24,881,201	46,053	(51,631)	27,248,377	80,902	(33,419)	21,630,404
Currency options	304	(304)	90,724	1,184	(1,184)	476,362	4,735	(4,739)	2,251,449
Held as fair value hedges:									
Special commission rate swaps	-	(115,645)	3,337,402	24	(53,650)	3,428,279	5,136	-	805,318
Total	403,858	(434,138)	65,106,001	286,625	(274,270)	63,006,128	312,050	(220,110)	40,197,005

7 INVESTMENTS, NET

		31 March 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	31 March 2018 (Unaudited) SAR'000
Investments at amortized cost		31,889,024	32,917,341	33,600,394
Investments at FVOCI				
	- Equity	2,490,894	2,035,385	1,705,200
	- Debt	14,422,210	12,730,942	10,338,374
Investments at FVOCI		16,913,104	14,766,327	12,043,574
Investment at FVIS		581,569	393,272	1,149,596
Less: impairment		(89,892)	(84,168)	(79,567)
Total		49,293,805	47,992,772	46,713,997

8. LOANS AND ADVANCES, NET

8.1 Loans and advances held at amortised cost

These comprise the following:

31 March 2019 SAR'000	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	5,829,569	759,344	47,171,250	105,021,293	241,097	159,022,553
Non-performing loans and advances	35,827	-	267,168	1,487,866	480	1,791,341
Total loans and advances	5,865,396	759,344	47,438,418	106,509,159	241,577	160,813,894
Allowance for impairment	(33,946)	(42,290)	(997,603)	(1,497,204)	(1,219)	(2,572,262)
Loans and advances, net	5,831,450	717,054	46,440,815	105,011,955	240,358	158,241,632

31 December 2018 SAR'000	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	6,006,142	775,403	45,029,627	99,728,737	282,013	151,821,922
Non-performing loans and advances	62,817	-	243,387	1,255,233	-	1,561,437
Total loans and advances	6,068,959	775,403	45,273,014	100,983,970	282,013	153,383,359
Allowance for impairment	(71,928)	(44,456)	(923,783)	(1,317,739)	(623)	(2,358,529)
Loans and advances, net	5,997,031	730,947	44,349,231	99,666,231	281,390	151,024,830

8.2 The movement in the allowance for impairment of loans and advances to customers is as follows:

SAR'000	For three month period ended 31 March 2019 (Unaudited)	31 December 2018 (Audited)
Balance at the beginning of the period	2,358,529	3,510,988
Provided during the period	250,126	981,558
Bad debts written off against provision	(36,393)	(2,134,017)
	2,572,262	2,358,529

8.3 The breakdown of allowance for impairment of loans and advances by stages is as follows:

SAR'000	12 Months ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Balance at 31 March 2019	355,636	583,207	1,633,419	2,572,262
Balance at 31 December 2018	301,461	667,541	1,389,527	2,358,529

8.4 Impairment charges for credit losses and other provisions, net as reflected in the interim consolidated statement of income are detailed as follows:

SAR'000	For three month period ended 31 March 2019 (Unaudited)	2018 (Unaudited)
Impairment charge for credit losses, net	162,374	196,440
Impairment charge (reversal) for other financial assets, net	49,065	(36,756)
Total	211,439	159,684

9. CUSTOMER DEPOSITS

Customer deposits comprise the following:

	31 March 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	31 March 2018 (Unaudited) SAR'000
Demand	84,784,459	86,842,195	80,902,959
Saving	483,789	459,724	380,823
Time	72,512,533	66,304,252	60,483,506
Others	15,710,341	16,215,985	10,153,810
Total	173,491,122	169,822,156	151,921,098

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES AND OTHERS

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

	31 March 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	31 March 2018 (Unaudited) SAR'000
Letters of credit	7,609,956	8,118,981	8,156,294
Letters of guarantee	66,176,455	64,400,982	62,704,532
Acceptances	2,124,011	1,828,797	2,070,712
Irrevocable commitments to extend credit	9,842,014	11,625,946	15,561,989
Total	85,752,436	85,974,706	88,493,527

b) The breakdown of allowance for impairment of credit related commitments and contingencies by stages is as follows:

SAR'000	12 Months ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Balance at 31 March 2019	41,044	27,360	136,729	205,133
Balance at 31 December 2018	32,821	34,827	93,381	161,029

Other liabilities as at 31 March 2019, include ECL relating to off balance sheet facilities and loan commitments amounting to SAR 596 million.

11. CASH AND CASH EQUIVALENTS

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

	31 March 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000	31 March 2018 (Unaudited) SAR'000
Cash and balances with SAMA excluding statutory deposit	9,992,055	7,734,761	8,190,729
Due from banks and other financial institutions maturing within three months from date of acquisition	8,461,717	9,709,128	3,994,710
Total	18,453,772	17,443,889	12,185,439

12. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

Fair value and fair value hierarchy

31 March 2019 SAR'000 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Positive fair value of derivatives	-	403,858	-	403,858
- Investments held at FVIS	580,958	611	-	581,569
- Investments held at FVOCI	16,589,675	-	283,435	16,873,110
Financial liabilities measured at fair value				
- Negative fair value of derivatives	-	434,138	-	434,138

31 December 2018 SAR'000 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Positive fair value of derivatives	-	286,625	-	286,625
- Investments held at FVIS	392,484	788	-	393,272
- Investments held at FVOCI	14,437,395	-	288,876	14,726,271
Financial liabilities measured at fair value				
- Negative fair value of derivatives	-	274,270	-	274,270

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

Reconciliation of movement in Level 3	For three month period ended 31 March 2019 (Unaudited) SAR'000	31 December 2018 (Audited) SAR'000
Opening balance	288,876	315,912
Total gains or losses		
- recognised in interim condensed consolidated statement of income	(2,796)	18,536
- recognised in other comprehensive income	(2,645)	(45,572)
Closing balance	283,435	288,876

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

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

The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. The estimated fair values of loans and advances was SAR 162.4 billion at 31 March 2019 (31 December 2018: SAR 155.5 billion).

The estimated fair values of investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. The estimated fair values of these investments was SAR 31.3 billion at 31 March 2019 (31 December 2018: SAR 32.8 billion).

13. OPERATING SEGMENTS

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

13. OPERATING SEGMENTS (continued)

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

Retail banking

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

Investment banking and brokerage

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

Corporate banking

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

Treasury and investment

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

The Group's total assets and liabilities at 31 March 2019 and 2018 and its total operating income, total operating expenses and net income for the three months periods then ended, by operating segments, are as follows:

31 March 2019

SAR'000 (Unaudited)	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investment	Total
Total assets	58,571,596	1,191,633	115,849,234	63,904,614	239,517,077
Total liabilities	81,020,707	324,297	98,470,260	22,056,783	201,872,047
Total operating income, net of which	785,086	105,376	1,048,268	641,414	2,580,144
- Net special commission income	690,466	26,527	663,378	428,345	1,808,716
- Fee and commission income, net	98,133	67,808	383,468	1,130	550,539
Inter segment revenues	123,737	26,554	(274,648)	124,357	-
Total operating expenses, net of which	572,718	43,977	392,041	45,002	1,053,738
- Depreciation of property and equipment	82,088	3,497	17,221	4,267	107,073
- Impairment charge for credit losses and other financial assets, net	35,976	-	175,463	-	211,439
- Impairment reversal for investments, net	-	-	-	(2,928)	(2,928)
Share in earnings of associates, net	-	-	-	118,388	118,388
Net income	212,368	61,399	656,227	714,800	1,644,794

31 March 2018

SAR'000 (Unaudited)	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investment	Total
Total assets	54,583,083	1,022,340	102,768,742	55,295,900	213,670,065
Total liabilities	75,915,959	232,606	85,421,505	15,930,994	177,501,064
Total operating income, net of which	714,542	88,693	820,765	505,546	2,129,546
- Net special commission income	631,719	21,346	535,776	334,345	1,523,186
- Fee and commission income, net	85,296	61,049	278,391	116	424,852
Inter segment revenues	107,483	21,345	(225,027)	96,199	-
Total operating expenses, net of which	418,078	35,183	441,245	112,387	1,006,893
- Depreciation of property and equipment	49,628	1,732	12,756	7,151	71,267
- Impairment charge for credit losses and other financial assets, net	(85,752)	-	245,436	-	159,684
- Impairment charge for investments, net	-	-	-	45,102	45,102
Share in earnings of associates, net	-	-	-	14,180	14,180
Net income	296,464	53,510	379,520	407,339	1,136,833

14. FINANCIAL RISK MANAGEMENT

Credit risk

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

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

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

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

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

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

15. DIVIDENDS AND ZAKAT

On 19 March 2019, the shareholders in the Ordinary General Assembly meeting approved the distribution of dividends to shareholders for the second half of 2018. The amount of such dividend amounted to SAR 1,200 million (SAR 0.40 per share) and the distribution date for the dividend was 2 April 2019.

On 14 March 2019, Saudi Arabia's General Authority of Zakat and Tax (the "GAZT") has published rules for computation of Zakat for companies engaged in financing activities (the "Rules") and licensed by SAMA. The Rules are issued pursuant to the Zakat Implementing Regulations and are applicable for the periods from 1 January 2019. In addition to providing a new basis for calculating the Zakat base, the Rules have also introduced a minimum floor at 4 times the net income and a maximum cap at 8 times the net income when determining the Zakat base. Zakat liability for the Saudi shareholders will continue to be calculated at 2.5% of the Zakat base but it will not fall below the minimum floor nor would exceed the maximum cap as prescribed by the Rules.

Accordingly based on the new regulations, the Bank has estimated provision for zakat liability attributable to Saudi shareholders for the first quarter of 2019 at SR 160 million (2018: SR 220 million) The provision of Zakat liabilities is estimated based on the results of operations of the Bank for the period ended and the financial position at 31 March 2019. The zakat provisions would be re-assessed during the year.

16. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the period ended 31 March 2019 and 2018 are calculated by dividing the net income for the period by 3,000 million outstanding shares.

17. SHARE IN EARNINGS OF ASSOCIATES, NET

During the period ended 31 March 2019, the Group increased its holding in Ajil Financial Services Company (associate of the Bank) to 48.46 % (31 December 2018: 35%). Cash consideration of SAR 33.7 million was paid for the additional stake. In the absence of control, the addtional investment has been accounted for using the equity method in the interim condensed consolidated financial statements. Gains on the above transaction amounted to SAR 103.7 million and has been included in share of earnings in associates, net.

18. CAPITAL ADEQUACY

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

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

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

18. CAPITAL ADEQUACY (continued)

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

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

	31 March 2019 (Unaudited SAR Millions	31 December 2018 (Audited) SAR Millions	31 March 2018 (Unaudited) SAR Millions
Risk weighted assets			
Credit	214,856	210,880	198,549
Operational	15,090	14,705	14,118
Market	2,459	2,330	3,534
Total Pillar-I Risk Weighted Assets	232,405	227,915	216,201
Eligible capital			
Tier I Capital	37,645	36,774	36,169
Tier II Capital	4,449	4,384	4,552
Total Tier I and II Capital	42,094	41,158	40,721
Tier I Capital Adequacy Ratio %	16.2%	16.1%	16.7%
Total Capital Adequacy Ratio %	18.1%	18.1%	18.8%

19. COMPARATIVE FIGURES

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