THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

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

31 MARCH 2019

Ernst & Young **KPMG Al Fozan & Partners**

Ernst & Young & Co. (Certified Public Accountants)
King's Road Tower - 13th Floor
King Abdulaziz Road (Malek Road)
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Head Office - Riyadh
Registration NO. 45/11/323
C.R. No. 4030276644

EY
Building a better working world

KPMG

KPMG Al Fozan & Partners
Certified Public Accountants
9th Floor, Tower A, Zahran Business Centre
Prince Sultan Street
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992

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

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

Introduction

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

Scope of review

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

Conclusion

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

Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in note 18 of 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.

for Ernst & Young
(Public Accountants)
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia

Hussain Saleh Asiri
Certified Public Accountant
License No. 414

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

for KPMG Al Fozan & Partners
Certified Public Accountants
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

Dr. Abdullah Hamad Al Fozan
Certified Public Accountant
License No. 348

كي . بي . ام . جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
س.ت.م رقم ٤٦
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

20 Sha'ban 1440H
(Corresponding 25 April 2019)

NCB الأهلي

(A Saudi Joint Stock Company)

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		**29,822,561**	32,514,075	30,909,880
Due from banks and other financial institutions, net		**15,905,433**	15,964,451	18,308,219
Investments, net	5	**123,419,234**	118,090,208	113,555,101
Financing and advances, net	6	**268,656,789**	265,317,391	252,776,847
Positive fair value of derivatives, net	7	**4,385,729**	3,913,049	3,706,417
Investments in associates, net		**447,371**	447,371	452,009
Other real estate, net		**1,205,094**	1,132,277	952,528
Property, equipment and software, net		**5,313,088**	5,347,611	5,353,864
Goodwill		**-**	-	290,418
Other assets		**17,192,303**	10,663,464	12,590,272
Total assets		**466,347,602**	453,389,897	438,895,555
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		**63,127,372**	45,962,850	37,977,555
Customers' deposits	8	**309,661,054**	318,698,791	309,000,832
Debt securities issued	9	**4,421,201**	9,430,907	10,528,284
Negative fair value of derivatives, net	7	**4,391,545**	3,279,130	2,778,267
Other liabilities		**15,905,902**	10,349,510	13,749,669
Total liabilities		**397,507,074**	387,721,188	374,034,607
EQUITY				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK				
Share capital	11	**30,000,000**	30,000,000	20,000,000
Treasury shares		**(232,971)**	(373,313)	(338,011)
Statutory reserve		**22,894,980**	22,894,980	20,266,514
Other reserves (cumulative changes in fair values)		**263,387**	(606,048)	191,774
Employees' share based payments reserve		**118,152**	196,798	121,830
Retained earnings		**9,157,686**	6,790,221	18,956,564
Proposed dividend	12	**3,288,350**	3,288,350	1,196,879
Foreign currency translation reserve		**(4,550,733)**	(4,454,071)	(3,711,879)
Equity attributable to shareholders of the Bank		**60,938,851**	57,736,917	56,683,671
Tier 1 Sukuk	14	**7,000,000**	7,000,000	7,000,000
Equity attributable to equity holders of the Bank		**67,938,851**	64,736,917	63,683,671
NON-CONTROLLING INTERESTS		**901,677**	931,792	1,177,277
Total equity		**68,840,528**	65,668,709	64,860,948
Total liabilities and equity		**466,347,602**	453,389,897	438,895,555

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.

Lama A. Ghazzaoui Chief Financial Officer	Faisal O. Al-Sakkaf Chief Executive Officer	Saeed M. Al-Ghamdi Chairman

NCB الأهلي

(A Saudi Joint Stock Company)

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

	Notes	2019 SAR '000	2018 SAR '000
Special commission income		**4,863,416**	4,227,522
Special commission expense		**(1,301,747)**	(808,949)
Net special commission income		**3,561,669**	3,418,573
Fee income from banking services, net		**787,503**	852,437
Exchange income, net		**239,646**	262,237
Income from FVIS instruments, net		**413,780**	326,946
Gains/Income on non-FVIS financial instruments, net		**36,261**	31,772
Other operating (expenses), net		**(86,101)**	(112,724)
Total operating income		**4,952,758**	4,779,241
Salaries and employee-related expenses		**907,006**	919,245
Rent and premises-related expenses		**90,336**	192,936
Depreciation/amortisation of property, equipment and software		**212,745**	156,170
Other general and administrative expenses		**408,093**	399,607
Impairment charge (reversal) for financing and advances losses, net		**144,203**	(2,335)
Impairment charge on investments, net		**1,124**	85,523
Total operating expenses		**1,763,507**	1,751,146
Income from operations, net		**3,189,251**	3,028,095
Other income, net			
Other non-operating income, net		**2,599**	826
Other income, net		**2,599**	826
Net income for the period		**3,191,850**	3,028,921
Net income for the period attributable to:			
Equity holders of the Bank		**3,164,699**	2,986,877
Non-controlling interests		**27,151**	42,044
Net income for the period		**3,191,850**	3,028,921
Basic earnings per share (expressed in SAR per share)	15	**1.02**	0.97
Diluted earnings per share (expressed in SAR per share)	15	**1.02**	0.97

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.

Lama A. Ghazzaoui	Faisal O. Al-Sakkaf	Saeed M. Al-Ghamdi
Chief Financial Officer	Chief Executive Officer	Chairman

NCB الأهلي

(A Saudi Joint Stock Company)

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

	2019 SAR '000	2018 SAR '000
Net income for the period	**3,191,850**	3,028,921
Other comprehensive income/(loss)		
Items that cannot be reclassified to the interim condensed consolidated statement of income in subsequent periods		
- Movement in fair value reserve (equity instruments):	**(1,269)**	(3,567)
Other comprehensive/(loss) income items that are or may be reclassified to the interim condensed consolidated statement of income in subsequent periods:		
Foreign currency translation reserve (losses)	**(139,267)**	(168,334)
FVOCI debt instruments:		
- Net change in fair values	**830,552**	(362,375)
- Transfers to the interim condensed consolidated statement of income	**(14,744)**	(5,227)
Cash flow hedges:		
- Effective portion of changes in fair values	**73,003**	(113,923)
- Transfers to the interim condensed consolidated statement of income	**(25,560)**	93,354
Total other comprehensive income/(loss)	**722,715**	(560,072)
Total comprehensive income for the period	**3,914,565**	2,468,849
Attributable to:		
Equity holders of the Bank	**3,937,472**	2,477,069
Non-controlling interests	**(22,907)**	(8,220)
Total comprehensive income for the period	**3,914,565**	2,468,849

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.

Lama A. Ghazzaoui
Chief Financial Officer

Faisal O. Al-Sakkaf
Chief Executive Officer

Saeed M. Al-Ghamdi
Chairman

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

		Attributable to equity holders of the Bank													
					Other reserves										
	Notes	Share capital	Treasury shares	Statutory reserve	Cash flow hedge reserves	FVOCI financial instrument reserve	Employees' share based payments reserve	Retained earnings	Proposed dividend	Foreign currency translation reserve	Total equity attributable to shareholders of the Bank	Tier 1 Sukuk	Total equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
		SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000	SAR' 000
Balance as at 1 January 2019		30,000,000	(373,313)	22,894,980	31,148	(637,196)	196,798	6,790,221	3,288,350	(4,454,071)	57,736,917	7,000,000	64,736,917	931,792	65,668,709
IFRS 16 first time adoption impact at 1 January 2019		-	-	-	-	-	-	(272,674)	-	-	(272,674)	-	(272,674)	10	(272,664)
Balance as at 1 January 2019 (restated)		30,000,000	(373,313)	22,894,980	31,148	(637,196)	196,798	6,517,547	3,288,350	(4,454,071)	57,464,243	7,000,000	64,464,243	931,802	65,396,045
Other comprehensive income/(loss) for the period		-	-	-	48,047	821,388	-	-	-	(96,662)	772,773	-	772,773	(50,058)	722,715
Net income for the period		-	-	-	-	-	-	3,164,699	-	-	3,164,699	-	3,164,699	27,151	3,191,850
Total comprehensive income/(loss) for the period		-	-	-	48,047	821,388	-	3,164,699	-	(96,662)	3,937,472	-	3,937,472	(22,907)	3,914,565
Adjustments in non-controlling interests and subsidiaries		-	-	-	-	-	-	370	-	-	370	-	370	(2,115)	(1,745)
Tier 1 Sukuk related costs	14	-	-	-	-	-	-	(98,763)	-	-	(98,763)	-	(98,763)	-	(98,763)
Purchase of treasury shares for employee's share based payment plan		-		-	-	-	-	-	-	-	-	-	-	-	-
Settlement of vested share based payment plan via treasury shares		-	140,342	-	-	-	-	(140,342)	-	-	-	-	-	-	-
Share based payments reversal		-	-	-	-	-	(103,330)	103,330	-	-	-	-	-	-	-
Employees' share based payments plan reserve - charged to the interim condensed consolidated statement of income		-	-	-	-	-	24,684	-	-	-	24,684	-	24,684	-	24,684
Zakat and tax	13	-	-	-	-	-	-	(389,155)	-	-	(389,155)	-	(389,155)	(5,103)	(394,258)
Balance as at 31 March 2019		30,000,000	(232,971)	22,894,980	79,195	184,192	118,152	9,157,686	3,288,350	(4,550,733)	60,938,851	7,000,000	67,938,851	901,677	68,840,528
Balance as at 1 January 2018 (restated)		20,000,000	(226,011)	20,266,514	10,353	574,236	96,886	16,447,649	1,196,879	(3,594,886)	54,771,620	7,000,000	61,771,620	1,194,965	62,966,585
Other comprehensive (loss) for the period		-	-	-	(24,338)	(368,477)	-	-	-	(116,993)	(509,808)	-	(509,808)	(50,264)	(560,072)
Net income for the period		-	-	-	-	-	-	2,986,877	-	-	2,986,877	-	2,986,877	42,044	3,028,921
Total comprehensive (loss)/income for the period		-	-	-	(24,338)	(368,477)	-	2,986,877	-	(116,993)	2,477,069	-	2,477,069	(8,220)	2,468,849
Adjustments in non-controlling interests and subsidiaries		-	-	-	-	-	-	(1,741)	-	-	(1,741)	-	(1,741)	-	(1,741)
Tier 1 Sukuk related costs	14	-	-	-	-	-	-	(90,999)	-	-	(90,999)	-	(90,999)	-	(90,999)
Purchase of treasury shares for employee's share based payment plan		-	(112,000)	-	-	-	-	-	-	-	(112,000)	-	(112,000)	-	(112,000)
Employees' share based payments plan reserve - charged to the interim condensed consolidated statement of income		-	-	-	-	-	24,944	-	-	-	24,944	-	24,944	-	24,944
Zakat and tax	13	-	-	-	-	-	-	(385,222)	-	-	(385,222)	-	(385,222)	(9,468)	(394,690)
Balance as at 31 March 2018		20,000,000	(338,011)	20,266,514	(13,985)	205,759	121,830	18,956,564	1,196,879	(3,711,879)	56,683,671	7,000,000	63,683,671	1,177,277	64,860,948

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.

Lama A. Ghazzaoui	Faisal O. Al-Sakkaf	Saeed M. Al-Ghamdi
Chief Financial Officer	Chief Executive Officer	Chairman

NCB الأهلي

(A Saudi Joint Stock Company)

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

	Notes	2019 SAR '000	2018 SAR '000
OPERATING ACTIVITIES			
Net income for the period		**3,191,850**	3,028,921
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading financial instruments, net		**62,551**	73,904
(Gains) on non-FVIS financial instruments, net		**(25,219)**	(30,583)
(Gains) on disposal of property, equipment and software, net		**(3,323)**	(4,191)
(Gains) on disposal of other real estate, net		**(1,445)**	(954)
Loss on disposal of other repossessed assets		**12,502**	18,792
Depreciation/amortisation of property, equipment and software		**212,745**	156,170
Impairment charge for financing and advances, net		**144,203**	(2,335)
Impairment charge on investments, net		**1,124**	85,523
Impairment charge on other real estate		-	150
Share of results of associates, net		-	(1,961)
Share based payments plan expense		**24,684**	24,944
		3,619,672	3,348,380
Net (increase) decrease in operating assets:			
Statutory deposits with SAMA		**345,149**	(339,883)
Due from banks and other financial institutions with original maturity of more than three months, net		**(3,219,373)**	4,091,995
Held at fair value through income statement (FVIS) investments		**(1,809,286)**	1,817,042
Financing and advances, net		**(4,802,085)**	(6,185,629)
Positive fair value of derivatives, net		**(409,410)**	(212,336)
Other real estate		**10,154**	3,343
Other assets		**(4,377,336)**	(2,587,871)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**17,372,810**	(10,390,525)
Customers' deposits		**(8,144,252)**	974,241
Negative fair value of derivatives, net		**1,126,421**	367,952
Other liabilities		**3,071,278**	3,694,541
Net cash from (used in) operating activities:		**2,783,742**	(5,418,750)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-(FVIS) investments		**4,656,272**	3,105,116
Purchase of non-FVIS investments		**(7,483,944)**	(4,130,466)
Purchase of property, equipment and software		**(164,808)**	(262,265)
Proceeds from disposal of property, equipment and software		**26,700**	5,238
Net cash (used in) investing activities:		**(2,965,780)**	(1,282,377)
FINANCING ACTIVITIES			
Debt securities issued	9	**1,694,250**	270,028
Debt securities payment		**(6,700,572)**	(54,166)
Net movement in non-controlling interests		**(1,744)**	-
Tier 1 Sukuk related costs		**(98,763)**	(90,999)
Purchase of treasury shares		-	(112,000)
Net cash (used in) financing activities:		**(5,106,829)**	12,863
Net (decrease) in cash and cash equivalents		**(5,288,867)**	(6,688,264)
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the period		**(191,863)**	(107,339)
Cash and cash equivalents at the beginning of the period		**19,791,544**	28,802,159
Cash and cash equivalents at the end of the period	4	**14,310,814**	22,006,556
Special commission income received during the period		**4,687,310**	3,490,904
Special commission expense paid during the period		**1,235,692**	949,236
Supplemental non-cash information			
Movement in other reserve and transfers to the interim condensed consolidated statement of income		**863,251**	(391,738)

The accompanying notes 1 to 20 form an integral part of these interim condensed consolidated financial statements.

Lama A. Ghazzaoui	Faisal O. Al-Sakkaf	Saeed M. Al-Ghamdi
Chief Financial Officer	Chief Executive Officer	Chairman

1. GENERAL

(1.1) Introduction

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

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

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

The National Commercial Bank
Head Office
King Abdul Aziz Street
P.O. Box 3555
Jeddah 21481, Saudi Arabia
www.alahli.com

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

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

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

(1.2) Group's subsidiaries

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

	Ownership %			
Name of subsidiaries	**31 March 2019**	31 December 2018	31 March 2018	**Description**
NCB Capital Company (NCBC)	**96.84%**	96.70%	97.34%	A Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activities.
NCB Capital Dubai Inc. (formerly Eastgate Capital Holdings Inc.)	**96.84%**	96.70%	97.34%	An exempt company with limited liability incorporated in the Cayman Islands to source, structure and invest in private equity and real estate development opportunities across emerging markets.

1. GENERAL (continued)

(1.2) Group's subsidiaries (continued)

Name of subsidiaries	Ownership % 31 March 2019	31 December 2018	31 March 2018	Description
Türkiye Finans Katılım Bankası A.Ş. (TFKB)	**67.03%**	67.03%	67.03%	A participation bank registered in Turkey that collects funds through current accounts, profit sharing accounts and lends funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. As at 31 March 2019, TFKB fully owns the issued share capital of TF Varlık Kiralama AŞ, (TFVK) and TFKB Varlik Kiralama A.Ş., which are special purpose entities (SPEs) established in connection with issuance of sukuks by TFKB.
Real Estate Development Company (REDCO)	**100%**	100%	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia. REDCO is engaged in keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.
Alahli Insurance Service Marketing Company	**100%**	100%	100%	A Limited Liability Company, engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.
Saudi NCB Markets Limited	**100%**	100%	100%	A Limited Liability Company registered in the Cayman Islands, engaged in trading in derivatives and Repos/ Reverse Repos on behalf of the Bank.
Eastgate MENA Direct Equity L.P.	**100%**	100%	100%	A private equity fund domiciled in the Cayman Islands and managed by NCB Capital Dubai. The Fund’s investment objective is to generate returns via investments in Shari’ah compliant direct private equity opportunities in high growth businesses in countries within the Middle East and North Africa.
AlAhli Outsourcing Company	**100%**	100%	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia, engaged in recruitment services within the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

(2.1) Statement of compliance

These consolidated financial statements are prepared in accordance with IAS 34 - Interim Financial Reporting as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and income tax. The Bank prepares its consolidated financial statements to comply with the Banking Control Law and the Regulation for Companies in the Kingdom of Saudi Arabia and the Bank's By-laws. These consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

The preparation of 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.

(2.2) Basis of measurement

These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets held at fair value [derivatives, financial assets held at fair value through income statement (FVIS), FVOCI - debt instruments and FVOCI - equity instruments]. In addition, financial assets or liabilities that are carried at amortized cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

(2.3) Functional and presentation currency

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

(2.4) Basis of consolidation

These consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries (see note 1.2). The financial statements of the subsidiaries are prepared for the same reporting period as that of the Group, using consistent accounting policies.

(a) Subsidiaries

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

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

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

2. BASIS OF PREPARATION (continued)

(2.4) **Basis of consolidation (continued)**

(b) Non-controlling interests

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

(c) Associates

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

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

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

(d) Transactions eliminated on consolidation

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

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

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the following new standard mentioned below:

(2.5.1) Implication of new standards

Effective 1 January 2019 the Group has adopted IFRS 16 leases, the impact of the adoption of this standard is explained below:

IFRS 16 Leases

IFRS 16 supersedes 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 Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short- term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

2. BASIS OF PREPARATION (continued)

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

(2.5.1) Implication of new standards (continued)

The effect of adoption IFRS 16 is as follows:

Reconciliation of lease liabilities

	SAR '000
Off-balance sheet lease obligations as of 31 December 2018	**1,567,307**
Current leases contracts with a lease term of 12 months or less & low-value contracts leases	**4,386**
Operating lease contracts obligations as of January 1, 2019 (Gross without discounting)	**1,567,307**
Operating contracts lease obligations as of January 1, 2019 (net, discounted)	**1,136,233**
Reasonably certain extension or termination option	**802,371**
Total lease liabilities as of January 1, 2019	**1,938,604**

Nature of effect of IFRS 16

The Group has lease contracts for Branch premises, ATM premises and leasehold improvements thereon until 31 December 2018 (i.e. before the adoption of IFRS 16), the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities respectively.

Upon adoption of IFRS 16, the Group has applied a single recognition and measurement approach for all leases in which it is the lessee, except for short-term leases and leases of low-value assets. The Group has recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets under lease arrangements. In accordance with the modified retrospective method of adoption, the Group applied IFRS 16 at the date of initial application with transition impact recognized in equity. Accordingly, comparative information in these consolidated financial statements has not been restated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Policy applicable on or after 1 January 2019

Right of use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. As of 1 January 2019, the right of use assets amounted to SAR 1,797 million.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the internal cost of funds as the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. Lease liabilities are included within other liabilities.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of one to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the 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 deposits	**10,930,695**	13,277,060	12,524,885
Due from banks and other financial institutions with original maturity of three months or less	**3,380,119**	6,514,484	9,481,671
Total	**14,310,814**	19,791,544	22,006,556

5. INVESTMENTS, NET

	31 March 2019 (Unaudited) SAR '000	31 December 2018 (Audited) SAR '000	31 March 2018 (Unaudited) SAR '000
Held at FVIS	**6,764,158**	4,954,873	4,426,985
Held at FVOCI	**50,541,962**	47,833,655	43,225,809
Investments held at amortised cost, net	**66,113,114**	65,301,680	65,902,307
Total	**123,419,234**	118,090,208	113,555,101

a) Investments held at amortised cost include investments amounting to SAR 8,567 million (31 December 2018: SAR 7,962 and 31 March 2018: SAR 5,501 million) which are held under a fair value hedge relationship. As at 31 March 2019, the fair value of these investments amount to SAR 8,744 million (31 December 2018: SAR 7,888 million and 31 March 2018: SAR 5,328 million).

b) Investments, net, include securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SAR 60,444 million (31 December 2018: SAR 55,189 million and 31 March 2018: SAR 45,831 million).

c) Investments, net, include sukuks amounting to SAR 20,982 million (31 December 2018: SAR 23,575 million and 31 March 2018: SAR 24,322 million).

d) FVOCI investments include equity instruments designated as FVOCI amounting to SAR 1,597 million (31 December 2018: SAR 1,490 and 31 March 2018: SAR 180 million), including local public equities of SAR 1,344 million (31 December 2018: SAR 1,234 and 31 March 2018: Nil).

e) Dividend income recognized during 2019 for FVOCI investments amounts to SAR 8 million (31 March 2018: Nil).

6. FINANCING AND ADVANCES, NET

	31 March 2019 (Unaudited)				
	SAR '000				
	Consumer	**Corporate**	**International**	**Others**	**Total**
Performing financing and advances	**107,079,716**	**131,647,191**	**20,607,376**	**11,563,839**	**270,898,122**
Non-performing financing and advances	**590,544**	**3,234,195**	**1,119,388**	**1,158**	**4,945,285**
Total financing and advances	**107,670,260**	**134,881,386**	**21,726,764**	**11,564,997**	**275,843,407**
Allowance for financing losses (ECL allowances)	**(1,650,336)**	**(4,547,871)**	**(929,831)**	**(58,580)**	**(7,186,618)**
Financing and advances, net	**106,019,924**	**130,333,515**	**20,796,933**	**11,506,417**	**268,656,789**

	31 December 2018 (Audited)				
	SAR '000				
	Consumer	Corporate	International	Others	Total
Performing financing and advances	104,601,345	132,148,891	21,093,653	9,652,142	267,496,031
Non-performing financing and advances	618,301	3,402,684	1,226,392	-	5,247,377
Total financing and advances	105,219,646	135,551,575	22,320,045	9,652,142	272,743,408
Allowance for financing losses (ECL allowances)	(1,630,999)	(4,628,707)	(1,108,952)	(57,359)	(7,426,017)
Financing and advances, net	103,588,647	130,922,868	21,211,093	9,594,783	265,317,391

	31 March 2018 (unaudited)				
	SAR '000				
	Consumer	Corporate	International	Others	Total
Performing financing and advances	98,518,572	124,695,198	24,772,159	7,836,491	255,822,420
Non-performing financing and advances	528,937	2,795,419	1,396,544	-	4,720,900
Total financing and advances	99,047,509	127,490,617	26,168,703	7,836,491	260,543,320
Allowance for financing losses (ECL allowances)	(1,577,431)	(4,752,963)	(1,381,018)	(55,061)	(7,766,473)
Financing and advances, net	97,470,078	122,737,654	24,787,685	7,781,430	252,776,847

Other financing and advances include financial institutions.

a) Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SAR 225,262 million (31 December 2018: SAR 221,998 million and 31 March 2018: SAR 212,300 million).

6. FINANCING AND ADVANCES, NET (continued)

b) Movement in ECL allowances for the period ended 31 March 2019 is as follows:

	31 March 2019 (Unaudited) SAR '000			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL not credit impaired	Stage 3 Lifetime ECL credit impaired	Total
Balance as at 1 January 2019	2,566,045	1,097,784	3,762,188	7,426,017
Net impairment charge	(79,315)	(45,575)	502,321	377,431
Transfer to 12 months ECL	54,841	(33,451)	(21,390)	-
Transfer to lifetime ECL not credit-impaired	(22,687)	44,955	(22,268)	-
Transfer to lifetime ECL credit impairmed	(4,090)	(42,482)	46,572	-
Bad debts written off	-	-	(565,611)	(565,611)
Foreign currency translation differences	(5,947)	(7,747)	(37,525)	(51,219)
Balance as at 31 March 2019	2,508,847	1,013,484	3,664,287	7,186,618

7. DERIVATIVES

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

(a) Swaps

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

(b) Forwards and futures

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

(c) Forward rate agreements

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

(d) Options

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

(e) Structured derivative products

Structured derivative products provide financial solutions to the customers of the Group to manage their risks in respect of foreign exchange, special commission rate and commodity exposures and enhance yields by allowing deployment of excess liquidity within specific risk and return profiles. The majority of the Group's structured derivative transactions are entered on a back-to-back basis with various counterparties.

(7.1) Derivatives held for trading purposes

Most of the Group’s derivative trading activities are relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves profiting from price differentials between markets or products.

7. DERIVATIVES (continued)

(7.2) Derivatives held for hedging purposes

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

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce special commission rate gaps within the established limits.

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

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

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

	31 March 2019 (Unaudited) SAR'000			31 December 2018 (Audited) SAR'000			31 March 2018 (Unaudited) SAR'000		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading:									
Special commission rate instruments	**3,307,301**	**(3,013,367)**	**233,261,019**	2,678,597	(2,387,874)	212,624,498	2,340,591	(2,025,866)	168,217,988
Forward foreign exchange contracts	**380,278**	**(21,581)**	**70,611,624**	335,677	(73,316)	80,779,791	346,491	(33,224)	86,927,408
Options	**5,443**	**(3,875)**	**44,902**	35	(36)	22,560	18,015	(11,036)	364,456
Structured derivatives	**10,688**	**(10,727)**	**1,757,533**	8,371	(9,342)	2,600,149	68,188	(73,609)	13,639,824
Held as fair value hedges:									
Special commission rate instruments	**474,650**	**(1,043,385)**	**24,747,694**	687,692	(424,863)	23,938,733	761,247	(308,197)	15,053,202
Held as cash flow hedges:									
Special commission rate instruments	**207,369**	**(298,610)**	**7,241,715**	202,677	(383,699)	12,228,663	171,885	(326,335)	11,820,194
Total	**4,385,729**	**(4,391,545)**	**337,664,487**	3,913,049	(3,279,130)	332,194,394	3,706,417	(2,778,267)	296,023,072

8. CUSTOMERS' DEPOSITS

	31 March 2019 (Unaudited) SAR '000	31 December 2018 (Audited) SAR '000	31 March 2018 (Unaudited) SAR '000
Current accounts	**235,514,091**	254,744,356	237,052,409
Savings	**125,982**	125,938	123,509
Time	**60,745,576**	49,747,561	60,583,928
Others	**13,275,405**	14,080,936	11,240,986
Total	**309,661,054**	318,698,791	309,000,832

International segment customers deposits included in customers' deposits comprise of:

	31 March 2019 (Unaudited) SAR '000	31 December 2018 (Audited) SAR '000	31 March 2018 (Unaudited) SAR '000
Current accounts	**8,327,935**	6,867,202	5,950,424
Time	**13,296,280**	12,113,741	14,585,692
Others	**279,249**	299,820	465,688
Total	**21,903,464**	19,280,763	21,001,804

9. DEBT SECURITIES ISSUED

As at the reporting date, debt securities issued comprise of non-convertible sukuks issued by the Group, carrying profit at fixed rates, with maturities up to 2020. Below is a reconciliation of liabilities arising from financing activities:

	31 March 2019 (Unaudited) SAR '000	31 December 2018 (Audited) SAR '000	31 March 2018 (Unaudited) SAR '000
Debt securities issued:			
Balance at beginning of the period	**9,430,907**	10,250,310	10,250,310
Debt securities issued	**1,694,250**	3,028,039	270,028
Debt securities payment	**(6,700,572)**	(3,457,626)	(54,166)
Foreign currency translation adjustment	**(3,384)**	(389,816)	62,112
Balance at end of the period	**4,421,201**	9,430,907	10,528,284

During the 3 months period ended 31 March 2019, the Group has exercised its option and early redeemed its Tier 2 sukuk amounting to SAR 5 billion at face value.

10. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

	31 March 2019 (Unaudited) SAR '000	31 December 2018 (Audited) SAR '000	31 March 2018 (Unaudited) SAR '000
Letters of credit	**9,469,243**	10,800,494	10,079,052
Guarantees	**33,057,721**	33,561,534	39,365,115
Acceptances	**2,035,559**	2,185,162	2,183,872
Irrevocable commitments to extend credit	**11,595,727**	9,071,129	10,427,335
Total	**56,158,250**	55,618,319	62,055,374

11. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 3,000,000,000 shares of SAR 10 each (31 December 2018: 3,000,000,000 shares of SAR 10 each and 31 March 2018: 2,000,000,000 shares of SAR 10 each). The capital of the Bank excluding treasury shares consists of 2,993,390,812 shares of SAR 10 each (31 December 2018: 2,989,409,411 shares of SAR 10 each and March 2018: 1,992,939,607 shares of SAR 10 each).

On 28 December 2017 (corresponding to 10 Rabi-al-thani 1439H), the Board of Directors recommended an increase of 50% to the Bank's issued share capital through a 1 for 2 bonus issue to the Shareholders of the Bank, which was approved in the Extraordinary General Assembly meeting dated 15 May 2018. Accordingly, the total shares in issue increased to 3,000,000,000 from 2,000,000,000 shares to reach total share capital of SAR 30,000,000,000.

12. DIVIDEND

On 22 December 2018, the Board of Directors has recommended the distribution of final dividend of SAR 3,288 million (SAR 1.10 per share) and accordingly, the dividends are expected to be approved and paid fully during the second quarter of 2019.

13. ZAKAT

The Bank is calculating Zakat accruals for the year 2019 based on the new Zakat rules for financing activities.

During the year 2018, the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the Zakat Liability for previous years and accordingly all assessments have been finalized until 2017.

Zakat has been computed for the year ended 31 December 2018 in line with the basis of settlement agreement with GAZT.

14. TIER 1 SUKUK

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

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

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

15. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the periods ended 31 March 2019 and 31 March 2018 is calculated by dividing the net income attributable to common equity holders of the Bank (adjusted for Tier 1 sukuk costs) for the periods by the weighted average number of shares outstanding during the period.

Diluted earnings per share for the periods ended 31 March 2019 and 31 March 2018 is calculated by dividing the fully diluted net income attributable to equity holders of the Bank for the period by the weighted average number of outstanding shares. The diluted earnings per share are adjusted with the impact of the employees' share based payment plan.

Basic and diluted earnings per share calculation take into account the Bonus share issue (see note 11).

16. OPERATING SEGMENTS

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

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

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

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

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

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

International Comprises banking services provided outside Saudi Arabia including TFK.

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

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

16. OPERATING SEGMENTS (continued)

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

	31 March 2019 (Unaudited)					
	SAR'000					
	Retail	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Total assets	**137,773,835**	**133,846,592**	**159,026,948**	**1,646,164**	**34,054,063**	**466,347,602**
Total liabilities	**246,076,467**	**49,804,280**	**71,585,327**	**290,211**	**29,750,789**	**397,507,074**
- Customers' deposits	**231,842,700**	**48,000,983**	**7,909,943**	**3,964**	**21,903,464**	**309,661,054**
- Intersegment operating income (expense)	**576,402**	**(670,430)**	**118,173**	**-**	**(24,145)**	**-**
Total operating income	**2,358,862**	**1,002,717**	**1,113,025**	**180,997**	**297,157**	**4,952,758**
of which:						
- Net special commission income	**1,982,926**	**809,373**	**515,812**	**3,408**	**250,150**	**3,561,669**
- Fee income from banking services, net	**354,279**	**193,497**	**25,596**	**163,524**	**50,607**	**787,503**
Total operating expenses	**1,122,471**	**207,079**	**110,964**	**77,643**	**245,350**	**1,763,507**
of which:						
- Depreciation/amortisation of property, equipment and software	**144,325**	**21,384**	**14,185**	**4,690**	**28,161**	**212,745**
- Impairment (reversal)/charge for financing and advances losses, net	**122,267**	**(23,040)**	**(6,022)**	**-**	**50,998**	**144,203**
- Impairment charge on investments, net	**-**	**-**	**904**	**-**	**220**	**1,124**
Other non-operating (expenses), net	**(7,058)**	**(5,213)**	**(5,800)**	**22**	**20,648**	**2,599**
Net income for the period attributable to:	**1,229,333**	**790,425**	**996,261**	**103,376**	**72,455**	**3,191,850**
- Equity holders of the Bank	**1,229,333**	**790,425**	**996,261**	**100,114**	**48,566**	**3,164,699**
- Non-controlling interests	**-**	**-**	**-**	**3,262**	**23,889**	**27,151**

	31 March 2018 (unaudited)					
	SAR'000					
	Retail	Corporate	Treasury	Capital Market	International	Total
Total assets	125,974,888	127,191,317	147,993,201	1,512,929	36,223,220	438,895,555
Total liabilities	250,300,473	47,692,068	44,857,765	254,867	30,929,434	374,034,607
- Customers' deposits	234,811,667	44,375,718	8,807,768	3,875	21,001,804	309,000,832
- Intersegment operating income (expense)	528,503	(590,295)	87,627	-	(25,835)	-
Total operating income	2,116,900	873,728	1,189,765	227,588	371,260	4,779,241
of which:						
- Net special commission income	1,792,714	653,353	664,966	1,542	305,998	3,418,573
- Fee income from banking services, net	309,888	221,372	36,897	222,108	62,172	852,437
Total operating expenses	943,006	216,736	223,308	88,841	279,255	1,751,146
of which:						
- Depreciation/amortisation of property, equipment and software	98,491	20,760	11,945	3,746	21,228	156,170
- Impairment charge for financing and advances losses, net	(44,814)	(40,072)	19,288	-	63,263	(2,335)
- Impairment charge on investments, net	-	-	85,523	-	-	85,523
Other non-operating (expenses), net	(7,951)	(7,233)	(8,331)	-	24,341	826
Net income for the period attributable to:	1,165,943	649,759	958,126	138,747	116,346	3,028,921
- Equity holders of the Bank	1,165,943	649,759	958,126	135,063	77,986	2,986,877
- Non-controlling interests	-	-	-	3,684	38,360	42,044

17. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

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

a. Fair value information for financial instruments at fair value

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

Level 1: quoted prices in active markets for the same instrument;

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

	31 March 2019 (Unaudited) SAR'000			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	-	4,385,729	-	4,385,729
Financial assets held at FVIS	795,861	4,642,072	1,326,225	6,764,158
Financial assets held at FVOCI	38,557,093	11,835,436	149,433	50,541,962
Investments held at amortised cost, net - fair value hedged	-	8,744,324	-	8,744,324
Total	39,352,954	29,607,561	1,475,658	70,436,173
Financial liabilities				
Derivative financial instruments	-	4,391,545	-	4,391,545
Total	-	4,391,545	-	4,391,545

17. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

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

	31 December 2018 (Audited)			
	SAR'000			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	3,913,049	-	3,913,049
Financial assets held at FVIS	640,321	3,545,092	769,460	4,954,873
Financial assets held at FVOCI	38,922,362	8,760,058	151,235	47,833,655
Investments held at amortised cost, net - fair value hedged	-	7,888,270	-	7,888,270
Total	39,562,683	24,106,469	920,695	64,589,847
Financial liabilities				
Derivative financial instruments	-	3,279,130	-	3,279,130
Total	-	3,279,130	-	3,279,130

	31 March 2018 (unaudited)			
	SAR'000			
	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	3,706,417	-	3,706,417
Financial assets held at FVIS	588,964	3,417,689	420,332	4,426,985
Financial assets held at FVOCI	36,393,967	6,667,185	164,657	43,225,809
Investments held at amortised cost, net - fair value hedged	-	5,327,907	-	5,327,907
Total	36,982,931	19,119,198	584,989	56,687,118
Financial liabilities				
Derivative financial instruments	-	2,778,267	-	2,778,267
Total	-	2,778,267	-	2,778,267

17. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

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

The fair value of financing and advances, net amounts to SAR 280,847 million (31 December 2018: SAR 273,757 million and 31 March 2018: SAR 258,699 million).

The fair values of due from banks and other financial institutions, investments held at amortised cost, due to banks and other financial institutions, customers deposits and debt securities issued at 31 March 2019, 31 December 2018 and 31 March 2018 approximate their carrying values.

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

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

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

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

d. Transfer between Level 1 and Level 2 of the fair value hierarchy

There were no transfers between level 1 and level 2 during 31 March 2019 (31 December 2018: Nil and 31 March 2018: Nil).

e. Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	31 March 2019 (Unaudited) SAR '000	31 March 2018 (Unaudited) SAR '000
Movement of level 3 is as follows:		
Balance at beginning of the period	**920,695**	476,520
Total gains (realized and unrealized) in consolidated statement of income	**205,200**	1,148
Purchases	**382,458**	203,133
(Sales)	**(31,437)**	(20,939)
Others	**(1,258)**	(74,873)
Balance at end of the period	**1,475,658**	584,989

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

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel 3 - 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 3 framework.

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

	Risk weighted assets		
	31 March 2019 (Unaudited) SAR '000	31 December 2018 (Audited) SAR '000	31 March 2018 (Unaudited) SAR '000
Credit risk	**323,748,973**	311,702,968	311,381,078
Operational risk	**35,394,562**	35,113,912	34,324,423
Market risk	**16,260,097**	13,372,313	12,248,465
Total Pillar-1 - risk weighted assets	**375,403,632**	360,189,193	357,953,966
Core capital (Tier 1)	**69,109,150**	66,613,049	64,979,658
Supplementary capital (Tier 2)	**3,300,418**	7,702,233	7,989,687
Core and supplementary capital (Tier 1 and Tier 2)	**72,409,568**	74,315,282	72,969,345
Capital Adequacy Ratio (Pillar 1):-			
Core capital (Tier 1)	**18.4%**	18.5%	18.2%
Core and supplementary capital (Tier 1 and Tier 2)	**19.3%**	20.6%	20.4%

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

The Group uses the Standardized approach of Basel 3 to calculate the risk weighted assets and required Regulatory Capital for Pillar -1 (including credit risk, market risk and operational risk). The Group's Risk Management is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel 3 requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

19. COMPARATIVE FIGURES

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

20. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 22 April 2019 (corresponding to 17 Shabaan 1440H).

Lama A. Ghazzaoui	Faisal O. Al-Sakkaf	Saeed M. Al-Ghamdi
Chief Financial Officer	Chief Executive Officer	Chairman