BANK ALBILAD
(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018

KPMG Al Fozan & Partners
Certified Public Accountants

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

To the Shareholders of
Bank Albilad
(A Saudi Joint Stock Company)
Riyadh
Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Bank Albilad ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 30 September 2018, and the related interim consolidated statements of income and comprehensive income for the three months and nine months period then ended, and the interim consolidated statements of changes in equity and cash flows for the nine months 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 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, as 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.

KPMG Al Fozan & Partners
Certified Public Accountants

Independent auditors' review report on the interim condensed consolidated financial statements (continued)

Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in Note 15 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in Note 15 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

PricewaterhouseCoopers

P O Box 8282
Riyadh 11482
Kingdom of Saudi Arabia

Ali A. Alotaibi
Certified Public Accountant
License Number 379

KPMG Al Fozan & Partners
Certified Public Accountants
P O Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Nasser Ahmed Al Shutairy
Certified Public Accountant
License Number 454

15 Safar 1440H
(24 October 2018)

BANK ALBILAD
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**September 30, 2018 SAR'000 (Unaudited)**	December 31, 2017 SAR'000 (Audited)	September 30, 2017 SAR'000 (Unaudited)
ASSETS				
Cash and balances with SAMA		**5,427,500**	5,688,931	5,021,027
Due from banks and other financial institutions, net		**7,784,227**	7,706,382	8,660,582
Investments, net	7	**6,146,946**	5,140,017	5,871,562
Financing, net	8	**49,738,261**	43,447,429	41,814,968
Property and equipment, net		**1,005,612**	875,424	829,192
Other assets		**604,685**	349,493	335,582
Total assets		**70,707,231**	63,207,676	62,532,913
LIABILITIES AND EQUITY				
Liabilities				
Due to SAMA		**-**	2,012,518	2,008,017
Due to banks and other financial institutions		**3,662,639**	1,748,937	2,807,296
Customers' deposits	9	**54,574,279**	47,782,959	46,401,672
Sukuk		**2,007,937**	2,006,575	2,006,749
Other liabilities		**2,521,826**	2,067,894	1,728,337
Total liabilities		**62,766,681**	55,618,883	54,952,071
Equity				
Share capital	16	**6,000,000**	6,000,000	6,000,000
Statutory reserve		**866,508**	866,508	630,997
Other reserves		**(90,028)**	47,420	80,326
Retained earnings		**1,253,271**	530,805	787,959
Proposed dividends	18	**-**	240,000	180,000
Treasury shares		**(96,335)**	(104,575)	(104,575)
Employee share plan reserve		**7,134**	8,635	6,135
Total equity		**7,940,550**	7,588,793	7,580,842
Total liabilities and equity		**70,707,231**	63,207,676	62,532,913

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

BANK ALBILAD
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Notes	For the three months period ended		For the nine months period ended	
		September 30, 2018 SAR'000	September 30, 2017 SAR'000	**September 30, 2018 SAR'000**	September 30, 2017 SAR'000
INCOME					
Income from investing and financing assets		**700,800**	547,598	**1,945,703**	1,547,271
Return on deposits and financial liabilities		**(154,195)**	(98,765)	**(396,622)**	(275,201)
Income from investing and financing assets, net		**546,605**	448,833	**1,549,081**	1,272,070
Fee and commission income, net		**236,153**	213,951	**644,814**	614,630
Exchange income, net		**84,411**	76,881	**238,758**	225,487
Dividend income		**4,273**	2,224	**17,624**	4,485
Gains on available for sale investments, net in year 2017		**-**	-	**-**	6,733
Gains on fair value through profit or loss investments, net		**(3,342)**	-	**10,897**	-
Other operating income		**12,147**	21,049	**52,724**	51,820
Total operating income		**880,247**	762,938	**2,513,898**	2,175,225
EXPENSES					
Salaries and employee related expenses		**256,504**	228,712	**765,147**	701,566
Rent and premises related expenses		**57,278**	62,119	**182,505**	186,865
Depreciation and amortisation		**27,719**	31,794	**72,236**	81,973
Other general and administrative expenses		**103,590**	78,289	**296,480**	251,462
Impairment charge for credit and other financial assets, net		**148,137**	115,979	**378,501**	243,052
Total operating expenses		**593,228**	516,893	**1,694,869**	1,464,918
Net income for the period		**287,019**	246,045	**819,029**	710,307
Attributable to:					
Equity holders of the Bank		**287,019**	248,051	**819,029**	716,187
Non-controlling interest	1	**-**	(2,006)	**-**	(5,880)
Net income for the period		**287,019**	246,045	**819,029**	710,307
Basic and diluted earnings per share (attributable to ordinary equity holders of the Bank) (SAR)	17	**0.48**	0.41	**1.37**	1.19

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

BANK ALBILAD
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	For the three months period ended		For the nine months period ended	
		September 30, 2018	September 30, 2017	**September 30, 2018**	September 30, 2017
		SAR'000	SAR'000	**SAR'000**	SAR'000
Net income for the period		**287,019**	246,045	**819,029**	710,307
Other comprehensive income :					
Items that cannot be reclassified to consolidated statement of income in subsequent periods					
- Net movement in fair value reserve (equity instruments)		**(24,891)**	-	**(19,790)**	-
Items that can be reclassified to consolidated statement of income in subsequent periods					
-Debt instrument at fair value through other comprehensive income:					
• Net changes in fair value		**12,697**	-	**(63,375)**	-
Items that can be reclassified to consolidated statement of income or have been reclassified in the year 2017					
- Available for sale financial assets					
• Net changes in fair value		**-**	54,708	**-**	61,779
• Net amount transferred to interim consolidated statement of income		**-**	-	**-**	(6,733)
Total other comprehensive income		**(12,194)**	54,708	**(83,165)**	55,046
Total comprehensive income for the period		**274,825**	300,753	**735,864**	765,353
Attributable to:					
Equity holders of the Bank		**274,825**	302,759	**735,864**	771,233
Non-controlling interest	1	**-**	(2,006)	**-**	(5,880)
Total comprehensive income for the period		**274,825**	300,753	**735,864**	765,353

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

BANK ALBILAD
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018

		Attributable to the equity holders of the Bank									
2018 **SAR' 000**	**Note**	**Share capital**	**Statutory reserve**	**Other reserves**	**Retained earnings**	**Proposed dividends**	**Treasury shares**	**Employees' share plan reserve**	**Total**	**Non-controlling interest**	**Total equity**
Balance at the beginning of the period		**6,000,000**	**866,508**	**47,420**	**530,805**	**-**	**(104,575)**	**8,635**	**7,348,793**	**-**	**7,348,793**
Impact of adoption of new standards at 1 January 2018	4			**(54,283)**	**(26,345)**				**(80,628)**		**(80,628)**
Restated balance at 1 January 2018		**6,000,000**	**866,508**	**(6,863)**	**504,460**	**-**	**(104,575)**	**8,635**	**7,268,165**	**-**	**7,268,165**
Changes in the equity for the period											
Net movement in fair value reserve (equity instruments) / realized losses				**(19,790)**	**(218)**				**(20,008)**		**(20,008)**
Net movement in FVOCI reserve for investments				**(63,375)**					**(63,375)**		**(63,375)**
Net income recognized directly in equity				**(83,165)**	**(218)**				**(83,383)**		**(83,383)**
Net income for the period					**819,029**				**819,029**		**819,029**
Total comprehensive income for the period				**(83,165)**	**818,811**			**-**	**735,646**	**-**	**735,646**
Treasury shares							**8,240**		**8,240**		**8,240**
Employees' share plan reserve								**(1,501)**	**(1,501)**		**(1,501)**
Zakat for current period					**(70,000)**				**(70,000)**		**(70,000)**
Balance at end of the period		**6,000,000**	**866,508**	**(90,028)**	**1,253,271**	**-**	**(96,335)**	**7,134**	**7,940,550**	**-**	**7,940,550**

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

BANK ALBILAD

(A Saudi Joint Stock Company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2017

		Attributable to the equity holders of the Bank									
2017 SAR' 000	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Treasury shares	Employees' share plan reserve	Total	Non-controlling interest	Total equity
Balance at the beginning of the period		6,000,000	630,997	169,201	285,188	300,000	(113,207)	8,720	7,280,899	39,906	7,320,805
Effect of change in accounting policy	4	-	-	(143,921)	(25,000)	-	-	-	(168,921)	-	(168,921)
Balance at the beginning of the period as restated		6,000,000	630,997	25,280	260,188	300,000	(113,207)	8,720	7,111,978	39,906	7,151,884
Changes in the equity for the period											
Net changes in fair values of available for sale investments		-	-	61,779	-	-	-	-	61,779	-	61,779
Net realized amount transferred to interim consolidated statement of income		-	-	(6,733)	-	-	-	-	(6,733)	-	(6,733)
Net income recognized directly in equity		-	-	55,046	-	-	-	-	55,046	-	55,046
Net income for the period		-	-		716,187	-	-	-	716,187	(5,880)	710,307
Total comprehensive income for the period		-	-	55,046	716,187	-	-	-	771,233	(5,880)	765,353
Treasury shares		-	-	-	-	-	8,632	-	8,632	-	8,632
Employees' share plan reserve		-	-	-	-	-	-	(2,585)	(2,585)	-	(2,585)
Zakat for current period					(8,416)				(8,416)	-	(8,416)
Cash dividends		-	-	-	-	(300,000)	-	-	(300,000)	-	(300,000)
Proposed dividends		-	-	-	(180,000)	180,000	-	-	-	-	-
Non-controlling interest arising on consolidation	1	-	-	-	-	-	-	-	-	(34,026)	(34,026)
Balance at end of the period		6,000,000	630,997	80,326	787,959	180,000	(104,575)	6,135	7,580,842	-	7,580,842

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

BANK ALBILAD
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018 AND 2017

	Note	**2018 SAR' 000**	2017 SAR' 000
OPERATING ACTIVITIES			
Net income for the period		**819,029**	710,307
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Profit on Sukuk		**62,831**	58,222
(Gains) / loss on FVTPL investments, net		**(10,897)**	-
(Gains) / loss on non-trading investments, net		**-**	(6,733)
Gains from disposal of property and equipment, net		**(54)**	(1,070)
Depreciation and amortisation		**72,236**	81,973
Impairment charge for credit and other financial assets, net		**378,501**	243,052
Employee share plan		**6,739**	6,047
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(365,441)**	(286,660)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**(2,242,066)**	(140,662)
Commodity Murabaha with SAMA maturing after ninety days from the date of acquisition		**296,444**	(1,347,414)
Financing		**(6,735,629)**	(5,879,633)
Other assets		**(255,192)**	(128,337)
Net increase / (decrease) in operating liabilities:			
Due to SAMA		**(2,012,518)**	1,803
Due to banks and other financial institutions		**1,913,702**	1,810,905
Customers' deposits		**6,791,320**	6,166,957
Other liabilities		**383,932**	367,502
Net cash (used in) / generated from operating activities		**(897,063)**	1,656,259
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments held as FVOCI		**39,522**	-
Purchase of investments held as FVOCI		**(1,956,947)**	-
Proceeds from sales and maturities of investments held as FVTPL		**503,451**	-
Purchase of investments held as FVTPL		**(274,881)**	-
Proceeds from sale of non-trading investments		**-**	403,276
Purchase of non-trading investments		**-**	(2,084,769)
Proceeds from sale of property and equipment		**85**	1,662
Purchase of property and equipment		**(202,455)**	(100,635)
Disposal of a subsidiary		**-**	991,301
Net cash used in investing activities		**(1,891,225)**	(789,165)
FINANCING ACTIVITIES			
Distributed Sukuk profit		**(61,469)**	(58,520)
Profit paid on Sukuk		**-**	-
Cash dividend		**(240,000)**	(300,000)
Non-controlling interest		**-**	(34,026)
Net cash used in financing activities		**(301,469)**	(392,546)
Net change in cash and cash equivalents		**(3,089,757)**	474,548
Cash and cash equivalents at the beginning of the period		**9,064,626**	8,786,280
Cash and cash equivalents at the end of the period	11	**5,974,869**	9,260,828
Income received from investing and financing assets		**1,815,228**	1,463,295
Return paid on deposits and financial liabilities		**409,654**	278,027
Supplemental non cash information			
Net changes in fair value and transfers to interim (consolidated) statement of income		**(83,165)**	55,046

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

1. GENERAL

a) Incorporation and operation

Bank AlBilad (the "Bank"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, was formed and licensed pursuant to Royal Decree No. M/48 dated 21 Ramadan 1425H (corresponding to November 4, 2004), in accordance with the Counsel of Ministers' resolution No. 258 dated 18 Ramadan 1425H (corresponding to November 1, 2004).

The Bank operates under Commercial Registration No.1010208295 dated 10 Rabi Al Awal 1426H (corresponding to April 19, 2005) and its Head Office is located at the following address:

Bank AlBilad
P.O. Box 140
Riyadh 11411
Kingdom of Saudi Arabia

These interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, "Albilad Investment Company", "Albilad Real Estate Company" (collectively referred to as "the Group"). Albilad Investment Company and AlBilad Real Estate Company are 100% owned by the Bank. All subsidiaries are incorporated in the Kingdom of Saudi Arabia.

As at 31 December 2016, the Bank had 80% ownership in Makkah Al Diyafah Fund (the Fund), however, the Fund issued further units and accordingly, the Bank's holding percentage reduced to 29.75% on August 31, 2017. Based on this, the Bank lost control of the Fund and the Fund is not being consolidated with effect from 1 September 2017.

The Group's objective is to provide full range of banking services and conduct, financing and investing activities through various Islamic instruments. The activities of the Bank are conducted in compliance with Islamic Shariah and within the provisions of the By-laws and the Banking Control Law. The Bank provides these services through 111 banking branches (September 30, 2017: 112) and 179 exchange and remittance centers (September 30, 2017: 179) in the Kingdom of Saudi Arabia.

b) Shariah Authority

The Bank has established a Shariah Authority ("the Authority"). It ascertains that all the Bank's activities are subject to its approval and control.

2. BASIS OF PREPARATION

a) Statement of compliance

The interim consolidated financial statements for the nine months ended September 30, 2018 have been prepared;

- In accordance with IAS 34 "Interim Financial Reporting" and with International Financial Reporting Standards (IFRS) as modified by Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax.

- In compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Bank.

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017.

The Bank has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018 and accounting policies for these new standards are disclosed in the Note 4.

The preparation of these interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. Significant judgments and estimates relating to impairment are disclosed in the financial risk management note considering IFRS 9 first time adoption.

The Bank presents its statement of financial position in order of liquidity.

b) Basis of measurement and presentation

These interim condensed consolidated financial statements are prepared under the historical cost convention except for the measurement of investments which are classified as fair value through other comprehensive income (FVOCI) and Fair Value through Income Statement (FVTPL).

c) Functional and presentation currency

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) which is the Bank's functional currency and are rounded off to the nearest thousands.

3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as set forth in note 1. The financial statements of the subsidiaries 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. Subsidiaries are consolidated from the date on which the control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank.

Inter-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these interim condensed consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

The Bank has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at January 1, 2018 in equity. The Bank has carried out the impact assessment as at 1 January 2018 and has made adjustments to opening retained earnings (refer to note 4-a iii).

IFRS 9 – Financial Instruments

The Bank has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of January 1, 2018.The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Bank does not have any hedging instruments as at December 31, 2017.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarized below.

- **Classification of financial assets and financial liabilities**

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based, except for equity instruments, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, financing and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities and the group has no change in the existing policy for financial liabilities.

- **Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Bank to record an allowance for ECLs for all Financing and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. For an explanation of how the Bank applies the impairment requirements of IFRS 9, please refer note to 14.

- **Transition**

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

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

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

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

It is assumed that the credit risk has not increased significantly for those debt securities which carry low credit risk at the date of initial application of IFRS 9.

4-a) Financial assets and financial liabilities

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

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

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
				SAR in '000'	
Financial assets					
Cash and balances with SAMA		Amortised cost	Amortised cost	5,688,931	5,688,931
Due from banks and other financial institutions		Amortised cost	Amortised cost	7,706,382	7,703,786
Investments, net (Sukuk and Equity)		Available for sale	FVOCI	2,541,158	2,537,328
Investment, net (Commodity Murabaha with SAMA)		Amortised cost	Amortised cost	1,892,801	1,890,704
Investment, net (Mutual fund)		Available for sale	FVTPL	706,058	706,058
Financing, net		Amortised cost	Amortised cost	43,447,429	43,384,623
Other assets		Amortised cost	Amortised cost	349,493	349,493
Total financial assets				**62,332,252**	**62,260,923**
Financial liabilities					
Due to SAMA		Amortised cost	Amortised cost	2,012,518	2,012,518
Due to banks and other financial institutions		Amortised cost	Amortised cost	1,748,937	1,748,937
Customers' deposits		Amortised cost	Amortised cost	47,782,959	47,782,959
Sukuk		Amortised cost	Amortised cost	2,006,575	2,006,575
Other liabilities		Amortised cost	Amortised cost	2,067,894	2,067,894
Total financial liabilities				**55,618,883**	**55,618,883**

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

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018.

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 January 2018
	SAR in '000'			
Financial assets				
Amortized cost				
Cash and balances with SAMA:				
Opening balance	5,688,931	-	-	5,688,931
Remeasurement	-	-	-	-
Closing balance	**5,688,931**	**-**	**-**	**5,688,931**
Due from banks and other financial institutions:				
Opening balance	7,706,382	-	-	7,706,382
Remeasurement	-	-	(2,596)	(2,596)
Closing balance	**7,706,382**	**-**	**(2,596)**	**7,703,786**
Financing:				
Opening balance	43,447,429	-	-	43,447,429
Remeasurement	-	-	(62,806)	(62,806)
Closing balance	**43,447,429**	**-**	**(62,806)**	**43,384,623**
Investments:				
Opening balance	1,892,801	-	-	1,892,801
Remeasurement	-		(2,097)	(2,097)
Closing balance	**1,892,801**	**-**	**(2,097)**	**1,890,704**
Other assets:				
Opening balance	349,493	-	-	349,493
Remeasurement	-	-	-	-
Closing balance	**349,493**	**-**	**-**	**349,493**
Total amortized cost	**59,085,036**	**-**	**(67,499)**	**59,017,537**
FVOCI				
Investment:				
Opening balance	3,247,216	-	-	-
Transferred to:	-	-	-	-
FVOCI – equity	-	(290,647)	-	-
FVOCI – debt	-	(2,250,511)	-	-
FVTPL	-	(706,058)	-	-
Amortized cost	-	-	-	-
Closing balance	**3,247,216**	**(3,247,216)**	**-**	**-**
Investment:				
Opening balance	**-**	**-**	**-**	**-**
From available for sale	-	2,541,158	(3,830)	2,537,328
Total FVOCI	-	**2,541,158**	**(3,830)**	**2,537,328**

FVTPL				
Investment:				
Opening balance	-			
From available for sale	-	706,058	-	706,058
Total FVTPL	**-**	**706,058**	**-**	**706,058**
	62,332,252	**-**	**(71,329)**	**62,260,923**

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 January 2018
	SAR in '000'			
Financial liabilities				
At amortized cost				
Due to SAMA	2,012,518	-	-	2,012,518
Due to banks and other financial institutions	1,748,937	-	-	1,748,937
Customers' deposits	47,782,959	-	-	47,782,959
Sukuk	2,006,575	-	-	2,006,575
Other liabilities	2,067,894	-	-	2,067,894
Total amortized cost	**55,618,883**	**-**	**-**	**55,618,883**

iii) Impact on retained earnings and other reserves

	Retained earnings	Other reserves
	SAR in '000'	
Closing balance under IAS 39 (December 31, 2017)	530,805	47,420
Reclassifications under IFRS 9	54,283	(54,283)
Recognition of expected credit losses under IFRS 9 (including lease receivables, financing commitments and financial guarantee contracts. including those measured at FVOCI)	(71,329)	-
Fee impact under IFRS 15	(9,299)	-
Opening balance (January 1, 2018)	**504,460**	**(6,863)**

The following table reconciles the provision recorded as per the requirements of IAS 39 to that of IFRS 9:

- The closing impairment allowance for financial assets in accordance with IAS 39 and provisions for financing commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at December 31, 2017;

- The opening ECL allowance determined in accordance with IFRS 9 as at January 1, 2018.

	31 December 2017 (IAS 39 / IAS 37)	Reclassification	Remeasurement	1 January 2018 (IFRS 9)
	SAR in '000'			
Financing and receivables (IAS 39)/Financial assets at amortised cost (IFRS-9)				
Due from banks and other financial institutions	90,923	-	2,596	93,519
Financing, net	1,248,951	-	62,806	1,311,757
Total	**1,339,874**	**-**	**65,402**	**1,405,276**
AFS (IAS 39)/Financial assets at amortised cost (IFRS-9)				
Investment, net	-	-	2,097	2,097
Held to maturity (IAS 39)/Financial assets at FVOCI (IFRS-9)				
Investment, net	**-**	**-**	3,830	3,830
Total	**1,339,874**	**-**	**71,329**	**1,411,203**

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed (consolidated) financial statements are consistent with those used in the preparation of the annual (consolidated) financial statements for the year ended December 31, 2017 except for the policies explained below. Based on the adoption of new standards explained in note 4, the following accounting policies are applicable effective January 1, 2018 replacing / amending or adding to the corresponding accounting policies set out in 2017 financial statements.

5-a) Classification of financial assets (policy applicable from January 1, 2018)

From January 1, 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through other comprehensive income (FVOCI);
- Amortised cost,or
- Fair value through profit or loss (FVTPL);

The classification requirements for financing, debt instruments and equity investment are described as per the following:

Financing and Debt instruments

Classification and subsequent measurement of financing and debt instruments depend on:

(i) the Group's business model for managing the asset; and
(ii) the cash flow characteristics of the asset which are referred as cash flows are solely payments of principal and interest (SPPI).
(iii) Based on these factors, the Group classifies its financing and debt instruments and financing into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 14.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognised in OCI is reclassified from equity to Statement of Income.
- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in statement of Income in the period in which it arises.

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales

activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

Assessments whether contractual cash flows are SPPI

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

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

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

Equity instruments

On initial recognition, for an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value through OCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to Statement of Income, including disposal. This election is made on an investment-by-investment basis.

Financial Asset at FVTPL

All other financial assets are classified as measured at FVTPL (for example: equity held for trading and debit securities not classified neither as AC or FVOCI, mutual fund).

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

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

5-b) Classification of financial liabilities

All customer deposits, due to SAMA, due to banks and other financial institutions, sukuk and other financial liabilities are initially recognized at fair value less transaction costs and subsequently measured at amortized cost.

5-c) Derecognition

- **Financial assets**

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

On derecognition, any cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is included in the consolidated statement of income for the period.

From January 1, 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities.

5-d) Modifications of financial assets and financial liabilities

- **Financial assets**

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value.

In case the Modification of Asset does not result in De-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash-flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognised in Profit or Loss for Asset Modification.

- **Financial liabilities**

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

5-e) Impairment

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

- Financial assets that are measured at amortised cost;
- Debt instruments assets measured at FVOCI;
- Financial guarantee contracts issued; and
- Financing commitments issued.

No impairment loss is recognized on equity investments.

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

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

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

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

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, and then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition .This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- When the obligor is unlikely to pay for its credit obligations in full, without recourse by the bank to the actions such as realizing security (if held) and is also known as unlikeliness to pay events;
- A breach of contract such as a default or past due event;
- The restructuring of financing by the Bank on terms that the Bank would not consider otherwise.

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

- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Presentation of allowance for ECL in the statement of financial position

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

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

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

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

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

Write-off

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

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other nonfinancial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank’s quarterly reporting schedule. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

The Bank’s accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank’s statement of financial position. However, the fair value of collateral affects the calculation of ECLs.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, audited financial statements, and other independent sources.

Collateral repossessed

The Bank’s accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank’s policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are

transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

5-f) Financial guarantees and financing commitments

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

Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received.

Subsequent to the initial recognition

- From January 1, 2018: the Bank's liability under each guarantee is measured at higher of the amortized amount and the loss allowance.

- Before January 1, 2018: the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees.

The premium received is recognised in the consolidated statement of income in "Fees and commission income, net" on a straight-line basis over the life of the guarantee.

Financing commitments are firm commitments to provide credit under pre-specified terms and conditions.

The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments:

- From January 1, 2018: the Bank recognizes loss allowance;
- Before January 1, 2018: the Bank recognizes a provision in accordance with IAS 37 if the contract was considered to be onerous.

5-g) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Bank's and group companies' functional currency.

Transactions in foreign currencies are translated into Saudi Riyals ('SAR') at exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the reporting date.

Realized and unrealized gains or losses on exchange are credited or charged to the consolidated statement of income.

5-h) Revenue / expenses recognition

- **Income on investing and financing assets, and return on financial liabilities**

Income on investing and financing assets, and return on financing liabilities is recognized in the consolidated statement of income using the effective yield method on the outstanding balance over the term of the contract.

The calculation of effective yield takes into account all contractual terms of the financial instruments including all fees (above certain threshold), transaction costs, discounts that are integral part of the effective yield method but does not include the future financing loss. Transactional costs are incremental costs that are directly attributable to acquisition of financing assets and financial liabilities.

- **Fees and commission income**

Fees and commission income (above certain threshold for fee related to financing) that are integral to the effective yield rate are included in the measurement of the relevant assets.

Fees and commission income that are not integral part of the effective yield calculation on a financial asset or liability are recognized when the related service is provided as follows:

- Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.

- Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.

- Performance linked fees or fee components are recognized when the performance criteria are fulfilled.

- Financing commitment fees for financing that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective yield on the financing. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognized on a straight-line basis over the commitment period.

- Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the transaction is completed or the service, is received.

6. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. Significant areas where management uses estimates, assumptions or exercised judgments and that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are as follows:

(i) Impairment for losses on financing:

The Group reviews its financing portfolio to assess Expected Credit Losses (ECL) - on a regular basis. Assessment and measurement of ECL involves application of models and risk identification estimates. These models consider the impact of changes to borrower and credit risk-related variables such as changes in PDs, LGDs, exposure amounts, collateral values, migration of default probabilities and internal borrower credit risk grades based on historical, current and reasonable and supportable forward-looking information, including macroeconomic factors.

(ii) Fair value measurement

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

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

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(iii) Impairment of debt instruments classified as fair value through other comprehensive income (FVOCI) and amortised cost

The Bank exercises judgement to consider impairment on the debt instruments classified as FVOCI or amortized cost. In making this judgement, the Bank evaluates among other factors, the normal volatility in prices and SIBOR. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(iv) Classification of amortised cost investments

The Bank follows the guidance of IFRS 9 when classifying financial assets with fixed or determinable payments and fixed maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity in line with the business model for the particular class of investments.

(v) Classification of fair value through income statement

The Bank follows criteria set in IFRS 9 when classifying financial assets and liabilities to fair value through income statement. In making this judgement, the Bank evaluates its compliance with the conditions as prescribed in IFRS 9.

(vi) Determination of control over investees

The control indicators set out in note 3 are subject to management's judgments that can have a significant effect in case of the Group's interests in investment funds. Al Bilad Investment Company acts as the 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.

(vii) Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management has exercised judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per law.

(viii) Defined benefit plans

Bank operates an End of service benefit plan for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit method in accordance with the periodic actuarial valuation.

(ix) Going concern

The management has made an assessment of the Group’s ability to continue as a going concern and is satisfied that the Group and the Bank have the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

7. INVESTMENTS, NET

	September 30, 2018 SAR' 000 (Unaudited)	December 31, 2017 SAR' 000 (Audited)	September 30, 2017 SAR' 000 (Unaudited)
Fair Value Through Other Comprehensive Income (FVOCI)			
Equities	**374,473**	-	-
Sukuk	**3,998,614**	-	-
	4,373,087	-	-
Fair value through profit or loss (FVTPL)			
Mutual funds	**478,489**	-	-
Amortized Cost			
Commodity Murabaha with SAMA	**1,295,370**	1,892,801	2,791,922
Available for sale investments (2017)			
Equities	-	290,647	302,553
Mutual funds	-	706,058	807,657
Sukuk	-	2,250,511	1,969,430
	-	3,247,216	3,079,640
Total	**6,146,946**	5,140,017	5,871,562

8. FINANCING, NET

	September 30, 2018 SAR'000 (Unaudited)	December 31, 2017 SAR'000 (Audited)	September 30, 2017 SAR'000 (Unaudited)
Bei ajel	**28,527,487**	27,021,505	27,045,856
Installment sales, Ijarah and credit cards	**20,159,155**	15,535,506	14,128,216
Musharaka	**1,828,761**	1,466,377	1,128,934
Ijarah	**234,720**	140,816	161,255
Performing financing	**50,750,123**	44,164,204	42,464,261
Non-performing financing	**659,921**	532,176	476,308
Gross financing	**51,410,044**	44,696,380	42,940,569
Allowance for impairment	**(1,671,783)**	(1,248,951)	(1,125,601)
Financing, net	**49,738,261**	43,447,429	41,814,968

The movement in the allowance for impairment of financing to customers for the period ended 30 September is as follows:

2018	**Total SAR'000**
Closing loss allowance as at 31 December 2017 (calculated under IAS 39)	**1,248,951**
Amounts restated through opening retained earnings	**62,806**
Opening loss allowance as at 1 January 2018 (calculated under IFRS 9)	**1,311,757**
Charge for the period, net	**381,990**
Bad debts written off against provision	**(21,964)**
Balance at the end of the period	**1,671,783**

9. CUSTOMERS' DEPOSITS

	September 30, 2018 SAR'000 (Unaudited)	December 31, 2017 SAR'000 (Audited)	September 30, 2017 SAR'000 (Unaudited)
Demand	**29,477,870**	27,442,213	26,937,866
Albilad account (Mudarabah)	**16,457,998**	12,811,178	10,971,010
Direct investment	**7,522,665**	6,623,054	7,601,147
Others	**1,115,746**	906,514	891,649
Total	**54,574,279**	47,782,959	46,401,672

10. COMMITMENTS AND CONTINGENCIES

a) As at September 30, 2018, there are legal proceedings outstanding against the Bank during the ordinary course of business. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.

b) The Group's commitments and contingencies are as follows:

	September 30, 2018 SAR' 000 (Unaudited)	December 31, 2017 SAR' 000 (Audited)	September 30, 2017 SAR' 000 (Unaudited)
Letters of guarantee	**4,229,846**	4,332,600	4,216,596
Letters of credit	**426,072**	931,341	815,889
Acceptances	**527,328**	412,634	565,091
Irrevocable commitments to extend credit	**496,104**	568,010	1,534,123
Total	**5,679,350**	6,244,585	7,131,699

c) **Zakat**

During the period ended 30 September 2018, there has been no change in the status of the Group's Zakat assessments. The Group's position with respect to stance on these assessments, has remained the same as that disclosed in the annual consolidated financial statements for the year ended 31 December 2017.

11. CASH AND CASH EQUIVALENTS

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

	September 30, 2018 SAR' 000 (Unaudited)	December 31, 2017 SAR' 000 (Audited)	September 30, 2017 SAR' 000 (Unaudited)
Cash	**1,721,042**	1,724,325	1,635,523
Due from banks and other financial institutions (maturing within ninety days from acquisition)	**3,648,067**	5,810,887	6,938,674
Held to maturity investment (maturing within ninety days from acquisition)	**-**	300,065	-
Balances with SAMA (excluding statutory deposit)	**605,760**	1,229,349	686,631
Total	**5,974,869**	9,064,626	9,260,828

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

Determination of fair value and fair value hierarchy

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

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

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

		Fair value			
SAR' 000	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
September 30, 2018					
Financial assets measured at fair value					
Held as FVTPL	**478,489**	**122,120**	**356,369**	**-**	**478,489**
Held as FVOCI	**4,373,087**	**3,701,692**	**-**	**671,395**	**4,373,087**
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	**7,784,215**	-	-	**7,784,215**	**7,784,215**
Investments held at amortized cost	**1,295,340**	-	-	**1,295,340**	**1,295,340**
Financing, net	**49,738,261**	-	-	**49,172,098**	**49,172,098**

		Fair value			
SAR' 000	Carrying value	Level 1	Level 2	Level 3	Total
December 31, 2017					
Financial assets measured at fair value					
Available for sale investments	3,247,216	1,457,601	323,186	1,466,429	3,247,216
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	7,706,382	-	-	7,706,382	7,706,382
Investments held at amortized cost	1,892,801	-	-	1,892,801	1,892,801
Financing, net	43,447,429	-	-	42,356,960	42,356,960

		Fair value			
SAR' 000	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
September 30, 2018					
Financial liabilities not measured at fair value					
Due to SAMA	**-**	**-**	**-**	**-**	**-**
Due to banks and other financial institutions	**3,662,639**	**-**	**-**	**3,662,639**	**3,662,639**
Customers' deposits	**54,574,279**	**-**	**-**	**54,574,279**	**54,574,279**
Sukuk	**2,007,937**	**-**	**-**	**2,007,937**	**2,007,937**

		Fair value			
SAR' 000	Carrying value	Level 1	Level 2	Level 3	Total
December 31, 2017					
Financial liabilities not measured at fair value					
Due to SAMA	2,012,518	-	-	2,012,518	2,012,518
Due to banks and other financial institutions	1,748,937	-	-	1,748,937	1,748,937
Customers' deposits	47,782,959	-	-	47,782,959	47,782,959
Sukuk	2,006,575	-	-	2,006,575	2,006,575

The fair values of financial instruments which are not measured at fair value in these interim condensed consolidated financial statements are not significantly different from the carrying values included in the interim condensed consolidated financial statements.

The fair values, of profit bearing customer deposits, held at amortized cost investment, due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since either the current market profit rates for similar financial instruments are not significantly different from the contracted rates, or for the short duration of certain financial instruments particularly due from and due to banks and other financial institutions or a combination of both. An active market for these instruments is not available and the Group intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

Financing classified as level 3 have been valued using expected cash flows discounted at relevant SIBOR.

Fair Value Through Other Comprehensive Income (FVOCI) and Available for sale investments classified as level 3 include unlisted sukuk which have been measured by the management at fair value using broker quotes or estimating present value by discounting cash flows using adjusted discount rate. The adjusted discount rate is calculated using CDS of a similar entity using publicly available information. The valuation method has been approved by ALCO.

During the current year, no financial assets / liabilities have been transferred between level 1 and / or level 2 fair value hierarchy.

Reconciliation of level 3 fair values held as FVOCI

	September 30, 2018 SAR' 000 (Unaudited)	December 31, 2017 SAR' 000 (Audited)	September 30, 2017 SAR' 000 (Unaudited)
Balance at the beginning of the year	**1,466,429**	628,144	628,144
Purchase	**1,108,253**	830,284	765,518
Sales	**(1,977,773)**	-	-
Gain / (loss) included in OCI			
Net changes in fair value (unrealised)	**74,486**	8,001	12,977
Total	**671,395**	1,466,429	1,406,639

13. SEGMENT INFORMATION

Operating segments, based on customer groups are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Assets and Liabilities Committee (ALCO) and the Chief Decision Maker in order to allocate resources to the segments and to assess its performance. The Group's main business is conducted in the Kingdom of Saudi Arabia.

There has been no change to the basis of segmentation or the measurements basis for the segment profit or loss since December 31, 2017.

For management purposes, the Group is divided into the following five segments:

Retail banking
Services and products to individuals, including deposits, financing, remittances and currency exchange.

Corporate banking
Services and products to corporate and commercial customers including deposits, financing and trade services.

Treasury
Money market, trading and treasury services.

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

Other
All other support functions including CEO Office which manages equity investments of the Group.

Transactions between the above operating segments are under the terms and conditions of the approved Fund Transfer Pricing (FTP) system. The support segments and Head Office expenses are allocated to operating segments, based on approved criteria.

The Group's total assets and liabilities as at September 30, 2018 and 2017, together with its total operating income and expenses, and net income, for the nine months period then ended, for each segment are as follows:

	September 30, 2018 (Unaudited)					
SAR'000	**Retail banking**	**Corporate banking**	**Treasury**	**Investment banking and brokerage**	**Other**	**Total**
Total assets	**26,098,533**	**26,848,633**	**15,833,074**	**837,177**	**1,089,814**	**70,707,231**
Total liabilities	**37,287,171**	**12,933,285**	**8,161,793**	**38,994**	**4,345,438**	**62,766,681**
Income from investing and financing assets, net	**488,711**	**1,018,112**	**95,001**	**6,638**	**(59,381)**	**1,549,081**
Fund Transfer pricing	**276,266**	**(420,709)**	**41,262**	**-**	**103,181**	**-**
Net income from investing and financing assets	**764,977**	**597,403**	**136,263**	**6,638**	**43,800**	**1,549,081**
Fee, commission and other income, net	**611,071**	**87,924**	**125,574**	**110,629**	**29,619**	**964,817**
Total operating income	**1,376,048**	**685,327**	**261,837**	**117,267**	**73,419**	**2,513,898**
Impairment charge for Credit and other Financial Assets, net	**180,278**	**201,712**	**(3,539)**	**50**	**-**	**378,501**
Depreciation	**62,255**	**7,387**	**1,221**	**1,373**	**-**	**72,236**
Total operating expenses	**1,159,430**	**412,177**	**51,691**	**68,595**	**2,976**	**1,694,869**
Net income for the period	**216,618**	**273,150**	**210,146**	**48,672**	**70,443**	**819,029**
Attributable to						
Equity holders of the Bank	**216,618**	**273,150**	**210,146**	**48,672**	**70,443**	**819,029**
Non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**
Net income for the period	**216,618**	**273,150**	**210,146**	**48,672**	**70,443**	**819,029**

	September 30, 2017 (Unaudited)					
SAR'000	Retail Banking	Corporate Banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	17,813,410	25,375,090	17,776,255	415,842	1,152,316	62,532,913
Total liabilities	31,613,716	10,132,126	9,471,143	21,989	3,713,097	54,952,071
Income from investing and financing assets, net	381,792	906,875	35,860	10,112	(62,569)	1,272,070
Fund Transfer pricing	165,185	(337,524)	38,209	-	134,130	-
Net income from investing and financing assets	546,977	569,351	74,069	10,112	71,561	1,272,070
Fee, commission and other income, net	619,197	110,063	80,531	68,222	25,142	903,155
Total operating income	1,166,174	679,414	154,600	78,334	96,703	2,175,225
Impairment charge for Credit and other Financial Assets, net	60,888	182,164	-	-	-	243,052
Depreciation	70,271	8,908	1,387	1,407	-	81,973
Total operating expenses	990,195	373,619	51,020	58,915	(8,831)	1,464,918
Net income for the period	175,979	305,795	103,580	19,419	105,534	710,307
Attributable to						
Equity holders of the Bank	175,979	305,795	103,580	19,419	111,414	716,187
Non-controlling interest	-	-	-	-	(5,880)	(5,880)
Net income for the period	175,979	305,795	103,580	19,419	105,534	710,307

14. Financial Risk Management

i) Credit Risk

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arrive principally in financing and investment activities. There is also credit risk in off-balance sheet financial position financial instruments, such as letters of credit, letter of guarantees and financing commitments.

The Group assesses the probability of default of counterparties using internal rating tools. In addition, the Group uses external ratings from major rating agencies, where available.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify, 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.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

The Group seeks to manage its credit risk exposure through diversification and managing undue concentration of risks with individuals or groups of customers in specific locations or businesses. 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 facilities.

Management 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 of financings.

The Group regularly reviews its risk management policies and systems to reflect changes in market products and emerging best practice.

a. Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both

quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The point in time PD at the reporting date; with
- The Point in time PD estimated at the time of initial recognition of the exposure.

In addition to the above, other major quantitative consideration include days past due and rating of customer.

Credit risk grades

For the wholesale portfolio, the bank allocates each exposure (either through reliance on internal rating or external rating agencies) to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

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

Commercial exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, and compliance with covenants, quality management, and senior management changes. • Data from credit reference agencies, press articles, changes in external credit ratings • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities • Business analysis of the borrower, including business risk, management, financial document and support, stability and behavior. • Industry analysis in which the borrower is operating, including the phase of industry growth and industry failure rate.	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilization of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

i) Generating the term structure of PD

Credit risk grades (or the four aforementioned bucket created for retail portfolio) are a primary input into the determination of the term structure of PD for exposures.

Using the realized default data for each grade or bucket, the bank employs statistical models to generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The bank employs following steps in order to generated term structure of the PD:

The bank first calculates the observed default rates for its portfolios which involves monitoring customer behavior over next 12 months, then classifying default, which is then forecasted using acceptable actuarial method and thereafter adjusted for macroeconomic outlook (see below).

The Bank factors in forward looking information in its PD calibration through macroeconomic models for each portfolio. The impact of macroeconomic variables on default rates has been calculated using a multiple scenario-based modeling framework which factors upturn, downturn and baseline scenarios' forecast in to the probability of default. This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors. The forecast is used to estimate the impact on the PD over the upcoming years.

The Point in Time" PD, and later adjusted for macroeconomic overly to make it forward looking. Transition matrix approach is used to forecast grade wise PDs over the upcoming years transition

matrix. This provide the grade wise PD over the upcoming years, thus the term structure of the PD.

ii) Determining whether credit risk has increased significantly

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

The assessment of significant increase in credit risk, is assessed taking on account of:

- Days past due;
- Change in risk of default occurring since initial recognition;
- Expected life of the financial instrument; and
- Reasonable and supportable information, that is available without undue cost or effort that may affect credit risk.

Lifetime expected credit losses are recognized against any material facility which has experienced significant increase in credit risk since initial recognition. Recognition of lifetime expected credit losses will be made if any facility is past due for more than 30 days.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

iii) Modified financial assets

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

When the terms of the financial assets are modified that does not result into De-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognized in statement of income for Asset Modification.

To measure the Significant Increase in Credit Risk (for financial assets not de-recognized during the course of modification), the Bank will compare the risk of default occurring at the reporting date based on modified contract terms and the default risk occurring at initial recognition based on original and unmodified contract terms. Appropriate ECL will be

recorded according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3.

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

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

The asset will be provided appropriate treatment according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3. No Asset Modification to be considered if the same were not driven by Credit Distress situation of Obligor.

During the period, no material losses were recognized on modification or restructuring of any facility.

iv) Definition of 'Default'

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group actions such as realizing security (if any is held); or
- The borrower is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a borrower is in default. The Bank considers indicators that are:

- Qualitative- e.g. breaches of covenant;
- Quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.
- Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

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

v) Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

For the purpose of ECL measurement with respect to the consumer and commercial (and SME) portfolios, this is done through application of macroeconomic models which have been developed for the various portfolios of the banks. Through the macroeconomic models the banks assesses the impact of the macroeconomic variables on the default rates. The forecasts of the variables is gathered from the external sources.

The Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

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

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 8 to 10 years.
With respect to the listed, sovereign and Financial Institutions, the bank utilizes a Credit Default Swap based methodology, which incorporates the market’s forward looking view in order to arrive at the ECL.

vi) Measurement of ECL

For Consumer and Commercial (including SME exposures), the key inputs into the measurement of ECL are the term structure of the following variables:

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

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

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

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD is calculated on a discounted cash flow basis using the contractual interest rate as the discounting factor.

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

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance, terminate a financing commitment, or guarantee.

For retail overdrafts and credit card facilities that include both a financing and an undrawn commitment component, the Bank measures ECL over a period of contractual maturity, as the bank considers that it has the contractual ability to demand repayment and cancel the undrawn commitment. Although these facilities do not have a fixed term or repayment structure and are managed on a collective basis, there is an annual review of the limits, where these can be cancelled.

For portfolios, such as listed exposures, Sovereign and FI exposures, in respect of which the Bank has limited historical data, credit default swap spreads are utilized to determine the Expected Credit Loss amount.

b. Loss allowance

The following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments.

	30th September 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in '000'			
Financing to customers at amortized cost				
Balance at 1 January	467,969	314,648	529,140	1,311,757
Transfer to 12-month ECL	23,158	(23,158)	-	-
Transfer to lifetime ECL not credit – impaired	(111,812)	112,154	(342)	-
Transfer to lifetime ECL credit – impaired	(40,495)	(34,299)	74,794	-
Net charge for the period	113,808	197,523	70,659	381,990
Write-offs	-	-	(21,964)	(21,964)
Carrying amount	**452,628**	**566,868**	**652,287**	**1,671,783**

c. Collateral

The Bank in the ordinary course of its financing activities holds collateral as security to mitigate credit risk.

The collateral mostly includes project receivables deposits, financial guarantees, local equities and real estate. Collateral is held against Commercial and Consumer real estate facilities and is managed against relevant exposures at their net realizable values.

15. 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.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

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

The following table summarizes the Group's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios:

	September 30, 2018 SAR' 000 (Unaudited)	December 31, 2017 SAR' 000 (Audited)	September 30, 2017 SAR' 000 (Unaudited)
Credit Risk RWA	**53,281,644**	49,050,813	48,490,666
Operational Risk RWA	**5,402,224**	4,899,270	4,746,995
Market Risk RWA	**184,247**	1,512,788	551,025
Total Pillar-I RWA	**58,868,115**	55,462,871	53,788,686
Tier I Capital	**7,997,612**	7,588,793	7,580,842
Tier II Capital	**2,666,021**	2,693,286	2,672,359
Total Tier I & II Capital	**10,663,633**	10,282,079	10,253,201
Capital Adequacy Ratio %			
Tier I ratio	**13.59%**	13.68%	14.09%
Tier I + Tier II ratio	**18.11%**	18.54%	19.06%

16. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 600 million shares of SAR 10 each (30 September 2018: 600 million shares of SAR 10 each and 30 September 2017: 600 million shares of SAR 10 each).

17. EARNING PER SHARE ("EPS")

Basic and diluted earnings per share for the nine months period ended September 30, 2018 and 2017 is calculated by dividing the net income for the period attributable to the equity holders by the weighted average number of outstanding shares 2018: 596 million shares (2017: 596 million shares) during the period adjusted for treasury shares.

18. DIVIDENDS

Cash dividends of SAR 240 million (SAR 0.4 per share) have been approved by the Ordinary General Assembly meeting of the Bank on April 11, 2018.

19. COMPARATIVE FIGURES

Comparative figures have been reclassified wherever necessary to conform to the current period presentation.

20. BOARD OF DIRECTORS' APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on 13 Safar 1440H (corresponding to 22 October 2018).