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

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Riyad Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group") as of 31 March 2020, and the related interim condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended and other explanatory notes (the "interim condensed consolidated financial statements").

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *"Interim Financial Reporting"* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

Other regulatory matters

As required by Saudi Arabian Monetary Authority ("SAMA"), certain capital adequacy information has been disclosed in note (19) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (19) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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riyad bank

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 March 2020 (Unaudited) SAR'000	31 December 2019 (Audited) SAR'000	31 March 2019 (Unaudited) SAR'000
ASSETS				
Cash and balances with SAMA		21,495,091	29,189,487	18,684,788
Due from banks and other financial institutions		11,296,605	4,734,888	9,023,062
Positive fair value of derivatives	6	1,675,430	608,847	403,858
Investments, net	7	54,143,790	53,361,415	49,293,805
Loans and advances, net	8	182,783,863	173,981,999	158,241,632
Investment in associates	18	702,361	702,882	733,616
Other real estate		251,973	233,057	241,950
Property and equipment, net		2,167,007	2,201,925	2,148,442
Other assets		5,180,446	774,378	745,924
Total assets		279,696,566	265,788,878	239,517,077
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Due to banks and other financial institutions		16,687,383	13,124,480	11,494,025
Negative fair value of derivatives	6	1,851,911	649,226	434,138
Customer deposits	9	192,901,768	194,517,899	173,491,122
Debt securities in issue	10	9,692,316	4,003,029	4,046,346
Other liabilities		20,765,851	12,922,782	12,406,416
Total liabilities		241,899,229	225,217,416	201,872,047
Shareholders' equity				
Share capital		30,000,000	30,000,000	30,000,000
Statutory reserve		6,502,130	6,502,130	5,101,613
Other reserves		(1,573,549)	1,027,108	631,386
Retained earnings		2,868,756	1,392,224	1,912,031
Proposed dividends		-	1,650,000	-
Total shareholders' equity		37,797,337	40,571,462	37,645,030
Total liabilities and shareholders' equity		279,696,566	265,788,878	239,517,077

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	Notes	For the three month period ended 31 March 2020 SAR'000	2019 SAR'000 (Restated)
Special commission income		2,608,381	2,430,592
Special commission expense		619,063	621,876
Net special commission income		1,989,318	1,808,716
Fee and commission income		785,097	746,186
Fee and commission expense		213,139	195,647
Fee and commission income, net		571,958	550,539
Exchange income, net		113,056	78,574
Trading income, net		78,772	69,087
Dividend income		25,993	16,353
Gains on disposal of non-trading investments, net		101,661	54,681
Other operating income		4,721	2,194
Total operating income, net		2,885,479	2,580,144
Salaries and employee-related expenses		510,876	455,898
Rent and premises-related expenses		45,693	51,653
Depreciation of property and equipment		114,800	107,073
Other general and administrative expenses		238,185	222,012
Other operating expenses		15,841	8,591
Total operating expenses before impairment charge		925,395	845,227
Impairment charge for credit losses and other financial assets, net	8.4	308,129	211,439
Impairment charge (reversal) for investments, net		304	(2,928)
Total operating expenses, net		1,233,828	1,053,738
Net operating income		1,651,651	1,526,406
Share in earnings of associates, net	18	7,783	118,388
Income for the period before zakat		1,659,434	1,644,794
Zakat for the period	16	183,000	160,000
Net income for the period after zakat		1,476,434	1,484,794
Basic and diluted earnings per share (in SAR)	17	0.49	0.49

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

	For the three month period ended 31 March	
	2020	(Restated) 2019
	SAR'000	SAR'000
Net income for the period after zakat	1,476,434	1,484,794
Other comprehensive income (OCI):		
a) Items that may be reclassified to interim condensed consolidated statement of income in subsequent periods		
- Fair value through other comprehensive income (FVOCI- debt instruments)		
- Net change in fair value	(1,940,176)	405,318
- Net amounts transferred to interim condensed consolidated statement of income	(86,522)	(46,911)
- Net changes in allowance for expected credit losses of debt instruments	1,645	(8,713)
b) Items that cannot be reclassified to interim condensed consolidated statement of income in subsequent periods		
- Net change in fair value of equity instruments at fair value through other comprehensive income- (FVOCI- equity instruments)	(575,506)	236,326
Other comprehensive (loss) income for the period	(2,600,559)	586,020
Total comprehensive (loss) income for the period	(1,124,125)	2,070,814

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
For the three month period ended 31 March 2020 & 2019

SAR'000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
31 March 2020						
Balance at the beginning of the period	30,000,000	6,502,130	1,027,108	1,392,224	1,650,000	40,571,462
Total comprehensive income						
Net changes in fair values of						
- FVOCI equity instruments	-	-	(575,506)	-	-	(575,506)
- FVOCI debt instruments	-	-	(1,940,176)	-	-	(1,940,176)
Net amount reclassified to the interim				-	-	-
condensed consolidated statement of income for FVOCI -debt instruments	-	-	(86,522)	-	-	(86,522)
Net changes in allowance for expected credit						
losses on FVOCI -debt instruments	-	-	1,645	-	-	1,645
Net income for the period	-	-	-	1,476,434	-	1,476,434
Total comprehensive income	-	-	(2,600,559)	1,476,434	-	(1,124,125)
Disposal of FVOCI -equity instruments	-	-	(98)	98	-	-
Final dividends - 2019 (note 16)	-	-	-	-	(1,650,000)	(1,650,000)
Balance at the end of the period	30,000,000	6,502,130	(1,573,549)	2,868,756	-	37,797,337
31 March 2019						
Balance at the beginning of the period	30,000,000	5,101,613	58,047	414,556	1,200,000	36,774,216
Total comprehensive income						
Net changes in fair values of						
- FVOCI equity instruments	-	-	236,326	-	-	236,326
- FVOCI debt instruments	-	-	405,318	-	-	405,318
Net amount reclassified to the interim condensed						
consolidated statement of income for FVOCI - debt instruments	-	-	(46,911)	-	-	(46,911)
Net changes in allowance for expected credit						
losses on FVOCI -debt instruments	-	-	(8,713)	-	-	(8,713)
Net income for the period(restated)	-	-	-	1,484,794	-	1,484,794
Total comprehensive income	-	-	586,020	1,484,794	-	2,070,814
Disposal of FVOCI equity	-	-	(12,681)	12,681		-
Final dividends - 2018	-	-	-	-	(1,200,000)	(1,200,000)
Balance at the end of the period	30,000,000	5,101,613	631,386	1,912,031	-	37,645,030

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

	Notes	For the three month period ended 31 March 2020 SAR'000	2019 SAR'000
OPERATING ACTIVITIES			
Income for the period before zakat		1,659,434	1,644,794
Adjustments to reconcile income for the period before zakat to net cash from (used in) operating activities:			
Accretion of discounts and amortisation of premium, net on non-FVIS instruments, net		10,452	13,081
Gains on disposals of non-trading investments, net		(101,661)	(54,681)
Gains on trading investments, net		5,355	2,380
Dividend income		(25,993)	(16,353)
Depreciation of property and equipment		114,800	107,073
Share in earnings of associates, net		(7,783)	(118,388)
Impairment (reversal) charge for investments, net		304	(2,928)
Impairment charge for credit losses and other financial assets, net	8.4	308,129	211,439
		1,963,037	1,786,417
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(346,887)	(104,322)
Due from banks and other financial institutions maturing after three months from date of acquisition		(908,397)	761,381
Positive fair value of derivatives		(1,066,583)	(117,233)
Fair value through income statement (FVIS)		240,526	(179,404)
Loans and advances, net		(9,105,268)	(7,379,176)
Other real estate		(18,916)	(14,545)
Other assets		(4,400,265)	(73,962)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		3,562,903	2,913,511
Negative fair value of derivatives		1,202,685	159,868
Customer deposits		(1,616,131)	3,668,966
Other liabilities		5,996,146	119,728
Net cash (used in) from operating activities		(4,497,150)	1,541,229
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments not held as FVIS instruments		13,693,627	21,147,296
Purchase of investments not held as FVIS instruments		(17,150,868)	(21,601,712)
Purchase of property and equipment, net		(74,906)	(69,011)
Net cash used in investing activities		(3,532,147)	(523,427)
FINANCING ACTIVITIES			
Proceeds from issuance of debt securities in issue		5,642,850	-
Dividend paid		(320)	(7,919)
Net cash from (used in) financing activities		5,642,530	(7,919)
Net (decrease) increase in cash and cash equivalents		(2,386,767)	1,009,883
Cash and cash equivalents at the beginning of the period	12	23,472,740	17,443,889
Cash and cash equivalents at end of the period	12	21,085,973	18,453,772
Special commission received during the period		2,548,824	2,390,180
Special commission paid during the period		518,178	534,463
Supplemental non-cash information			
Net changes in fair value and transfers to interim condensed consolidated statement of income		(2,602,204)	594,733

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

1. GENERAL

Riyad Bank (the "Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to 23 November 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to 18 November 1957G) through its 341 licensed branches (31 March 2019 : 341 licensed branches) in the Kingdom of Saudi Arabia, a branch in London, United Kingdom, an agency in Houston, United States, and a representative office in Singapore. The registered address of the Bank's Head Office is as follows:

Granada Oasis - A1 Tower
Riyadh - Al Shuhada District
P.O. Box 22622
Riyadh 11416
Kingdom of Saudi Arabia

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

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

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group as at and for the three months period ended 31 March 2020 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA"). The interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and therefore should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

The consolidated financial statements of the Group as at and for the period ended 31 March 2019, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, as modified by Saudi Arabian Monetary Authority (SAMA), for the accounting of zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to zakat and income tax) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

On 17 July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are endorsed by the SOCPA (collectively referred to as "IFRS as endorsed in KSA").

3. BASIS OF CONSOLIDATION

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

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

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

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

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

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

The below are amended accounting standards that become applicable for annual reporting periods commencing on 1 January 2020

(a) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
(b) Definition of a Business (Amendments to IFRS 3)
(c) Definition of Material (Amendments to IAS 1 and IAS 8)
(d) Amendments to References to the Conceptual Framework in IFRS Standards.

The above amendments to IFRS do not have material impact on the accompanying interim condensed consolidated financial statements of the Group.

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, 2019 except for the policies explained below. Based on the adoption of new standards explained in note 4, the following accounting policies are applicable effective 1 January 2020 replacing / amending or adding to the corresponding accounting policies set out in 2019 financial statements.

Change in accounting for zakat & income tax

As mentioned above, the basis of preparation has been changed from the period ended 31 March 2019 as a result of the issuance of instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat and income tax shall be recognized in the statement of income.

The Group has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in note 16 to the interim condensed consolidated financial statements. The change has resulted in reduction of reported income of the Group for the period ended 31 March 2019 by SR 160 million. The change has had no impact on the statement of cash flows for the period ended 31 March 2019.

Government grant

The Bank recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Bank will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of profit is treated as a government grant related to income. The below-market rate deposit is recognised and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. The government grant is recognised in the statement of income on a systematic basis over the period in which the bank recognises as expenses the related costs for which the grant is intended to compensate.

6. DERIVATIVES

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

	31 March 2020 (Unaudited)			31 December 2019 (Audited)			31 March 2019 (Unaudited)		
	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000	Positive fair value SAR'000	Negative fair value SAR'000	Notional amount SAR'000
Held for trading:									
Special commission rate swaps	1,551,646	(1,324,405)	45,477,557	513,761	(427,453)	40,316,114	344,009	(273,971)	36,796,674
Forward foreign exchange contracts	123,784	(126,154)	40,934,220	95,086	(21,762)	29,886,020	59,545	(44,218)	24,881,201
Currency options	-	-	-	-	-	-	304	(304)	90,724
Held as fair value hedges:									
Special commission rate swaps	-	(401,352)	3,405,181	-	(200,011)	3,169,439	-	(115,645)	3,337,402
Total	1,675,430	(1,851,911)	89,816,958	608,847	(649,226)	73,371,573	403,858	(434,138)	65,106,001

7 INVESTMENTS, NET

	31 March 2020 (Unaudited) SAR'000	31 December 2019 (Audited) SAR'000	31 March 2019 (Unaudited) SAR'000
Investments at amortized cost	34,913,580	32,154,904	31,889,024
Investments at FVOCI			
- Equity	2,732,727	3,088,985	2,490,894
- Debt	15,756,774	17,131,969	14,422,210
Total investments at FVOCI	18,489,501	20,220,954	16,913,104
Investment at FVIS	792,727	1,038,918	581,569
Less: impairment	(52,018)	(53,361)	(89,892)
Total	54,143,790	53,361,415	49,293,805

8. LOANS AND ADVANCES, NET

8.1 Loans and advances held at amortised cost

These comprise the following:

31 March 2020 (unaudited) SAR'000	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	8,639,743	746,079	59,240,886	114,852,118	712,321	184,191,147
Non-performing loans and advances	184,066	-	398,452	1,294,599	2,619	1,879,736
Total loans and advances	8,823,809	746,079	59,639,338	116,146,717	714,940	186,070,883
Allowance for impairment	(234,839)	(34,428)	(973,734)	(2,041,272)	(2,747)	(3,287,020)
Loans and advances, net	8,588,970	711,651	58,665,604	114,105,445	712,193	182,783,863

31 December 2019 (audited) SAR'000	Overdraft	Credit Cards	Consumer Loans	Commercial Loans	Others	Total
Performing loans and advances-gross	6,778,704	798,484	55,951,555	111,157,478	497,510	175,183,731
Non-performing loans and advances	95,536	-	377,950	1,078,062	2,586	1,554,134
Total loans and advances	6,874,240	798,484	56,329,505	112,235,540	500,096	176,737,865
Allowance for impairment	(110,945)	(37,971)	(937,524)	(1,667,204)	(2,222)	(2,755,866)
Loans and advances, net	6,763,295	760,513	55,391,981	110,568,336	497,874	173,981,999

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

SAR'000	For the three month period ended 31 March 2020 (Unaudited)	For the year ended 31 December 2019 (Audited)
Balance at the beginning of the period/ year	2,755,866	2,358,529
Provided during the period/ year	674,668	1,173,853
Bad debts written off against provision during the period/ year	(143,514)	(776,516)
	3,287,020	2,755,866

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

SAR'000	12 Months ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Balance at 31 March 2020 (unaudited)	869,865	370,127	2,047,028	3,287,020
Balance at 31 December 2019 (audited)	449,757	509,208	1,796,901	2,755,866

8. LOANS AND ADVANCES, NET

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

	For the three month period ended 31 March	
	2020	2019
SAR'000	(Unaudited)	(Unaudited)
Impairment charge for credit losses, net	303,404	162,374
Impairment charge for other financial assets, net	4,725	49,065
Total	308,129	211,439

IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS

During March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic. The Bank has evaluated the current situation through conducting stress testing scenarios on expected movements of oil prices and its impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the potential business disruption due to COVID-19 outbreak that may have on its operations and financial performance. The steps taken by management also include commencing review of credit exposure concentrations at a more granular level such as the economic sectors, regions, country, counterparty etc., collateral protection, timely review and customer credit rating actions and appropriately restructuring loans, where required. These also take into consideration the impacts of government and SAMA support relief programmes.

The current events and the prevailing economic condition require the Bank to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These would primarily revolve around either adjusting macroeconomic factors used by the Bank in estimation of expected credit losses or revisions to the scenario probabilities currently being used by the Bank in ECL estimation. The adjustments to macroeconomic factors and scenario weightings resulted in an additional ECL of SAR 91 million for the Bank. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgemental and the Bank will continue to reassess its position and the related impact on a regular basis. The Bank will continue to individually assess significant exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

8. LOANS AND ADVANCES, NET

SAMA support programs and initiatives

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Funding for lending program;
- Loan guarantee program; and
- Point of sale ("POS") and e-commerce service fee support program.

As part of the deferred payments program, the Bank is required to defer payments for six months on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues . The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This has resulted in the Bank recognising a day 1 modification loss of SAR 305 million as at 31 March 2020 and this has been presented as part of net financing income. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk.

In order to compensate all the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank, on 1 April 2020, has received SAR 3.4 billion of profit free deposit from SAMA for a period of three years. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 320 million, of which SAR 305 million has been recognised in the statement of income as at 31 March 2020 immediately, with the remaining amount deferred.
Subsequently, the Bank also received SAR 2.2 billion of profit free deposit from SAMA for the period of three years under the same program which has been appropriately recorded after the reporting period.

As at 31 March 2020, the Bank is yet to participate in SAMA's funding for lending and loan guarantee programs. Furthermore, the POS and e-commerce service fee programs have had an immaterial impact to the Bank's financial statements.
During April 2020, SAMA has issued a guidance around Accounting and Regulatory Treatment of COVID-19 Extraordinary Support Measures. The Bank will consider the guidance issued and evaluate the accounting impact in Q2 2020 accordingly.
Health care sector support
In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months from April 1, 2020 till June 30, 2020.

The management has exercised certain judgements in the recognition and measurement of the above modification loss and grant income.

9. CUSTOMER DEPOSITS

Customer deposits comprise the following:

	31 March 2020 (Unaudited) SAR'000	31 December 2019 (Audited) SAR'000	31 March 2019 (Unaudited) SAR'000
Demand	101,994,843	93,707,806	84,784,459
Saving	611,248	525,605	483,789
Time	69,417,500	80,114,743	72,512,533
Others	20,878,177	20,169,745	15,710,341
Total	192,901,768	194,517,899	173,491,122

10. DEBT SECURITIES IN ISSUE

During February 2020, the Bank issued a fixed rate tier 2 Sukuk amounting to USD 1.5 billion (SAR 5.63 billion). The Sukuk issuance is under the USD 3 billion Trust Certificate Issuance Programme and is due in 2030. The Sukuk is listed at London stock exchange (LSE) and carry a special commission rate of 3.174% per annum.

11. CREDIT RELATED COMMITMENTS AND CONTINGENCIES AND OTHERS

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

	31 March 2020 (Unaudited) SAR'000	31 December 2019 (Audited) SAR'000	31 March 2019 (Unaudited) SAR'000
Letters of credit	9,192,034	9,197,819	7,609,956
Letters of guarantee	62,571,977	61,546,938	66,176,455
Acceptances	2,629,207	2,416,610	2,124,011
Irrevocable commitments to extend credit	11,508,434	12,336,542	9,842,014
Total	85,901,652	85,497,909	85,752,436

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

SAR'000	12 Months ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Balance at 31 March 2020 (unaudited)	64,115	3,120	151,829	219,064
Balance at 31 December 2019 (audited)	49,500	14,359	128,926	192,785

Other liabilities as at 31 March 2020, include write-off reserves amounting to SAR 581 million (31 December 2019: SAR 603 million).

12. CASH AND CASH EQUIVALENTS

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

	31 March 2020 (Unaudited) SAR'000	31 December 2019 (Audited) SAR'000	31 March 2019 (Unaudited) SAR'000
Cash and balances with SAMA excluding statutory deposit	11,521,504	19,562,787	9,992,055
Due from banks and other financial institutions maturing within three months from date of acquisition	9,564,469	3,909,953	8,461,717
Total	21,085,973	23,472,740	18,453,772

13. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

Fair value and fair value hierarchy

31 March 2020 SAR'000 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
- Positive fair value of derivatives	-	1,675,430	-	1,675,430
- Investments held at FVIS	792,727	-	-	792,727
- Investments held at FVOCI	18,056,644	-	392,859	18,449,503
Financial liabilities measured at fair value				
- Negative fair value of derivatives	-	1,851,911	-	1,851,911

31 December 2019 SAR'000 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
- Positive fair value of derivatives	-	608,847	-	608,847
- Investments held at FVIS	1,038,918	-	-	1,038,918
- Investments held at FVOCI	19,788,231	-	392,722	20,180,953
Financial liabilities measured at fair value				
- Negative fair value of derivatives	-	649,226	-	649,226

13. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Reconciliation of movement in Level 3	For the three month period ended 31 March 2020 (Unaudited) SAR'000	For the year-ended 31 December 2019 (Audited) SAR'000
Opening balance	392,722	288,876
Total gains or losses		
- recognised in interim condensed consolidated statement of income	137	3
- recognised in other comprehensive income	-	5,178
Purchases	-	98,665
Closing balance	392,859	392,722

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

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

The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. The estimated fair values of loans and advances was SAR 188.9 billion as at 31 March 2020 (31 December 2019: SAR 178.3 billion).

The estimated fair values of investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. The estimated fair values of these investments was SAR 35.2 billion as at 31 March 2020 (31 December 2019: SAR 32.8 billion).

14. OPERATING SEGMENTS

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

14. OPERATING SEGMENTS (continued)

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

Retail banking

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

Investment banking and brokerage

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

Corporate banking

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

Treasury and investment

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

The Group's total assets and liabilities at 31 March 2020 and 2019 and its total operating income, total operating expenses and income before zakat for the three months periods then ended, by operating segments, are as follows:

31 March 2020

SAR'000 (Unaudited)	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investment	Total
Total assets	72,376,738	1,638,431	131,627,331	74,054,066	279,696,566
Total liabilities	76,855,971	445,259	134,775,355	29,822,644	241,899,229
Total operating income, net of which	963,532	154,122	1,081,775	686,050	2,885,479
- Net special commission income	869,166	41,665	719,444	359,043	1,989,318
- Fee and commission income, net	96,017	115,426	357,162	3,353	571,958
Inter segment revenues	58,148	39,991	(131,527)	33,388	-
Total operating expenses, net of which	624,784	47,175	535,042	26,827	1,233,828
- Depreciation of property and equipment	90,829	5,239	17,070	1,662	114,800
- Impairment charge for credit losses and other financial assets, net	5,031	-	301,817	1,281	308,129
- Impairment for investments, net	-	-	-	304	304
Share in earnings of associates, net	-	-	-	7,783	7,783
Income for the period before zakat	338,748	106,947	546,733	667,006	1,659,434

31 March 2019

SAR'000 (Unaudited)	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investment	Total
Total assets	57,417,147	1,191,633	116,094,690	64,813,607	239,517,077
Total liabilities	75,061,391	310,751	111,996,773	14,503,132	201,872,047
Total operating income, net of which	844,894	106,204	1,104,732	524,314	2,580,144
- Net special commission income	749,158	27,355	720,669	311,534	1,808,716
- Fee and commission income, net	99,248	67,584	382,576	1,131	550,539
Inter segment revenues	185,225	27,453	(204,368)	(8,310)	-
Total operating expenses, net of which	594,637	43,905	397,983	17,213	1,053,738
- Depreciation of property and equipment	83,390	3,501	17,446	2,736	107,073
- Impairment charge (reversal) for credit losses and other financial assets, net	35,976	-	177,988	(2,525)	211,439
- Impairment charge for investments, net	-	-	-	(2,928)	(2,928)
Share in earnings of associates, net	-	-	-	118,388	118,388
Income for the period before zakat	250,257	62,299	706,749	625,489	1,644,794

15. FINANCIAL RISK MANAGEMENT

Credit risk

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

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

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

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

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

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

16. DIVIDENDS AND ZAKAT

On 25 March 2020, the shareholders in the Ordinary General Assembly meeting approved the distribution of dividends to shareholders for the second half of 2019. The amount of such dividend amounted to SAR 1,650 million (SAR 0.55 per share) and the distribution date for the dividend was 8 April 2020.

The change in the accounting treatment for zakat (as explained in note 2) has the following impacts on the line items of statements of income, statement of financial position and changes in shareholders' equity as at and for the three-month period ended 31 March 2019:

Amount in SAR 000s	Financial statement impacted	As previously reported for the three-month period ended 31 March 2019	Effect of restatement	As restated for the three-month period ended 31 March 2019
Provision for zakat and income (retained earnings)	Statement of changes in equity	160,000	(160,000)	-
Zakat	Statement of income	-	160,000	160,000
Earnings per share (SAR)	Statement of income	0.55	(0.06)	0.49

17. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the period ended 31 March 2020 and 2019 are calculated by dividing the net income after zakat for the period by 3,000 million outstanding shares.

18. SHARE IN EARNINGS OF ASSOCIATES, NET

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

19. CAPITAL ADEQUACY

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

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

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

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

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

	31 March 2020	31 December 2019	31 March 2019
	(Unaudited)	(Audited)	(Unaudited)
Risk weighted assets	SAR Millions	SAR Millions	SAR Millions
Credit	237,392	229,293	214,856
Operational	17,089	16,562	15,090
Market	3,574	3,701	2,459
Total Pillar-I Risk Weighted Assets	258,055	249,556	232,405
Eligible capital			
Tier I Capital	37,797	40,572	37,645
Tier II Capital	10,591	4,513	4,449
Total Tier I and II Capital	48,388	45,085	42,094
Tier I Capital Adequacy Ratio %	14.6%	16.3%	16.2%
Total Capital Adequacy Ratio %	18.8%	18.1%	18.1%

20. COMPARATIVE FIGURES

In additon to the restatement set out in note 16, certain comparative figures have been reclassified to conform with the current period presentation.