Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

1. General

The Saudi Investment Bank (the Bank), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 52 branches (2017: 49 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P. O. Box 3533
Riyadh 11481, Kingdom of Saudi Arabia

These Consolidated Financial Statements include the Financial Statements of the Bank and the Financial Statements of the following subsidiaries (collectively referred to as the "Group" in these consolidated financial statements):

(a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a Saudi closed joint stock company, is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank;

(b) "Saudi Investment Real Estate Company", a Saudi limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No.1010268297 issued on 29 Jumada Awal 1430H (corresponding to May 25, 2009) and is owned 100% by the Bank. The Company has not commenced any significant operations;

(c) "Saudi Investment First Company", a Saudi limited liability company, registered in the Kingdom of Saudi Arabia under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014) and is owned 100% by the Bank. The Company has not commenced any significant operations; and

(d) "SAIB Markets Limited Company", a Cayman Islands limited liability company, registered in the Cayman Islands on July 18, 2017, and is 100% owned by the Bank. The objective of the Company is to conduct derivatives and repurchase activities on behalf of the Bank. The Company has not commenced significant operations.

The Bank offers a full range of commercial and retail banking services. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory, and custody services relating to financial securities. The Group also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board established by the Bank.

References to the "Bank" hereafter in these Consolidated Financial Statements refer to disclosures that are relevant only to The Saudi Investment Bank, and not collectively to the "Group".

2. Basis of preparation

(a) Statement of compliance

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and Income Tax (relating to the application of International Accounting Standard (IAS) 12 "Income Taxes" and IFRIC 21 "Levies" in so far as these relate to accounting for Saudi Arabian Zakat and Income Tax); and are in compliance with the provisions of the Banking Control Law, the regulations for companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

(b) Basis of measurement and presentation

The Consolidated Financial Statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at Fair Value through Profit or Loss (FVTPL), Fair Value through Other Comprehensive Income (FVOCI) investments, and liabilities for any cash-settled-share based payments. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The statement of financial position is stated broadly in order of liquidity.

(c) Functional and presentation currency

The Consolidated Financial Statements are presented in Saudi Arabian Riyals (SAR) which is the Group's functional currency. Except as otherwise indicated, financial information presented in SAR has been rounded off to the nearest thousand.

(d) Critical accounting judgements, estimates and assumptions

The preparation of the Consolidated Financial Statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires Management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events

2. Basis of preparation – continued

that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where Management has used estimates, assumptions or exercised judgements are as follows:

(d1) Impairment losses on financial assets

The measurement of impairment losses under both IFRS 9 and IAS 39 across all categories of financial assets requires judgement, and in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and in the case of IFRS 9 particularly the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, and the changes to these factors can result in different levels of allowances.

The Group's Expected Credit Loss (ECL) calculations in 2018 are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns Probability of Defaults (PDs) to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk where allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, exposures at default (EADs) and loss given defaults (LGDs); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(d2) Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each consolidated statement of financial position date, except as disclosed in Note 34.

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 reporting 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 or by 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. A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, while maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

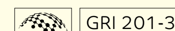
All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted prices in active markets for the identical instrument that an entity can access at the measurement date (i.e., without modification or proxy);

Level 2 – Quoted prices in active markets for similar assets and liabilities or other 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 assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each financial reporting period.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2. Basis of preparation – continued

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External valuers are involved from time to time for the valuation of certain assets and liabilities. Selection criteria for external valuers include market knowledge, reputation, independence, and whether professional standards are maintained.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

(e) Impairment of FVOCI equity and debt investments

The Group exercises its judgement in considering any impairment on FVOCI equity and debt investments at each reporting date.

(f) Determination of control over investees

The control indicators set out in Note 3 (d) are subject to management's judgement. The Group also acts as Fund Manager to several investment funds. Determining whether the Group controls individual investment funds usually focuses on the assessment of the aggregate economic interests of the Group in an individual 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 the financial statements of these funds.

(g) Going concern

The Group's Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, 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 are prepared on the going concern basis.

(h) Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management has made judgements 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.

(i) Employee benefit plans

The Group provides post employment end of service benefits to its employees based on the Saudi Arabia Labour and Workmen Law. The liability is provided based on a projected unit credit method in accordance with the periodic actuarial valuations as described in Note 38.

(j) Depreciation and amortization

Management uses judgement when determining the periods used for purposes of calculating depreciation and amortization for equipment and information technology costs. The judgement includes estimates of any residual values, the estimated periods over which future economic benefits will flow to the Group, and the choice of depreciation and amortization methods.

3. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

(a) Changes in accounting policies

The accounting policies used in the preparation of these 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 adoption of IFRS 15 and IFRS 9 on January 1, 2018.

3. Summary of significant accounting policies – continued

(a1) IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after January 1, 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes revenue guidance, which was found across several Standards and Interpretations within IFRS. It established a new five-step model that applies to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized 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 adoption of IFRS 15 has had an insignificant impact on the Group's consolidated financial statements in 2018 or prior periods and is expected to have an insignificant effect in future periods.

(a2) IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments "issued in July 2014 with a date of initial application of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement." The new standard results in changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 on January 1, 2018 are summarised below.

Classification of financial assets and liabilities

IFRS 9 contains three principal classification categories for financial assets including:

- Measured at amortized cost ("AC");
- Fair value through other comprehensive income ("FVOCI"); and
- Fair value through profit or loss ("FVTPL").

These classification categories are generally based, except for equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows.

IFRS 9 eliminates the IAS 39 categories of held to maturity, available for sale, and loans and receivables. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

For an explanation of how the Group classifies financial assets under IFRS 9, see the respective sections of significant accounting policies included in Note 3 (b).

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

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

For an explanation of how the Group classifies financial liabilities under IFRS 9, refer to the respective section of significant accounting policies included in Note 3 (b).

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. IFRS 9 requires the Group to record an allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the year beginning on January 1, 2018. Changes include transition disclosures as shown below, and detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used which are set out in Note 33. Reconciliations from opening to closing ECL allowances are presented below. IFRS 7R also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

3. Summary of significant accounting policies – continued

Under IFRS 9, allowances for credit losses are recognized earlier than previously recognized under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see the respective section of significant accounting policies included in Note 3 (b).

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. The difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other reserves as of January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore are 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 financial assets and financial liabilities previously measured at FVTPL;
  iii. The designation of certain investments in equity instruments not held for trading as FVOCI; and
  iv. The determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss for any financial liabilities designated at FVTPL.

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.

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

The following table shows the original measurement categories in accordance with IAS 39 as of December 31, 2017 and the new measurement categories under IFRS 9 for the Group's financial and other assets and financial and other liabilities as of January 1, 2018.

	SAR '000			
	IAS 39 Measurement category	IFRS 9 Measurement category	IAS 39 Carrying value	IFRS 9 Carrying value
Financial and other assets				
Cash and balances with SAMA	Amortized cost	Amortized cost	5,263,438	5,263,438
Due from banks and other financial institutions	Amortized cost	Amortized cost	3,513,073	3,499,509
Investments	Available for sale	FVTPL/FVOCI	21,713,976	21,713,976
Positive fair values of derivatives	FVTPL	FVTPL	669,170	669,170
Loans and advances	Amortized cost	Amortized cost	59,588,284	58,944,983
Other assets	Amortized cost	Amortized cost	306,683	306,407
Total			91,054,624	90,397,483
Financial and other liabilities				
Due to banks and other financial institutions	Amortized cost	Amortized cost	7,609,686	7,609,686
Customers' deposits	Amortized cost	Amortized cost	66,942,620	66,942,620
Negative fair values of derivatives	FVTPL	FVTPL	116,655	116,655
Term loans	Amortized cost	Amortized cost	2,014,823	2,014,823
Subordinated debt	Amortized cost	Amortized cost	2,003,068	2,003,068
Other liabilities	Amortized cost	Amortized cost	830,300	969,094
Total			79,517,152	79,655,946

3. Summary of significant accounting policies – continued

Reconciliation of carrying amounts under IAS 39 to carrying amounts on the adoption of IFRS 9

The following table reconciles the carrying amounts of financial and other assets, financial and other liabilities, and investments in associates under IAS 39 to the adjusted carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018 due to remeasurement.

	SAR '000		
	IAS 39 Carrying amount as of December 31, 2017	IFRS 9 Re-measurement	**IFRS 9 Carrying amounts as of January 1, 2018**
Financial and other assets			
Due from banks and other financial institutions	3,513,073	(13,564)	**3,499,509**
Investments	21,713,976	–	**21,713,976**
Loans and advances	59,588,284	(643,301)	**58,944,983**
Investments in associates	1,019,961	(26,621)	**993,340**
Other assets	306,683	(276)	**306,407**
Total financial and other assets	86,141,977	(683,762)	**85,458,215**
Financial and other liabilities			
Other liabilities	830,300	138,794	**969,094**
Total financial and other liabilities	830,300	138,794	**969,094**
Total re-measurement		(822,556)	

Reconciliation of carrying amounts under IAS 39 to carrying amounts on the adoption of IFRS 9 due to reclassifications

The following table reconciles the carrying amounts of investments before allowance for credit losses under IAS 39 as of December 31, 2017 to the carrying amounts of investments before allowance for credit losses on transition to IFRS 9 on January 1, 2018 due to reclassifications:

	SAR '000				
	Available for sale investments	FVOCI equities	FVOCI debt securities	FVTPL all other securities	Total Investments
Carrying amounts under IAS 39 as of December 31, 2017	21,713,976	–	–	–	21,713,976
Reclassifications	(21,713,976)	462,422	20,992,733	258,821	–
Carrying amounts under IFRS 9 as of January 1, 2018	**–**	**462,422**	**20,992,733**	**258,821**	**21,713,976**

3. Summary of significant accounting policies – continued

Impact on retained earnings and other reserves

The following table summarizes the impact on retained earnings and other reserves from the adoption of IFRS 9 on January 1, 2018:

	SAR '000		
	Retained earnings	Other reserves	Total
Balances under IAS 39 as of December 31, 2017	**1,284,858**	**204,478**	**1,489,336**
Reclassifications of available for sale investments to FVTPL	10,374	(10,374)	–
Recognition of expected credit losses:			
Due from banks	(13,564)	–	(13,564)
Investments	(60,977)	60,977	–
Loans and advances	(643,301)	–	(643,301)
Other assets	(276)	–	(276)
Loan commitments and financial guarantee contracts	(138,794)	–	(138,794)
Total recognition of expected credit losses	**(856,912)**	**60,977**	**(795,935)**
Recognition of the effect of IFRS9 on associate companies	(26,621)	–	(26,621)
Effect of adoption of IFRS 9 on January 1, 2018	**(873,159)**	**50,603**	**(822,556)**
Adjusted balances under IFRS9 as of January 1, 2018	**411,699**	**255,081**	**666,780**

Summary of the allowances recorded under IAS 39 to those under IFRS 9

The following table reconciles the closing allowances for credit losses for financial and other assets, and financial guarantee contracts as of December 31, 2017, to the opening allowances for credit losses as of January 1, 2018:

	SAR '000					
	Due from banks and other financial institutions	Investments	Loans and advances	Other assets	Financial guarantee contracts	Total
Balances as of December 31, 2017	–	4,000	1,074,781	–	–	1,078,781
Allowances made for expected credit losses	13,564	60,977	643,301	276	138,794	856,912
Adjusted balances as of January 1, 2018	**13,564**	**64,977**	**1,718,082**	**276**	**138,794**	**1,935,693**

3. Summary of significant accounting policies – continued

Summary of financial assets and financial liabilities as of December 31, 2018

The following table summarizes the balances of financial and other assets and financial and other liabilities by measurement category in the consolidated statement of financial position as of December 31, 2018:

	SAR '000				
	Amortized cost	Mandatorily at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total carrying amount
Financial and other assets					
Cash and balances with SAMA	4,871,932	–	–	–	4,871,932
Due from banks and other financial institutions, net	2,917,697	–	–	–	2,917,697
Investments	–	174,268	261,381	24,202,464	24,638,113
Positive fair values of derivatives	–	1,245,243	–	–	1,245,243
Loans and advances, net	59,412,529	–	–	–	59,412,529
Other assets	192,113	–	–	–	192,113
Total financial and other assets	**67,394,271**	**1,419,511**	**261,381**	**24,202,464**	**93,277,627**
Financial and other liabilities					
Due to banks and other financial institutions	12,620,832	–	–	–	12,620,832
Customers' deposits	63,689,869	–	–	–	63,689,869
Negative fair values of derivatives	–	500,704	–	–	500,704
Term loans	2,030,371	–	–	–	2,030,371
Subordinated debt	2,005,661	–	–	–	2,005,661
Other liabilities	1,783,795	–	–	–	1,783,795
Total financial and other liabilities	**82,130,528**	**500,704**	**–**	**–**	**82,631,232**

(b) Policies applicable from January 1, 2018

(b1) Classification of financial assets

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

(b2) Financial Assets at amortized cost

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

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

(b3) Financial Assets at FVOCI

Debt Instruments

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

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

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

Equity Investments

On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument by instrument (i.e. share-by-share) basis.

(b4) Financial Assets at FVTPL

All other financial assets are classified as measured at FVTPL.

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.

3. Summary of significant accounting policies – continued

(b5) Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- 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 Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking ”worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

(b6) Assessments whether contractual cash flows are solely payments of principal and interest

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

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

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

(b7) Classification of financial liabilities

Policy applicable before January 1, 2018

All money market deposits, customer deposits, term loans, subordinated debt and other debt securities in issue are initially recognized at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or an entity has opted to measure a liability at FVTPL as per the requirements of IFRS 9.

Financial liabilities classified as FVTPL using fair value option, if any, after initial recognition, for such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI and all other fair value changes are presented in the consolidated statement of income.

Amounts in OCI relating to own credit are not recycled to the consolidated statement of income even when the liability is derecognized and the amounts are realized.

Financial guarantees and loan commitments that entities choose to measure at FVTPL will have all fair value movements recognized in the consolidated statement of income.

Policy applicable after January 1, 2018

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

3. Summary of significant accounting policies – continued

(b8) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions, as the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group may securitise various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Bank transferring substantially all of the risks and rewards of ownership. The securitization vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognized as investment securities and carried at FVOCI. Gains or losses on securitization are recorded in other revenue.

Before January 1, 2018, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

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. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

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

(b9) Impairment

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

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognized on equity investments.

3. Summary of significant accounting policies – continued

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

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

(b10) Measurement of ECL

ECL is 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 loan 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.

(b11) 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 to determine whether the financial asset should be derecognized and ECL is measured as follows.

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

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

(b12) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt financial assets carried at 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:

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

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail consumer loan that is overdue for 90 days or more is considered impaired.

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

- The market's assessment of creditworthiness as reflected in bond yields;
- 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; and
- The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

3. Summary of significant accounting policies – continued

(b13) Presentation of allowance for ECL in the statement of financial position

Allowances for credit losses 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;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- For 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 other reserves.

(b14) Write-offs

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

(b15) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group 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. “Loan commitments” are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- From January 1, 2018 at the higher of this amortized amount and the amount of loss allowance; and
- Before January 1, 2018 at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

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

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

(b16) Special commission income and expenses

Special commission income and expense are recognized in profit or loss using the effective interest method. The “effective interest rate” is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortized cost of the financial instrument.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or a financial liability.

(b17) Measurement of amortized cost and special commission income

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

3. Summary of significant accounting policies – continued

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(b18) Rendering of services

The Group provides various services to its customers. These services are either rendered separately or bundled together with rendering of other services

The Group has concluded that revenue from rendering of various services related to share trading and fund management, trade finance, corporate finance and advisory and other banking services, should be recognized at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for free services related to credit card, the Bank recognises revenue over the period of time.

(b19) Customer Loyalty Programs

The Group offers customer loyalty programs referred to as reward points, which allows customers to earn points that can be redeemed through certain partner outlets. The Group allocates a portion of transaction price to the reward points awarded to members, based on the relative stand alone selling price. The amount of revenue allocated to reward points is deferred and released to the consolidated statement of income when reward points are redeemed. The cumulative amount of the contract liability related to unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

(c) Policies applicable before the adoption of IFRS 9

The Group classifies its financial assets as follows:

(c1) Investments

All investment securities are initially recognized at fair value, for investments not held as FVTPL, plus incremental direct transaction costs and are subsequently accounted for depending on their classification as either held to maturity, FVTPL, available for sale, or investments held at amortized cost. Premiums are amortized and discounts accreted using the effective yield basis and are taken to special commission income.

For securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

Held as FVTPL

Investments in this category are classified if they are held for trading or designated as FVTPL on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short-term and are recorded in the consolidated statement of financial position at fair value. Changes in fair value are included in FVTPL in the consolidated statement of income.

An investment may be designated at FVTPL at initial recognition, if it satisfies the criteria laid down by IAS 39 except for equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

Investments at FVTPL are recorded in the statement of financial position at fair value. Changes in the fair value are recognized in the consolidated statement of income for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVTPL investments.

Special commission income and dividend income on financial assets held as FVTPL are reflected as either trading income or income from FVTPL financial instruments in the consolidated statement of income.

3. Summary of significant accounting policies – continued

Reclassification

Investments at FVTPL are not reclassified subsequent to their initial recognition, except that non-derivative FVTPL instruments, other than those designated as FVTPL upon initial recognition, may be reclassified out of the FVTPL (i.e. trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables;
- If the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

Available for sale

Available for sale investments are those non-derivative equity and debt securities which are neither classified as Held to maturity investments, loans and receivables, nor designated as FVTPL, that are intended to be held for an unspecified period of time, and which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as available for sale are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealized gains or losses arising from changes in fair value are recognized in other comprehensive income until the investment is de recognized or impaired whereupon any cumulative gain or loss previously recognized in other comprehensive income are reclassified to the consolidated statement of income.

Special commission income is recognized in the consolidated statement of income on an effective yield basis. Dividend income is recognized in the consolidated statement of income when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in the consolidated statement of income.

A security held as available for sale may be reclassified to “Other investments held at amortized cost” if it otherwise would have met the definition of “Other investments held at amortized cost” and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Held to maturity

The accounting for held to maturity investments follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling close to maturity or an insignificant amount, it will be required to reclassify the entire class as available for sale.

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity. Held-to-maturity investments are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments are recognized in the consolidated statement of income when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group’s ability to use this classification and cannot be designated as a hedged item with respect to commission rate or prepayment risk, reflecting the longer term nature of these investments.

However, sales and reclassifications in any of the following circumstances would not impact the Group’s ability to use this classification:

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value;
- Sales or reclassifications after the Group has collected substantially all the assets’ original principal; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group’s control that could not have been reasonably anticipated.

Held at amortized cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as “Other investments held at amortized cost”. Such investments whose fair values have not been hedged are stated at amortized cost using an effective yield basis, less provision for impairment. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized or impaired.

3. Summary of significant accounting policies – continued

(c2) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments. Loans and advances are recognized when cash is advanced to borrowers. They are derecognized when either the borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances except for loans held as FVTPL.

Following the initial recognition, subsequent transfers between the various classes of loans and advances is not ordinarily permissible. The subsequent period-end reporting values for various classes of loans and advances are determined on the basis as set out in the following paragraphs.

For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

Held at amortized cost

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged, are stated at amortized cost using effective commission rate.

Held as FVTPL

Loans and advances in this category are classified as either held for trading or those designated as FVTPL. Loans and advances classified as trading are acquired principally for the purpose of selling or repurchasing in the short-term. Loans and advances may be designated as FVTPL if it satisfies the criteria laid down by IAS 39. After initial recognition, such loans and advances are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the year in which it arises.

Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVTPL loans and advances.

Classified as available for sale

Loans and advances classified as available for sale are subsequently measured at fair value. Any changes in fair value, other than those relating to hedged risks, are recognized directly in other reserves under equity until these are derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity is included in the consolidated statement of income for the year.

(c3) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the reporting date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts.

The Group considers evidence of impairment for loans and advances and held to maturity investments at both a specific asset and collective level. The Group reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to the consolidated statement of income or through the provision for impairment account. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of income in impairment charge account.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

3. Summary of significant accounting policies – continued

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission to genuinely distressed borrowers. This results in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation may lead to a new agreement, and this is treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

The Group also considers evidence of impairment at a collective asset level. The collective provision could be based on criteria including deterioration in internal grading, external credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate, and the experience and historical default patterns that are embedded in the components of the credit portfolio.

The Group exercises judgement to consider impairment on the available-for-sale equity and debt investments at each reporting date. This includes determination of a significant or prolonged decline in the fair value below its cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the decline against the period in which the fair value of the asset has been below its original cost at initial recognition. In making this judgement, the Group evaluates among other factors, the normal volatility in share/debt price, deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group reviews its debt securities classified as available for sale at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

Impairment of financial assets held at amortized cost

A financial asset or group of financial assets is classified as impaired when there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the financial asset or group of financial assets and where a loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortized cost is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield rate.

Impairment of available for sale financial assets

In the case of debt instruments classified as available for sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through income.

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through the income statement as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in equity. On derecognition, any cumulative gain or loss previously recognized in equity is included in the consolidated statement of income for the year.

(c4) Derecognition of Financial Instruments

A financial asset (or a part of a financial assets, or a part of a group of similar financial assets) is derecognized, when contractual rights to receive the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for derecognition.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all risks and rewards of ownership. Where the Group has neither transferred nor retained

3. Summary of significant accounting policies – continued

substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group 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.

A financial liability (or a part of a financial liability) can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

(c5) Financial liabilities

All money market deposits, customer deposits, term loans, subordinated debt and other debt securities in issue are initially recognized at fair value less transaction costs. Financial liabilities at FVTPL are recognized initially at fair value and transaction costs are taken directly to the consolidated statement of income.

Subsequently all commission bearing financial liabilities other than those held at FVTPL or where fair values have been hedged are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities classified as FVTPL, if any, include (i) liabilities held for trading and (ii) liabilities designated as FVTPL on initial recognition if it satisfies certain criteria. After initial recognition, these liabilities are measured at fair value and the resulting gain or loss is included in the consolidated statement of income.

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognized in the consolidated statement of income. For financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated statement of income when derecognized.

(d) Basis of consolidation

These consolidated financial statements are comprised of the financial statements of the Bank and its subsidiaries as identified in Note 1. The Financial Statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Financial Statements of the subsidiaries are included in the Consolidated Financial Statements from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the sise of its exposure to the variability of returns of the investee. The Financial Statements of any such structured entities are consolidated from the date the Group gains control and until the date when the Group ceases to control the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

3. Summary of significant accounting policies – continued

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

These Consolidated Financial Statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focusses 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.

All Intra group balances and any income and expenses arising from intra group transactions, are eliminated in preparing these consolidated financial statements.

(e) Investments in associates

Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank has significant influence (but not control) over financial and operating matters and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Share in earnings of associates includes the changes in the Group's share of the net assets of the associates. The Group's share of its associates post-acquisition income or losses is recognized in the consolidated statement of income and its share of post-acquisition movements in other comprehensive income is recognized in other reserves included in shareholders' equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

Unrealized gains and losses on transactions between the Group and its Associates are eliminated to the extent of the Bank's interest in the associates.

The consolidated statement of income reflects the Group's share of the results of operations of the associates. When there has been a change recognized directly in the equity of the associates, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in shareholders' equity. Unrealized gains on transactions are eliminated to the extent of the Group's interest in the investees. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The Group's share of earnings in an associate is shown on the face of the consolidated statement of income, which represents the net earnings attributable to equity holders of an associate and therefore income after tax and Zakat and non-controlling interests in the subsidiaries of the associate. The Financial Statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in-line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the share in earnings of associates in the consolidated statement of income.

(f) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts

3. Summary of significant accounting policies – continued

for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(g) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are initially recognized at fair value on the date on which the derivatives contract is entered into and are subsequently remeasured at fair value in the consolidated statement of financial position with transaction costs recognized in the consolidated statement of income. All derivatives are carried at their fair value as assets where the net fair value is positive and as liabilities where the net fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow methods, and pricing models as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

(g1) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting.

(g2) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- The host contract is not an asset in the scope of IFRS 9;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separate embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss unless they form part of qualifying cash flow or net investment hedging relationship.

(g3) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rates, foreign currency, and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage a particular risk, the Bank applies hedge accounting for transactions that meet specific criteria.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, (or assets or liabilities in the case of portfolio hedging), or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy are documented including the identification of the hedging instrument, the related hedged item, the nature of the risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

At each hedge effectiveness assessment / reporting date, each hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness if significant is recognized in the consolidated statement of income. For situations where the hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

3. Summary of significant accounting policies – continued

Fair Value Hedges

When a derivative is designated as a hedging instrument in the hedge of a change in fair value of a recognized asset or liability or a firm commitment that could affect the consolidated statement of income, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income together with the change in the fair value of the hedged item attributable to the hedged risk in special commission income.

For hedged items measured at amortized cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated statement of income.

Cash flow hedges

When a derivative is designated and qualified as a hedging instrument in the hedge of a variability of cash flows attributable to a particular risk associated with a recognized asset or a liability or a highly probable forecasted transaction that could affect the consolidated statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognized directly in other comprehensive income and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. However, if the Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassifies into the consolidated statement of income as a reclassification adjustment the amount that is not to be recognized.

Where the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time such asset or liability is recognized, the associated gains or losses that had previously been recognized directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the transaction is no longer expected to occur or the Group revokes the designation, then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other comprehensive income from the period when the hedge was effective is transferred from shareholders' equity to the consolidated statement of income when the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognized in other comprehensive income is transferred immediately to the consolidated statement of income.

(h) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the consolidated statement of financial position date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for effective interest rates and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non operating income in the consolidated statement of income, with the exception of differences of foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income except for differences arising on the retranslation of available for sale equity instruments or when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment on investment securities available for sale, unless the non-monetary items have an effective hedging strategy.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

3. Summary of significant accounting policies – continued

(i) Offsetting financial instruments

Financial assets and liabilities are offset and are reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

(j) Revenue/expense recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(j1) Special commission income and expense

Special commission income and expense for all special commission earning/bearing financial instruments are recognized in the consolidated statement of income on the effective yield basis. The effective yield is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of a financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognized on the effective yield basis, based on the asset's carrying value net of impairment provisions.

The calculation of the effective yield considers all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees paid or transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(j2) Exchange income/loss

Exchange income/loss is recognized when earned / incurred and in accordance with the principles included in Note 3 (h).

(j3) Fee income from Banking services

Fees that are considered as integral to the effective commission rate are deferred and included in the measurement of the relevant assets.

Fees from banking services that are not an integral component of the effective yield calculation on a financial asset or liability are generally recognized on an accrual basis when the related service is provided.

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

Fees received on asset management, 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 is fulfilled.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred, together with the investment costs, and recognized as on adjustment to the effective yield rate on the loan. When a loan commitment is not expected to result in the draw down of a loan, loan 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, and are recognized as expenses as the services are received or the transaction is completed.

(j4) Dividend income

Dividend income is recognized when the right to receive payment is established. Dividends are reflected as a component of net trading income, net income from FVIS financial instruments or other operating income based on the underlying classification of the equity instrument.

(j5) Day 1 profit or loss

Where a transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction

3. Summary of significant accounting policies – continued

price and fair value (a Day 1 profit or loss) in the consolidated statement of income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable, or when the instrument is derecognized.

(k) Repurchase agreements and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership, and are measured in accordance with related accounting policies for investments held as available for sale. The transactions are treated as a collateralised borrowing and the counter party liability for amounts received under these agreements is included in due to banks and other financial institutions or customer deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and recognized over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognized in the consolidated statement of financial position, as the Group does not obtain control over the underlying assets. Amounts paid under these agreements are included in cash and balances with SAMA. The difference between the purchase and resale price is treated as special commission income and recognized over the life of the reverse repurchase agreement on an effective yield basis.

(l) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that non-financial assets may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining an asset's fair value less costs to sell, an appropriate valuation model is used. These model calculations are corroborated by valuation multiples, or other available fair value indicators.

(m) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as held for sale and is initially stated at the lower of net realisable value of the loans and advances and the current fair value of the related properties, less any costs to sell, if material. No depreciation is charged on such real estate. Rental income from other real estate is recognized in the consolidated statement of income.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated statement of income. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized together with any gain/ loss on disposal in the consolidated statement of income.

(n) Property, equipment, and Information Technology Intangible assets

Property, equipment, and intangibles are stated at cost and presented net of accumulated depreciation and amortization. Freehold land is not depreciated. The costs of other property, equipment, and intangibles are depreciated or amortized using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20 to 30 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4 to 5 years
Information technology intangible assets	8 years

The assets' residual values, useful lives, and depreciation or amortization methods are reviewed and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated statement of income.

Other expenditures are capitalised only when it is probable that the future economic benefit of the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed when incurred.

3. Summary of significant accounting policies – continued

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(o) Financial guarantees

A financial guarantee contract generally requires the issuer of the contract to make specific payments to the contract holder for a loss incurred by the holder if a debtor fails to pay under the terms of a debt instrument.

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of the expenditure required to settle any financial obligations arising as a result of such guarantees. Any increase in the liability relating to a financial guarantee is recognized in the consolidated statement of income in impairment charges for credit losses, net. The premium received is recognized in the consolidated statement of income in fee income from banking services, net on a straight-line basis over the life of the guarantee.

(p) Provisions

Provisions are recognized for on and off balance sheet items when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

The Group receives legal claims against it in the normal course of business. The Management has made judgements 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.

(q) Leases

Leases entered into by the Group as a lessee, are classified as operating leases because the leases do not transfer all risks and rewards of ownership. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

The Group also evaluates any non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

(r) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with a maturity of ninety days or less from the date of acquisition which are also subject to insignificant risk of changes in their fair value.

(s) Zakat, Income Tax and Value Added Tax

Zakat and Income Taxes are accrued and included in other liabilities and charged directly to retained earnings as required by SAMA Circular No. 381000074519 issued in April 2017.

The GAZT introduced a Value Added Tax (VAT) system in Saudi Arabia on January 1, 2018. During 2018, the Group collected VAT from its customers for qualifying services provided, and paid VAT to its vendors for qualifying payments. On a monthly basis, net VAT remittances were made to the GAZT representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Group and is either expensed or in the case of property, equipment, and intangibles payments, is capitalised and either depreciated or amortized as part of the capital cost.

(t) Employees' incentive and savings plans

The Group offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("the Plan"). This Plan has been approved by SAMA. Under the terms of the Plan, employees are granted shares which vest over a four-year period. The cost of the Plan is measured by the value of the shares on the date purchased and recognized over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee share option schemes are recorded by the Bank at fair value at grant date. The shares acquired for the share option schemes are recorded at cost and are presented as a deduction from shareholders' equity as adjusted for any transaction costs, dividends, and gains or losses on sales of such shares.

3. Summary of significant accounting policies – continued

The Group also offers to its employees an Employee Contributory Share Option Plan. The Plan entitles eligible employees to acquire shares in the Bank based on a predetermined subscription price at the beginning of the Plan period. Over a two year period, employees contribute to the purchase of the shares through monthly payroll deductions. At the end of the subscription period, according to the plan, employees are granted the subscribed shares. Should the share price at the end of the subscription period fall below the subscription price, the employees are reimbursed for the difference between the share price and the subscription price.

In addition, the Group grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Group and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan.

(u) Other employees' benefits

Short-term employees' benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The liability for the Group's employee's post employment end of service benefits is determined based on an actuarial valuation conducted by an independent actuary, taking into account the provisions of the Saudi Arabian Labour and Workmen Law. The liability for other long-term employees' benefit plans are also based on an actuarial valuation conducted by an Independent Actuary taking into account the respective terms of the individual benefit plans.

(v) Asset management services

The Group offers asset management services to its customers, which include management of certain investment funds in consultation with professional investment advisors. The Group's share of these funds is included in investments and fees earned are included in fee income from banking services, net. The Group's share of investment in these funds is included in the FVTPL investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

(w) Non-interest based banking products

In addition to conventional banking, the Group offers to its customers certain non-interest based banking products, which are approved by its Shariah Board.

High level definitions of non-interest based products include:

i. Murabaha – an agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

ii. Istisna'a – an agreement between the Group and a customer whereby the Group sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

iii. Ijarah – an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

All non-special interest based banking products are accounted for in conformity with the accounting policies described in these consolidated financial statements.

4. Cash and balances with SAMA

Cash and balances with SAMA as of December 31, 2018 and 2017 are summarized as follows:

	2018 SAR '000	2017 SAR '000
Cash on hand	**736,763**	725,972
Reverse repurchase agreements with SAMA	**977,000**	1,282,000
Other balances with SAMA, net	**(59,061)**	(76,739)
Cash and balances with SAMA before statutory deposit	**1,654,702**	1,931,233
Statutory deposit with SAMA	**3,217,230**	3,332,205
Cash and balances with SAMA	**4,871,932**	5,263,438

In accordance with the Banking Control Law and regulations issued by the Saudi Arabian Monetary Authority (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time, and other deposits, calculated at the end of each month. The statutory deposits with SAMA are not available to finance the Bank's day to day operations and therefore do not form a part of cash and cash equivalents.

5. Due from banks and other financial institutions, net

Due from banks and other financial institutions as of December 31, 2018 and 2017 are summarized as follows:

	2018 SAR '000	2017 SAR '000
Current accounts	**797,185**	913,181
Money market placements	**2,123,215**	2,599,892
Total due from banks and other financial institutions	**2,920,400**	3,513,073
Allowance for credit losses	**(2,703)**	–
Due from banks and other financial institutions, net	**2,917,697**	3,513,073

The credit quality of due from banks and other financial institutions is managed using data from reputable external credit ratings agencies. The average S&P rating for the portfolio is an investment grade of "A" for 2018 and 2017.

The movement of the allowance for credit losses for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000	2017 SAR '000
Balances at the beginning of the year	**–**	–
Effect of the adoption of IFRS 9 on January 1, 2018	**13,564**	–
Provision for credit losses	**(10,861)**	–
Balances at the end of the year	**2,703**	–

5. Due from banks and other financial institutions, net – continued

The following table sets out information about the credit quality of due from banks and other financial institutions measured at amortized cost as of December 31, 2018.

	SAR '000			
	Stage 1 12 month ECL	Stage 2 Life time ECL not credit impaired	Stage 3 Life time ECL credit impaired	Total
Investment grade	2,917,319	–	–	2,917,319
Non-investment grade	–	3,081	–	3,081
Total due from banks and other financial institutions	**2,917,319**	**3,081**	**–**	**2,920,400**

The following table provides a reconciliation from the opening to the closing balances of the allowance for credit losses for due from banks and other financial institutions for the year ended December 31, 2018.

	SAR '000			
	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	**12,667**	**897**	**–**	**13,564**
Provision for credit losses – Changes in exposures and re-measurement	(10,331)	(530)	–	(10,861)
Balances as of December 31, 2018	**2,336**	**367**	**–**	**2,703**

6. Investments

(a) Investments as of December 31, 2018 and 2017 are summarised as follows:

	2018 SAR '000			2017 SAR '000		
	Domestic	International	Total	Domestic	International	Total
Fixed rate debt securities	12,935,491	7,796,720	20,732,211	9,196,031	7,761,445	16,957,476
Floating rate debt securities	1,188,368	2,281,885	3,470,253	1,465,551	2,573,706	4,039,257
Total debt securities	**14,123,859**	**10,078,605**	**24,202,464**	10,661,582	10,335,151	20,996,733
Allowance for credit losses	–	–	–	–	(4,000)	(4,000)
Debt securities, net	**14,123,859**	**10,078,605**	**24,202,464**	10,661,582	10,331,151	20,992,733
Equities	252,750	8,631	261,381	449,151	13,271	462,422
Mutual funds	131,626	–	131,626	212,530	–	212,530
Other securities	–	42,642	42,642	–	46,291	46,291
Investments	**14,508,235**	**10,129,878**	**24,638,113**	11,323,263	10,390,713	21,713,976

As of December 31, 2017, all investments were classified as available for sale. As of December 31, 2018, fixed rate and floating rate debt securities and equities are classified at FVOCI, and mutual funds and other securities are classified at FVTPL.

The Group's investments in equities include SAR 8.6 million as of December 31, 2018 (2017: SAR 245.9 million) which the Bank acquired in prior years in connection with the settlement of loans and advances. During the years ended December 31, 2018 and 2017, the Bank sold a portion of these holdings. The fair value of the shares sold totalled SAR 284.3 million (2017: SAR 237.3 million), resulting in a realized gain of approximately SAR 73.4 million (2017: SAR 31.8 million). The SAR 73.4 million realized gain in 2018 was subsequently transferred from other reserves to retained earnings during the year ended December 31, 2018.

6. Investments – continued

The Bank also holds additional strategic investments in equities totalling SAR 250.6 million as of December 31, 2018 (2017:SAR 215.8 million) including the Mediterranean and Gulf Cooperative Insurance and Reinsurance Co., SIMAH (Saudi Credit Bureau), and the Saudi Company for Registration of Finance Lease Contracts.

Investments include SAR 7.7 billion (2017: SAR 3.0 billion), which have been pledged under repurchase agreements with other financial institutions. The market value of these investments is SAR 9.1 billion (2017: SAR 3.0 billion). See Note 19 (d).

The net cost of the available for sale investment securities before allowance for impairment as of December 31, 2017 was SAR 21.5 billion.

(b) The composition of investments as of December 31, 2018 and 2017 is as follows:

	2018 SAR '000			2017 SAR '000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate debt securities	**14,696,443**	**6,035,768**	**20,732,211**	11,025,277	5,932,199	16,957,476
Floating rate debt securities	**1,822,577**	**1,647,676**	**3,470,253**	2,116,001	1,923,256	4,039,257
Total debt securities	**16,519,020**	**7,683,444**	**24,202,464**	13,141,278	7,855,455	20,996,733
Allowance for credit losses	**–**	**–**	**–**	–	(4,000)	(4,000)
Debt securities, net	**16,519,020**	**7,683,444**	**24,202,464**	13,141,278	7,851,455	20,992,733
Equities	**248,107**	**13,274**	**261,381**	449,151	13,271	462,422
Mutual funds	**131,626**	**–**	**131,626**	212,530	–	212,530
Other securities	**–**	**42,642**	**42,642**	–	46,291	46,291
Investments	**16,898,753**	**7,739,360**	**24,638,113**	13,802,959	7,911,017	21,713,976

The unquoted securities above are principally comprised Saudi Government Development Bonds, and certain Saudi corporate securities. Equities reported under FVOCI investments include unquoted shares of SAR 13.3 million (2017: available for sale SAR 13.3 million) that are carried at cost, as their fair value cannot be reliably measured. Mutual funds are considered as quoted in the table above as daily net asset values are published on the Saudi Stock Exchange (Tadawul).

(c) Investments are classified by counterparty as of December 31, 2018 and 2017 as follows:

	2018 SAR '000	2017 SAR '000
Government and quasi-government	**15,777,094**	12,457,770
Corporate	**4,424,299**	3,354,035
Banks and other financial institutions	**4,436,720**	5,902,171
Total	**24,638,113**	21,713,976

(d) The credit risk exposure of investments as of December 31, 2018 and 2017 is as follows:

	2018 SAR '000	2017 SAR '000
Investment grade	**20,979,707**	18,836,442
Non-investment grade	**1,739,706**	1,109,997
Unrated	**1,483,051**	1,046,294
Subtotal	**24,202,464**	20,992,733
Equities, mutual funds, and other securities	**435,649**	721,243
Total	**24,638,113**	21,713,976

6. Investments – continued

Investment grade securities generally have a minimum external rating from approved rating agencies including Standard & Poor's (BBB-), Moody's (Baa3), or Fitch (BBB-). Unrated investment securities primarily include Saudi corporate securities and other private equity fund investments.

(e) The movement of the allowance for credit losses for debt securities held at FVOCI included in other reserves for the year ended December 31, 2018 and on available for sale investments for the year ended December 31, 2017 is as follows:

	2018 SAR '000	2017 SAR '000
Balance at the beginning of the year	**4,000**	4,000
Effect of the adoption of IFRS 9 on January 1, 2018	**60,977**	–
Provision for credit losses	**10,503**	–
Impaired during the year	**–**	108,622
Reversals for realized losses during the year	**–**	(108,622)
Balance at the end of the year	**75,480**	4,000

The following table sets out information about the credit quality of debt securities at FVOCI as of December 31, 2018.

	SAR '000			
	Stage 1 12 month ECL	Stage 2 Life time ECL not credit impaired	Stage 3 Life time ECL credit impaired	Total
Grades 1-6 and unrated	24,198,778	–	–	24,198,778
Grades 7-9	–	3,686	–	3,686
Total debt securities	**24,198,778**	**3,686**	**–**	**24,202,464**

The following table provides a reconciliation from the opening to the closing balances of the allowance for credit losses for debt investments for the year ended December 31, 2018.

	SAR '000			
	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	64,977	–	–	64,977
Changes in exposures and remeasurement	6,828	(2,995)	–	3,833
Transfers from Stage 1 to Stage 2	(11)	6,681	–	6,670
Provision for credit losses	6,817	3,686	–	10,503
Balances as of December 31, 2018	71,794	3,686	–	75,480

6. Investments – continued

(f) Other reserves classified in shareholders' equity as of December 31, 2018 and 2017 are comprized the following:

	2018 SAR '000	2017 SAR '000
Unrealized losses on revaluation of debt securities at FVOCI before allowance for credit losses	(228,599)	–
Allowance for credit losses on debt securities at FVOCI	75,480	–
Unrealized losses on revaluation of debt securities at FVOCI after allowance for credit losses	(153,119)	–
Unrealized losses on revaluation of equities held at FVOCI	(39,192)	–
Unrealized gains on available-for-sale investments	–	204,298
Share of other comprehensive income of associates	255	180
Other reserves	**(192,056)**	**204,478**

7. Loans and advances, net

(a) Loans and advances, net held at amortized cost as of December 31, 2018 and 2017 are comprised of the following:

	2018 SAR '000			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1, 12 month ECL	34,434,670	3,547,689	14,267,187	52,249,546
Stage 2, Life time ECL not credit impaired	5,171,573	906,743	189,619	6,267,935
Stage 3, Life time ECL credit impaired	1,316,849	1,083,091	290,684	2,690,624
Total loans and advances	**40,923,092**	**5,537,523**	**14,747,490**	**61,208,105**
Allowance for credit losses	(871,262)	(459,161)	(465,153)	(1,795,576)
Loans and advances, net	**40,051,830**	**5,078,362**	**14,282,337**	**59,412,529**

	2017 SAR '000			
	Commercial and other	Overdrafts	Consumer	Total
Performing loans and advances	39,840,264	3,449,960	16,599,693	59,889,917
Non performing loans and advances	126,214	404,739	242,195	773,148
Total loans and advances	39,966,478	3,854,699	16,841,888	60,663,065
Allowance for credit losses	(350,527)	(316,155)	(408,099)	(1,074,781)
Loans and advances, net	39,615,951	3,538,544	16,433,789	59,588,284

Loans and advances above include non-interest based banking products including Murabaha agreements, Istisna'a and Ijarah which are stated at an amortized cost of SAR 37.1 billion (2017: SAR 37.3 billion).

The Group in the ordinary course of lending activities holds collateral as security to mitigate credit risk on its loans and advances. The collateral includes customer deposits, financial guarantees, securities, real estate, and other assets. The collateral is managed against relevant exposures at their net realisable values. The estimated fair value of collateral held by the Group as security for total loans and advances is approximately SAR 49.4 billion (2017: SAR 46.1 billion).

As of December 31, 2018, the Group holds collateral in the form of shares, real estate, and cash margins totalling SAR 11.45 billion against the above Stage 2 and Stage 3 exposures.

The estimated fair value of collateral held by the Group as security for non-performing loans and advances as of December 31, 2017 is approximately SAR 0.6 billion.

7. Loans and advances, net – continued

(b) The movement of the allowance for credit losses for loans and advances for the years ended December 31, 2018 and 2017 is as follows:

	2018 SAR '000	2017 SAR '000
Balances at the beginning of the year	**1,074,781**	994,844
Effect of the adoption of IFRS 9 on January 1, 2018	**643,301**	–
Provision for credit losses	**220,514**	213,000
Write-offs, net	**(143,020)**	(133,063)
Balances at the end of the year	**1,795,576**	1,074,781

The following tables provide a reconciliation from the opening to the closing balance of the allowance for credit losses for loans and advances for the year ended December 31, 2018.

	Commercial and other SAR '000			
	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	**89,094**	**96,595**	**852,645**	**1,038,334**
Changes in exposures and remeasurement	**36,475**	**(14,328)**	**(243,274)**	**(221,127)**
Transfers from Stage 1 to Stages 2,3	**(462)**	**7,384**	**6,974**	**13,896**
Transfers between Stage 2 and Stage 3	**–**	**109**	**40,050**	**40,159**
Provision for credit losses	**36,013**	**(6,835)**	**(196,250)**	**(167,072)**
Write-offs	**–**	**–**	**–**	**–**
Balances as of December 31, 2018	**125,107**	**89,760**	**656,395**	**871,262**

	Overdrafts SAR '000			
	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	**29,611**	**12,246**	**227,772**	**269,629**
Changes in exposures and remeasurement	**4,992**	**44,440**	**26,984**	**76,416**
Transfers from Stage 1 to Stages 2,3	**(466)**	**3,899**	**25,284**	**28,717**
Transfers from Stage 2 to Stage 3	**–**	**(54,585)**	**236,912**	**182,327**
Provision for credit losses	**4,526**	**(6,246)**	**289,180**	**287,460**
Write-offs	**–**	**–**	**(97,928)**	**(97,928)**
Balances as of December 31, 2018	**34,137**	**6,000**	**419,024**	**459,161**

7. Loans and advances, net – continued

	Consumer SAR '000			
	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	**176,245**	**15,537**	**218,337**	**410,119**
Changes in exposures and remeasurement	4,222	24,605	64,103	92,930
Transfers from Stage 1 to Stages Transfers from Stage 1 to Stage 3	(90)	–	5,937	5,847
Transfers from Stage 2 to Stage 3	–	(446)	1,795	1,349
Provision for credit losses	**4,132**	**24,159**	**71,835**	**100,126**
Write-offs	–	–	(45,092)	(45,092)
Balances as of December 31, 2018	**180,377**	**39,696**	**245,080**	**465,153**

The transfer amounts in the above tables represent the increase or decrease in the credit loss allowance on those exposures that were transferred between stages during the year ended December 31, 2018.

The movement of the allowance for credit losses for loans and advances for the year ended December 31, 2017 for specific and collective impairment is summarised as follows:

	Commercial and other and overdrafts SAR '000		
	Specific	Collective	Total
December 31, 2016 balances	230,693	383,853	614,546
Provided during the year	118,026	(10,324)	107,702
Bad debts written off during the year	(43,126)	(12,440)	(55,566)
Recoveries during the year	–	–	–
December 31, 2017 balances	305,593	361,089	666,682

	Consumer SAR '000		
	Specific	Collective	Total
December 31, 2016 balances	214,637	165,661	380,298
Provided during the year	105,055	243	105,298
Bad debts written off during the year	(163,189)	–	(163,189)
Recoveries during the year	85,692	–	85,692
December 31, 2017 balances	242,195	165,904	408,099

7. Loans and advances, net – continued

(c) The credit quality of loans and advances as of December 31, 2018 and 2017 is summarised as follows:

(i) Neither past due nor credit impaired (2017: impaired) loans and advances, are as follows:

	2018 SAR '000	2017 SAR '000
Excellent	1,562,954	5,106,586
Strong	4,494,733	8,270,575
Average	8,146,686	13,840,569
Acceptable	11,730,396	9,052,186
Marginal	11,046,285	2,209,452
Watch	710,616	76,406
Unrated	13,854,259	18,158,645
Total	**51,545,929**	**56,714,419**

The ratings of the loans and advances included above are described as follows:

Excellent – leader in a stable industry. Better than peers' financials and cash flows. Has access to financial markets under normal market conditions.

Strong – strong market and financial position with a history of successful performance but certain exceptions exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal conditions.

Average – moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound and within industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

Acceptable – minor weaknesses in industry or company specific risk factors. Some financial fundamentals are inferior to industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal – unfavourable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

Watch – unfavourable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances primarily consist of consumer and other retail loans with no past due balances.

(ii) Past due but not credit impaired loans and advances as of December 31, 2018 are as follows:

	2018 SAR '000			
	Commercial and others	Overdrafts	Consumer	Total
From 1 day to 30 days	5,171,573	748,122	703,612	6,623,307
From 31 days to 90 days	–	158,626	189,619	348,245
Total	**5,171,573**	**906,748**	**893,231**	**6,971,552**

7. Loans and advances, net – continued

Past due but not impaired loans and advances as of December 31, 2017 are as follows:

	2017 SAR '000			
	Commercial and others	Overdrafts	Consumer	Total
From 1 day to 30 days	–	18,957	336,311	355,268
From 31 days to 90 days	131,000	843,787	66,842	1,041,629
From 91 days to 180 days	68,723	110,557	–	179,280
More than 180 days	886,148	713,173	–	1,599,321
Total	1,085,871	1,686,474	403,153	3,175,498

(iii) The economic sector risk concentrations for loans and advances and allowance for credit losses as of December 31, 2018 and 2017 are as follows:

	2018 SAR '000			
	Stage 1 and 2	**Stage 3**	**Allowance for credit losses**	**Loans and advances, net**
Government and quasi-government	**1,600,235**	**–**	**(13,597)**	**1,586,638**
Banks and other financial services	**7,440,131**	**27,065**	**(45,190)**	**7,422,006**
Agriculture and fishing	**9,899**	**–**	**(51)**	**9,848**
Manufacturing	**5,214,198**	**174,998**	**(144,506)**	**5,244,690**
Building and construction	**5,142,286**	**197,608**	**(132,051)**	**5,207,843**
Commerce	**16,142,237**	**1,288,417**	**(620,014)**	**16,810,640**
Transportation and communication	**1,639,577**	**45,112**	**(48,042)**	**1,636,647**
Services	**2,168,940**	**114,646**	**(59,973)**	**2,223,613**
Consumer loans	**14,456,806**	**290,684**	**(465,153)**	**14,282,337**
Other	**4,703,172**	**552,094**	**(266,999)**	**4,988,267**
Total	**58,517,481**	**2,690,624**	**(1,795,576)**	**59,412,529**

	2017 SAR '000			
	Performing	Non-performing	Allowance for credit losses	Loans and advances, net
Government and quasi-government	1,402,545	–	(7,093)	1,395,452
Banks and other financial services	7,701,368	27,065	(67,871)	7,660,562
Agriculture and fishing	20,081	–	(189)	19,892
Manufacturing	5,829,380	143,395	(144,277)	5,828,498
Building and construction	4,499,483	148,304	(62,126)	4,585,661
Commerce	16,481,723	159,720	(237,166)	16,404,277
Transportation and communication	1,799,162	45,112	(46,583)	1,797,691
Services	2,303,587	236	(18,566)	2,285,257
Consumer loans	16,599,693	242,195	(408,099)	16,433,789
Other	3,252,895	7,121	(82,811)	3,177,205
Total	59,889,917	773,148	(1,074,781)	59,588,284

8. Investments in associates

Investments in associates represent the Bank's share of investments in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting.

(a) Investments in associates as of December 31, 2018 and 2017 include the Bank's ownership interest in associated companies in the Kingdom of Saudi Arabia, as follows:

	2018	2017
American Express Saudi Arabia ("AMEX")	**50%**	50%
Saudi Orix Leasing Company ("ORIX")	**38%**	38%
Amlak International for Finance and Real Estate Development Co. ("AMLAK")	**32%**	32%

AMEX is a Saudi Arabian closed joint stock company in Saudi Arabia with total capital of SAR 100 million. The principal activities of AMEX are to issue credit cards and offer other American Express products in Saudi Arabia.

ORIX is a Saudi Arabian closed joint stock company in Saudi Arabia with total capital of SAR 550 million. The primary business activities of ORIX include lease financing services in Saudi Arabia.

AMLAK is a Saudi Arabian closed joint stock company in Saudi Arabia with total capital of SAR 905 million. AMLAK offers real estate finance products and services in Saudi Arabia.
All of the Group's associates are incorporated in and operate exclusively in Saudi Arabia.

(b) The movement of investments in associates for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000	2017 SAR '000
Balance at beginning of the year	**1,019,961**	1,000,337
Adoption of IFRS 9 on January 1, 2018	**(26,621)**	–
Share of earnings	**126,145**	131,851
Dividends	**(108,273)**	(98,815)
Share of other comprehensive loss	**(722)**	(1,412)
Investments (write-off)	**1,876**	(12,000)
Balance at end of the year	**1,012,366**	1,019,961

(c) The Bank's share of the associates' financial statements as of December 31, 2018 and 2017 is summarised below:

	2018 SAR '000			2017 SAR '000		
	AMEX	ORIX	AMLAK	AMEX	ORIX	AMLAK
Total assets	**419,174**	**460,557**	**1,051,438**	393,775	504,807	1,072,234
Total liabilities	**209,171**	**134,428**	**677,268**	181,021	176,590	695,600
Total equity	**210,003**	**326,129**	**374,170**	212,754	328,217	376,634
Total income	**197,259**	**46,761**	**56,279**	199,774	57,487	59,177
Total expenses	**121,438**	**24,936**	**24,750**	116,237	38,450	25,807

The head office of each associate company is located in Riyadh in the Kingdom of Saudi Arabia, with all operations conducted entirely in the Kingdom of Saudi Arabia.

One of the associate companies above has a potential additional Zakat liability as of December 31, 2018 and 2017. If the method of the Zakat assessment by the General Authority for Zakat and Tax is upheld through all levels of the appeal process, the Group has agreed with the associate company that it is unconditionally liable for its share amounting to approximately SAR 108.2 million (2017: SAR 97.6 million).

9. Property and equipment, and Information Technology intangible assets, net

Property and equipment, and Information Technology intangible assets, net as of December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000				
	Property and equipment				
	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Total	Information Technology intangible assets
Cost					
Balance at the beginning of the year	**1,009,043**	**145,725**	**468,027**	**1,622,795**	**255,094**
Additions	63,909	14,020	22,820	100,749	60,807
Disposals	–	–	(1,266)	(1,266)	–
Balance at the end of the year	**1,072,952**	**159,745**	**489,581**	**1,722,278**	**315,901**
Accumulated depreciation and amortization					
Balance at the beginning of the year	**295,993**	**101,653**	**351,333**	**748,979**	**126,000**
Charge for the year	33,125	16,850	26,876	76,851	26,388
Disposals	–	–	(1,230)	(1,230)	–
Balance at the end of the year	**329,118**	**118,503**	**376,979**	**824,600**	**152,388**
Net book value	**743,834**	**41,242**	**112,602**	**897,678**	**163,513**

	2017 SAR '000				
	Property and equipment				
	Land and buildings	Leasehold improvements	Furniture, equipment, and vehicles	Total	Information Technology intangible assets
Cost					
Balance at the beginning of the year	991,128	130,506	419,871	1,541,505	228,639
Additions	17,915	15,219	48,291	81,425	26,455
Disposals	–	–	(135)	(135)	–
Balance at the end of the year	1,009,043	145,725	468,027	1,622,795	255,094
Accumulated depreciation and amortization					
Balance at the beginning of the year	263,795	85,560	327,397	676,752	105,792
Charge for the year	32,198	16,093	24,060	72,351	20,208
Disposals	–	–	(124)	(124)	–
Balance at the end of the year	295,993	101,653	351,333	748,979	126,000
Net book value	713,050	44,072	116,694	873,816	129,094

Information technology intangible assets primarily include software and software development costs.

10. Other assets, net

Other assets, net as of December 31, 2018 and 2017 are summarised as follows:

	2018 SAR '000	2017 SAR '000
Property, equipment, and intangible costs pending completion	65,624	122,769
Customer and other receivables	40,849	67,442
Prepaid expenses	69,542	92,601
All other assets	16,664	23,871
Total other assets	**192,679**	306,683
Less allowance for credit losses	(566)	–
Other assets, net	**192,113**	306,683

The movement of the allowance for credit losses for the years ended December 31, 2018 and 2017 is summarised as follows:

	2018 SAR '000	2017 SAR '000
Balances at the beginning of the year	–	–
Effect of the adoption of IFRS 9 on January 1, 2018	276	–
Provision for credit losses	290	–
Balances at the end of the year	**566**	–

11. Derivatives

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

(a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging notional amounts. For cross-currency special commission rate swaps, notional amounts, and fixed and floating special commission payments are exchanged in different currencies. The notional amounts can also vary based upon the agreed terms in the case of variable notional swaps.

(b) Forwards and futures

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

(c) Forward rate agreements

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

11. Derivatives – continued

(d) Options

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

The derivative financial instruments utilised are either held for trading or held for hedging purposes as described below:

(a) Held for trading purposes

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

(b) Held for hedging purposes

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

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

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to optimise its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions. The Bank uses forward foreign exchange contracts to also apply various hedging strategies against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission-rate exposures.

(c) Positive and negative fair values of derivative and notional amounts

The tables below summarise the positive and negative fair values of derivative financial instruments, together with the notional amounts, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at each year-end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts are not indicative of the Bank's exposure to credit risk which is generally limited to the net positive fair values of derivatives, nor market risk.

The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company, the estimated value of which is included in the table below. The terms of the agreement give the Bank a put option and give the counterparty a call option that is exercisable from 2013 onwards for the remaining term of the agreement. The Bank has valued only the put option, as the call option is deemed to be out of the money. The put option, once exercised, grants the Bank the right to receive a payment in exchange for its shares one year after the exercise, based on pre-determined formulas included in the agreement.

11. Derivatives – continued

Derivative financial instruments as of December 31, 2018 and 2017 are summarized as follows:

				Notional amounts by term to maturity				
	2018 SAR '000							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	9,781	6,802	2,919,605	2,919,605	–	–	–	4,012,207
Foreign exchange options	4,408	4,408	848,020	98,020	–	750,000	–	1,135,816
Commission rates swaps	382,628	199,306	9,152,106	–	254,000	7,521,528	1,376,578	13,577,210
Commission rate options	187,979	187,979	6,896,619	–	–	5,397,520	1,499,099	4,706,477
Held as fair value hedges:								
Commission rate swaps	242,456	102,209	12,252,404	–	–	4,107,892	8,144,512	7,310,805
Associated company put option	417,991	–	–	–	–	–	–	–
Total	1,245,243	500,704	32,068,754	3,017,625	254,000	17,776,940	11,020,189	30,742,515

				Notional amounts by term to maturity				
	2017 SAR '000							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	36,689	25,403	6,114,481	2,360,556	3,219,507	534,418	–	7,696,867
Foreign exchange options	12,407	12,407	1,484,679	236,697	398,522	849,460	–	1,501,408
Commission rates swaps	54,450	56,226	12,270,252	–	–	11,270,499	999,753	10,991,357
Held as fair value hedges:								
Commission rate swaps	130,203	22,619	7,617,063	–	–	2,737,792	4,879,271	6,823,156
Associated company put option	435,421	–	–	–	–	–	–	–
Total	669,170	116,655	27,486,475	2,597,253	3,618,029	15,392,169	5,879,024	27,012,788

11. Derivatives – continued

The table below is a summary of the Bank's fair value hedges and hedged portfolios as of December 31, 2018 and 2017, which includes the description of the hedged items and related fair values, the nature of the risk being hedged, and the hedging instruments and related fair values.

	December 31, 2018 SAR '000					
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument used	Positive fair value	Negative fair value
Fixed commission rate investments	**11,938,600**	**12,349,164**	**Fair value risk**	**Commission rate swaps**	**242,456**	**102,209**

	December 31, 2017 SAR '000					
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument used	Positive fair value	Negative fair value
Fixed commission rate investments	7,687,135	7,636,736	Fair value risk	Commission rate swaps	130,203	22,619

The net gains during the year on hedging instruments for fair value hedges were SAR 41.1 million (2017: gains of SAR 44.4 million). The net losses on hedged items attributable to hedged risk were SAR 41.1 million (2017: losses of SAR 44.3 million). The net positive fair value of all derivatives is approximately SAR 744.5 million (2017: SAR net positive 552.5 million). Approximately 57% (2017: 68%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and 23% (2017:19%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivative Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Group are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Group to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favour of the Bank or the counterparty.

For commission rate swaps entered into with European counterparties, the Bank and the European counterparty both comply with the European Market Infrastructure Regulation (EMIR). EMIR is a body of European legislation for the central clearing and regulation of Over the Counter (OTC) derivatives. The regulation includes requirements for reporting of derivatives contracts and implementation of risk management standards, and establishes common rules for central counterparties and trade repositories. Accordingly, all such standardised OTC derivatives contracts are traded on exchanges and cleared through a Central Counter Party (CCP) through netting arrangements and exchanges of cash to reduce counter party credit and liquidity risk.

As of December 31, 2018, the CSA and EMIR net cash collateral amounts held by counterparties in favor of the Bank totalled SAR 184.2 million (2017: SAR 5.7 million).

The positive and negative fair values of derivatives including CSA and EMIR cash margins have been netted/offset when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realise the assets and settle the liability simultaneously.

The associated company put option included in the table above represents the estimated fair value of an option arising from an existing master agreement entered into by the Bank relating to an associated company. The terms of the agreement give the Bank a put option that is exercisable for the remaining term of the agreement. The put option grants the Bank the right to receive a payment in exchange for its shares one year after the option is exercised, based on predetermined formulas included in the agreement.

12. Due to banks and other financial institutions

Due to banks and other financial institutions as of December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000	2017 SAR '000
Current accounts	16,073	9,137
Repurchase agreements [Note 19(d)]	7,656,065	2,951,658
Money market deposits	4,948,694	4,648,891
Total	**12,620,832**	7,609,686

13. Customer deposits

Customer deposits as of December 31, 2018 and 2017 are summarized as follows:

	2018 SAR '000	2017 SAR '000
Time deposits	37,037,991	39,308,674
Savings deposits	1,529,185	2,174,702
Total special commission bearing deposits	**38,567,176**	41,483,376
Demand deposits	24,113,708	24,585,587
Other deposits	1,008,985	873,657
Customer deposits	**63,689,869**	66,942,620

Customer deposits include SAR 601 million (2017: SAR 537 million) of margin deposits held for irrevocable commitments.

Deposits include Shariah-Compliant deposits totalling SAR 57.4 billion (2017: SAR 58.4 billion).

The above amounts include foreign currency deposits (equivalent to Saudi Arabian Riyals) as of December 31, 2018 and 2017 as follows:

	2018 SAR '000	2017 SAR '000
Demand	1,775,379	1,860,647
Savings	1,161,374	1,303,295
Time	6,092,931	6,868,199
Other	103,407	54,815
Total	**9,133,091**	10,086,956

14. Term loans

On June 24, 2012, the Bank entered into a five-year medium-term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was due and repaid on September 5, 2017.

On June 19, 2016, the Bank entered into a five year medium-term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilised and is repayable on June 19, 2021. On September 26, 2017, the Bank entered into another five year medium-term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilised on October 4, 2017 and is repayable on September 26, 2022.

The term loans bear commission at market based variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. The Bank also has not had any defaults of principal or commission on the term loans.

15. Subordinated debt

On June 5, 2014 the Bank concluded the issuance of a SAR 2.0 billion subordinated debt issue through a private placement of a Shariah compliant Tier II Sukuk in the Kingdom of Saudi Arabia.

The Sukuk carries a half yearly profit equal to six month SIBOR plus 1.45%. The Sukuk has a tenor of 10 years with the Bank retaining the right to call the Sukuk at the end of the first five-year period, subject to certain regulatory approvals. The Bank has not had any defaults of principal or commission on the subordinated debt.

16. Other liabilities

Other liabilities as of December 31, 2018 and 2017 are summarized as follows:

	2018 SAR '000	2017 SAR '000
Accrued Zakat and Income Tax, net	**874,563**	80,081
Accrued salaries and employee related benefits	**356,807**	362,188
Allowance for credit losses for financial guarantee contracts	**165,320**	–
Accrued expenses and other reserves	**158,412**	122,841
Customer related liabilities	**174,435**	210,155
Deferred fee income	**13,422**	17,934
All other liabilities	**40,836**	37,101
Total	**1,783,795**	830,300

The movement of the allowance for credit losses for financial guarantee contracts for the years ended December 31, 2018 and 2017 is summarised as follows:

	2018 SAR '000	2017 SAR '000
Balances at the beginning of the year	**–**	–
Effect of the adoption of IFRS 9 on January 1, 2018	**138,794**	–
Provision for credit losses	**26,526**	–
Balances at the end of the year	**165,320**	–

16. Other liabilities – continued

The following table provides a reconciliation from the opening to the closing balance of the allowance for credit losses for financial guarantee contracts for the year ended December 31, 2018.

	SAR '000			
	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	**98,681**	**14,676**	**25,437**	**138,794**
Changes in exposures and remeasurement	8,775	2,030	(58,350)	(47,545)
Transfers from Stage 1 to Stages 2, 3	(3,417)	19,204	16,291	32,078
Transfers from Stage 2 to Stage 3	–	(4,772)	46,765	41,993
Provision for credit losses	5,358	16,462	4,706	26,526
Balances as of December 31, 2018	**104,039**	**31,138**	**30,143**	**165,320**

17. Share capital

As of December 31, 2018, the authorized, issued, and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2017: 750 million shares of SAR 10 each). The ownership of the Bank's share capital as of December 31, 2018 and 2017 is as follows in SAR millions:

	2018		2017	
	Amount	%	Amount	%
Saudi shareholders	6,750.0	90.0	6,750.0	90.0
Foreign shareholders:				
J.P. Morgan International Finance Limited (Note 40)	–	–	562.5	7.5
Mizuho Corporate Bank Limited	187.5	2.5	187.5	2.5
Treasury shares (Note 40)	562.5	7.5	–	–
	7,500.0	100.0	7,500.0	100.0

During 2017, 50 million bonus shares were issued by the Bank increasing the issued number of shares outstanding from 700 million to 750 million shares.

18. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 365 million has been transferred from 2018 net income (2017: SAR 353 million). The statutory reserve is not currently available for distribution.

19. Commitments, contingencies, and financial guarantee contracts

(a) Legal proceedings

As of December 31, 2018, there were 118 legal proceedings outstanding against the Group (2017: 76). No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome based on professional advice. As of December 31, 2018, the Bank's allowance for such cases totalled SAR 55.2 million (2017: SAR 8.1 million) which are included in other liabilities.

(b) Capital commitments

As of December 31, 2018, the Group had capital commitments of SAR 65.3 million (2017: SAR 13.2 million) for property and equipment.

(c) Credit related commitments and contingencies

The Group enters into certain credit related facilities to ensure that funds are available to a customer as required.

Guarantee and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees, and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

For issued financial guarantee contracts and loan commitments, the maximum amount is allocated to the earliest period in which the guarantee could be called, as the Bank has the right to recall financial guarantee contracts and loan commitments prior to their maturity.

19. Commitments, contingencies, and financial guarantee contracts – continued

(i) The contractual maturity structure for the Group's credit related commitments and contingencies as of December 31, 2018 and 2017 are as follows:

	2018 SAR '000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,325,620	578,465	286,262	–	2,190,347
Letters of guarantee	2,141,354	4,900,113	1,595,453	311,486	8,948,406
Acceptances	402,192	255,513	222	–	657,927
Total financial guarantee contracts	**3,869,166**	**5,734,091**	**1,881,937**	**311,486**	**11,796,680**
Irrevocable commitments to extend credit	–	34,049	204,162	320,731	558,942
Credit-related commitments and contingencies	**3,869,166**	**5,768,140**	**2,086,099**	**632,217**	**12,355,622**

	2017 SAR '000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	782,950	1,050,329	12,395	–	1,845,674
Letters of guarantee	2,002,434	4,860,898	1,268,746	263,674	8,395,752
Acceptances	360,647	371,671	–	–	732,318
Total financial guarantee contracts	3,146,031	6,282,898	1,281,141	263,674	10,973,744
Irrevocable commitments to extend credit	–	581	280,281	99,861	380,723
Credit-related commitments and contingencies	3,146,031	6,283,479	1,561,422	363,535	11,354,467

The movement of the allowance for credit losses for financial guarantee contracts is summarized in note 10.

The outstanding unused portion of commitments as of December 31, 2018 which can be revoked unilaterally at any time by the Bank, amounts to SAR 23.5 billion (2017: SAR 27.6 billion).

(ii) The analysis of commitments and contingencies by counterparty as of December 31, 2018 and 2017 is as follows:

	2018 SAR '000	2017 SAR '000
Government and quasi-government	**5,707,436**	5,896,601
Corporate	**5,575,514**	4,698,100
Banks and other financial institutions	**742,951**	536,713
Other	**329,721**	223,053
Total	**12,355,622**	11,354,467

19. Commitments, contingencies, and financial guarantee contracts – continued

(d) Assets pledged

Debt securities pledged under repurchase agreements with other banks include corporate, bank, and non-government bonds. The fair values of assets pledged as collateral with other financial institutions as security and the related balances of the repurchase agreements as of December 31, 2018 and 2017 are as follows:

	2018 SAR '000		2017 SAR '000	
	Pledged Assets	Repurchase Agreements	Pledged Assets	Repurchase Agreements
Debt securities	9,130,728	7,656,065	2,989,646	2,951,658

The pledged assets presented in the above table are those financial assets that may be repledged or resold by counterparties to whom they have been transferred. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities, as well as requirements determined by exchanges on which the Bank acts as a participant.

(e) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Group is the lessee as of December 31, 2018 and 2017 are as follows:

	2018 SAR '000	2017 SAR '000
Less than 1 year	47,698	49,298
1 to 5 years	93,152	100,327
Over 5 years	75,400	57,957
Total	216,250	207,582

(f) Zakat and Income Tax

Notes 8 and 27 provide information regarding the current status of the Group's Zakat and Income Tax positions.

(g) Credit quality of financial guarantee contracts

The following table sets out information about the credit quality of financial guarantee contracts as of December 31, 2018.

	2018 SAR '000			
	Stage 1 12 month ECL	Stage 2 Life time ECL not credit impaired	Stage 3 Life time ECL credit impaired	Total
Financial guarantee contracts	10,838,500	622,477	335,703	11,796,680

20. Special commission income and expense

Special commission income and expense for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000	2017 SAR '000
Special commission income:		
Loans and advances	**2,796,235**	2,694,492
Investments	**770,591**	626,936
Banks and other financial institutions	**66,590**	48,796
Total (note 41)	**3,633,416**	3,370,224
Special commission expense:		
Customer deposits	**926,894**	862,028
Banks and other financial institutions	**268,248**	201,202
Term loans	**70,978**	58,964
Subordinated debt	**79,575**	73,630
Total (note 41)	**1,345,695**	1,195,824

21. Fee income from banking services, net

Fee income from banking services, net for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000	2017 SAR '000
Fee income:		
– Share trading and fund management	**149,057**	139,368
– Trade finance	**104,279**	92,034
– Corporate and retail finance	**19,059**	42,012
– Other banking services	**175,970**	128,227
Total fee income	**448,365**	401,641
Fee expense:		
– Custodial services	**86,716**	80,572
– Other banking services	**66,647**	41,252
Total fee expense	**153,363**	121,824
Fee income from banking services, net (note 41)	**295,002**	279,817

22. Dividend income

Dividend income for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000	2017 SAR '000
Dividend income from equity investments	**5,407**	19,749

23. Gains on investments and losses on FVOCI debt securities, net

Gains on investments for the years ended December 31, 2018 and 2017 are summarized as follows:

	2018 SAR '000	2017 SAR '000
Gains on sales of equities	–	31,826
Gains on sales of other investments	–	17,304
Losses on FVOCI debt securities	(458)	–
Gains on FVOCI debt securities	399	–
Total	**(59)**	49,130

24. Compensation and related governance and practices

As required by SAMA, the following table summarizes the Group's employee categories defined in accordance with SAMA's rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2018 and 2017.

		2018 SAR '000			
			Variable compensation paid		
Category	Number of employees	Fixed compensation paid	Cash	Shares	Total
Senior executives requiring SAMA no objection	23	42,063	15,047	4,609	19,656
Employees engaged in risk taking activities	130	56,463	11,323	3,547	14,870
Employees engaged in control functions	228	61,567	5,784	2,969	8,753
Other employees	1,150	248,614	25,460	10,995	36,455
Outsourced employees	50	8,629	1,137	130	1,267
Totals	**1,581**	**417,336**	**58,751**	**22,250**	**81,001**
Variable compensation accrued		70,000			
Other employee benefits and related expenses		138,655			
Total salaries and employee related expenses		**625,991**			

The total fixed compensation paid in 2018 totalling SAR 417.3 million above includes SAR 18.0 million for cost of living allowances (2017: NIL).

24. Compensation and related governance and practices – continued

Category	Number of employees	Fixed compensation paid	2017 SAR '000 Variable compensation paid Cash	Shares	Total
Senior executives requiring SAMA no objection	19	35,130	11,272	4,322	15,594
Employees engaged in risk taking activities	131	54,903	10,437	2,446	12,883
Employees engaged in control functions	231	57,263	6,500	2,642	9,142
Other employees	1,190	230,382	25,262	7,933	33,195
Outsourced employees	54	8,141	1,126	92	1,218
Totals	1,625	385,819	54,597	17,435	72,032
Variable compensation accrued		73,540			
Other employee benefits and related expenses		119,746			
Total salaries and employee related expenses		579,105			

The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which consists of five Board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation of members of the Board of Director's, and overseeing the Bank's employee compensation system's design.

The Committee is also responsible to recommend to the Board of Directors the approval of the Bank's Compensation Policy and any amendments thereto, to ensure that the Bank's remuneration policies are in compliance with SAMA Rules on Compensation Practices and the Financial Stability Board's (FSB) Principles for Sound Compensation Practices, to periodically review the Bank's compensation policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Compensation Policy is designed to attract, retain, and motivate high performing and high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives, which is monitored/measured via a robust performance management system. The grant of the variable component of the reward, both cash and shares, is strictly dependent on the achievement of set targets, both financial and non-financial, level of achievements and the Bank's overall performance, including key risk indicators. Higher achievements will warrant a better performance rating and higher variable compensation. The Balanced Scorecard concept is used as a performance management tool and performance objectives are typically categorised into four segments including financial, customer, process, and people.

Financial and non-financial metrics are used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, quality assurance, employee development and engagement, workforce diversity, sustainable business practices, lending guidelines, internal controls, compliance with regulations, and business systems and processes. Effective risk management is emphasised to maintain a strong and secure operating platform. A Risk Appetite Framework Policy has been established and compliance with the annual Risk Appetite Statement is key to all remuneration decisions including variable pay arrangements.

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Variable remuneration is linked to long-term value creation and risk horisons. It is also based on individual, business segment, and Bank performance criteria. Accordingly, for certain variable remunerations, a portion of the incentive earned for the annual performance bonus programme and the employee stock grant plan programme are deferred in line with long term risk realisation. The vesting is subject to clawback mechanisms.

24. Compensation and related governance and practices – continued

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

The total amount of compensation paid to key management for the year ended December 31, 2018 was SAR 61.7 million (2017: SAR 50.7 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2018 was SAR 4.3 million (2017: SAR 6.0 million).

The total end of service payments made for all employees who left their employment with the Group during the year ended December 31, 2018 totalled SAR 20.7 million (2017: SAR 20.5 million). These payments were made to 121 beneficiaries (2017: 150). The highest payment to a single individual in 2018 was SAR 3.4 million (2017: SAR 1.8 million).

25. Basic and diluted earnings per share

Basic and diluted earnings per share for the year ended December 31, 2018 is calculated by dividing net income adjusted for Tier I Sukuk costs by 735.0 million shares representing the weighted average of the issued and outstanding shares after giving effect to the purchase of 56.2 million Treasury shares on September 27, 2018 (see Note 40).

Basic and diluted earnings per share for the year ended December 31, 2017 is calculated by dividing net income adjusted for Tier I Sukuk costs by 750.0 million shares, after giving effect to the bonus shares issued on April 17, 2017.

26. Dividends

In 2018, the Board of Directors proposed a cash dividend of SAR 450 million equal to SAR 0.60 per share, net of Zakat to be withheld from the Saudi shareholders. The proposed cash dividend was approved by the Bank's shareholders in an extraordinary general assembly meeting held on 8 Shaban, 1439H (corresponding to April 24, 2018). The net dividends were paid to the Bank's shareholders thereafter.

In 2016, the Board of Directors proposed a cash dividend of SAR 350 million equal to SAR 0.50 per share, net of Zakat to be withheld from the Saudi shareholders. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each 14 shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on 20 Rajab, 1438 H (corresponding to April 17, 2017). The net dividends were paid and the bonus shares were issued to the Bank's shareholders thereafter.

27. Zakat and income tax

The Bank has filed the required Zakat and Income Tax returns with the Government Authority for Zakat and Tax (GAZT) which are due on April 30 each year, through the year ended December 31, 2017. The Bank's Zakat and Income Tax calculations and corresponding accruals and payments for Zakat and Income Tax are based on the ownership percentages disclosed in note 17.

The Bank had received final assessments for additional Zakat, Income tax, and withholding tax totalling approximately SAR 277 million relating to the Bank's 2005 to 2009 Zakat filings and 2003 to 2009 Income Tax and withholding tax filings. The Bank had also received partial assessments for additional Zakat totalling approximately SAR 383 million relating to its 2010, 2011, and 2013 Zakat filings. These final and partial assessments included approximately SAR 573 million in Zakat assessments which were primarily due to the disallowance of deductions for certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its professional Tax and Zakat advisors, had filed appeals for the above final and partial assessments with the General Authority for Zakat and Tax. Further assessments for the years 2012, 2014, 2015, and 2016 were yet to be raised by the GAZT.

27. Zakat and income tax – continued

Zakat Settlement

During the month of December 2018, the Bank agreed with the GAZT to a settlement of Zakat assessments for the years 2006 to 2017 for SAR 775.5 million. The Zakat settlement is to be paid over a period of time as follows:

	2018 SAR '000
January 1, 2019	**155,089**
December 1, 2019	**124,072**
December 1, 2020	**124,072**
December 1, 2021	**124,072**
December 1, 2022	**124,072**
December 1, 2023	**124,072**
Total	**775,449**

The Zakat settlement has been fully provided for through a charge to retained earnings with the corresponding liability included in other liabilities. The Bank has recorded the discounted Zakat liability of SAR 712 million in its consolidated financial statements. The Bank has paid SAR 155 million on January 1, 2019 as per the settlement agreement.

The Zakat settlement also included provisions for the Bank to calculate the Zakat liability for the year ended December 31, 2018 using the same methodology as was agreed in the settlement for the prior years. The current year accrual amounting to SAR 107 million for Zakat was calculated based on this method and has also been charged to retained earnings with the corresponding liability included in other liabilities and which will be settled by April 30, 2019.

The Zakat settlement did not include the year 2005. However, the Bank has recorded provisions of approximately SAR 39 million for this potential additional Zakat liability in its consolidated financial statements.

Refer note 8 to these consolidated financial statements for pending Zakat assessments related to an associate company.

Income tax and withholding tax assessments

Certain outstanding Income Tax and Withholding Tax assessments remain for the years 2003 to 2009. The Bank has provided for any potential Income Tax or Withholding Tax liability that may arise in the event of an unfavourable outcome of these issues through the appeal processes available to the Bank with the GAZT. For the year ended December 31, 2018, the Bank made provisions of approximately SAR 28 million in respect of total income tax and withholding tax liability (2017: SAR 29 million).

28. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows as of December 31, 2018 and 2017 is comprised of the following:

	2018 SAR '000	2017 SAR '000
Cash and balances with SAMA excluding statutory deposit (note 4)	**1,654,702**	1,931,233
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**2,848,470**	3,513,073
Cash and cash equivalents	**4,503,172**	5,444,306

29. Operating segments

Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance.

Performance is measured based on segment profit as management believes that this indicator is the most relevant in evaluating the results of certain segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by management.

The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated statement of income. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in the Kingdom of Saudi Arabia.

The Group's reportable segments are as follows:

- Retail banking: Loans, deposits, and other credit products for individuals and small to medium-sized businesses.
- Corporate banking: Loans, deposits, and other credit products for corporate and institutional customers.
- Treasury and Investments: Money market, investments, and other treasury services.
- Asset management and brokerage: Dealing, managing, advising, and custody of securities services.
- Other: Support functions, special credit, and other management and control units.

Commission is charged to operating segments based on funds transfer price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits (FTP net transfers). All other segment income is from external customers.

(a) The segment information provided to the Board of Directors which includes the reportable segments for the Group's total assets and liabilities as of December 31, 2018 and 2017, its total operating income, total operating expenses, and net income for the years then ended, are as follows:

	2018 SAR '000					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	23,677,143	35,870,049	34,007,092	421,161	2,094,463	96,069,908
Total liabilities	50,113,715	6,088,379	25,395,824	57,425	975,889	82,631,232
Net special commission income	289,613	1,724,805	230,607	23,446	19,250	2,287,721
FTP net transfers	771,212	(762,323)	–	–	(8,889)	–
Net FTP contribution	1,060,825	962,482	230,607	23,446	10,361	2,287,721
Fee income (loss) from Banking services, net	129,663	112,565	69,820	64,644	(81,690)	295,002
Other operating income (loss)	67,250	49,397	127,396	(5,322)	(108,714)	130,007
Total operating income (loss)	1,257,738	1,124,444	427,823	82,768	(180,043)	2,712,730
Direct operating expenses	392,865	70,890	31,803	71,869	–	567,427
Indirect operating expenses	328,139	124,467	113,152	–	–	565,758
Provisions for credit losses	208,009	38,894	(223)	292	–	246,972
Total operating expenses	929,013	234,251	144,732	72,161	–	1,380,157
Income (loss) from operating activities	328,725	890,193	283,091	10,607	(180,043)	1,332,573
Share in earnings of associates	–	–	126,145	–	–	126,145
Net income	328,725	890,193	409,236	10,607	(180,043)	1,458,718
Property, equipment, and intangibles additions	88,795	384	35	937	71,405	161,556
Depreciation and amortization	45,831	1,045	168	2,527	53,668	103,239

29. Operating segments – continued

	2017 SAR '000					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	27,699,853	35,564,170	28,370,374	404,088	1,757,734	93,796,219
Total liabilities	50,538,379	7,974,977	20,010,969	41,785	951,042	79,517,152
Net special commission income	358,136	1,651,057	72,564	15,981	76,662	2,174,400
FTP net transfers	657,258	(768,223)	130,970	–	(20,005)	–
Net FTP contribution	1,015,394	882,834	203,534	15,981	56,657	2,174,400
Fee income (loss) from Banking services, net	106,195	144,763	51,979	71,725	(94,845)	279,817
Other operating income (loss)	49,821	43,440	207,086	(1,433)	(93,248)	205,666
Total operating income (loss)	1,171,410	1,071,037	462,599	86,273	(131,436)	2,659,883
Direct operating expenses	371,695	67,270	29,980	77,283	–	546,228
Indirect operating expenses	256,634	170,511	85,941	–	–	513,086
Provisions for credit losses	96,990	116,010	106,000	2,622	–	321,622
Total operating expenses	725,319	353,791	221,921	79,905	–	1,380,936
Income (loss) from operating activities	446,091	717,246	240,678	6,368	(131,436)	1,278,947
Share in earnings of associates	–	–	131,851	–	–	131,851
Net income	446,091	717,246	372,529	6,368	(131,436)	1,410,798
Property, equipment, and intangibles additions	21,019	45	–	1,949	84,867	107,880
Depreciation and amortization	49,303	1,129	165	3,289	38,673	92,559

(b) The Group's credit exposure by business segment as of December 31, 2018 and 2017 is as follows:

	2018 SAR '000					
	Retail Banking	**Corporate Banking**	**Treasury and Investments**	**Asset Management and Brokerage**	**Other**	**Total**
Consolidated statement of financial position assets	**22,488,511**	**35,867,577**	**32,541,629**	**349,650**	**665,735**	**91,913,102**
Commitments and contingencies	**4,254,721**	**3,929,374**	**523,599**	**–**	**–**	**8,707,694**
Derivatives	**–**	**–**	**1,971,687**	**–**	**–**	**1,971,687**
Totals	**26,743,232**	**39,796,951**	**35,036,915**	**349,650**	**665,735**	**102,592,483**

	2017 SAR '000					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Consolidated statement of financial position assets	26,529,441	35,561,073	26,731,760	245,531	230,299	89,298,104
Commitments and contingencies	3,349,767	2,554,318	293,785	–	–	6,197,870
Derivatives	–	–	2,582,443	–	–	2,582,443
Totals	29,879,208	38,115,391	29,607,988	245,531	230,299	98,078,417

Consolidated statement of financial position credit exposure is comprised of the carrying value of consolidated statement of financial position assets excluding cash on hand, property, equipment, and intangibles, investments in associates, investments in equities and mutual funds, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are also included in the table above.

30. Geographical concentration

(a) The distribution by geographical region for assets, liabilities, and for commitments, contingencies, and derivatives as of December 31, 2018 and 2017 is as follows:

	2018 SAR '000						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances with SAMA:							
Cash in hand	736,763	–	–	–	–	–	736,763
Balances with SAMA	4,135,169	–	–	–	–	–	4,135,169
Due from banks and other financial institutions:							
Current accounts	–	69,660	252,178	455,048	2,870	16,362	796,118
Money market placements	1,649,902	258,701	212,976	–	–	–	2,121,579
Investments:							
Held as FVTPL	131,626	–	254	42,388	–	–	174,268
Held as FVOCI	15,404,960	5,912,945	1,236,263	1,731,190	–	178,487	24,463,845
Positive fair values of derivatives:							
Held for trading	37,651	–	436,828	110,317	–	–	584,796
Held as fair value hedges	18,504	112,757	111,195	–	–	–	242,456
Associated company put option	–	417,991	–	–	–	–	417,991
Loans and advances, net:							
Commercial and others	40,051,830	–	–	–	–	–	40,051,830
Overdrafts	5,078,362	–	–	–	–	–	5,078,362
Consumer	14,282,337	–	–	–	–	–	14,282,337
Investments in associates	1,012,366	–	–	–	–	–	1,012,366
Other real estate	718,724	–	–	–	–	–	718,724
Information Technology intangible assets, net	163,513	–	–	–	–	–	163,513
Property and equipment, net	897,678	–	–	–	–	–	897,678
Other assets	192,113	–	–	–	–	–	192,113
Total	**84,511,498**	**6,772,054**	**2,249,694**	**2,338,943**	**2,870**	**194,849**	**96,069,908**
Liabilities							
Due to banks and other financial institutions:							
Current accounts	–	7,940	6,665	–	–	1,468	16,073
Money market deposits and repurchase agreements	4,528,124	2,835,145	5,241,490	–	–	–	12,604,759
Customer deposits:							
Time	37,037,991	–	–	–	–	–	37,037,991
Savings	1,529,185	–	–	–	–	–	1,529,185
Demand	24,113,708	–	–	–	–	–	24,113,708
Other	1,008,985	–	–	–	–	–	1,008,985
Negative fair values of derivatives:							
Held for trading	114,373	9,953	118,801	155,368	–	–	398,495
Held as fair value hedges	2,195	17,429	82,585	–	–	–	102,209
Term loans	2,030,371	–	–	–	–	–	2,030,371
Subordinated debt	2,005,661	–	–	–	–	–	2,005,661
Other liabilities	1,783,795	–	–	–	–	–	1,783,795
Total	**74,154,388**	**2,870,467**	**5,449,541**	**155,368**	**–**	**1,468**	**82,631,232**

30. Geographical concentration – continued

	2018 SAR '000						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Commitments and contingencies							
Letters of credit	989,529	129,131	237,366	4,075	24,277	805,969	2,190,347
Letters of Guarantee	8,163,093	166,470	508,308	25,213	6,600	78,722	8,948,406
Acceptances	653,360	2,444	–	–	–	2,123	657,927
Irrevocable commitments to extend credit	558,942	–	–	–	–	–	558,942
Maximum credit exposure (stated at credit equivalent amounts) Commitments and contingencies							
Letters of credit	942,484	122,992	226,082	3,882	23,123	767,652	2,086,215
Letters of Guarantee	5,441,101	110,960	338,812	16,806	4,399	52,472	5,964,550
Acceptances	652,369	2,440	–	–	–	2,120	656,929
Derivatives							
Held for trading	270,904	–	516,748	234,289	–	–	1,021,941
Held as fair value hedges	35,529	212,207	284,019	–	–	–	531,755
Associated company put option	–	417,991	–	–	–	–	417,991

	2017 SAR '000						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances with SAMA:							
Cash in hand	725,972	–	–	–	–	–	725,972
Balances with SAMA	4,537,466	–	–	–	–	–	4,537,466
Due from banks and other financial institutions:							
Current accounts	–	70,056	253,036	579,294	3,076	7,719	913,181
Money market placements	1,144,360	987,535	459,047	8,950	–	–	2,599,892
Available-for-sale Investments	11,601,267	6,624,978	1,473,864	1,776,502	–	237,365	21,713,976
Positive fair values of derivatives:							
Held for trading	69,436	28,912	5,198	–	–	–	103,546
Held as fair value hedges	8,552	70,759	50,892	–	–	–	130,203
Associated company put option	–	435,421	–	–	–	–	435,421
Loans and advances, net:							
Commercial and others	39,615,951	–	–	–	–	–	39,615,951
Overdrafts	3,538,544	–	–	–	–	–	3,538,544
Consumer	16,433,789	–	–	–	–	–	16,433,789
Investments in associates	1,019,961	–	–	–	–	–	1,019,961
Other real estate	718,724	–	–	–	–	–	718,724
Information Technology intangible assets, net	129,094	–	–	–	–	–	129,094
Property and equipment, net	873,816	–	–	–	–	–	873,816
Other assets	306,683	–	–	–	–	–	306,683
Total	80,723,615	8,217,661	2,242,037	2,364,746	3,076	245,084	93,796,219

30. Geographical concentration – continued

	2017 SAR '000						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Liabilities							
Due to banks and other financial institutions:							
Current accounts	–	6,147	1,962	–	–	1,028	9,137
Money market deposits and repurchase agreements	4,673,295	931,030	1,996,224	–	–	–	7,600,549
Customer deposits:							
Time	39,308,674	–	–	–	–	–	39,308,674
Savings	2,174,702	–	–	–	–	–	2,174,702
Demand	24,585,587	–	–	–	–	–	24,585,587
Other	873,657	–	–	–	–	–	873,657
Negative fair values of derivatives:							
Held for trading	38,374	28,342	27,271	49	–	–	94,036
Held as fair value hedges	3,398	2,899	16,322	–	–	–	22,619
Term loans	2,014,823	–	–	–	–	–	2,014,823
Subordinated debt	2,003,068	–	–	–	–	–	2,003,068
Other liabilities	830,300	–	–	–	–	–	830,300
Total	76,505,878	968,418	2,041,779	49	–	1,028	79,517,152
Commitments and contingencies							
Letters of credit	1,273,488	106,903	214,551	21,401	28,530	200,801	1,845,674
Letters of Guarantee	7,793,073	19,533	483,338	13,879	–	85,929	8,395,752
Acceptances	732,318	–	–	–	–	2,318	734,636
Irrevocable commitments to extend credit	378,405	–	–	–	–	–	378,405
Maximum credit exposure (stated at credit equivalent amounts) Commitments and contingencies							
Letters of credit	1,037,521	87,095	174,797	17,436	23,244	163,594	1,503,687
Letters of Guarantee	3,677,369	9,217	228,076	6,549	–	40,548	3,961,759
Acceptances	732,318	–	–	–	–	106	732,424
Derivatives							
Held for trading	255,443	265,566	439,113	–	–	–	960,122
Held as fair value hedges	331,851	258,744	596,305	–	–	–	1,186,900
Associated company put option	–	435,421	–	–	–	–	435,421

The credit exposure of assets for the consolidated statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, loans and advances, positive fair value of derivatives, other receivables, and refundable deposits.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

31. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either a trading or banking book.

(a) Market risk-trading book

The Board of Directors has set limits for the acceptable level of risks in managing the trading book. The Group currently has trading book exposures in foreign exchange contracts and commission rate swaps.

(b) Market risk-banking book

Market risk in the banking book mainly arises from commission rate risk, liquidity risk, currency risk, and equity price risk.

(i) Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect either the fair values or the future cash flows of the financial instruments and obligations. The Board of Directors has established commission rate gap limits for stipulated periods. The Group monitors, positions, and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Group's consolidated statement of income or shareholders' equity. The reasonably possible change is estimated based on the relevant commission rate movements during the last five years (2014-2018) (2017: 2013-2017). A positive effect shows a potential net increase in the consolidated income or shareholders' equity, whereas a negative effect shows a potential net reduction in consolidated income or shareholders' equity.

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of December 31, 2018 and 2017, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate FVOCI debt securities, including the effect of any associated hedges as of December 31, 2018 (2017: available for sale investments) for the effect of assumed changes in commission rates. The sensitivity of shareholders' equity is analysed by maturity of the asset or swap. The entire banking book exposures are monitored and analysed by currency and relevant sensitivities and are disclosed in SAR thousands. For presentation purposes in the tables below, short-term fixed rate deposit liabilities are treated as variable rate deposits.

		2018 SAR '000	2018 Sensitivity of equity SAR '000				
Commission rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
Saibor	+53/-168	-62,917/ +199,434	–	-2,589/0	-176,552/ +270,543	-216,588/ +21,790	-395,729/ +292,333
Libor	+52/-208	+8,429/ -33,718	-3,218/ +12,869	-6,238/ +24,955	-373,467/ +1,493,872	-1,022,103/ +4,088,416	-1,405,026/ +5,620,112
Euribor	+167/-1	+2,296/-14	–	–	–	–	–

31. Market risk – continued

		2017 SAR '000	2017 Sensitivity of equity SAR '000				
Commission rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
Saibor	+45/-117	-84,303/ +219,186	–	–	-16,892/ +43,919	-70 /+181	-16,962/ +44,100
Libor	+69/-78	-78,446/ +88,678	-248/+281	-1,278/+1,445	-113,017/ +127,755	-256,684/ +290,165	-371,227/ +419,646
Euribor	+164/-4	+2,404/-59	–	–	–	–	–

The Group manages exposure to the effects of various risks associated with fluctuations in prevailing levels of market special commission rates on its financial position and cash flows. The Board of Directors also sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored by the Treasury Unit.

The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through special commission rate risk management strategies.

The tables below summarize the Group's exposure to special commission rate risks as of December 31, 2018 and 2017. Included in the tables are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	2018 SAR '000					
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Non commission bearing**	**Total**
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	736,763	736,763
Balances with SAMA	977,000	–	–	–	3,158,169	4,135,169
Due from banks and other financial institutions						
Current accounts	796,118	–	–	–	–	796,118
Money market placements	2,053,990	67,589	–	–	–	2,121,579
Investments						
Held as FVTPL	–	–	–	–	174,268	174,268
Held as FVOCI	3,270,117	1,411,887	11,405,053	8,115,407	261,381	24,463,845
Positive fair values of derivatives						
Held for trading	–	–	–	–	584,796	584,796
Held as fair value hedges	–	–	–	–	242,456	242,456
Associated company put option	–	–	–	–	417,991	417,991
Loans and advances, net						
Commercial and others	26,339,578	13,156,867	440,267	115,118	–	40,051,830
Overdrafts	5,078,362	–	–	–	–	5,078,362
Consumer	3,744,555	2,417,134	7,347,915	772,733	–	14,282,337
Investments in associates	–	–	–	–	1,012,366	1,012,366
Other real estate	–	–	–	–	718,724	718,724
Information Technology intangible assets, net	–	–	–	–	163,513	163,513
Property and equipment, net	–	–	–	–	897,678	897,678
Other assets	–	–	–	–	192,113	192,113
Total	**42,259,720**	**17,053,477**	**19,193,235**	**9,003,258**	**8,560,218**	**96,069,908**

31. Market risk – continued

	2018 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	16,073	16,073
Money market deposits and Repurchase agreements	7,076,990	5,527,769	–	–	–	12,604,759
Customer deposits						
Time	21,696,731	15,341,260	–	–	–	37,037,991
Savings	1,529,185	–	–	–	–	1,529,185
Demand	–	–	–	–	24,113,708	24,113,708
Other	–	600,745	–	–	408,240	1,008,985
Negative fair values of derivatives						
Held for trading	–	–	–	–	398,495	398,495
Held as fair value hedges	–	–	–	–	102,209	102,209
Term loans	30,371	2,000,000	–	–	–	2,030,371
Subordinated debt	5,661	2,000,000	–	–	–	2,005,661
Other liabilities	–	–	–	–	1,783,795	1,783,795
Total equity	–	–	–	–	13,438,676	13,438,676
Total	30,338,938	25,469,774	–	–	40,261,196	96,069,908
Special commission rate sensitivity-on balance sheet	11,920,782	(8,416,297)	19,193,235	9,003,258	(31,700,978)	–
Special commission rate sensitivity-off balance sheet	12,252,405	–	(4,107,894)	(8,144,511)	–	–
Total special commission rate sensitivity gap	24,173,187	(8,416,297)	15,085,341	858,747	(31,700,978)	–
Cumulative special commission rate sensitivity gap	24,173,187	15,756,890	30,842,231	31,700,978	–	–

31. Market risk – continued

	2017 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	725,972	725,972
Balances with SAMA	1,282,000	–	–	–	3,255,466	4,537,466
Due from banks and other financial institutions						
Current accounts	913,181	–	–	–	–	913,181
Money market placements	2,599,892	–	–	–	–	2,599,892
Available for sale Investments	3,539,678	969,361	9,624,849	6,862,845	717,243	21,713,976
Positive fair values of derivatives						
Held for trading	–	–	–	–	103,546	103,546
Held as fair value hedges	–	–	–	–	130,203	130,203
Associated company put option	–	–	–	–	435,421	435,421
Loans and advances, net						
Commercial and others	25,113,025	13,508,342	898,605	95,979	–	39,615,951
Overdrafts	3,538,544	–	–	–	–	3,538,544
Consumer	2,753,376	2,670,517	10,315,388	694,508	–	16,433,789
Investments in associates	–	–	–	–	1,019,961	1,019,961
Other real estate	–	–	–	–	718,724	718,724
Information Technology intangible assets, net	–	–	–	–	129,094	129,094
Property and equipment, net	–	–	–	–	873,816	873,816
Other assets	–	–	–	–	306,683	306,683
Total	39,739,696	17,148,220	20,838,842	7,653,332	8,416,129	93,796,219
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	9,137	9,137
Money market deposits and repurchase agreements	5,211,784	2,388,765	–	–	–	7,600,549
Customer deposits						
Time	24,387,221	14,921,453	–	–	–	39,308,674
Savings	2,174,702	–	–	–	–	2,174,702
Demand	–	–	–	–	24,585,587	24,585,587
Other	–	537,064	–	–	336,593	873,657
Negative fair values of derivatives						
Held for trading	–	–	–	–	94,036	94,036
Held as fair value hedges	–	–	–	–	22,619	22,619
Term loans	2,014,823	–	–	–	–	2,014,823
Subordinated debt	3,068	2,000,000	–	–	–	2,003,068
Other liabilities	–	–	–	–	830,300	830,300
Total equity	–	–	–	–	14,279,067	14,279,067
Total	33,791,598	19,847,282	–	–	40,157,339	93,796,219
Special commission rate sensitivity-on balance sheet	5,948,098	(2,699,062)	20,838,842	7,653,332	(31,741,210)	–
Special commission rate sensitivity-off balance sheet	9,312,785	358,000	(4,291,638)	(5,379,147)	–	–
Total special commission rate sensitivity gap	15,260,883	(2,341,062)	16,547,204	2,274,185	(31,741,210)	–
Cumulative special commission rate sensitivity gap	15,260,883	12,919,821	29,467,025	31,741,210	–	–

31. Market risk – continued

The off-balance sheet gap position represents the net notional amounts of derivative financial instruments, which are used to manage special commission rate risk.

(ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board of Directors has set limits on currency positions, which are monitored daily. Hedging strategies are also used to ensure that positions and market risks are maintained within the limits.

The table below shows the currencies to which the Group has a significant exposure as of December 31, 2018 and 2017, on its banking book assets and liabilities and forecasted cash flows. The table depicts the effect of a reasonably possible movement of the currency rates against the SAR based on historical currency rate movements, with other variables held constant, on the consolidated income (due to the change in the fair value of the currency sensitive banking book assets and liabilities). The reasonably possible change is estimated based on the relevant foreign exchange rate movements during the last five years (2014-2018) (2017: 2013-2017). A positive effect shows a potential net increase in the consolidated income, whereas a negative effect shows a potential net reduction in consolidated income.

Currency Exposures as of December 31, 2018	**Change in currency rate in %**	**Effect on net income SAR '000**
USD	**+0.28/-0.10**	**+3,097/-1,100**
EUR	**+18.00/-12.01**	**-954/+636**
GBP	**+29.64/-9.75**	**-268/+91**

Currency Exposures as of December 31, 2017	Change in currency rate in %	Effect on net income SAR '000
USD	+0.31/-0.04	+4,290/-576
EUR	+18.15/-12.08	-359/+239
GBP	+29.88/-8.74	-332/+97

(iii) Currency position

The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. As of December 31, 2018 and 2017, the Group had the following significant net exposures denominated in foreign currencies:

	2018 SAR '000 Long/(short)	2017 SAR '000 Long/(short)
US Dollar	**1,120,449**	1,404,006
Euro	**(5,299)**	(1,978)
Pound sterling	**(936)**	(1,112)
Japanese yen	**201**	207
U.A.E Dirham	**964**	34,072
Others	**15,747**	11,780

31. Market risk – continued

(iv) Equity price risk

Equity price risk refers to the risk of a decrease in fair values of equities and mutual funds in the Group's investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual investments.

The following table depicts the effect on the Group's investments in equities and mutual funds from a reasonably possible change in relevant indices, with other variables held constant, and the related effect on the Group's net income and shareholders' equity as of December 31, 2018 and shareholders' equity as of December 31, 2017. The reasonably possible changes in relevant indices are estimated based on the relevant indices movements during the last five years (2014-2018) (2017: 2013-2017). A positive effect shows a potential increase in consolidated shareholders' equity, whereas a negative effect shows a potential decrease in consolidated shareholders' equity.

	2018			2017	
Market Indices	**Change in equity price %**	**Net income effect in SAR '000**	**Shareholders' equity effect in SAR '000**	Change in equity price %	Shareholders' equity effect in SAR '000
TADAWUL	**+41.82%/-31.10%**	**+44,109/-32,799**	**+116,281/-86,465**	+66.59%/-19.07%	+442,845/-126,796
Unquoted	**+5.00%/-5.00%**	**-/-**	**+232/-232**	+5.00%/-5.00%	+232/-232

32. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, Management has diversified funding sources, and assets are managed with liquidity in perspective. Management therefore maintains a healthy balance of cash, cash equivalents, and readily marketable securities as part of its high liquid assets. Management also monitors the asset and liability maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset Liability Committee. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the Asset Liability Committee. In addition, the Group's liquidity coverage ratio and net stable funding ratio are each monitored regularly to be in-line with SAMA guidelines. The Group also conducts regular liquidity stress testing under a variety of scenarios covering both normal and more severely stressed market conditions.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Group maintains a statutory deposit with SAMA equal to 7% (2017: 7%) of total demand deposits and 4% (2017: 4%) of saving and time deposits. In addition to the statutory deposit, the Group also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and balances with SAMA, Saudi Government Development Bonds, or other assets which can be converted into cash within a period not exceeding 30 days. The Group has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 98% of the nominal value of Saudi Riyal denominated bonds held.

(a) Contractual maturity profile of assets and liabilities.

The tables below summarise the contractual maturity profile of the Group's assets, liabilities, and shareholders' equity as of December 31, 2018 and 2017. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Group's deposit retention history. The amounts disclosed for derivatives, and commitments and contingencies are not indicative of future payment obligations.

32. Liquidity risk – continued

	2018 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity / on demand	Total
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	736,763	736,763
Balances with SAMA	977,000	–	–	–	3,158,169	4,135,169
Due from banks and other financial institutions						
Current accounts	–	–	–	–	796,118	796,118
Money market placements	2,053,990	67,589	–	–	–	2,121,579
Investments						
Held as FVTPL	–	–	–	–	174,268	174,268
Held as FVOCI	431,306	1,036,468	14,070,094	8,664,596	261,381	24,463,845
Positive fair values of derivatives						
Held for trading	–	584,796	–	–	–	584,796
Held as fair value hedges	–	242,456	–	–	–	242,456
Associated company put option	–	–	–	417,991	–	417,991
Loans and advances, net						
Commercial and others	19,647,774	14,300,442	4,298,864	1,804,750	–	40,051,830
Overdrafts	5,078,362	–	–	–	–	5,078,362
Consumer	3,744,555	2,417,134	7,347,915	772,733	–	14,282,337
Investments in associates	–	–	–	–	1,012,366	1,012,366
Other real estate	–	–	–	–	718,724	718,724
Information Technology intangible assets, net	–	–	–	–	163,513	163,513
Property and equipment, net	–	–	–	–	897,678	897,678
Other assets	–	192,113	–	–	–	192,113
Total	31,932,987	18,840,998	25,716,873	11,660,070	7,918,980	96,069,908
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current Accounts	–	–	–	–	16,073	16,073
Money market deposits and Repurchase agreements	7,076,990	5,527,769	–	–	–	12,604,759
Customer deposits						
Time	21,466,166	12,789,360	2,782,465	–	–	37,037,991
Savings	–	–	–	–	1,529,185	1,529,185
Demand	–	–	–	–	24,113,708	24,113,708
Other	–	600,745	–	–	408,240	1,008,985
Negative fair values of derivatives						
Held for trading	–	398,495	–	–	–	398,495
Held as fair value hedges	–	102,209	–	–	–	102,209
Term loans	30,371	–	2,000,000	–	–	2,030,371
Subordinated debt	5,661	2,000,000	–	–	–	2,005,661
Other liabilities	–	1,287,507	496,288	–	–	1,783,795
Total equity	–	–	–	–	13,438,676	13,438,676
Total	28,579,188	22,706,085	5,278,753	–	39,505,882	96,069,908
Derivatives, commitments and contingencies	6,886,791	6,022,140	19,863,039	11,652,406	–	44,424,376

32. Liquidity risk – continued

	2017 SAR '000					
	Within 3months	3-12 months	1-5 years	Over 5 years	No fixed maturity / on demand	Total
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	725,972	725,972
Balances with SAMA	1,282,000	–	–	–	3,255,466	4,537,466
Due from banks and other financial institutions						
Current accounts	–	–	–	–	913,181	913,181
Money market placements	2,599,892	–	–	–	–	2,599,892
Available-for-sale Investments	167,690	913,956	12,787,002	7,128,085	717,243	21,713,976
Positive fair values of derivatives						
Held for trading	–	103,546	–	–	–	103,546
Held as fair value hedges	–	130,203	–	–	–	130,203
Associated company put option	–	–	–	435,421	–	435,421
Loans and advances, net						
Commercial and others	16,729,891	13,908,635	6,075,319	2,902,106	–	39,615,951
Overdrafts	3,538,544	–	–	–	–	3,538,544
Consumer	2,627,162	2,670,517	10,441,602	694,508	–	16,433,789
Investments in associates	–	–	–	–	1,019,961	1,019,961
Other real estate	–	–	–	–	718,724	718,724
Information Technology intangible assets, net	–	–	–	–	129,094	129,094
Property and equipment, net	–	–	–	–	873,816	873,816
Other assets	–	306,683	–	–	–	306,683
Total	26,945,179	18,033,540	29,303,923	11,160,120	8,353,457	93,796,219
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current Accounts	–	–	–	–	9,137	9,137
Money market deposits and Repurchase agreements	5,211,784	2,388,765	–	–	–	7,600,549
Customer deposits						
Time	24,154,968	15,153,706	–	–	–	39,308,674
Savings	–	–	–	–	2,174,702	2,174,702
Demand	–	–	–	–	24,585,587	24,585,587
Other	–	537,064	–	–	336,593	873,657
Negative fair values of derivatives						
Held for trading	–	94,036	–	–	–	94,036
Held as fair value hedges	–	22,619	–	–	–	22,619
Term loans	14,823	–	2,000,000	–	–	2,014,823
Subordinated debt	3,068	–	2,000,000	–	–	2,003,068
Other liabilities	–	830,300	–	–	–	830,300
Total equity	–	–	–	–	14,279,067	14,279,067
Total	29,384,643	19,026,490	4,000,000	–	41,385,086	93,796,219
Derivatives, commitments and contingencies	5,743,285	9,901,507	16,953,591	6,242,558	–	38,840,941

32. Liquidity risk – continued

Assets available to meet all the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection, loans and advances to banks, and loans and advances to customers. The Group regularly monitors the maturity profile to ensure adequate liquidity is maintained. The cumulative maturities of commitments and contingencies is disclosed in note 19 c (i).

(b) Analysis of financial liabilities by remaining undiscounted maturities

The tables below summarise the estimated maturity profile of the Group's financial liabilities as of December 31, 2018 and 2017 based on contractual undiscounted future repayment obligations. As special commission payment estimates up to the contractual maturities are included in the tables, the totals do not match the amounts included in the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date that the Group could be required to pay and the tables therefore do not reflect the expected cash flows indicated by the Group's deposit retention history.

The undiscounted maturity profile of financial liabilities is as follows:

	2018 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed Maturity / on demand	Total
Due to banks and other financial institutions						
Current Accounts	–	–	–	–	16,073	16,073
Money market deposits and repurchase agreements	7,100,795	5,602,623	–	–	–	12,703,418
Customer deposits						
Time	21,543,176	12,972,887	2,982,107	–	–	37,498,170
Savings	–	–	–	–	1,529,185	1,529,185
Demand	–	–	–	–	24,113,708	24,113,708
Other	–	600,745	–	–	408,240	1,008,985
Negative fair values of derivatives						
Held for trading	–	398,495	–	–	–	398,495
Held as fair value hedges	–	102,209	–	–	–	102,209
Term loans	48,971	55,800	2,055,800	–	–	2,160,571
Subordinated debt	5,661	2,000,000	–	–	–	2,005,661
Total	28,698,603	21,732,759	5,037,907	–	26,067,206	81,536,475
Derivatives	191,000	543,121	2,213,078	413,257	–	3,360,456
Total	28,889,603	22,275,880	7,250,985	413,257	26,067,206	84,896,931

32. Liquidity risk – continued

	2017 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed Maturity / on demand	Total
Due to banks and other financial institutions						
Current Accounts	–	–	–	–	9,137	9,137
Money market deposits and Repurchase agreements	5,220,677	2,405,068	–	–	–	7,625,745
Customer deposits						
Time	24,213,393	15,303,267	–	–	–	39,516,660
Savings	–	–	–	–	2,174,702	2,174,702
Demand	–	–	–	–	24,585,587	24,585,587
Other	–	537,064	–	–	336,593	873,657
Negative fair values of derivatives						
Held for trading	–	94,036	–	–	–	94,036
Held as fair value hedges	–	22,619	–	–	–	22,619
Term loans	30,473	46,950	2,046,950	–	–	2,124,373
Subordinated debt	21,068	54,000	2,186,000	–	–	2,261,068
Total	**29,485,611**	**18,463,004**	**4,232,950**	**–**	**27,106,019**	**79,287,584**
Derivatives	105,406	285,975	998,144	141,978	–	1,531,503
Total	**29,591,017**	**18,748,979**	**5,231,094**	**141,978**	**27,106,019**	**80,819,087**

33. Credit and financial risk management

The Group's Board of Directors is responsible for establishing Corporate Governance processes and approving the Risk Appetite and related risk management framework. It is also responsible for approving and implementing policies to ensure compliance with SAMA guidelines, accounting and reporting standards (most recently IFRS 9 in relation to expected credit loss provisioning), and best industry practices including Basel guidelines. The Board of Directors has approved the Group's Risk Management Guide Policy as an overarching Risk Policy Guide under which the Group has a suite of policies including a Risk Appetite Framework Policy, Credit Policy Guide, Treasury Policy Guide, Stress Test Policy, Internal Capital Adequacy Assessment Plan Policy, Operational Risk Policy, Fraud Risk Policies, Information Security Policies, among others.

The Board of Directors has also approved the Group's comprehensive IFRS 9 Governance Framework Policy in 2018, addressing the Group's IFRS 9 Approach and Methodology Policy, which is supplemented with additional management level policies including an IFRS 9 Data Management and Control Framework Policy, and the IFRS 9 governance framework along with related accounting and operating procedures.

The Board of Directors is supported by the Board Risk Committee, a subcommittee of the Board, responsible for recommending policies for Board approval and for monitoring risks within the Group. At the management level, the Group operates various committees including an Enterprise Risk Management Committee, a Credit Committee, and an Asset Liability Committee, which are responsible for various areas of risk management. A management level Expected Credit Loss Committee linked to the Group's IFRS 9 Governance and Framework Policy also operates which is responsible for all aspects of IFRS 9 including expected credit losses.

33. Credit and financial risk management – continued

Other management level committees include the Operational Risk Management Committee, Stress Testing Committee, Financial Fraud Control Committee, Business Continuity Management Committee, Information Security Steering Committee, and the Structured Solution Approval Committee.

At the departmental level, the Group has a Risk Management Committee headed by a Chief Risk Officer who is assisted by assistant general managers in charge of Risk Management, Credit Risk Review, Credit Administration, and Collections.

Credit Risk

The Group manages its 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 arise principally in customer lending activities that lead to loans and advances, and other investment activities.

There is also credit risk in off consolidated statement of financial position financial instruments, such as loan commitments and financial guarantee contracts. The Group assesses the Probability of Default (PD) of counterparties using internal rating tools which can be mapped to external ratings where available. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken. The Group assesses wholesale counterparties using the same techniques as for its lending activities to clients.

Concentrations of credit risk arise when several 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.

Credit Risk management

The Group has a comprehensive Board approved framework for managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Group seeks to control credit risk by monitoring credit exposures, limiting concentration risks, 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 routinely monitored. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

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, businesses, or economic sectors. Economic sector risk concentrations are provided in Note 7.

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between portfolios and allocates expected credit loss allowances. The Group determines each individual borrower's grade based on specific objective and subjective financial and business assessment criteria covering debt service, profitability, liquidity, capital structure, industry, management quality, and company standing. The Group conducts a quality classification exercises over all its existing borrowers and the results of this exercise are validated by the independent risk management unit established for that purpose. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products, external economic environment, emerging best practices, and regulatory guidance. Information on the credit quality for loans and advances is provided in Note 7.

33. Credit and financial risk management – continued

The Group, in the ordinary course of lending activities, also takes collateral as security to mitigate credit risk on loans and advances. The collateral includes primarily time, demand, and other cash deposits, financial and contract guarantees, local and international equities, real estate, and other fixed assets. The collateral is held mainly against commercial and similar loans and is managed against relevant exposures at their net realisable value. Management monitors the market value of collateral, requests additional collateral in accordance with underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit losses. The Group also seeks additional collateral from counterparties when impairment indicators are observed. Information on collateral held is included in Note 7 and in this note.

The debt securities included in the investment portfolio are due mainly from corporates, banks, financial institutions, and sovereigns. An analysis of the Group's investments by type of counterparty and credit risk exposure is included in Note 6.

The Group's credit quality of Due from banks and other financial institutions is included in note 5.

The Group's credit risk relating to derivative financial instruments is included in Notes 11 and 29.

Information on the Group's financial guarantee contracts is included in Note 19.

The Group's credit exposure by business segment is included in Note 29.

The Group's distribution of geographic concentration and Stage 3 exposures is provided in Note 30.

The Group's total credit risk exposure and their relative risk weights is included in Note 36.

Credit analysis of investments held at FVTPL
The Group's investments held at FVTPL are comprised Mutual fund investments and other securities which are unquoted and unrated.

Credit risk grades

The Group allocates exposures 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 judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of a 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 non-consumer exposure is allocated 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 of exposures involves the use of the following data.

33. Credit and financial risk management – continued

Non-Consumer exposures	Consumer exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited Financial Statements, management accounts, and budgets and projections. Examples of areas of particular focus include: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. • Data from credit reference agencies, press articles, and changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data and customer behaviour – e.g. utilisation of credit card facilities • External data from credit reference agencies including industry-standard credit scores • Affordability metrics	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilisation of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

Generating the term structure for the Probability of Default (PD)

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures and analyses the information by type of product and borrower as well as by credit risk grading. For some portfolios, information sourced from external credit reference agencies is also used.

The Group employs models developed based on the analysis of the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time due to the impact of macroeconomic factors. This analysis includes the identification and calibration of relationships between changes in default rates and macroeconomic factors. For most exposures, key macroeconomic indicators include GDP growth and oil prices.

Based on consideration of a variety of external actual and forecasted information, the Group formulates a base case view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts to adjust its estimates of PD term structures.

Determining whether credit risk has increased significantly

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and credit assessments, and including forward-looking information.

The criteria for determining whether credit risk has increased significantly varies by portfolio and includes quantitative as well as qualitative factors, including a backstop based on delinquency. One of the key quantitative indicators used by the Group is the relative downgrade of the internal rating of a borrower since origination and thereby the consequent change in the PD.

33. Credit and financial risk management – continued

Using credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and for which effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. The qualitative indicators include specific high risk rating grades, cross facility defaults and forbearance.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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 the expected credit loss allowance resulting from transfers between 12-month PD (Stage 1) and lifetime PD (Stages 2 or 3).

The Group uses three main components to measure ECL, which are Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). The Group has leveraged existing regulatory practices to develop the methodology for model inputs and are adjusted where necessary to comply with IFRS 9 requirements.

The Financial Assets reflecting a Significant Increase in Credit Risk are classified in Stage 2 and the Group recognises loss allowances at an amount equal to lifetime expected credit losses, reflecting a lifetime expected PD that represents the probability of default over the remaining life of the financial asset. The allowances for Stage 2 are higher than for Stage 1, reflecting the impact of a longer time horison compared to a 12-month horison used for the allowance in Stage 1.

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 to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days.

Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default the Group considers indicators that are:

- qualitative, e.g. breaches of covenants;
- quantitative, e.g. overdue status and non-payment of another obligation of the same borrower; and
- based on data developed internally and obtained from external sources.

33. Credit and financial risk management – continued

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. IFRS 9 does not define the term "default", but instead requires each entity to do so. In this regard, the Group ensures that it is in alignment with the SAMA definition of default and also that it follows a common definition for regulatory and financial reporting.

The Group recognises a loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100% and recoverable cash flows on the asset, for those financial assets that are credit impaired which are then classified under Stage 3.

Modified financial assets

The contractual terms of a loan 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 credit of the customer. An existing loan for which the terms have been modified may be derecognized and the renegotiated loan is recognized as a new loan at fair value in accordance with the Group's policies.

The Group may also renegotiate loans to customers in financial difficulty (referred to as forbearance activities) to maximise collection opportunities and minimise the risk of default. Loan forbearance is granted on a selective basis:

- if there is a high risk of default; or
- if 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 can include extending the maturity, changing the timing of commission and/or principal payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect special commission and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk. A customer needs to demonstrate consistently good payment behavior over a period of time before the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to a 12-month ECL. The Group considers a period of 12 months as a curing period to move assets from loss allowance measurement at Lifetime ECL to a 12-month ECL.

Incorporation of forward looking information

Based on a consideration of a variety of external actual and forecasted information, the Group 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 and selected private sector forecasters.

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

33. Credit and financial risk management – continued

The Group identifies 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 macroeconomic variables and credit risk and other credit losses.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data from 2013 to 2018. During 2018, no changes have occurred in underlying assumptions and the defined economic variables. Moreover, a sensitivity analysis has been conducted on the macroeconomic scenarios including GDP and oil prices in order to assess the potential change in ECL. The more optimistic sensitivity scenario would reduce ECL by 4 basis points, while the more pessimistic scenario would increase the ECL by 5 basis points.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

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

These parameters are generally derived from internally developed models and external benchmarks. They are adjusted to reflect forward-looking information as described above.

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

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties as well as external benchmarks. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry, and the net recovery amount of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Group 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 Group 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, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

33. Credit and financial risk management – continued

For retail overdrafts and other facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period which may be longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect. This contractual right may not be enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These can include a reduction in limits, or cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include the instrument type, credit risk rating, time to maturity, collateral type, industry; and geographic location of the borrower. Regular reviews are also conducted to ensure that exposures within a particular portfolio remain appropriately homogeneous.

	PD	LGD
Due from banks	Moody's default study	SAMA LGD Estimates
Investments	Moody's default study	SAMA LGD Estimates

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime PD at the reporting date with the remaining lifetime PD for the point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

34. Fair values of financial assets and liabilities

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. Fair value measurement is based on the presumption that the transaction takes place either in the accessible principal market for the asset or liability, or in the absence of a principal market, in the most advantageous accessible principal market for the asset or liability. The Group uses the hierarchy disclosed in Note 2 d2 for determining and disclosing the fair value of financial instruments.

The following table shows an analysis of financial assets and liabilities recorded at fair value as of December 31, 2018 and 2017 by level of the fair value hierarchy.

	2018 SAR '000			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	–	827,252	417,991	1,245,243
Investments at FVOCI	16,824,303	7,166,960	472,582	24,463,845
Investments at FVTPL	131,625	–	42,643	174,268
Total	**16,955,928**	**7,994,212**	**933,216**	**25,883,356**
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	–	500,704	–	500,704
Total	**–**	**500,704**	**–**	**500,704**

34. Fair values of financial assets and liabilities – continued

	2017 SAR '000			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments	–	233,749	435,421	669,170
Available-for-sale financial investments	13,821,026	7,379,684	513,266	21,713,976
Total	13,821,026	7,613,433	948,687	22,383,146
Financial liabilities carried at fair value:				
Derivative financial instruments	–	116,655	–	116,655
Total	–	116,655	–	116,655

The value obtained from any relevant valuation model may differ with a transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as "day one profit and loss". It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated statement of income without reversal of deferred day one profits and losses.

The total amount of the changes in fair value recognized in the income statement for the year ended December 31, 2018 which was estimated using valuation models, is a loss of SAR 17.3 million (2017: a loss of SAR 0.7 million).

Level 2 investments include debt securities which are comprised of Saudi corporate and bank securities, and Saudi Arabian Government securities. These securities are generally unquoted. In the absence of a quoted price in an active market, these securities are valued using observable inputs such as yield information for similar instruments or last executed transaction prices in securities of the same issuer or based on indicative market quotes. Adjustments are also considered as part of the valuations when necessary to account for the different features of the instruments including difference in tenors. Because the significant inputs for these investments are observable, the Bank categorises these investments within Level 2.

Level 2 derivative financial instruments include various derivatives contracts including forward foreign exchange contracts, foreign exchange options, and commission rate swaps. These derivatives are valued using widely recognized valuation models. The most frequently applied valuation techniques include the use of forward pricing standard models using present value calculations and well recognized Black-Scholes option pricing models. These models incorporate various market observable inputs including foreign exchange rates, forward rates, and yield curves, and are therefore included within Level 2.

Level 3 investments include Gulf Cooperation Council Government securities, and also investments in hedge funds, private equity funds, and asset backed securities. These securities are generally not quoted in an active market, and therefore are valued using indicative market quotes from an issuer/counterparty or valued at cost in the absence of any such alternative reliable indicative estimate.

Level 3 derivative financial instruments include the embedded derivative put option arising from an existing master agreement entered into by the Bank relating to its investment in an associated company (see note 11). For purposes of determining the fair value of the put option, the Bank uses a well recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. These other inputs may require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

34. Fair values of financial assets and liabilities – continued

Should the significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 97.7 million (2017: SAR 141.2 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 44.6 million (2017: SAR 53.9 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and could increase or decrease by approximately SAR 27.5 million (2017: SAR 30.5 million) due to estimating the fair value of the underlying investment.

In all respects, the Bank's significant estimates are based on experience and judgement relevant to each input, and in all cases, due care is taken to ensure that the inputs are conservative to ensure that the estimation of fair value is reasonable in the circumstances. However, any amounts which may be realized in the future may differ from the Bank's estimates of fair value.

The following table summarizes the movement of the Level 3 fair values for the years ended December 31, 2018 and 2017:

	2018 SAR '000	2017 SAR '000
Fair values at the beginning of the year	**948,687**	964,470
Net change in fair value	**(11,811)**	896
Investments purchased	**–**	920
Investments sold	**(3,660)**	(17,599)
Fair values at the end of the year	**933,216**	948,687

There were no transfers from either level 1 or level 2 to either level 2 or level 3 during the years ended December 31, 2018 and 2017.

The following table summarizes the estimated fair values of financial assets and financial liabilities as of December 31, 2018 and 2017 that are not carried at fair value in the Consolidated Financial Statements, along with the comparative carrying amounts for each.

December 31, 2018	Carrying values SAR '000	Estimated fair values SAR '000
Financial assets:		
Due from banks and other financial institutions	**2,917,697**	**2,917,697**
Loans and advances, net	**59,412,529**	**60,622,336**
Total	**62,330,226**	**63,540,033**
Financial liabilities:		
Due to banks and other financial institutions	**12,620,832**	**12,620,832**
Customers deposits	**63,689,869**	**62,332,038**
Term loans	**2,030,371**	**2,030,371**
Subordinated debt	**2,005,661**	**2,005,661**
Total	**80,346,733**	**78,988,902**

34. Fair values of financial assets and liabilities – continued

December 31, 2017	Carrying values SAR '000	Estimated fair values SAR '000
Financial assets:		
Due from banks and other financial institutions	3,513,073	3,513,073
Loans and advances, net	59,588,284	61,454,199
Total	63,101,357	64,967,272
Financial liabilities:		
Due to banks and other financial institutions	7,609,686	7,609,686
Customers deposits	66,942,620	65,964,590
Term loans	2,014,823	2,014,823
Subordinated debt	2,003,068	2,003,068
Total	78,570,197	77,592,167

The estimated fair values of loans and advances, net are calculated using market based discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual loan portfolio. The estimated fair values of customers' deposits are calculated using market based discounted cash flow models of individual deposit classes using the weighted average estimated maturities of each individual deposit class. These fair value estimates are considered as level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the Consolidated Financial Statements at fair value are not significantly different from the carrying values. The fair values of term loans, subordinated debt, and due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the Consolidated Financial Statements, since the current market special commission rates for similar financial instruments are not significantly different from the contractual rates, and because of the short duration of due from and due to banks.

35. Related party transactions

In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA such as rules on large exposures of banks. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia which specifies the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's Related Party Identification and Disclosure of Transactions Policy complies with the Guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These Guidelines include the following definitions of Related Parties:

- Management of the Bank and/or members of their immediate family;
- Principal shareholders of the Bank and/or members of their immediate family;
- Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

35. Related party transactions – continued

The Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, and members of the Bank management that require a no objection approval from SAMA.

Immediate family members include parents, spouses, and offspring and whom either a principal shareholder or a member of the management might control or influence or by whom they might be controlled or influenced because of the family relationship.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

(a) The balances as of December 31, 2018 and 2017, resulting from such transactions included in the Consolidated Financial Statements are as follows:

	2018 SAR '000	2017 SAR '000
Management of the Bank and/or members of their immediate family:		
Loans and advances	97,154	88,334
Customer deposits	401,349	227,848
Tier 1 Sukuk	2,000	2,000
Commitments and contingencies	6,067	1,880
Principal shareholders of the Bank and/or members of their immediate family:		
Due from banks and other financial institutions	–	12,241
Loans and advances	–	126,214
Customer deposits	5,965,847	10,416,049
Subordinated debt	700,000	700,000
Commitments and contingencies	–	372,991
Treasury shares	787,536	–
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:		
Loans and advances	654,756	596,117
Customer deposits	1,485,375	104,094
Commitments and contingencies	101,458	106,317
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:		
Customer deposits and other liabilities	62,093	152,572

35. Related party transactions – continued

(b) Income and expense pertaining to transactions with related parties included in the Consolidated Financial Statements for the years ended December 31, 2018 and 2017 are as follows:

	2018 SAR '000	2017 SAR '000
Management of the Bank and/or members of their immediate family:		
Special commission income	3,655	3,093
Special commission expense	96	34
Fee income from banking services	45	20
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission income	–	42,671
Special commission expense	27,914	27,039
Fee income from banking services	2	4,219
Rent and premises-related expenses (Building rental)	7,758	7,758
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:		
Special commission income	29,743	8,736
Special commission expense	1,304	9
Fee income from banking services	4,436	5,607
Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank:		
Board of Directors and other Board Committee member remuneration	7,051	5,414

The total amount of compensation charged or paid to management personnel during the year is included in Note 24.

36. 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 by the Group's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the requirement of 9.875%.

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

36. Capital adequacy – continued

The following table summarizes the Bank's Pillar I Risk-Weighted Assets (RWA), Tier I and Tier II Capital, and Capital Adequacy Ratio percentage as of December 31, 2018 and 2017.

	2018 SAR '000	2017 SAR '000
Credit Risk RWA	**79,561,316**	75,882,891
Operational Risk RWA	**4,794,695**	4,605,140
Market Risk RWA	**2,062,510**	1,897,923
Total Pillar I RWA	**86,418,521**	82,385,954
Tier I Capital	**14,078,426**	14,260,772
Tier II Capital	**2,649,509**	2,526,993
Total Tier I & II Capital	**16,727,935**	16,787,765
Capital Adequacy Ratio %		
Tier I Ratio	**16.29%**	17.31%
Tier I + Tier II Ratio	**19.36%**	20.38%

As of December 31, 2018 and 2017, the Tier I and Tier II capital is comprised of following:

	2018 SAR '000	2017 SAR '000
Total Equity	**13,438,676**	14,279,067
IFRS 9 transitional adjustment	**658,045**	–
Goodwill adjustment	**(18,295)**	(18,295)
Tier I Capital	**14,078,426**	14,260,772
Tier II Subordinated debt	**2,000,000**	2,000,000
Qualifying general provisions, net	**649,509**	526,993
Tier II Capital	**2,649,509**	2,526,993
Total Tier I & II Capital	**16,727,935**	16,787,765

As of December 31, 2018 and 2017, the RWA, Tier I and Tier II capital, and capital adequacy ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III.

The following additional disclosures are required under the Basel III framework.

- Pillar III, Qualitative disclosures (Annually)
- Pillar III, Quantitative disclosures (Annually/Semi-annually)
- Capital Structure (Quarterly)
- Liquidity Coverage Ratio (Quarterly)
- Leverage Ratio (Quarterly)

These disclosures are made available to the public on the Bank's website within the prescribed time frames as required by SAMA.

37. Asset management and brokerage services

The Group offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totalling SAR 15,228 million (2017: SAR 6,816 million). This includes funds managed under Shariah approved portfolios amounting to SAR 1,462 million (2017: SAR 2,150 million).

38. Employee stock option shares and employee end of service benefits

(a) The Group managed an Employee Stock Grant Plan during 2018 and 2017. Significant features of the Plan are as follows: Grant dates: January 1, 2014 and 2016

- Maturity dates: Between 2017 and 2018
- Vesting period: 4 years per plan
- Vesting conditions: Participating employees to remain in service
- Method of settlement: Shares
- Cost to participating employees: SAR 3.99 to SAR 4.24 per share.

The stock option shares outstanding as of December 31, 2017 had a weighted average contractual life of two years. The stock option shares are granted only under a service condition with no market linked condition. There were no stock options shares outstanding as of December 31, 2018.

The following table summarizes the movement in the number of stock option shares for the years ended December 31, 2018 and 2017.

	2018	2017
Stock option shares at the beginning of the year	**1,836,716**	3,749,248
Shares vested during the year	**(1,736,178)**	(1,592,318)
Withdrawals during the year	**(100,538)**	(320,214)
Stock option shares at the end of the year	**–**	1,836,716

In 2018, The Group vested 50% of the shares granted in January 2014, and 75% of the shares granted in January 2016 equivalent to 1,736,178 shares with an estimated cost of SAR 24.5 million.

In 2017, the Group vested 50% of the shares granted in January 2013, 25% of the shares granted in January 2014, and 25% of the shares granted in January 2016, equivalent to 1,592,318 shares, for a total estimated cost of SAR 21.6 million.

The Group also managed an Employee Contributory Share Option Plan during 2018 and 2017. The following table summarizes the movement in the number of subscribed shares for the years ended December 31, 2018 and 2017.

	2018	2017
Subscribed shares at the beginning of the year	**3,731,175**	4,210,139
Shares vested during the year	**(3,495,032)**	–
Withdrawals during the year	**(236,143)**	(478,964)
Stock option shares at the end of the year	**–**	3,731,175

38. Employee stock option shares and employee end of service benefits – continued

In connection with the Group's Employee Stock Grant Plan and Employee Contributory Share Option Plan, the Group purchases and sells shares as required for the respective share vesting and subscription requirements. The following table summarizes the movement in the cost of the shares acquired/sold by the Group net of the share based provision movement for the years ended December 31, 2018 and 2017.

	Cost of shares SAR '000	Share based provisions SAR '000	Total SAR '000
Balances as of December 31, 2016	(98,690)	35,806	(62,884)
Shares acquired	(17,574)	–	(17,574)
Share based provisions	–	9,948	9,948
Share based vesting/granting movement, net	33,818	(21,577)	12,241
Balances as of December 31, 2017	(82,446)	24,177	(58,269)
Shares sold	16,651	–	16,651
Share based provisions	–	5,400	5,400
Share based vesting/granting movement, net	65,795	(29,577)	36,218
Balances as of December 31, 2018	–	–	–

(b) The Group operates end of service benefit plans for its employees based on prevailing Saudi Labour laws. Accruals are made in accordance with actuarial valuations using a projected unit credit method while the benefit payments are discharged as and when the benefit payments are due.

The actuarial obligation amounts recognized in the consolidated statement of financial position which is included in other liabilities and the corresponding movement during the years ended December 31, 2018 and 2017 is as follows:

	2018 SAR '000	2017 SAR '000
Actuarial obligation at the beginning of the year	**186,272**	171,291
Current and prior period service cost	**26,726**	32,316
Benefits paid	**(20,681)**	(20,528)
Effect of changes in actuarial assumptions	**(27,197)**	3,193
Actuarial obligation at the end of the year	**165,120**	186,272

The current and prior period service cost amounts above primarily include costs for employees' current period service plus prior year service costs adjusted for any current year salary increments.

The effect of changes in actuarial assumptions for the year ended December 31, 2018 is primarily related to the usage of a yield curve for the discount factor and the usage of the Group's empirical data for exit rates. The effect of changes in actuarial assumptions for the year ended December 31, 2017 is primarily related to improvement in actuarial assumptions including the discount factor.

The principal actuarial assumptions used in the calculation of the actuarial obligations as of December 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate	**5.05%**	8.42%
Expected rate of salary increment	**2.34%**	3.00%
Normal retirement age	**60**	60

Should the above actuarial assumptions change in the future, the actuarial obligation could be higher or lower than the December 31, 2018 amount.

38. Employee stock option shares and employee end of service benefits – continued

The table below illustrates the sensitivity of the actuarially determined obligation as of December 31, 2018 and 2017 to the discount rate of 5.05% as of December 31, 2018 (2017: 8.42%), and the salary increment rate of 2.34% as of December 31, 2018 (2017: 3.00%).

	2018			2017		
	Impact on actuarially determined obligation increase (decrease)			Impact on actuarially determined obligation increase (decrease)		
	Change in assumption	**Increase in assumption SAR'000**	**Decrease in assumption SAR'000**	Change in assumption	Increase in assumption SAR'000	Decrease in assumption SAR'000
Discount rate	**10%**	**(5,613)**	**6,009**	10%	(5,606)	7,510
Salary increment rate	**10%**	**2,629**	**(2,537)**	10%	2,833	(1,761)

The above sensitivity analysis is based on a change in a single assumption holding other assumptions constant.

The approximate expected maturity analysis of the undiscounted actuarially determined obligation as of December 31, 2018 and 2017 is as follows:

	2018	2017
Less than one year	**32,151**	15,696
One to two years	**14,547**	12,973
Two to five years	**51,543**	27,940
Over five years	**138,624**	198,427
Total	**236,865**	255,036

The weighted average duration of the actuarially determined obligation is approximately 9.53 years (2017: 20.67 years).

39. Tier I Sukuk

The Bank completed the establishment of a Shari'a compliant Tier I Sukuk Program (the Program) in 2016. The Program was approved by the regulatory authorities and the Bank's shareholders. The Bank has issued the following Tier I Sukuk securities under the program on the dates indicated. The balances as of December 31, 2018 and 2017 is summarised as follows:

	2018	2017
November 16, 2016	**500,000**	500,000
June 6, 2017	**285,000**	285,000
March 21, 2018	**1,000,000**	–
Total	**1,785,000**	785,000

The Tier I Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Bank classified under equity. However, the Bank has the exclusive right to redeem or call the Tier I Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the program.

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

40. Treasury Shares

On June 14, 2018, the Bank entered into a Share Purchase Agreement with J.P. Morgan International Finance Limited (J.P. Morgan), to purchase 56,245,350 shares of the Bank owned by JP Morgan for SAR 13.50 per share equal to SAR 759.3 million.

The Bank subsequently received all required regulatory approvals and the agreement to purchase the shares was approved in an Extraordinary General Assembly meeting held on 16 Muharram 1440H, corresponding to September 26, 2018. On September 27, 2018, the Bank completed the purchase. The Treasury Shares include transaction costs and estimated income tax for a total cost of SAR 787.5 million. The share capital of the Bank has not been reduced as a result of the transaction with the cost of the shares purchased presented as a reduction of shareholders' equity.

On November 29, 2018 the Bank entered into a Share Purchase Agreement with Mizuho Bank Ltd. (Mizuho), to purchase 18,749,860 shares of the Bank owned by Mizuho for SAR 13.50 per share equal to SAR 253.1 million, exclusive of transaction costs and estimated Income Tax. The share capital of the Bank will not be reduced as a result of this Agreement. The Agreement is conditional on the finalisation of certain conditions included in the Agreement particularly ensuring all regulatory requirements are satisfied. The Agreement provides that the closing of the transaction shall take place by a date which the Bank and Mizuho will agree after receiving all required regulatory approvals.

41. Reclassifications

The Group has reclassified certain components of operating income in 2018 compared to what was previously reported in 2017. Accordingly, the previously reported amounts in 2017 have been reclassified to conform to the current year presentation as follows:

- Loan fee amortization which had previously been included in fees from banking services is now included in special commission income. The change is being made to reflect loan fee amortization as a yield adjustment to special commission income on loans and advances. This change increases the previously reported special commission income and reduces the fee income from banking services.
- Special commission expense on commission rate swaps had previously been included in special commission expense, and are now netted from the related special commission income on the commission rate swaps. The netting of special commission income and expense reflects the actual settlement of net payments on commission rate swaps according to the ISDA agreements the Bank uses with its counter parties. This change will not affect the previously reported net special commission income.

A summary of the effect on the individual components of operating income in 2017 for the above changes is summarised as follows:

	Previously reported SAR '000	Reclassifications SAR '000	Adjusted SAR '000
Special commission income	3,533,089	(162,865)	3,370,224
Special commission expense	1,491,029	(295,205)	1,195,824
Net special commission income	**2,042,060**	**132,340**	**2,174,400**
Fee income from banking services, net	412,157	(132,340)	279,817
Exchange income, net	136,772	–	136,772
Dividend income	19,749	–	19,749
Gains on investments, net	49,130	–	49,130
Other operating income, net	15	–	15
Total operating income	**2,659,883**	**–**	**2,659,883**

The Group has also presented Information Technology intangible assets, net as a separate line item in the 2018 Statement of Financial Position. In 2017, these amounts were included in Property, equipment and intangibles, net. Accordingly, the 2017 amounts have been reclassified to conform to the current period presentation.

All reclassifications made for the previously reported amounts in 2017 did not affect the previously reported net income or individual components of total equity.

42. Prospective changes in the International Financial Reporting Framework

The Group has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Group's accounting years beginning on January 1, 2019.

The following is a summary of the new IFRS and amendments to IFRS, effective beginning on January 1, 2019:

IFRS 16 – Leases

IFRS 16 is applicable for the year beginning on January 1, 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on balance sheet finance leases and off balance sheet operating leases. Instead, IFRS 16 requires an on balance sheet accounting model.

The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed for those lease contracts where the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases for certain equipment that are considered of low value.

The Bank has completed an impact assessment of IFRS 16. The impact on the statement of financial position as of January 1, 2019 is estimated to increase total assets by approximately SAR 241 million, and increase total liabilities by approximately SAR 265 million. The Bank's net income is not expected to be significantly affected with a change in commission expense and depreciation, and a change in rent expense. This is due to the change in the accounting for the expenses of leases that were previously classified as operating leases under IAS 17.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement and other Standards, amendments, or interpretations

The amendments to IAS 19 are applicable on January 1, 2019. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The effect of the amendments to IAS 19 are not expected to have a significant impact on the net income of the Bank.

For other Standards, amendments or interpretations effective for annual periods beginning on or after January 1, 2019, the Bank does not anticipate that these will have a significant impact on the Bank's Consolidated Financial Statements.

43. Board of Director's approval

The Consolidated Financial Statements were authorised for issue by the Board of Directors on 05 Jumada II, 1440H, corresponding to February 10, 2019.