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Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Riyad Bank (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Riyad Bank (the "Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics, as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter is provided in that context:

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Riyad Bank (A Saudi Joint Stock Company) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances	
At 31 December 2018, the gross loans and advances of the Group were Saudi Riyals 153.4 billion against which an impairment allowance of Saudi Riyals 2.4 billion was maintained. During the year, the Group adopted IFRS 9 which introduced forward looking expected credit loss (ECL) impairment model. On adoption, the Group applied the requirements of IFRS 9 retrospectively without restating the comparatives. The adoption of IFRS 9 resulted in a transition adjustment of Saudi Riyals 2.1 billion to the Group's shareholders' equity as at 1 January 2018 and the impact of transition are explained in note 3.1 to the consolidated financial statements. We considered impairment of loans and advances as a key audit matter as the determination of ECL involves signficant management judgement and has a material impact on the consolidated financial statements of the Group.The key areas of judgement include: - Categorisation of loans in Stages 1, 2 or 3 based on identification of (a) exposures with a significant increase in credit risk ("SICR") since their origination (b) individually impaired / default exposures - Assumptions used in the ECL model for determining probability of default (PD), loss given default (LGD) and exposure at default (EAD) including but not limited to assessment of financial condition of counterparty, expected future cash flows and forward looking macroeconomic factors. - The need to apply overlays to reflect current or future external factors that might not be captured by the expected credit loss model. - Disclosures relating from adoption of IFRS 9 and the related incremental disclosures of IFRS 7.	We obtained an understanding of management's assessment of the impairment of loans and advances including the IFRS 9 implementation process, the Group's internal rating model, the Group's impairment allowance policy and the ECL modelling methodology. We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9. We assessed the design and implementation, and tested the operating effectiveness of controls over: - the modelling process including governance over monitoring of the model and approval of key assumptions; - the classification of borrowers in various stages and timely identification of SICR and determination of default / individually impaired exposures; and - integrity of data input into the ECL model. We assessed the Group's criteria for the determination of significant increase in credit risk and identification of impaired / default exposures and their classification into various stages. For a sample of customers, we assessed: - the internal ratings determined by the management based on the Group's internal rating model and assessed these ratings were in line with the ratings used in the ECL model; - the staging as identified by management; and - management's computations for ECL. We assessed the underlying assumptions including forward looking assumptions used by the Group in the ECL calculations.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Riyad Bank (A Saudi Joint Stock Company) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances (continued) *Refer to the notes 3.1 and 3.2(e) and (f) to the consolidated financial statements for the impacts of adoption of IFRS 9 – Financial Instruments and significant accounting policies relating to impairment of financial assets and accounting for financial guarantees and loan commitments, note 2 (d) (i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the impairment losses on financial assets and the impairment assessment methodology used by the Group, note 8 which contains the disclosure of impairment against loans and advances and note 30.3 for details of credit quality analysis and key assumptions and factors considered in determination of ECL .*	Where management overlays were used, we assessed those overlays and the governance process around such overlays. We tested the completeness of data underlying the ECL calculation as of 31 December 2018. Where relevant, we involved specialists to assist us in review of model calculations and data integrity. As the Goup has used the modified restrospective approach for the adoption of IFRS 9, we performed all the above mentioned tasks to evaluate management's computation of ECL adjustment to the Group's shareholders' equity as at 1 January 2018 (as a result of adoption of IFRS 9). We assessed the disclosures included in the consolidated financial statements.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of Riyad Bank (A Saudi Joint Stock Company) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Fees from banking services The Group charges administrative fees upfront to borrowers on loan financing. All such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, all such fees should be considered in making an adjustment to the effective yield and income should be recognised using that adjusted effective yield and classified as special commission income. However, due to the large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and threshold in relation to the recognition of such fees and classifies them within "Fee and commission income, net". We considered this as a key audit matter since the use of management assumptions and threshold could result in material over / understatement of the Group's profitability. *Refer to the notes 3.2 (g) and 3.3 (d) to the consolidated financial statements related to accounting policies for special commisssion income and note 2 (d) (v) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the fee income.*	We performed the following procedures: We evaluated the assumptions and judgments used by management for recognizing the administrative fees charged upfront to borrowers. We obtained the management's assessment of the impact of the use of assumptions and threshold and performed the following: - on a sample basis, traced the historical and current year data used by management in their assessment to the underlying accounting records; and - assessed the impact on the recognition of fee and commission income and special commission income.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Riyad Bank (A Saudi Joint Stock Company) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information included in the Bank's 2018 Annual Report
The Board of Directors of the Bank (the "Directors") are responsible for the other information. The other information consists of the information included in the Bank's 2018 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of The Directors and Those Charged with Governance for the Consolidated Financial Statements
The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the Companies' Law, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Riyad Bank (A Saudi Joint Stock Company) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)
As part of an audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of Riyad Bank (A Saudi Joint Stock Company) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank is not in compliance, in all material respects, with the applicable requirements of the Companies' Law, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements

Ernst & Young & Co.
Certified Public Accountants
P O Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Fahad M. Al Toaimi
Certified Public Accountant
License No. 354

PricewaterhouseCoopers
Certified Public Accountants
P O Box 8282
Riyadh 11482
Kingdom of Saudi Arabia

Bader I. Benmohareb
Certified Public Accountant
License No. 471

2 Jumada Al-Akhirah 1440H
(7 February 2019)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2018 and 2017

	Note	2018 SAR'000	2017 SAR'000
ASSETS			
Cash and balances with SAMA	4	16,323,172	18,504,255
Due from banks and other financial institutions	5	11,029,176	9,372,200
Positive fair value of derivatives	6	286,625	115,890
Investments, net	7	47,992,772	46,369,903
Loans and advances, net	8	151,024,830	138,837,618
Investment in associates	9	595,493	564,769
Other real estate		227,405	235,119
Property and equipment, net	10	1,699,462	1,752,408
Other assets	11	720,641	530,009
Total assets		229,899,576	216,282,171
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	8,580,514	7,056,168
Negative fair value of derivatives	6	274,270	77,923
Customer deposits	13	169,822,156	154,365,549
Debt securities in issue	14	4,003,783	8,016,639
Other liabilities	15	10,444,637	8,142,899
Total liabilities		193,125,360	177,659,178
Shareholders' equity			
Share capital	16	30,000,000	30,000,000
Statutory reserve	17	5,101,613	3,922,592
Other reserves	18	58,047	686,865
Retained earnings		414,556	2,873,536
Proposed dividends	26	1,200,000	1,140,000
Total shareholders' equity		36,774,216	38,622,993
Total liabilities and shareholders' equity		229,899,576	216,282,171

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31, 2018 and 2017

	Note	2018 SAR'000	2017 SAR'000
Special commission income	20	8,332,365	7,425,107
Special commission expense	20	1,646,601	1,490,030
Net special commission income		6,685,764	5,935,077
Total fee and commission income	21	2,411,911	2,156,643
Total fee and commission expense	21	700,859	646,329
Fee and commission income, net		1,711,052	1,510,314
Exchange income, net		337,043	290,207
Trading income, net		2,717	21,815
Dividend income		57,533	50,786
Gains on disposal of non-trading investments, net	22	130,385	283,137
Other operating income	23	42,907	33,875
Total operating income, net		8,967,401	8,125,211
Salaries and employee-related expenses	24	1,765,185	1,572,514
Rent and premises-related expenses		327,607	320,498
Depreciation of property and equipment	10	296,901	282,180
Other general and administrative expenses		926,271	775,812
Impairment charge for credit losses and other provisions, net	8 (e)	927,840	1,227,488
Impairment charge for investments, net		26,870	-
Other operating expenses		31,392	23,833
Total operating expenses, net		4,302,066	4,202,325
Net operating income		4,665,335	3,922,886
Share in earnings of associates, net		50,750	23,110
Net income for the year		4,716,085	3,945,996
Basic and diluted earnings per share (in SAR)	25	1.57	1.32

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

	2018 SAR'000	2017 SAR'000
Net income for the year	4,716,085	3,945,996
Other comprehensive income (OCI):		
a) Items that will be reclassified to consolidated statement of income in subsequent periods		
- Fair value through other comprehensive income (FVOCI- debt instruments)		
- Net change in fair value	(579,105)	-
- Net amounts transferred to consolidated statement of income	(109,563)	-
- Net changes in allowance for expected credit losses of debt instruments	19,801	-
- Available for sale investments		
- Net change in fair value	-	422,221
- Net amounts transferred to consolidated statement of income upon disposal	-	(268,285)
b) Items that cannot be reclassified to consolidated statement of income in subsequent periods		
- Actuarial gains/ (losses) on defined benefit plans(note 27 b)	1,581	-
- Net change in fair value of equity instruments at fair value through other comprehensive income (FVOCI- equity instruments)	101,200	-
Other comprehensive income for the year	(566,086)	153,936
Total comprehensive income for the year	4,149,999	4,099,932

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2018 and 2017

SAR'000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
December 31, 2018						
Balance at the beginning of the year	30,000,000	3,922,592	686,865	2,873,536	1,140,000	38,622,993
Impact of adopting IFRS 9 at January 1, 2018 (Note 3.1(d))	-	-	(116,478)	(2,008,490)	-	(2,124,968)
Restated balance at the beginning of the year	30,000,000	3,922,592	570,387	865,046	1,140,000	36,498,025
Total comprehensive income						
Net changes in fair values of						
- FVOCI -equity instruments	-	-	101,200	-	-	101,200
- FVOCI -debt instruments	-	-	(579,105)	-	-	(579,105)
Net amount reclassified to the consolidated				-	-	-
statement of income for FVOCI -debt instruments	-	-	(109,563)	-	-	(109,563)
Net changes in allowance for expected credit						
losses on FVOCI -debt instruments	-	-	19,801	-	-	19,801
Actuarial gains(Note 27 (b))	-	-	1,581	-	-	1,581
Net income for the year	-	-	-	4,716,085	-	4,716,085
Total comprehensive income	-	-	(566,086)	4,716,085	-	4,149,999
Disposal loss, net on FVOCI -equity instruments	-	-	53,746	(53,746)	-	-
Final dividends - 2017 (note 26)	-	-	-	-	(1,140,000)	(1,140,000)
Interim dividend - 2018 (note 26)	-	-	-	(1,110,000)	-	(1,110,000)
Zakat for the previous years (note 26)	-	-	-	(1,193,559)	-	(1,193,559)
Zakat for the current year (note 26)	-	-	-	(430,249)	-	(430,249)
Transfer to statutory reserve (note 17)	-	1,179,021	-	(1,179,021)	-	-
Final proposed dividend - 2018 (note 26)	-	-	-	(1,200,000)	1,200,000	-
Balance at the end of the year	30,000,000	5,101,613	58,047	414,556	1,200,000	36,774,216
December 31, 2017						
Balance at the beginning of the year	30,000,000	2,936,093	532,929	2,604,039	900,000	36,973,061
Total comprehensive income						
Net change in fair value of available for sale investments	-	-	422,221	-	-	422,221
Net amounts relating to available for sale investments transferred to consolidated statement of income upon disposal	-	-	(268,285)	-	-	(268,285)
Net income for the year	-	-	-	3,945,996	-	3,945,996
Total comprehensive income	-	-	153,936	3,945,996	-	4,099,932
Final dividends - 2016	-	-	-	-	(900,000)	(900,000)
Interim dividend - 2017(note 26)	-	-	-	(1,050,000)	-	(1,050,000)
Provision for zakat (note 26)	-	-	-	(500,000)	-	(500,000)
Transfer to statutory reserve (note 17)	-	986,499	-	(986,499)	-	-
Final proposed dividend - 2017 (note 26)	-	-	-	(1,140,000)	1,140,000	-
Balance at the end of the year	30,000,000	3,922,592	686,865	2,873,536	1,140,000	38,622,993

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2018 and 2017

	Note	2018 SAR'000	2017 SAR'000
OPERATING ACTIVITIES			
Net income for the year		4,716,085	3,945,996
Adjustments to reconcile net income for the year to net cash from operating activities:			
Accretion of discounts and amortisation of premium, net on non-FVIS instruments, net		(53,358)	(55,606)
Gains on non-trading investments, net		(130,385)	(283,137)
Gains on trading investments, net		178	(4,232)
Dividend income		(57,533)	(50,786)
Depreciation of property and equipment	10	296,901	282,180
Share in earnings of associates, net		(50,750)	(23,110)
Impairment charge for investments, net		26,870	-
Impairment charge for credit losses and other provisions, net		927,840	1,227,488
		5,675,848	5,038,793
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(648,599)	221,760
Due from banks and other financial institutions maturing after three months from date of acquisition		87,064	(2,200,000)
Positive fair value of derivatives		(170,735)	73,405
Fair value through income statement (FVIS)		865,853	(300,000)
Loans and advances, net		(14,551,201)	2,844,261
Other real estate		7,714	9,898
Other assets		(190,632)	347,657
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,524,346	(1,780,545)
Negative fair value of derivatives		196,347	(60,715)
Customer deposits		15,456,607	(2,317,989)
Other liabilities		691,051	706,409
Net cash from operating activities		8,943,663	2,582,934
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments not held as FVIS instruments		25,094,685	18,495,446
Purchase of investments not held as FVIS instruments		(27,966,717)	(18,855,071)
Purchase of property and equipment, net		(243,955)	(172,239)
Net cash used in investing activities		(3,115,987)	(531,864)
FINANCING ACTIVITIES			
Repayment of debt securities in issue		(4,000,000)	-
Dividend and zakat paid		(2,907,980)	(1,982,187)
Cash used in financing activities		(6,907,980)	(1,982,187)
Net (decrease) increase in cash and cash equivalents		(1,080,304)	68,883
Cash and cash equivalents at beginning of the year		16,151,643	16,082,760
Cash and cash equivalents at end of the year	28	15,071,339	16,151,643
Special commission received during the year		8,156,702	7,327,389
Special commission paid during the year		1,667,443	1,557,748
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated statement of income		(587,468)	153,936

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

1. GENERAL

Riyad Bank ("The Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to November 23, 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to November 18, 1957G) through its 340 branches (2017: 340 branches) in the Kingdom of Saudi Arabia, a branch in London-United Kingdom, an agency in Houston-United States, and a representative office in Singapore. The number of the Group's employees stood at 5,973 as at December 31, 2018 (2017: 6,332). The Bank's Head Office is located at the following address:

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

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

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

On December 24, 2018, the Board of Directors' passed resolution to enter into preliminary merger negotiations with the National Commercial Bank. If the deal materialises, it would be subject to necessary approvals of the relevant regulatory bodies in Saudi Arabia and the approval of the extraordinary general assembly of both Banks.

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 the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax; and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and by-laws of the Bank.

2. BASIS OF PREPARATION (continued)

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, FVIS and FVOCI investments. In addition, financial assets and liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

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

c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Group's functional currency. Except as indicated, financial information presented in SAR has been rounded off to the nearest thousand Saudi Arabian Riyals.

d) Critical accounting judgements, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires the management to use 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 Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i) Impairment losses on financial assets

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

The Group's ECL calculations 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 PDs to the individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk and so 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, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models (note 30.3 (b) (v)).

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgements, estimates and assumptions(continued)

ii) Fair value measurement

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

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

The principal or the most advantageous market must be accessible 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 economic best interest. A fair value measurement of a non-financial asset takes into account 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 are available to measure fair value, 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 the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognised at fair value 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 reporting period.

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgements, estimates and assumptions (continued)

iii) Determination of control over investees

Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investor's 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.

Special Purpose Entities (SPEs)

The Group is party to certain SPEs, primarily to facilitate Shariah compliant financing arrangements. The exposures to these entities are included in the Group's loans and advances portfolio.

iv) Defined benefit scheme

The Group operates an End of service benefit scheme for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit credit method in accordance with the periodic actuarial valuation. For details of assumptions and estimate please refer note 27.

v) Fee income

The Group charges administrative fee upfront on borrowers, on loan financing. Due to large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and judgments in relation to the recognition of such fee which are recorded within 'fee and commission income, net'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 the following new standards and other amendments to existing standards and a new interpretation mentioned below. Except for adoption of IFRS 9 these amendments and adoption had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods and disclosures pertaining to adoption of IFRS 9 are disclosed in note 3.1.

3.1 ADOPTION OF NEW STANDARDS

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

IFRS 15 Revenue from Contracts with Customers

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

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

The Group has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at January 1, 2018, in equity.

Impact of adoption of IFRS 15 is not material to the consolidated financial statements.

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 brings fundamental 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 ADOPTION OF NEW STANDARDS (continued)

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

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost (“AC”), fair value through other comprehensive income (“FVOCI”) and Fair value through income statement (“FVIS”). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. 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 respective section of significant accounting policies.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in income statement, 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 issuer is presented in OCI; and
- The remaining amount of change in the fair value is presented in consolidated statement of income.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see respective section of significant accounting policies.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model (“ECL”). IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVIS, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. 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. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the ECLs.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

<u>IFRS 7R</u>

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 January 1, 2018. Changes include transition disclosures as shown in note 3.1, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 30.3 b).

Explanation for movement from opening to closing ECL allowances are presented in notes 5 b), 7 d) and 8 b).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 ADOPTION OF NEW STANDARDS (continued)

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. Differences 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 at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

i) The determination of the business model within which a financial asset is held.

ii) The designation and revocation of previous designated financial assets and financial liabilities as measured at FVIS.

iii) The designation of certain investments in equity instruments not held for trading as FVOCI.

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

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

SAR in 000s	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
Financial assets				
Cash and balances with SAMA	Loans and receivables	Amortised Cost	18,504,255	18,501,026
Due from banks and other financial institutions	Loans and receivables	Amortised Cost	9,372,200	9,367,478
Positive fair value derivatives	FVIS	FVIS	115,890	115,890
Loans and advances, net	Loans and receivables	Amortised Cost	138,837,618	137,411,556
Investment securities –debt	Available for sale	FVOCI	12,224,295	12,224,295
Investment securities – debt	Available for sale	FVIS	884,900	884,900
Investment securities – debt	Amortised Cost	Amortised Cost	31,436,344	31,399,298
Investment securities – equity	Available for sale	FVOCI	1,520,604	1,520,604
Investment securities – equity	Held for Trading	FVIS	303,760	303,760
Other assets – receivables	Amortised Cost	Amortised Cost	530,009	530,009
			213,729,875	212,258,816
Financial liabilities				
Due to banks and other financial institutions	Amortised Cost	Amortised Cost	7,056,168	7,056,168
Negative fair value derivatives	FVIS	FVIS	77,923	77,923
Customer deposits	Amortised Cost	Amortised Cost	154,365,549	154,365,549
Debt securities in issue	Amortised Cost	Amortised Cost	8,016,639	8,016,639
Other liabilities	Amortised Cost	Amortised Cost	8,142,899	8,796,808
			177,659,178	178,313,087

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 ADOPTION OF NEW STANDARDS (continued)

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

SAR 000s	Note	IAS 39 carrying amount as at December 31, 2017	Re-classification	Re-measurement (ECL)	IFRS 9 carrying amount as at January 1, 2018
Financial assets					
Amortised cost					
Cash and balances with SAMA	4	18,504,255	-	(3,229)	18,501,026
Due from banks and other financial institutions	5	9,372,200	-	(4,722)	9,367,478
Loans and advances, net	8	138,837,618	-	(1,426,062)	137,411,556
Investment securities - debt, net	7	31,436,344	-	(37,046)	31,399,298
Other assets		530,009	-	-	530,009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 ADOPTION OF NEW STANDARDS (continued)

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

SAR 000s	IAS 39 carrying amount as at December 31, 2017	Reclassification	Re-measurement (ECL)	IFRS 9 carrying amount as at January 1, 2018
Financial assets				
Available for sale				
December 31, 2017	14,629,799	-	-	14,629,799
Transferred to:				
FVOCI – equity	-	(1,520,604)	-	(1,520,604)
FVOCI – debt	-	(12,224,295)	-	(12,224,295)
FVIS	-	(884,900)	-	(884,900)
January 1, 2018	14,629,799	(14,629,799)	-	-
FVOCI - equity				
December 31, 2017	-	-	-	-
From available for sale	-	1,520,604	-	1,520,604
January 1, 2018	-	1,520,604	-	1,520,604
FVOCI - debt				
December 31, 2017	-	-	-	-
From available for sale	-	12,224,295	-	12,224,295
January 1, 2018	-	12,224,295	-	12,224,295
FVIS				
Investment:				
December 31, 2017	303,760	-	-	303,760
From available for sale	-	884,900	-	884,900
January 1, 2018	303,760	884,900	-	1,188,660
Positive fair value of derivatives	115,890	-	-	115,890
January 1, 2018	115,890	-	-	115,890
Financial liabilities				
Amortised cost				
Due to banks and other financial institutions	7,056,168	-	-	7,056,168
Customers' deposits	154,365,549	-	-	154,365,549
Debt securities in issue	8,016,639	-	-	8,016,639
Other liabilities	8,142,899	-	653,909	8,796,808
Total amortised cost	177,581,255	-	653,909	178,235,164
FVIS				
Negative fair value of derivatives	77,923	-	-	77,923
January 1, 2018	77,923	-	-	77,923

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 ADOPTION OF NEW STANDARDS (continued)

c) There were no reclassifications of financial assets and financial liabilities into amortised cost under IFRS 9.

d) Impact on retained earnings and other reserves

The following table shows the effects of the reclassification and remeasurement of financial assets and financial liabilities from IAS 39 categories under IFRS 9.

	Retained	Other reserves
Closing balance under IAS 39 (December 31, 2017)	2,873,536	686,865
Reclassifications under IFRS 9*	171,761	(171,761)
Recognition of expected credit losses under IFRS 9	(2,180,251)	55,283
Opening balance under IFRS 9 (January 1, 2018)	865,046	570,387

* This comprise of reclassification of AFS instruments to FVIS

e) Reconciliation of impairment allowance

The reconciliation of closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at December 31, 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at January 1, 2018 is set out below.

	December 31, 2017 (IAS 39 / IAS 37)	Re-classification	Re-measurement	January 1, 2018 (IFRS 9)
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS-9)				
Cash and balances with SAMA	-	-	3,229	3,229
Due from banks and other financial institutions	-	-	4,722	4,722
Investments, net	-	-	37,046	37,046
Loans and advances, net	2,084,926	-	1,426,062	3,510,988
Total	2,084,926	-	1,471,059	3,555,985
Investment, net - FVOCI - debt (IFRS-9)	-	-	55,283	55,283
Loan commitments and financial guarantee contracts	-	-	653,909	653,909
Total	-	-	709,192	709,192

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 ADOPTION OF NEW STANDARDS (continued)

f) The following table provides carrying value of financial assets and financial liabilities in the statement of financial position as of December 31, 2018

	Mandatorily at FVIS	FVOCI – debt instruments	FVOCI – equity	Amortised cost	Total carrying amount
Financial assets					
Cash and balances with SAMA	-	-	-	16,323,172	16,323,172
Due from banks and other financial institutions	-	-	-	11,029,176	11,029,176
Positive fair value of derivatives	286,625	-	-	-	286,625
Investments, net	393,272	12,730,942	1,995,329	32,873,229	47,992,772
Loans and advances, net	-	-	-	151,024,830	151,024,830
Other assets	-	-	-	720,641	720,641
Total financial assets	679,897	12,730,942	1,995,329	211,971,048	227,377,216
Financial liabilities					
Due to banks and other financial institutions	-	-	-	8,580,514	8,580,514
Negative fair value of derivatives	274,270	-	-	-	274,270
Customer deposits	-	-	-	169,822,156	169,822,156
Debt securities in issue	-	-	-	4,003,783	4,003,783
Other liabilities	-	-	-	10,444,637	10,444,637
Total financial liabilities	274,270	-	-	192,851,090	193,125,360

The following table provides carrying value of financial assets and financial liabilities in the statement of financial position as of December 31, 2017

	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount
Financial assets					
Cash and balances with SAMA	-	-	-	18,504,255	18,504,255
Due from banks and other financial institutions	-	-	-	9,372,200	9,372,200
Positive fair value of derivatives	115,890	-	-	-	115,890
Investments, net	303,760	-	14,629,799	31,436,344	46,369,903
Loans and advances, net	-	138,837,618	-	-	138,837,618
Other assets	-	-	-	530,009	530,009
Total financial assets	419,650	138,837,618	14,629,799	59,842,808	213,729,875
Financial liabilities					
Due to banks and other financial institutions	-	-	-	7,056,168	7,056,168
Negative fair value of derivatives	77,923	-	-	-	77,923
Customers' deposits	-	-	-	154,365,549	154,365,549
Debt securities in issue	-	-	-	8,016,639	8,016,639
Other liabilities	-	-	-	8,142,899	8,142,899
Total financial liabilities	77,923	-	-	177,581,255	177,659,178

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018

a) Classification of financial assets

On initial recognition, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

i) Financial Asset at amortised cost (AC)

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

- 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 (SPPI test).

ii) Financial Asset at FVOCI

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

- 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 recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss.

Equity Instruments: 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 investment-by-investment basis. Equity instruments at FVOCI are not subject to an impairment assessment.

iii) Financial Asset at FVIS

Financial assets at FVIS comprise derivative instruments, quoted equity instruments held for trading and debt securities classified neither as AC nor FVOCI. In addition, on initial recognition, the Group may irrevocably designate a financial asset as FVIS, that otherwise meets the requirements to be measured at amortised cost or at FVOCI, 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 if the Group changes its business model for managing financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 (continued)

a) Classification of financial assets (continued)

The details of business model assessment and SPPI test are explained below.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. 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 realizing 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 realised 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 are held for trading and whose performance is evaluated on a fair value basis are measured at FVIS because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 - continued

b) Classification of financial liabilities

All money market deposits, customer deposits, term loans, subordinated debts and other debt securities in issue are initially recognised at fair value less transaction costs. Financial liabilities at FVIS are recognised initially at fair value and transaction costs are taken directly to the statement of income. Subsequently all commission-bearing financial liabilities other than those held at FVIS or where fair values have been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

c) Derecognition

i) - Financial assets

The Group derecognizes 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.

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 Group is recognized as a separate asset or liability.

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 recognize 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.

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

ii) -Financial liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 (continued)

d) Modifications of financial assets and financial liabilities

i) Financial assets

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 with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortised 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 recognizes 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.

ii) Financial liabilities

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

e) Impairment

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

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Group 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 (continued)

e) Impairment - (continued)

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 lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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 Group 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 Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

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

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

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost 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:

- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise ;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; 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 loan that is overdue for 90 days or more is considered impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 (continued)

e) Impairment - (continued)

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 (continued)

f) 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 unamortised amount and the amount of loss allowance; and
- before January 1, 2018: at the higher of this unamortised 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 FVIS. For other loan commitments:

- from January 1, 2018: the Group recognizes loss allowance based on the ECL requirement.
- before January 1, 2018: the Group recognizes a provision in accordance with IAS 37 if the contract was considered to be onerous.

g) Revenue / expenses recognition

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 exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortised 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 financial liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 POLICIES APPLICABLE FROM JANUARY 1, 2018 (continued)

g) Revenue / expenses recognition - continued

Measurement of amortized cost and special commission income

The 'amortised 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 amortised 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 amortised cost of the liability.

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 amortised 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 amortised 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.

h) Rendering of services

The Group provides various services to its customer. 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.

i) Customer Loyalty Program

The Group offers customer loyalty program (reward points herein referred to as ”Hassad points”), which allows its customers to earn points that can be redeemed for certain partner outlets. The Group allocates a portion of transaction price (interchange fee) to the Hassad points awarded to its customers, based on the relative standalone selling price. The amount of revenue allocated to Hassad points is deferred and released to the consolidated statement of income when reward points are redeemed. The cumulative amount of contract liability related to unredeemed Hassad points is adjusted over time based on actual experience and current trends with respect to redemption.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 POLICIES APPLICABLE BEFORE ADOPTION OF IFRS 9

a) Investments

All investment securities are initially recognised at fair value, including incremental direct transaction cost except for investments held as Fair Value through Income Statement (FVIS), where incremental direct transaction cost are charged to consolidated statement of income, and are subsequently accounted for depending on their classification as either held to maturity, FVIS, Available for sale or other investments held at amortised cost. Premiums are amortised 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 fair values.

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 if possible. 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 recognition, subsequent transfers between the various classes of investments are not ordinarily permissible except in accordance with IAS 39. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs:

i) Held as FVIS

Investments in this category are classified at initial recognition as either investment held for trading or those upon initial recognition designated as FVIS. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the period in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments and are instead charged to the consolidated statement of income. Special commission income and dividend income on investment securities held as FVIS are reflected as trading income.

ii) Available for sale

Available for sale investments are non-derivative financial instruments and include equity and debt securities that are either designated as Available for sale or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through income statement. Available for sale investments are those equity and debt securities intended to be held for an unspecified period of time, which may be sold in response to need for liquidity or changes in special commission rates, exchange rates or equity prices. Investments, which are classified as “Available for sale”, are subsequently measured at fair value. For an available for sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in other comprehensive income, except for impairment, which is recognised in the consolidated statement of income. On derecognition, any cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated statement of income.

iii) Other investments held at amortised cost

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 POLICIES APPLICABLE BEFORE ADOPTION OF IFRS 9 (continued)

a) Investments (continued)

iv) Held to maturity

Investments having fixed or determinable payments and fixed maturity and 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 recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less allowance for impairment in their value. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised 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 is recognised in the consolidated statement of income when the investment is derecognised 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.

b) 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 recognised when cash is advanced to borrowers.

All loans and advances are initially measured at fair value, including directly attributable transaction costs associated with the loans and advances. Loans and advances originated or acquired by the Group that are not quoted in an active market, are stated at amortised cost. They are derecognised when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. For presentation purposes, allowance for credit losses is deducted from loans and advances.

c) Classification of financial liabilities

All money market deposits, customers' deposits and debt securities issued are initially recognised at cost, net of transaction charges, being the fair value of the consideration received. Subsequently, all commission bearing financial liabilities, are measured at amortised cost by taking into account any discount or premium. Premiums are amortised and discounts are accreted on an effective yield basis to maturity and taken to special commission expense.

d) Revenue recognition

Special commission income and expense

Special commission income and expense for all special commission bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement (FVIS), are recognised in the consolidated statement of income using the effective yield basis. The effective yield is the rate that exactly 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 the 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 recognised using the original effective yield applied to the new carrying amount.

The calculation of the effective yield includes all fees and points paid or received, 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 financial asset or liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 POLICIES APPLICABLE BEFORE ADOPTION OF IFRS 9 (continued)

e) 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 carried at amortised cost may be impaired. 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 recognised for changes in its carrying amounts.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on the terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of active market for a security or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers.

It may also include instances where Group considers that the obligor is unlikely to pay its credit obligations to the Group, in full, without recourse by the Group to actions such as realizing the security, if held.

When a financial asset is uncollectible, it is written off against the related provision for impairment either directly by a charge to consolidated statement of income or through impairment allowance 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.

Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognised based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in impairment charge for credit losses.

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 payments, 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. Consumer loans are charged off when they become 180 days past due except in the case of secured consumer loans. The Group individually assesses consumer mortgage loans for impairment when they become 180 days past due and required provisions are made.

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 lead to a new agreement, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 POLICIES APPLICABLE BEFORE ADOPTION OF IFRS 9 (continued)

e) Impairment of financial assets (continued)

i) Impairment of financial assets held at amortised cost

In case of financial instruments held at amortised cost or held to maturity, the Group assesses individually whether there is objective evidence of impairment based on same criteria as explained above.

A specific provision for credit losses due to impairment of a loan or any other financial asset held at amortised 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.

The Group also considers evidence of impairment at a collective assets level. The collective provision is based on deterioration in the internal grading or 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.

ii) 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 explained above. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised 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 credit event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of 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, recorded against available for sale equity instrument, cannot be reversed through consolidated statement of income as long as the asset continues to be recognised i.e. any increase in fair value after impairment has been recorded can only be recognised in equity. On derecognition, any cumulative gain or loss previously recognised in shareholders' equity is included in the consolidated statement of income for the year.

f) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to receive the cash flows from the financial asset expires or the asset is transferred and the transfer qualifies for de-recognition.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognised if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the 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 derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018

a) Basis of consolidation

These annual consolidated financial statements comprise the financial statements of Riyad Bank and its subsidiaries drawn up to December 31, each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

Investment funds

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

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Balances between the Group and its subsidiaries, and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Group can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest (NCI) and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

The Group is party to certain special purpose entities (SPEs), primarily for the purpose of facilitation of certain Shariah compliant financing arrangements. The Group concluded that these entities cannot be consolidated in its financial statements as it could not establish control over these SPEs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

b) Investment in associates

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in the value of individual investments. 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 Group holds has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Group's share of its associates' post-acquisition profits or losses are recognized in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in reserves. Distribution received from the investee reduces the carrying amount of the investment. Under the equity method of accounting, the investment in the associate is carried on the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. The Group's share of profit of an associate is shown on the face of the consolidated statement of income.

c) Derivative financial instruments and hedge accounting

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

Derivative financial instruments, including foreign exchange contracts, special commission rate swaps and currency options (both written and purchased), are initially recognised at fair value on the date on which the derivative contract is entered into, with transaction costs recognised in the consolidated statement of income and, are subsequently re-measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate. The treatment of changes in their fair value depends on their classification into the following categories:

i) 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/ loss. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting described below.

ii) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships.

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 recognised asset or liability or an unrecognised 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 is either attributable to a particular risk associated with a recognised 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 the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

c) Derivative financial instruments and hedge accounting (continued)

(ii) Hedge accounting (continued)

(a) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the consolidated statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated statement of income. For hedged items measured at amortised cost, where the fair value hedge of a special 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 amortised over the remaining term of the original hedge using the effective yield basis. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

(b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect consolidated statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is immediately recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised 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. Where the hedged forecasted transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated statement of income for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

d) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Group's functional currency. Transactions in foreign currencies are translated into Saudi Arabian Riyals at spot exchange rates prevailing on the transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value is determined. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity, depending on the recognition of the fair value movement of the underlying financial asset.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of the initial transactions.

The assets and liabilities of overseas branch are translated at the spot exchange rate at the reporting date. The income and expenses of overseas branch are translated at the average exchange rates for the year. All exchange differences, if significant, are recognised in other comprehensive income. These differences are transferred to consolidated statement of income at the time of disposal of foreign operations.

e) Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when the Group has a legal currently enforceable right to set off the recognised 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 an accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

f) Revenue recognition

i) Fee and commission income

Fee and commissions are recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred, together with the related direct cost, and are recognised as an adjustment to the effective yield on the loan. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the service is being provided.

ii) Others

Dividend income is recognised when the Group's right to receive payment is established. Results arising from trading activities include gains and losses from changes in fair value and related special commission income or expense for financial assets and financial liabilities held for trading.

g) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership and are measured in accordance with related accounting policies for investments held as FVIS, FVOCI, and held at amortised cost. The counterparty 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 sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement on an effective special commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets.

Amounts paid under these agreements are included in "Cash and balances with SAMA" or "Due from banks and other financial institutions" as appropriate. The difference between purchase and resale prices is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

h) Other real estate

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

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, is 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 recognised as income together with any gain/ loss on disposal.

i) Property and equipment

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

Buildings	33 years
Improvements and decoration of premises	over the lower of the lease period or 5 years
Furniture, fixtures and equipment	5 to 20 years
Computer hardware	5 years
Software programs and automation projects	3 to 5 years
Motor vehicles	4 years

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. All 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. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

j) Guarantee contracts

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

k) Provisions

Provisions are recognised 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.

l) Accounting for leases

Leases entered into by the Group as a lessee, are operating leases. 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 recognised as an expense in the period in which termination takes place.

m) 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, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions maturing within three months from the date of acquisition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

n) End of service benefits

Benefits payable to the employees of the Group at the end of their services are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations or other applicable laws in other jurisdictions, and are included in other liabilities in the consolidated statement of financial position.

o) Zakat

Zakat is computed using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidance on zakat and income tax.

p) Investment management services

The Group offers investment services to its customers, which include management of certain investment funds. 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.

q) Non-special commission based banking products

In addition to the conventional banking, the Group offers its customers certain non-special commission based banking products, which are approved by its Shariah Board. These products include Murabaha, Tawaruq and Ijara. These banking products are accounted for using IFRS, as modified by SAMA for accounting of zakat and income tax and are in conformity with the accounting policies described in these consolidated financial statements.

i) Murabaha is 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) Ijarah is a 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.

iii) Tawaruq is a form of Murabaha transactions where the Group purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 POLICIES HAVING NO CHANGE DURING 2018 (continued)

r) Short term employee benefits

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

s) Settlement date accounting

All regular way purchases and sales of financial assets are recognised and derecognised on the settlement date, i.e. the date the asset is delivered to the counter party. The Group accounts for any change in fair value between the trade and the settlement date in the same way as it accounts for the acquired assets. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

4. CASH AND BALANCES WITH SAMA

	2018	2017
	SAR'000	SAR'000
Cash in hand	5,212,780	5,484,534
Statutory deposit	8,588,411	7,939,812
Reverse repos with SAMA	2,459,863	5,020,000
Other balances	62,118	59,909
Total	16,323,172	18,504,255

In accordance with the Banking Control Law and regulations issued by 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 deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents (note 28).

The loss allowance in respect of the above, amounted to SAR 0.137 million as on December 31, 2018. The allowance relate to Stage 1.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

a)

	2018	2017
	SAR'000	SAR'000
Current accounts	1,983,429	1,095,753
Money market placements	9,045,747	8,276,447
Total	11,029,176	9,372,200

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

b) Changes in loss allowance for due from banks and other financial institutions

The loss allowance as on January 1, 2018 and December 31, 2018 amounted to SAR 4.7 million (note 3.1 e) and SAR 5.2 million respectively. The allowance relates to Stage 1 and the movement during the year was marginal.

6. DERIVATIVES

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

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 special commission rate payments in a single currency without exchanging principal. For currency swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are 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 on daily basis.

c) 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.

Held for trading purposes

Most of the Group'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 pricing anomalies in different markets and products, with the expectation of profiting from price differentials between markets or products.

Held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also 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 if required hedging strategies are used to reduce special commission rate gap within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This can be achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposure.

6. DERIVATIVES (continued)

Held for hedging purposes (continued)

Fair value hedges

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures.

Cash flow hedges

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate at a variable rate. The Group uses special commission rate swaps as cash flow hedges of these special commission rate risks.

The table below shows the positive and negative fair values of derivative financial instruments held, together with their 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 the year end, do not reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

				Notional amounts by term to maturity				
2018 SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	239,364	(167,805)	31,853,110	2,526,398	7,339,354	20,428,597	1,558,761	20,498,184
Forward foreign exchange contracts	46,053	(51,631)	27,248,377	21,046,531	4,248,967	1,952,879	-	20,691,540
Currency options	1,184	(1,184)	476,362	473,103	3,259	-	-	1,602,607
Held as fair value hedges:								
Special commission rate swaps	24	(53,650)	3,428,279	147,444	450,523	2,070,143	760,169	1,261,980
Total	286,625	(274,270)	63,006,128	24,193,476	12,042,103	24,451,619	2,318,930	44,054,311

6. DERIVATIVES (continued)

2017 SAR'000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	78,724	(45,809)	9,914,179	1,867,447	2,417,581	5,464,237	164,914	8,514,816
Forward foreign exchange contracts	30,538	(27,886)	19,767,301	15,996,453	2,593,333	1,177,515	-	24,158,787
Currency options	4,228	(4,228)	3,233,155	1,972,983	1,206,946	53,226	-	5,722,547
Held as fair value hedges:								
Special commission rate swaps	2,400	-	187,503	10,742	32,822	143,939	-	187,503
Total	115,890	(77,923)	33,102,138	19,847,625	6,250,682	6,838,917	164,914	38,583,653

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value as at December 31, 2018 and 2017.

2018 SAR '000 Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate investments and loans	3,675,675	3,622,683	Fair value	Special commission rate swaps	24	(53,650)

2017 SAR '000 Description of hedged	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate deposits	192,868	195,269	Fair value	Special commission rate swaps	2,400	-

7. INVESTMENTS, NET

a) Investment securities are classified as follows:

	2018 SAR'000	2017 SAR'000
Investment at FVIS /HFT – Equity investments	393,272	303,760
Investment at amortised cost	32,917,341	31,436,344
Investments at FVOCI – Debt instruments	12,730,942	-
Investments at FVOCI – Equity investments	2,035,385	-
Available for sale investments (2017)	-	14,669,994
Less: Impairment	(84,168)	(40,195)
Total	47,992,772	46,369,903

b) Equity investment securities designated as at FVOCI

At January 1, 2018, the Group designated certain investments shown in the following table as equity securities at FVOCI. In 2017, these investments were classified as available-for-sale and measured at fair value. The FVOCI designation was made because the investments are expected to be held for the strategic purposes.

	Fair value as at December 31, 2018 SAR'000	Dividend income recognised during 2018 SAR'000
Saudi (Tadawul listed) equities	1,363,474	48,064
Other Saudi equities	354,627	-
Foreign equities	277,228	5,640
Total	1,995,329	53,704

During 2018, the Group sold shares in its Saudi (Tadawul listed) equities having a fair value of SAR 643.9 million and the loss amounting to SAR 53.7 million was transferred to retained earnings. The above sales were carried out as part of tactical adjustment of the portfolio to enhance value.

7. INVESTMENTS, NET (continued)

c) Investments by type of securities

SAR'000	Domestic		International		Total	
	2018	2017	2018	2017	2018	2017
Fixed rate securities	20,958,135	19,201,458	13,849,448	12,758,382	34,807,583	31,959,840
Floating rate securities	9,439,677	9,911,816	1,401,023	1,788,983	10,840,700	11,700,799
Equities	1,719,250	1,300,041	316,135	260,758	2,035,385	1,560,799
Others	392,484	702,376	788	486,284	393,272	1,188,660
Total investments	32,509,546	31,115,691	15,567,394	15,294,407	48,076,940	46,410,098
Less: impairment	(36,971)	(600)	(47,197)	(39,595)	(84,168)	(40,195)
Total	32,472,575	31,115,091	15,520,197	15,254,812	47,992,772	46,369,903

The impairment allowance on debt instruments at FVOCI amounts to SR 75.1 million(2017: SR nil).

International investments above includes investment portfolios of SAR 6.4 billion (2017: SAR 9.1 billion) which are externally managed.

d) An analysis of changes is loss allowance for debt instruments carried at amortised cost, is as follows:

The loss allowance as on January 1, 2018 amounted to SAR 37 million (note 3.1 e)and was SAR 44.1 million at December 31, 2018. The allowance relates to Stage 1 and the movement during the year was marginal.

7. INVESTMENTS, NET (continued)

e) The analysis of the composition of investments is as follows:

SAR '000	2018 Quoted	2018 Unquoted*	2018 Total	2017 Quoted	2017 Unquoted*	2017 Total
Fixed rate securities	15,566,369	19,241,214	34,807,583	12,982,228	18,977,612	31,959,840
Floating rate securities	2,515,192	8,325,508	10,840,700	2,945,421	8,755,378	11,700,799
Equities	1,706,453	328,932	2,035,385	1,204,692	356,107	1,560,799
Others	393,272	-	393,272	1,188,660	-	1,188,660
Total investments	20,181,286	27,895,654	48,076,940	18,321,001	28,089,097	46,410,098
Allowance for impairment	(20,360)	(63,808)	(84,168)	-	(40,195)	(40,195)
Investments, net	20,160,926	27,831,846	47,992,772	18,321,001	28,048,902	46,369,903

*Unquoted securities include Saudi Government Treasury Bills and bonds of SAR 21.9 billion (2017: SAR 21.6 billion)

f) The analysis of investments by counter-party is as follows:

	2018 SAR '000	2017 SAR '000
Government and quasi Government	28,414,499	28,084,559
Corporate	10,163,384	10,466,940
Banks and other financial institutions	9,414,889	7,818,404
Total	47,992,772	46,369,903

Investments include SAR 683.6 million (2017: SAR 78.3 million), which have been pledged under repurchase agreements with customers (note 19 d)). The market value of such investments is SAR 687 million (2017: SAR 78.5 million).

8. LOANS AND ADVANCES, NET

a) These comprise the following:

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

2017 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	6,571,229	733,646	41,611,191	90,329,203	265,118	139,510,387
Non-performing loans and advances	418,781	-	200,318	791,799	1,259	1,412,157
Total loans and advances	6,990,010	733,646	41,811,509	91,121,002	266,377	140,922,544
Allowance for impairment	(284,471)	(16,420)	(386,892)	(1,380,709)	(16,434)	(2,084,926)
Total	6,705,539	717,226	41,424,617	89,740,293	249,943	138,837,618

Loans and advances, net, include Islamic products of SAR 88,652 million (2017: SAR 75,868 million).

* Includes consumer mortgage loans

b) An analysis of changes is loss allowance for loans and advances is, as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	367,358	662,765	2,480,865	3,510,988
Transfer to 12-month ECL	99,420	(6,470)	(92,950)	-
Transfer to lifetime ECL - not credit Impaired	(32,700)	45,320	(12,620)	-
Transfer to lifetime ECL - credit Impaired	(5,527)	(67,392)	72,919	-
Net re-measurement of loss allowance**	(127,090)	33,318	(1,058,687)	(1,152,459)
Balance as at December 31, 2018	301,461	667,541	1,389,527	2,358,529

** Includes charge-offs (consumer loans and credit cards) and write-offs (consumer mortgage, commercial, overdrafts and others)

The significant movement in ECL was due to re-measurement of ECL on commercial loans written-off during the year. The ECL for written-off loans was SAR 1,446.2 million at the beginning of the year which was re-measured during the year to SAR 2,134 million before the loans were written-off.

8. LOANS AND ADVANCES, NET (continued)

b) An analysis of changes is loss allowance for Loans and Advances (continued)

Credit cards	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	22,806	5,283	23,263	51,352
Transfer to 12-month ECL	1,557	(337)	(1,220)	-
Transfer to lifetime ECL - not credit Impaired	(787)	1,035	(248)	-
Transfer to lifetime ECL - credit Impaired	(548)	(1,949)	2,497	-
Net re-measurement of loss allowance including charge-offs	(9,016)	647	1,473	(6,896)
Balance as at December 31, 2018	14,012	4,679	25,765	44,456

Consumer loans*	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	176,565	227,768	323,998	728,331
Transfer to 12-month ECL	10,585	(3,396)	(7,189)	-
Transfer to lifetime ECL - not credit Impaired	(10,720)	14,021	(3,301)	-
Transfer to lifetime ECL - credit Impaired	(3,544)	(60,512)	64,056	-
Net re-measurement of loss allowance including charge/ write-offs	(4,910)	81,150	119,212	195,452
Balance as at December 31, 2018	167,976	259,031	496,776	923,783

Commercial loans**	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	167,987	429,714	2,133,604	2,731,305
Transfer to 12-month ECL	87,278	(2,737)	(84,541)	-
Transfer to lifetime ECL - not credit Impaired	(21,193)	30,264	(9,071)	-
Transfer to lifetime ECL - Credit Impaired	(1,435)	(4,931)	6,366	-
Net re-measurement of loss allowance	(113,164)	(48,479)	954,645	793,002
Write-offs	-	-	(2,134,017)	(2,134,017)
Balance as at December 31, 2018	119,473	403,831	866,986	1,390,290

* Includes consumer mortgage loans

** Includes overdrafts and others

8. LOANS AND ADVANCES, NET (continued)

c) Movement in Allowance for impairment of credit losses

	2018
	SAR'000
Closing loss allowance as at December 31, 2017 (calculated under IAS 39)	2,084,926
Amounts restated through opening retained earnings	1,426,062
Opening loss allowance as at January 1, 2018 (calculated under IFRS 9)	3,510,988
Provided during the year, net*	981,558
Bad debts written off against provision	(2,134,017)
Balance at the end of the year	2,358,529

* Includes net charge offs, write-offs and remeasurements

	2017
	SAR'000
Balance as at Jan 1, 2017 (calculated under IAS 39)	2,577,515
Provided during the year, net	2,122,460
Bad debts written off	(2,323,641)
Recoveries/ reversals of previously provided amounts	(263,822)
Other movements	(27,586)
Balance at end of the year (calculated under IAS 39)	2,084,926

d) Impairment charge for financing losses in the consolidated statement of income represents::

	2018	2017
	SAR'000	SAR'000
Charge for the year, net	1,372,947	1,858,639
Recovery of written off Loans and advances, net	(434,242)	(631,151)
Allowance for impairment, net	938,705	1,227,488

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

	2018	2017
	SAR'000	SAR'000
Impairment charge for credit losses, net	938,705	1,227,488
Reversal of impairment charge for other financial assets, net	(10,865)	-
Total	927,840	1,227,488

9. INVESTMENT IN ASSOCIATES

Investment in associates represents the Group's share of investment in entities where the Group has significant influence. These investments are accounted for using the equity method of accounting. Investment in associates represents

a) 35% (2017: 35%) share ownership in Ajil Financial Services Company incorporated in Kingdom of Saudi Arabia. The objectives of the Company are to engage in financing activities including leasing (and other related products) of projects in the industrial, transportation, agriculture, trading sectors and other skilled professions along with finance leasing of fixed and moveable assets

b) 21.4 % (2017: 21.4%) share in ownership in Royal and Sun Alliance Insurance (Middle East) Limited E.C., incorporated in Bahrain, engaged in insurance and re-insurance business and

c) 30.6% (2017: 30.6%) share ownership, (including indirect) and Board representation in Al-Alamiya for Cooperative Insurance Company incorporated in Kingdom of Saudi Arabia. The activities of the company are to transact cooperative insurance and re-insurance operations and all related activities as per applicable laws and regulations in the Kingdom.

10. PROPERTY AND EQUIPMENT, NET

SAR' 000	Land and buildings	Improvements and decoration of premises	Furniture, fixtures and equipment	Computer hardware, software programs and automation projects	Motor vehicles	Total
Cost						
Balance as at January 1, 2017	1,452,593	877,825	460,303	2,714,595	992	5,506,308
Additions	-	38,602	19,794	148,583	-	206,979
Disposals	(4,365)	(2,229)	(2,544)	(79,321)	-	(88,459)
Balance as at December 31, 2017	1,448,228	914,198	477,553	2,783,857	992	5,624,828
Additions	-	26,146	20,740	196,948	545	244,379
Disposals	(310)	(3,425)	(4,664)	(133,690)	(118)	(142,207)
Balance at December 31, 2018	1,447,918	936,919	493,629	2,847,115	1,419	5,727,000
Accumulated depreciation and amortisation						
Balance as at January 1, 2017	512,573	751,295	387,824	1,991,440	827	3,643,959
Charge for the year	21,396	43,786	26,533	190,392	73	282,180
Disposals	(982)	(1,909)	(2,506)	(48,322)	-	(53,719)
Balance as at December 31, 2017	532,987	793,172	411,851	2,133,510	900	3,872,420
Charge for the year	21,672	42,969	27,184	204,925	151	296,901
Disposals	-	(3,425)	(4,628)	(133,612)	(118)	(141,783)
Balance at December 31, 2018	554,659	832,716	434,407	2,204,823	933	4,027,538
Net book value						
As at January 1, 2017	940,020	126,530	72,479	723,155	165	1,862,349
As at December 31, 2017	915,241	121,026	65,702	650,347	92	1,752,408
As at December 31, 2018	893,259	104,203	59,222	642,292	486	1,699,462

Improvements and decoration of premises include work in progress amounting to SAR 0.8 million as at December 31, 2018 (2017: SAR 0.3 million).

11. OTHER ASSETS

	2018 SAR'000	2017 SAR'000
Accounts receivable	348,506	209,941
Others*	372,135	320,068
Total	720,641	530,009

* Mainly include prepayments amounting to SAR 79.5 million (2017: SAR 92 million), Sundry debtors and settlement accounts of SAR 100.8 million (2017: SAR 90.2 million) and items in transit which are cleared in the normal course of business.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 SAR'000	2017 SAR'000
Current accounts	832,905	1,058,894
Money market deposits	7,747,609	5,997,274
Total	8,580,514	7,056,168

Money market deposits include deposits against sales of fixed rate bonds of SAR 684.3 million (2017: SAR 36.3 million) with agreement to repurchase the same at fixed future dates.

13. CUSTOMER DEPOSITS

	2018 SAR'000	2017 SAR'000
Demand	86,842,195	81,011,365
Saving	459,724	366,380
Time	66,304,252	61,430,076
Others	16,215,985	11,557,728
Total	169,822,156	154,365,549

Under time deposits, the deposit against sale of bonds with agreement to repurchase the same at fixed future dates was nil (2017: SAR 43 million). Time deposits also include non-special commission based deposits of SAR 31,190 million (2017: SAR 25,035 million). Other customers' deposits include SAR 2,738 million (2017: SAR 2,642 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2018 SAR'000	2017 SAR'000
Demand	4,048,138	3,990,803
Saving	12,547	9,757
Time	20,165,422	15,072,603
Other	325,742	449,191
Total	24,551,849	19,522,354

14. DEBT SECURITIES IN ISSUE

During June 2015, the Bank issued SAR 4,000 million Subordinated debt (Sukuk). These are SAR denominated and have maturity date of June 24, 2025 and are callable after 5 years, subject to the terms and conditions of the agreement. The sukuks carry a special commission rate of 6 month SAIBOR plus 115 basis points.

During November 2018, the Bank settled the Senior debt (Sukuk) of SAR 4,000 million issued in November 2013 .This settlement has been done in line with the early settlement option to repay the sukuk after 5 years from issuance date, subject to prior approval of SAMA and terms and conditions of the agreement.

15. OTHER LIABILITIES

	2018 SAR'000	2017 SAR'000
Accounts payable	716,417	845,585
Others*	9,728,220	7,297,314
Total	10,444,637	8,142,899

* Mainly include provision for zakat and tax of SAR 2,806 million (2017: SAR 1,844 million), end of service benefits of SAR 717 million (2017 : SAR 699 million) based on actuarial calculations(note 27 b)), insurance payable, accrued expenses, income received in advance and items in transit which are cleared in the normal course of business.

16. SHARE CAPITAL

The authorised, issued and fully-paid share capital of the Bank consist of 3,000 million shares of SAR 10 each (2017: 3,000 million shares of SAR 10 each).

17. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the Bank's By-Laws, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals to the paid up capital of the Bank. Accordingly, SAR 1,179 million has been transferred from 2018 net income (2017: SAR 986.5 million). The statutory reserve is not currently available for distribution.

18. OTHER RESERVES*

	2018 SAR'000 FVOCI debt	2018 SAR'000 FVOCI equity	2018 SAR'000 Total
Balance at beginning of the year	179,485	507,380	686,865
Impact of implementation of IFRS 9	55,283	(171,761)	(116,478)
Net change in fair value of FVOCI investments	(579,105)	101,200	(477,905)
Net amounts relating to FVOCI-debt investments transferred to consolidated statement of income	(109,563)	-	(109,563)
Net ECL movement during the year	19,801	-	19,801
Net disposals during the year	-	53,746	53,746
Balance at end of the year	(434,099)	490,565	56,466

** Does not include Actuarial gains/ (losses) on defined benefit plan of SAR 1.58 million.*

	2017 SAR'000 Total
Balance at beginning of the year	532,929
Net change in fair value of available for sale investments	422,221
Net amounts relating to available for sale investments transferred to consolidated statement of income	(268,285)
Net movement during the year	153,936
Balance at end of the year	686,865

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2018, there were legal proceedings of a routine nature outstanding against the Group. No provision has been made as management and in-house legal adviser believes that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2018 the Group had capital commitments of SAR 178.3 million (2017: SAR 88.5 million). This includes computer hardware, software, automation projects, construction and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is 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 authorizing 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 authorizations 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.

19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

i) The contractual maturity structure for the Group's commitments and contingencies are as follows:

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	4,394,052	3,399,272	325,657	-	8,118,981
Letters of guarantee *	17,175,558	30,614,563	15,853,614	757,247	64,400,982
Acceptances	1,329,468	447,421	51,908	-	1,828,797
Irrevocable commitments to extend credit	187,629	1,862,547	8,243,469	1,332,301	11,625,946
Total	23,086,707	36,323,803	24,474,648	2,089,548	85,974,706

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	3,981,126	4,172,440	174,548	-	8,328,114
Letters of guarantee *	16,331,813	33,356,176	14,252,131	648,070	64,588,190
Acceptances	1,401,222	585,123	40,229	-	2,026,574
Irrevocable commitments to extend credit	1,462,052	1,424,911	5,347,977	1,654,596	9,889,536
Total	23,176,213	39,538,650	19,814,885	2,302,666	84,832,414

* This is as per contractual period of the guarantee and in event of default may be payable on demand and therefore current in nature .

The outstanding unused portion of non-firm commitments as at December 31,2018 which can be revoked unilaterally at any time by the Group, amounts to SAR 97,192 million (2017: SAR 89,554 million).

ii) An analysis of changes in loss allowance for credit related commitments and contingencies are, as follows:

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	51,789	104,502	497,618	653,909
Transfer to 12-month ECL	6,718	(737)	(5,981)	-
Transfer to lifetime ECL - not Credit Impaired	(7,313)	10,369	(3,056)	-
Transfer to lifetime ECL - Credit Impaired	(116)	(43,026)	43,142	-
Net re-measurement of loss allowance	(18,257)	(36,281)	73,753	19,215
Transfer to write-off reserves	-	-	(512,095)	(512,095)
Balance as at December 31, 2018	32,821	34,827	93,381	161,029

The significant movement in ECL was due to re-measurement of ECL on off-balance sheet exposures written-off during the year. The ECL for written-off exposures was SAR 472.4 million at the beginning of year which was re-measured during the year to SAR 512 million before the exposures were written-off.

iii) The analysis of commitments and contingencies by counterparty is as follows:

	2018 SAR'000	2017 SAR'000
Government and quasi government	-	-
Corporate	67,468,753	63,645,837
Banks and other financial institutions	18,505,953	21,186,577
Total	85,974,706	84,832,414

d) Assets pledged

Assets pledged as collateral with customers are as follows:

	2018		2017	
	Assets SAR'000	Related liabilities SAR'000	Assets SAR'000	Related liabilities SAR'000
Investments held at amortised cost and FVOCI (note 7 f),12 and 13)	683,599	684,277	78,274	79,371

These transactions are conducted under the terms that are usual and customary to standard lending and securities borrowing and lending activities.

19. COMMITMENTS AND CONTINGENCIES (continued)

e) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Group is the lessee are as follows:

	2018 SAR'000	2017 SAR'000
Less than 1 year	29,540	31,813
1 to 5 years	55,055	65,232
Over 5 years	3,616	6,206
Total	88,211	103,251

20. SPECIAL COMMISSION INCOME AND EXPENSE

		2018 SAR'000	2017 SAR'000
Special commission income on:			
Investments	- FVIS	11,805	-
	- FVOCI / Available for sale	437,340	425,591
	- Amortised cost/ Other investments held at amortised cost	841,049	661,233
		1,290,194	1,086,824
Due from banks and other financial institutions		139,002	148,484
Loans and advances		6,903,169	6,189,799
Total		8,332,365	7,425,107

	2018 SAR'000	2017 SAR'000
Special commission expense on:		
Due to banks and other financial institutions	209,255	112,074
Customer deposits	1,190,905	1,141,859
Debt securities in issue	246,441	236,097
Total	1,646,601	1,490,030

21. FEE AND COMMISSION INCOME, NET

	2018 SAR'000	2017 SAR'000
Fee and commission income on:		
- Share brokerage and fund management	323,464	269,288
- Trade finance	596,781	562,917
- Credit facilities and advisory	641,278	577,385
- Card products	707,002	626,172
- Other banking services	143,386	120,881
Total fee and commission income	2,411,911	2,156,643
Fee and commission expense on:		
- Banking cards	513,162	469,534
- Share brokerage	49,080	46,761
- Other banking services	138,617	130,034
Total fee and commission expense	700,859	646,329
Fee and commission income, net	1,711,052	1,510,314

22. GAINS ON DISPOSAL OF NON-TRADING INVESTMENTS, NET

	2018 SAR'000	2017 SAR'000
FVOCI / Available for sale	123,545	282,837
Amortised Cost / Held to maturity	6,840	300
Total	130,385	283,137

23. OTHER OPERATING INCOME

Other operating income for 2018, includes gain on disposals of property and equipment amounting to SAR 25.7 million (2017: SAR 0.07 million).

24. SALARIES AND EMPLOYEE-RELATED EXPENSES

The following table summarises the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the years ended December 31, 2018 and 2017, and the forms of such payments.

Categories SAR 000	Number of employees		Fixed compensation		Variable compensation		Total compensation	
	2018	2017	2018	2017	2018	2017	2018	2017
Senior executives requiring SAMA no objection	32	37	42,478	40,891	12,060	9,004	54,538	49,895
Employees engaged in risk taking activities	348	322	92,988	89,133	22,786	18,943	115,774	108,076
Employees engaged in control functions	432	469	94,746	100,159	15,853	10,992	110,599	111,151
Outsourced employees	381	441	23,212	23,614	-	-	23,212	23,614
Other employees	4,780	5,063	742,489	748,091	106,042	90,696	848,531	838,787
Total	5,973	6,332	995,913	1,001,888	156,741	129,635	1,152,654	1,131,523

	2018	2017
Variable compensation accrued during the year and other employee related benefits*	769,272	570,626
Total salaries and employee-related expenses as per consolidated statement of income	1,765,185	1,572,514

*Other employee benefits include; insurance, pension, relocation expenses, recruitment expenses, training and development and other employee benefits.

The Group's compensation policy is based on the nature of the job, market practices and a jobholder's level of involvement in risk taking process. This policy applies to all employees, including the executive management team, and aims to link individual performance to the Group's overall achievements and financial soundness. Compensation includes fixed and variable components. Salary revision, performance bonus and other performance-linked incentives are decided based on the outcome of the Group's performance management process, as well as the Group's financial performance and the attainment of strategic goals.

24. SALARIES AND EMPLOYEE-RELATED EXPENSES (continued)

The Board of Directors has the responsibility to approve and oversee the Group's compensation and incentives policy. The Board Nomination and Compensation Committee is composed of five non-executive Directors (comprising of three Board Directors and two independent external members) and is charged with overseeing the compensation system design and effectiveness on behalf of the Board of Directors. In addition, the Nomination and Compensation Committee is accountable for reviewing and approving the Group's compensation and incentives policy and undertaking its periodic assessment and update so as to ensure achievement of the system objectives and to reinforce the Group's risk management framework. Fixed compensation comprises salaries and wages and other benefits and allowances. Variable compensation includes sales incentives, product-related rewards and performance-related payments.

The Group has adopted fixed and variable compensation schemes. For senior managers and material risk takers, the variable component is vested over a period of 3 years and is aligned with the jobholder's level of responsibility, Group and individual performance and the level of risk inherent in the relevant job function. This is based on an annual review conducted by the Nomination and Compensation Committee. The Group consistently evaluates its compensation policies against both industry norms and international best practice and makes necessary revisions as and when required.

25. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2018 and 2017 are calculated by dividing the net income for the year by 3,000 million shares.

26. DIVIDENDS AND ZAKAT

The dividends for 2018 amounted to SAR 2,310 million (2017: SAR 2,190 million), resulting in a dividend to the shareholders of SAR 0.77 per share (2017: SAR 0.73 per share). The total dividends for 2018 include interim dividends of SAR 1,110 million paid for the first half of 2018 (2017: SAR 1,050 million). Final dividends of SAR 1,200 million (2017: SAR 1,140 million) have been proposed for 2018.

As a major event, during the year the Group reached an agreement with the General Authority of Zakat and Tax on the settlement of zakat claims for previous financial years up to the end of the fiscal financial year 2017, against payment of an amount of SAR 2,970 million. As per the settlement agreement, the Group is required to settle 20% of the agreed zakat liability in 2018, and the remaining amount to be settled over a period of five years. Accordingly the Group has recorded zakat for the previous years and until the end of financial year 2017, through its retained earnings amounting to SAR 753.6 million. This was in addition to SAR 440 million accrued during first half of 2018. The zakat accrual for the current year is SAR 430.2 million. As a result of the settlement agreement the Group has agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to zakat. The zakat accrual for 2017 amounted to SAR 500 million.

27. DEFINED BENEFIT PLAN

a) General description

The Group operates an End of Service Benefit Scheme for its employees based on the prevailing Saudi Labor Laws. The liability in respect of the scheme is estimated by a qualified external actuary in accordance with International Accounting Standard 19 - Employee Benefits, and using "Projected Unit Credit Method".

b) The movement in the obligation during the year based on its present value are as follows:

	2018 SAR'000	2017 SAR'000
Defined benefit obligation at the beginning of the year	699,325	708,144
Current service cost	67,646	62,101
Interest cost	29,731	40,308
Benefits paid	(78,018)	(79,789)
Unrecognized actuarial loss / (gain)	(1,581)	(31,439)
Defined benefit obligation at the end of the year	717,103	699,325

The end of service liability is disclosed within "other liabilities" in the consolidated statement of financial position

c) Charge /(reversal) for the year

	2018 SAR'000	2017 SAR'000
Current service cost	67,646	62,101
Interest on defined benefit obligations	29,731	40,308
	97,377	102,409

27. DEFINED BENEFIT PLAN

d) Re-measurement recognised in Other comprehensive income

	2018 SAR'000	2017 SAR'000
Gain from change in experience assumptions	(697)	(31,439)
Actuarial gains due to change in demographic assumptions	(884)	-
	(1,581)	(31,439)

e) The principal actuarial assumptions (in respect of the employee benefit scheme) used for the valuation as at December 31, 2018 and 2017 are as follows:

	2018 SAR'000	2017 SAR'000
Discount rate per annum	4.5%	4.5%
Expected rate of salary increase per annum	4.0%	4.0%
Normal retirement age	60	60

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

f) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2018 and 2017 to the discount rate (4.5%) and salary escalation rate (4.0%)

2018	Impact on defined benefit obligation – increase / (decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	(36,239)	42,501
Expected rate of salary increase	0.50%	42,291	(36,718)

2017	Impact on defined benefit obligation – increase / (decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	(28,559)	33,365
Expected rate of salary increase	0.50%	33,365	(31,208)

The above sensitivity analyses are based on a change in an assumption holding all other assumptions constant.

28. CASH AND CASH EQUIVALENTS

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

	2018	2017
	SAR'000	SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	7,734,761	10,564,443
Due from banks and other financial institutions maturing within three months from the date of acquisition	7,336,578	5,587,200
Total	15,071,339	16,151,643

29. OPERATING SEGMENTS

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

With effect from January 1, 2018, based on management decision and in line with changes in management reporting, the assets, liabilities, income and expenses relating to 'Other' segment has been allocated over the retail banking, investment banking and brokerage, corporate banking and treasury and investment segments according to an internally agreed consistent basis. Accordingly the segment information for prior period is restated in line with current period presentation. The Group's reportable segments under IFRS 8 are as follows:

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

Retail banking

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

Investment banking and brokerage

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

Corporate banking

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

Treasury and investments

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

29. OPERATING SEGMENTS (continued)

a) The Group's total assets and liabilities as at December 31, its total operating income and expense and its net income, for the years then ended by operating segments, are as follows:

2018 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Total assets	56,876,562	1,141,212	110,425,393	61,456,409	229,899,576
Total liabilities	80,264,923	296,838	96,610,319	15,953,280	193,125,360
Total operating income, net including	2,899,975	379,829	3,550,968	2,136,629	8,967,401
- Inter segment income (expenses)	405,255	95,039	(1,080,710)	580,416	-
- Net special commission income	2,533,797	95,118	2,452,596	1,604,253	6,685,764
- Fee and commission income, net	362,249	266,621	1,077,116	5,066	1,711,052
Total operating expenses, net including	2,329,483	154,666	1,598,762	219,155	4,302,066
- Depreciation of property and equipment	214,903	8,810	55,226	17,962	296,901
- Impairment charge for credit losses, net	161,502	-	766,338	-	927,840
- Impairment charge for investments, net	-	-	-	26,870	26,870
Share in earnings of associates, net	-	-	-	50,750	50,750
Net income (loss)	570,492	225,163	1,952,206	1,968,224	4,716,085

2017 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Total assets	53,221,951	974,646	101,801,241	60,284,333	216,282,171
Total liabilities	67,966,434	186,866	94,902,369	14,603,509	177,659,178
Total operating income, net including	2,674,963	302,600	3,471,158	1,676,490	8,125,211
- Inter segment income (expenses)	389,512	90,032	(615,692)	136,148	-
- Net special commission income	2,349,507	91,233	2,464,406	1,029,931	5,935,077
- Fee and commission income, net	324,909	205,418	968,195	11,792	1,510,314
Total operating expenses, net including	1,774,132	138,013	2,128,517	161,663	4,202,325
- Depreciation of property and equipment	204,018	7,390	54,647	16,125	282,180
- Impairment charge for credit losses, net	(76,074)	-	1,303,562	-	1,227,488
Share in earnings of associates, net	-	-	-	23,110	23,110
Net income (loss)	900,831	164,587	1,342,641	1,537,937	3,945,996

b) The Group's credit exposure by operating segment is as follows:

2018 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Consolidated statement of financial position	55,394,517	705,088	110,045,615	59,236,667	225,381,887
Commitments and contingencies	-	-	55,682,946	-	55,682,946
Derivatives	-	-	-	1,673,863	1,673,863

2017 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Consolidated statement of financial position assets	52,819,238	231,290	101,366,013	58,865,079	213,281,620
Commitments and contingencies	-	-	56,184,996	-	56,184,996
Derivatives	-	-	-	813,304	813,304

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding equity investments, investment in associates, property and equipment, other real estate. The credit equivalent value of commitments, contingencies and derivatives, according to SAMA's prescribed methodology are included in credit exposure.

30. FINANCIAL RISK MANAGEMENT

30.1 CREDIT RISK

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

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

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

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

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

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

The credit quality of the Group's financial assets and letters of credit, letters of guarantee and acceptances is disclosed in note 30.3 a). The debt securities included in the investment portfolio are mostly sovereign risk. Analysis of investments by counterparty is provided in note 7. For details of the composition of loans and advances refer to note 8. Information on credit risk relating to derivative instruments is provided in note 6 and for commitments and contingencies in note 19. The Group's maximum credit exposure, which best represents its maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements, is not materially different than the credit exposure by business segment given in note 29.b). The Group's consolidated Risk Weighted Assets (RWA) calculated under the Basel III framework is also provided in note 35.

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION

a) The distribution by geographical region for major categories of assets, liabilities, commitments and contingencies and credit exposure accounts is as follows:

2018 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	16,323,163	-	9	-	-	-	-	16,323,172
Cash in hand	5,212,771	-	9	-	-	-	-	5,212,780
Balances with SAMA	11,110,392	-	-	-	-	-	-	11,110,392
Due from banks and other financial institutions	7,168,419	243,582	1,747,766	1,736,290	-	122,860	10,259	11,029,176
Current accounts	46,468	104,300	402,968	1,304,564	-	114,870	10,259	1,983,429
Money market	7,121,951	139,282	1,344,798	431,726	-	7,990	-	9,045,747
Positive fair value of derivatives	165,878	22,552	63,051	35,144	-	-	-	286,625
Investments, net	32,472,574	2,336,183	2,995,033	8,222,419	104,526	417,458	1,444,579	47,992,772
FVIS	392,484	-	-	788	-	-	-	393,272
FVOCI	1,718,101	88,728	2,995,033	8,221,631	104,526	417,458	1,180,794	14,726,271
Amortised cost	30,361,989	2,247,455	-	-	-	-	263,785	32,873,229
Investment in associates	419,769	175,724	-	-	-	-	-	595,493
Loans and advances, net	148,104,829	2,312,590	61,789	208,005	-	337,617	-	151,024,830
Overdraft	5,997,031	-	-	-	-	-	-	5,997,031
Credit cards	730,947	-	-	-	-	-	-	730,947
Consumer loans	44,349,231	-	-	-	-	-	-	44,349,231
Commercial loans	96,746,230	2,312,590	61,789	208,005	-	337,617	-	99,666,231
Others	281,390	-	-	-	-	-	-	281,390
Other assets	720,641	-	-	-	-	-	-	720,641
Accounts receivable and others	720,641	-	-	-	-	-	-	720,641
Total	205,375,273	5,090,631	4,867,648	10,201,858	104,526	877,935	1,454,838	227,972,709
Liabilities								
Due to banks and other financial institutions	4,688,780	1,727,265	1,726,586	138,347	-	8,889	290,647	8,580,514
Current accounts	36,661	228,357	478,787	21,394	-	8,889	58,817	832,905
Money market deposits	4,652,119	1,498,908	1,247,799	116,953	-	-	231,830	7,747,609
Negative fair value of derivatives	117,238	6,990	145,290	4,752	-	-	-	274,270
Customer deposits	162,908,772	4,565,029	1,041,646	204,818	11,356	61,422	1,029,113	169,822,156
Demand	83,519,147	2,021,484	175,022	100,951	11,346	60,149	954,096	86,842,195
Saving	432,026	17,617	836	777	10	611	7,847	459,724
Time	62,786,699	2,496,216	865,358	90,086	-	569	65,324	66,304,252
Other	16,170,900	29,712	430	13,004	-	93	1,846	16,215,985
Debt securities in issue	4,003,783	-	-	-	-	-	-	4,003,783
Other liabilities	10,424,589	-	9,219	10,582	-	247	-	10,444,637
Accounts payable and others	10,424,589	-	9,219	10,582	-	247	-	10,444,637
Total	182,143,162	6,299,284	2,922,741	358,499	11,356	70,558	1,319,760	193,125,360

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION (continued)

2018 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Commitments and contingencies	59,581,262	1,077,870	11,749,659	8,939,009	144	2,635,476	1,991,286	85,974,706
Letters of credit	7,580,683	309,286	10,739	-	144	55,159	162,970	8,118,981
Letters of guarantee	41,863,921	446,349	11,553,381	6,147,309	-	2,574,683	1,815,339	64,400,982
Acceptances	1,790,103	19,079	1,004	-	-	5,634	12,977	1,828,797
Irrevocable commitments to extend credit	8,346,555	303,156	184,535	2,791,700	-	-	-	11,625,946
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	821,988	316,193	459,614	76,068	-	-	-	1,673,863
Held for trading	821,988	316,193	358,266	76,068	-	-	-	1,572,515
Held as fair value hedges	-	-	101,348	-	-	-	-	101,348
Commitments and contingencies	38,305,399	625,223	8,019,924	5,597,647	70	1,797,880	1,336,803	55,682,946
Letters of credit	3,675,653	149,964	5,207	-	70	26,745	79,019	3,936,658
Letters of guarantee	28,706,763	306,069	7,922,339	4,215,309	-	1,765,501	1,244,807	44,160,788
Acceptances	1,790,103	19,079	1,004	-	-	5,634	12,977	1,828,797
Irrevocable commitments to extend credit	4,132,880	150,111	91,374	1,382,338	-	-	-	5,756,703

2017 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	18,504,249	-	6	-	-	-	-	18,504,255
Cash in hand	5,484,528	-	6	-	-	-	-	5,484,534
Balances with SAMA	13,019,721	-	-	-	-	-	-	13,019,721
Due from banks and other financial institutions	4,678,367	971,130	2,485,524	587,867	-	312,522	336,790	9,372,200
Current accounts	1,000,271	14,836	2,376	30,595	-	31,883	15,792	1,095,753
Money market placements	3,678,096	956,294	2,483,148	557,272	-	280,639	320,998	8,276,447
Positive fair value of derivatives	96,957	11,061	7,872	-	-	-	-	115,890
Investments, net	31,115,091	1,915,046	2,847,490	9,200,045	790	371,939	919,502	46,369,903
FVIS	303,760	-	-	-	-	-	-	303,760
Available for sale	1,698,057	8,427	2,847,490	9,200,045	790	371,939	503,051	14,629,799
Other investments held at amortised cost	29,113,274	1,906,619	-	-	-	-	416,451	31,436,344
Investment in associates	400,320	164,449	-	-	-	-	-	564,769
Loans and advances, net	135,875,408	2,287,992	251	673,967	-	-	-	138,837,618
Overdraft	6,705,539	-	-	-	-	-	-	6,705,539
Credit cards	717,226	-	-	-	-	-	-	717,226
Consumer loans	41,424,617	-	-	-	-	-	-	41,424,617
Commercial loans	86,778,083	2,287,992	251	673,967	-	-	-	89,740,293
Others	249,943	-	-	-	-	-	-	249,943
Other assets	530,009	-	-	-	-	-	-	530,009
Accounts receivable and others	530,009	-	-	-	-	-	-	530,009
Total	191,200,401	5,349,678	5,341,143	10,461,879	790	684,461	1,256,292	214,294,644

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION (continued)

2017 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Liabilities								
Due to banks and other financial institutions	3,645,140	2,243,114	734,965	381,574	-	8,060	43,315	7,056,168
Current accounts	19,763	302,090	578,219	107,449	-	8,060	43,313	1,058,894
Money market deposits	3,625,377	1,941,024	156,746	274,125	-	-	2	5,997,274
Negative fair value of derivatives	36,670	9,226	32,027	-	-	-	-	77,923
Customer deposits	149,290,345	2,381,084	1,283,696	155,739	6,464	114,524	1,133,697	154,365,549
Demand	77,607,541	2,055,152	114,953	96,131	6,464	113,038	1,018,086	81,011,365
Saving	359,562	1,850	228	-	-	462	4,278	366,380
Time	59,765,514	324,082	1,168,515	59,608	-	1,024	111,333	61,430,076
Other	11,557,728	-	-	-	-	-	-	11,557,728
Debt securities in issue	8,016,639	-	-	-	-	-	-	8,016,639
Other liabilities	8,124,858	-	8,215	9,228	-	598	-	8,142,899
Accounts payable and others	8,124,858	-	8,215	9,228	-	598	-	8,142,899
Total	169,113,652	4,633,424	2,058,903	546,541	6,464	123,182	1,177,012	177,659,178
Commitments and contingencies	56,203,197	637,465	12,676,028	9,042,524	-	4,924,239	1,348,961	84,832,414
Letters of credit	8,066,060	167,524	2,144	-	-	81,841	10,545	8,328,114
Letters of guarantee	39,572,420	282,545	12,480,004	6,168,435	-	4,831,508	1,253,278	64,588,190
Acceptances	1,920,394	9,557	595	-	-	10,890	85,138	2,026,574
Irrevocable commitments to extend credit	6,644,323	177,839	193,285	2,874,089	-	-	-	9,889,536
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	454,899	296,560	61,845	-	-	-	-	813,304
Held for trading	449,274	296,560	61,845	-	-	-	-	807,679
Held as fair value hedges	5,625	-	-	-	-	-	-	5,625
Commitments and contingencies	36,799,414	374,761	8,859,452	5,738,773	-	3,442,415	970,181	56,184,996
Letters of credit	3,838,427	79,720	1,020	-	-	38,946	5,018	3,963,131
Letters of guarantee	27,786,888	198,397	8,763,186	4,331,340	-	3,392,579	880,025	45,352,415
Acceptances	1,920,394	9,557	595	-	-	10,890	85,138	2,026,574
Irrevocable commitments to extend credit	3,253,705	87,087	94,651	1,407,433	-	-	-	4,842,876

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION (continued)

b) The distribution by geographical concentration of non-performing loans and advances and provision for credit losses are as follows:

	Non-performing loans and advances, net		Allowance for credit losses	
	2018 SAR'000	2017 SAR'000	2018 SAR'000	2017 SAR'000
Kingdom of Saudi Arabia				
Commercial Loans*	1,318,050	1,211,839	(640,240)	(906,812)
Consumer Loans**	243,387	200,318	(57,741)	(105,765)
Total	1,561,437	1,412,157	(697,981)	(1,012,577)

*Includes overdrafts and other loans
** includes consumer mortgage loans

30.3 CREDIT QUALITY ANALYSIS

The Group uses its internal ratings to rate the credit quality of its portfolio and uses the following categories:

Low and fair risk: Performing assets of high / good quality.

Watch list: Assets that have shown some initial signs of deterioration in credit quality in the recent past and are likely subject to increasing levels of credit risk.

Substandard: Assets which exhibit substantially higher level of credit risk.

Doubtful: These assets are typically in default (impaired) but still show some prospect of partial recovery in principal in the future.

Loss: Impaired assets which are generally fully provided and have low expectations of further recovery.

a) The following table sets out information about the credit quality of financial assets as at December 31, 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

i) Balances with SAMA and due from bank and other financial institutions

SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	17,878,277	-	-	17,878,277
Non-investment grade	4,266,628	-	-	4,266,628
Carrying amount	22,144,905	-	-	22,144,905

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

ii) Loans and advances, gross at amortized cost

SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	141,464,024	6,823,511	137,155	148,424,690
Watch list	163,672	1,896,235	601,582	2,661,489
Substandard	-	-	1,432,249	1,432,249
Doubtful	-	-	501,808	501,808
Loss	-	-	363,123	363,123
Carrying amount	141,627,696	8,719,746	3,035,917	153,383,359

ii) (a) Credit cards, gross

SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	684,864	35,713	-	720,577
Watch list	-	23,893	-	23,893
Substandard	-	-	30,933	30,933
Doubtful	-	-	-	-
Loss	-	-	-	-
Carrying amount	684,864	59,606	30,933	775,403

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

ii) (b) Consumer loans, gross*

SAR'000	12 month ECL	Life time ECL	Lifetime ECL	Total
Low – fair risk	42,580,593	903,916	-	43,484,509
Watch list	-	840,308	-	840,308
Substandard	-	-	704,810	704,810
Doubtful	-	-	197,445	197,445
Loss	-	-	45,942	45,942
Carrying amount	42,580,593	1,744,224	948,197	45,273,014

ii) (c) Commercial loans, gross**

SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	98,198,567	5,883,882	137,155	104,219,604
Watch list	163,672	1,032,034	601,582	1,797,288
Substandard	-	-	696,506	696,506
Doubtful	-	-	304,363	304,363
Loss	-	-	317,181	317,181
Carrying amount	98,362,239	6,915,916	2,056,787	107,334,942

* Includes consumer mortgage loans
* *Includes overdrafts and other loans

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

iii) Investments (FVOCI and amortised cost- debt instruments)

SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	44,725,347	866,377	-	45,591,724
Watch list	3,279	42,970	-	46,249
Substandard	-	-	10,310	10,310
Doubtful	-	-	-	-
Loss	-	-	-	-
Carrying amount	44,728,626	909,347	10,310	45,648,283

The following table sets out information about the credit quality of letters of credit, letters of guarantee and acceptances as at December 31, 2018.

SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	67,754,998	5,810,793	50,169	73,615,960
Watch list	10,524	433,165	51,161	494,850
Substandard	-	-	190,645	190,645
Doubtful	-	-	2,247	2,247
Loss	-	-	45,058	45,058
Carrying amount	67,765,522	6,243,958	339,280	74,348,760

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the 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 expert credit assessment and including forward-looking information.

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

- the remaining 12 month probability of default (PD) as at the reporting date; with
- the remaining 12 month PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group, groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.

Stage 2: When a loan has shown a significant increase in credit risk since origination but is not credit impaired, the Group records an allowance for the Lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Group records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower and his business activities.

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

Corporate exposures	Retail exposures	All exposures
Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management and senior management changes.	Internally collected data and customer behavior – e.g. utilization of credit card facilities	Payment record – this includes overdue status as well as a range of variables about payment ratios
Data from credit reference agencies, press articles, changes in external credit ratings	Customer payment behavior based on internally collected data – e.g. Delinquency cycles	Utilization of the granted limit
Quoted bond and credit default swap (CDS) prices for the borrower where available	Types and number of products held at customer level	Requests for and granting of forbearance
Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities		Existing and forecast changes in business, financial and economic conditions

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

i) Generating the term structure of 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 analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information obtained from external credit reference agencies is also used.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Group's Chief Economist and consideration of a variety of external actual and forecast 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 (see discussion below on incorporation of forward-looking information). The Group then uses these forecasts to adjust its estimates of PDs.

ii) Determining whether credit risk has increased significantly

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

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modeling.

Using its expert credit judgment 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 whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Disclosure of relevant qualitative indicators, including different criteria used for different portfolios- e.g. retail mortgages, credit cards, commercial real estate etc.

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, on a material exposure. Days past due are determined by counting the number of days since the due date in respect of which full payment that is in excess of the materiality threshold 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 loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

iii) 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 customer or being undergone into financially stressed conditions. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of PD at the reporting date based on the modified terms and the PD estimated based on data at initial recognition and the original contractual terms.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

iii) Modified financial assets (continued)

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

The revised terms usually include extending the maturity, changing the banking commission, the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Audit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest 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 and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

There were no financial assets that were modified with material forbearance during the year-ended December 31, 2018.Nonetheless for the loans the conditions of which were renegotiated a comprehensive evaluation was undertaken to assess the creditworthiness of the relevant obligors in order to assign proper staging if significant increase in risk was noted.

iv) Definition of 'Default'

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or 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 covenant ;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group is using different indigenous macro-econometric models to help estimating default rates for the wholesale, banks and corporate bonds portfolios, as well as personal loans, mortgage loans, auto loans and credit cards.

The models are developed individually and the relative importance of macroeconomic variables are identified by using the most suitable statistical techniques including Co-integration, Ordinary least square regressions and Granger causality test for non-retail portfolios. For the four retail portfolios, the Principal Component Analysis (PCA) is used.

These models help in quantifying the direction and magnitude of the impact of each single macroeconomic factor on the default rate in each separate portfolio. The upmost macroeconomic variables that seem to affect the default rate for retail and non-retail portfolios in the Group are:

Economic Indicators	2018	2017
GDP/ The non-oil private sector (SAR Million)	1,036,072	1,012,249
The International prices for Saudi Oil in USD	69.52	54.15
Daily Average Saudi Oil production over a quarter in millions of barrels.	10.26	10.13
The Short term interest rate (3 month SIBOR)	2.43	1.81
The 5 year SAR Interest rate swap (IRS) rate.	3.47	3.20
Government expenditure/The real government investment (SAR Million)	211,941	195,798
The Consumer Price Index (inflation)	1.08	1.05
The loans to private sector (SAR Million)	1,403,618	1,339,814
The Unemployment rate	12.84	12.78

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

v) Incorporation of forward looking information (continued)

To explore the potential impact of changing economic conditions on the future Group's default rates, a composite index is established for the most relevant macroeconomic factors to each single portfolio in both non-retail and retail portfolios, under different scenarios and using the weights from the models. This means seven different composite indices were established. Each composite index is a mean to measure the influence of the different factors comprising the model on default rates for each product within the non-retail and retail portfolios. Through the composite index, the Group could obtain simultaneous changes in all the factors that appear to affect the default rate for each credit risk exposure.

vi) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:
i. probability of default (PD);
ii. loss given default (LGD);
iii. exposure at default (EAD).
These parameters are generally derived from internally developed statistical models and other historical data.
PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.
LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) Amounts arising from ECL – Significant increase in credit risk (continued)

vi) Measurement of ECL (continued)

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. For some financial assets, EAD is determined by modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

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.

However, for retail credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL based on the existing expiry date of the credit card. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group has the right to cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk. The Group does not offer retail overdraft facilities, and any technical overdrafts originating in retail current accounts are considered payable immediately; such technical overdrafts are also subjected to Group's staging criteria.

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include:

- product/instrument type;
- credit risk categorization;
- collateral;
- recovery and cure rates; date of initial recognition;
- remaining term to maturity;

The grouping is subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data.

30. FINANCIAL RISK MANAGEMENT (continued)

30.4 CREDIT QUALITY OF LOANS AND ADVANCES

a) Ageing of loans and advances

2018 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Upto 30 days	62,231	3,495,818	51,340	3,609,389
From 31 - 90 days	27,208	1,031,869	422,787	1,481,864
From 91 - 180 days	16,546	360,058	50,777	427,381
More than 180 days	-	-	351,176	351,176
Total	105,985	4,887,745	876,080	5,869,810

2017 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Upto 30 days	48,437	3,419,172	167,015	3,634,624
From 31 - 90 days	22,983	826,908	44,164	894,055
From 91 - 180 days	19,528	332,909	283,943	636,380
More than 180 days	-	-	1,329,343	1,329,343
Total	90,948	4,578,989	1,824,465	6,494,402

* Includes consumer mortgage loans

** Includes overdrafts and other loans

30. FINANCIAL RISK MANAGEMENT (continued)

30.4 CREDIT QUALITY OF LOANS AND ADVANCES (continued)

b) Economic sector risk concentration for the loans and advances and allowance for impairment are as follows

	2018				2017			
SAR' 000	Performing	Non performing	Allowance for impairment	Loans and advances, net	Performing	Non performing	Allowance for impairment	Loans and advances, net
Banks and other financial institutions	6,989,286	-	(8,263)	6,981,023	5,237,705	-	-	5,237,705
Agriculture and fishing	1,935,554	-	(3,492)	1,932,062	1,474,026	-	-	1,474,026
Manufacturing	24,897,676	501	(231,725)	24,666,452	23,680,064	498,759	(243,902)	23,934,921
Mining and quarrying	6,940,962	-	(257)	6,940,705	9,829,363	-	-	9,829,363
Electricity, water, gas and health services	3,098,627	-	(1,276)	3,097,351	2,266,851	-	-	2,266,851
Building and construction	14,694,804	490,505	(321,636)	14,863,673	13,314,188	214,280	(517,107)	13,011,361
Commerce	35,934,569	824,993	(809,696)	35,949,866	32,203,674	496,511	(141,974)	32,558,211
Transportation and communication	3,883,443	-	(3,600)	3,879,843	4,548,932	-	-	4,548,932
Services	7,610,301	2,051	(10,336)	7,602,016	4,590,247	2,289	(3,829)	4,588,707
Consumer loans and credit cards	45,805,030	243,387	(968,239)	45,080,178	42,344,837	200,318	(105,765)	42,439,390
Others	31,670	-	(9)	31,661	20,500	-	-	20,500
Total	151,821,922	1,561,437	(2,358,529)	151,024,830	139,510,387	1,412,157	(1,012,577)	139,909,967
Portfolio provision								(1,072,349)
Loans and advances, net								138,837,618

c) Collateral

The Group in the ordinary course of lending activities holds collateral as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realisable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary. Fair value of collateral held by Group against financing and advances by each category are as follows:

	2018 SAR'000	2017 SAR'000
Neither past due nor impaired	46,388,480	38,713,823
Past due but not impaired	4,103,990	5,645,833
Impaired	1,864,326	1,482,969
Total	52,356,796	45,842,625

31. MARKET RISK

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, commodity and equity prices. The Group classifies exposures to market risk into either trading or non-trading/ banking-book. The market risk for the trading book is managed and monitored using a VaR methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

31.1 Market Risk - Trading Book

The Group has set limits (both VaR and exposure based limits) for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Group applies a VaR methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses variance-covariance approach for calculating VaR for trading book based on historical data (of 1 year). VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The Group calculates VaR on the basis of the following:

1. 10 days holding period at 99% confidence interval for regulatory capital computation
2. 1 day holding period at 99% confidence interval for internal reporting and for disclosure purposes.

This means that the VaR that the Group measures is an estimate (using a confidence level of 99% of the potential loss) that is not expected to be exceeded if the current market positions were to be held unchanged for 1 or 10 days. The use of 99% confidence level depicts that within a 1-day horizon, losses exceeding VaR figure should occur, on average, not more than once every hundred days.

The VaR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Group also carries out stress tests of both non-trading and trading portfolios to simulate conditions outside normal confidence intervals using six stress scenarios for the entire Group. The potential losses occurring under stress test conditions are reported regularly to the Group's Asset Liability Committee (ALCO) for their review.

The Group’s VaR related information for the year ended December 31, 2018 and 2017 using a 1 day holding period at 99% confidence interval is set out below. All the figures are in million SAR:

	2018			
	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2018	3.71	2.83	5.54	10.33
Average VaR for 2018	7.87	1.31	5.04	13.54
Maximum VaR for 2018	27.39	4.34	5.54	32.97
Minimum VaR for 2018	1.58	0.04	4.82	6.41

	2017			
	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2017	1.96	0.42	4.97	7.12
Average VaR for 2017	8.59	0.58	5.03	13.87
Maximum VaR for 2017	20.28	1.15	5.11	25.36
Minimum VaR for 2017	0.45	0.18	4.90	5.52

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Group has established net special commission Income at Risk and Market Value at Risk (MVaR) limits that are monitored by ALCO. There are gap limits to accommodate Forward FX and Money Market for USD, SAR and other major currencies. The Group monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity.

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

The sensitivity of equity is calculated by revaluing the fixed rate FVOCI (2017: Available for sale financial assets), including the effect of any associated hedges as at December 31, 2018 and 2017 for the effect of assumed changes in special commission rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in SAR million.

2018

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	310.00	-	-	-	-	-
USD	+ 100	(50.00)	(0.64)	(0.70)	(44.81)	(303.27)	(349.42)
EUR	+ 100	(8.00)	(0.01)	-	(0.42)	(0.56)	(0.99)
GBP	+ 100	(0.60)	-	-	-	-	-
JPY	+ 100	4.96	-	-	-	-	-
Others	+ 100	(0.57)	-	-	-	-	-

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(310.00)	-	-	-	-	-
USD	- 100	50.00	0.64	0.70	44.81	303.27	349.42
EUR	- 100	-	0.01	-	0.42	0.56	0.99
GBP	- 100	0.40	-	-	-	-	-
JPY	- 100	(4.96)	-	-	-	-	-
Others	- 100	0.57	-	-	-	-	-

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk (continued)

2017

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	243.73	-	-	-	-	-
USD	+ 100	(50.00)	(0.83)	(0.63)	(39.36)	(301.11)	(341.93)
EUR	+ 100	0.87	(0.01)	-	-	-	(0.01)
GBP	+ 100	(1.39)	-	-	-	-	-
JPY	+ 100	2.15	-	-	-	-	-
Others	+ 100	(0.74)	-	-	-	-	-

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(243.73)	-	-	-	-	-
USD	- 100	51.00	0.83	0.63	39.36	301.11	341.93
EUR	- 100	(1.56)	0.01	-	-	-	0.01
GBP	- 100	-	-	-	-	-	-
JPY	- 100	(2.15)	-	-	-	-	-
Others	- 100	0.74	-	-	-	-	-

Special commission sensitivity of assets, liabilities and off statement of financial position items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. 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 statement of financial position 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 risk management strategies.

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

The table below summarises the Group's exposure to special commission rate risks. Included in the table are the Group's assets, liabilities and shareholders' equity at carrying amounts, categorised by the earlier of contractual re-pricing or the maturity dates.

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	2,459,863	-	-	-	13,863,309	16,323,172
Cash in hand	-	-	-	-	5,212,780	5,212,780
Balances with SAMA	2,459,863	-	-	-	8,650,529	11,110,392
Due from banks and other financial institutions	10,198,199	275,000	-	-	555,977	11,029,176
Current accounts	1,427,452	-	-	-	555,977	1,983,429
Money market placements	8,770,747	275,000	-	-	-	9,045,747
Positive fair value of derivatives	11,156	12,641	200,866	61,962	-	286,625
Investments, net	7,455,110	8,687,858	19,910,977	9,550,226	2,388,601	47,992,772
FVIS	-	-	-	-	393,272	393,272
FVOCI	798,891	441,728	5,912,461	5,577,862	1,995,329	14,726,271
Amortised cost	6,656,219	8,246,130	13,998,516	3,972,364	-	32,873,229
Investment in associates	-	-	-	-	595,493	595,493
Loans and advances, net	65,225,956	35,392,852	27,988,297	22,417,725	-	151,024,830
Overdraft	5,997,031	-	-	-	-	5,997,031
Credit cards	730,947	-	-	-	-	730,947
Consumer loans	171,433	325,318	22,331,390	21,521,090	-	44,349,231
Commercial loans	58,045,155	35,067,534	5,656,907	896,635	-	99,666,231
Others	281,390	-	-	-	-	281,390
Other real estate	-	-	-	-	227,405	227,405
Property and equipment, net	-	-	-	-	1,699,462	1,699,462
Other assets	348,506	-	-	-	372,135	720,641
Accounts receivable and others	348,506	-	-	-	372,135	720,641
Total assets	85,698,790	44,368,351	48,100,140	32,029,913	19,702,382	229,899,576
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,409,992	337,617	-	-	832,905	8,580,514
Current accounts	-	-	-	-	832,905	832,905
Money market deposits	7,409,992	337,617	-	-	-	7,747,609
Negative fair value of derivatives	33,147	6,612	144,052	90,459	-	274,270
Customer deposits	55,242,009	13,368,807	2,294,172	-	98,917,168	169,822,156
Demand	4,141,012	-	-	-	82,701,183	86,842,195
Saving	459,724	-	-	-	-	459,724
Time	50,641,273	13,368,807	2,294,172	-	-	66,304,252
Other	-	-	-	-	16,215,985	16,215,985
Debt securities in issue	-	4,003,783	-	-	-	4,003,783
Other liabilities	-	-	-	-	10,444,637	10,444,637
Accounts payable and others	-	-	-	-	10,444,637	10,444,637
Shareholders' equity	-	-	-	-	36,774,216	36,774,216
Total liabilities and shareholders' equity	62,685,148	17,716,819	2,438,224	90,459	146,968,926	229,899,576
Special commission rate sensitivity -On statement of financial position gap	23,013,642	26,651,532	45,661,916	31,939,454	(127,266,544)	-
Special commission rate sensitivity -Off statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	23,013,642	26,651,532	45,661,916	31,939,454	(127,266,544)	
Cumulative special commission rate sensitivity	23,013,642	49,665,174	95,327,090	127,266,544	-	

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	5,099,960	-	-	-	13,404,295	18,504,255
Cash in hand	-	-	-	-	5,484,534	5,484,534
Balances with SAMA	5,099,960	-	-	-	7,919,761	13,019,721
Due from banks and other financial institutions	8,575,262	635,000	-	-	161,938	9,372,200
Current accounts	933,815	-	-	-	161,938	1,095,753
Money market placements	7,641,447	635,000	-	-	-	8,276,447
Positive fair value of derivatives	8,687	6,512	73,614	27,077	-	115,890
Investments, net	10,935,725	7,707,473	15,703,533	9,313,908	2,709,264	46,369,903
Trading portfolio	-	-	-	-	303,760	303,760
Available for sale	1,510,062	116,607	4,789,866	5,807,760	2,405,504	14,629,799
Other investments held at amortised cost	9,425,663	7,590,866	10,913,667	3,506,148	-	31,436,344
Investment in associates	-	-	-	-	564,769	564,769
Loans and advances, net	61,095,782	28,858,580	28,200,270	20,682,986	-	138,837,618
Overdraft	6,705,539	-	-	-	-	6,705,539
Credit cards	717,226	-	-	-	-	717,226
Consumer loans	153,621	433,720	20,962,566	19,874,710	-	41,424,617
Commercial loans	53,269,453	28,424,860	7,237,704	808,276	-	89,740,293
Others	249,943	-	-	-	-	249,943
Other real estate	-	-	-	-	235,119	235,119
Property and equipment, net	-	-	-	-	1,752,408	1,752,408
Other assets	209,941	-	-	-	320,068	530,009
Accounts receivable and others	209,941	-	-	-	320,068	530,009
Total assets	85,925,357	37,207,565	43,977,417	30,023,971	19,147,861	216,282,171
Liabilities and shareholders' equity						
Due to banks and other financial institutions	5,941,023	56,251	-	-	1,058,894	7,056,168
Current accounts	-	-	-	-	1,058,894	1,058,894
Money market deposits	5,941,023	56,251	-	-	-	5,997,274
Negative fair value of derivatives	14,468	7,195	30,802	25,458	-	77,923
Customer deposits	57,029,002	5,091,423	720,374	-	91,524,750	154,365,549
Demand	1,044,343	-	-	-	79,967,022	81,011,365
Saving	366,380	-	-	-	-	366,380
Time	55,618,279	5,091,423	720,374	-	-	61,430,076
Other	-	-	-	-	11,557,728	11,557,728
Debt securities in issue	4,011,562	4,005,077	-	-	-	8,016,639
Other liabilities	-	-	-	-	8,142,899	8,142,899
Accounts payable and others	-	-	-	-	8,142,899	8,142,899
Shareholders' equity	-	-	-	-	38,622,993	38,622,993
Total liabilities and shareholders' equity	66,996,055	9,159,946	751,176	25,458	139,349,536	216,282,171
Special commission rate sensitivity -On statement of financial position gap	18,929,302	28,047,619	43,226,241	29,998,513	(120,201,675)	-
Special commission rate sensitivity -Off statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	18,929,302	28,047,619	43,226,241	29,998,513	(120,201,675)	
Cumulative special commission rate sensitivity gap	18,929,302	46,976,921	90,203,162	120,201,675	-	

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

iii) Currency risk

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

The table below shows the currencies to which the Group has a significant exposure as at December 31, 2018 and 2017 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in consolidated statement of income or equity.

Currency Exposures As at December 31, 2018 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	± 4.45
EUR	± 1	± 0.46
GBP	± 1	± 0.01
JPY	± 1	± 0.32
Others	± 1	± (0.04)

Currency Exposures As at December 31, 2017 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	± 5.19
EUR	± 1	± 0.59
GBP	± 1	± 0.09
JPY	± 1	± 0.13
Others	± 1	± (0.02)

iv) Foreign currency risk

The Group manages exposure to 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 overnight positions, which are monitored daily. At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	2018 Long (short) SAR'000	2017 Long (short) SAR'000
US Dollar	759,314	618,153
Japanese Yen	1,795	16
Euro	414	(3,914)
Pound Sterling	(246)	(1,864)
Others	35,956	41,124

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short positions.

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31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

v) Banking Book - Equity Price risk

Equity risk refers to the risk of decrease in fair values of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's FVOCI (2017: Available for sale financial) equity investments due to reasonable possible change in equity indices, with all other variables held constant, is as follows:

Market Index	December 31, 2018		December 31, 2017	
	Change in equity index %	Effect in SAR millions	Change in equity index %	Effect in SAR millions
Tadawul	+5	59.61	+5	47.32
	+10	119.23	+10	94.64
	-5	(59.61)	-5	(47.32)
	-10	(119.23)	-10	(94.64)

32. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up. To mitigate this risk, the bank has diversified sources of funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities.

Management monitors the maturity profile the balance sheet 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 ALCO. Daily reports cover the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank 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 Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Development Bonds, Treasury bills or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities with SAMA, from 85% to 100% of the nominal value of bonds/ bills held by the Bank.

32. LIQUIDITY RISK (continued)

a) The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2018 and 2017 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting 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 the Group could be required to pay and the table does not affect the expected cash flows indicated by the Group's deposit retention history. The undiscounted maturity profile of the financial liabilities is as follows:

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	8,261,099	339,735	-	-	8,600,834
Current accounts	832,905	-	-	-	832,905
Money market deposits	7,428,194	339,735	-	-	7,767,929
Customer deposits	152,411,341	14,607,249	3,319,674	38,145	170,376,409
Demand	86,842,195	-	-	-	86,842,195
Saving	459,726	-	-	-	459,726
Time	50,873,370	13,586,168	2,398,965	-	66,858,503
Other	14,236,050	1,021,081	920,709	38,145	16,215,985
Debt securities in issue	40,029	122,310	649,356	4,244,845	5,056,540
Derivative financial instruments (gross contractual amounts payable)	40,637	59,751	336,949	117,806	555,143
Total undiscounted financial liabilities	160,753,106	15,129,045	4,305,979	4,400,796	184,588,926

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	7,005,616	56,268	-	-	7,061,884
Current accounts	1,058,894	-	-	-	1,058,894
Money market deposits	5,946,722	56,268	-	-	6,002,990
Customer deposits	146,759,732	6,236,802	1,455,415	39,071	154,491,020
Demand	81,011,365	-	-	-	81,011,365
Saving	366,382	-	-	-	366,382
Time	55,729,726	5,105,170	720,649	-	61,555,545
Other	9,652,259	1,131,632	734,766	39,071	11,557,728
Debt securities in issue	56,600	169,800	4,693,463	4,350,782	9,270,645
Derivative financial instruments (gross contractual amounts payable)	52,299	143,122	367,173	15,708	578,302
Total undiscounted financial liabilities	153,874,247	6,605,992	6,516,051	4,405,561	171,401,851

32. LIQUIDITY RISK (continued)

b) The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	7,672,643	-	-	-	8,650,529	16,323,172
Cash in hand	5,212,780	-	-	-	-	5,212,780
Balances with SAMA	2,459,863	-	-	-	8,650,529	11,110,392
Due from banks and other financial institutions	10,754,176	275,000	-	-	-	11,029,176
Current accounts	1,983,429	-	-	-	-	1,983,429
Money market placements	8,770,747	275,000	-	-	-	9,045,747
Positive fair value of derivatives	11,156	12,641	200,866	61,962	-	286,625
Investments, net	5,343,882	1,345,109	21,343,815	17,571,365	2,388,601	47,992,772
FVIS	-	-	-	-	393,272	393,272
FVOCI	209,263	461,362	6,130,976	5,929,341	1,995,329	14,726,271
Amortised cost	5,134,619	883,747	15,212,839	11,642,024	-	32,873,229
Investment in associates	-	-	-	-	595,493	595,493
Loans and advances, net	50,246,419	26,432,328	37,924,610	36,421,473	-	151,024,830
Overdraft	5,997,031	-	-	-	-	5,997,031
Credit cards	730,947	-	-	-	-	730,947
Consumer loans	171,433	325,318	22,331,390	21,521,090	-	44,349,231
Commercial loans	43,065,618	26,107,010	15,593,220	14,900,383	-	99,666,231
Others	281,390	-	-	-	-	281,390
Other real estate	-	-	-	-	227,405	227,405
Property and equipment, net	-	-	-	-	1,699,462	1,699,462
Other assets	348,506	-	-	-	372,135	720,641
Accounts receivable and others	348,506	-	-	-	372,135	720,641
Total assets	74,376,782	28,065,078	59,469,291	54,054,800	13,933,625	229,899,576
Liabilities and shareholders' equity						
Due to banks and other financial institutions	8,242,897	337,617	-	-	-	8,580,514
Current accounts	832,905	-	-	-	-	832,905
Money market deposits	7,409,992	337,617	-	-	-	7,747,609
Negative fair value of derivatives	33,147	6,612	144,052	90,459	-	274,270
Customer deposits	152,179,242	14,389,888	3,214,881	38,145	-	169,822,156
Demand	86,842,195	-	-	-	-	86,842,195
Saving	459,724	-	-	-	-	459,724
Time	50,641,273	13,368,807	2,294,172	-	-	66,304,252
Other	14,236,050	1,021,081	920,709	38,145	-	16,215,985
Debt securities in issue	-	-	-	4,003,783	-	4,003,783
Other liabilities	-	-	-	-	10,444,637	10,444,637
Accounts payable and others	-	-	-	-	10,444,637	10,444,637
Shareholders' equity	-	-	-	-	36,774,216	36,774,216
Total liabilities and shareholders' equity	160,455,286	14,734,117	3,358,933	4,132,387	47,218,853	229,899,576

32. LIQUIDITY RISK (continued)

b) Analysis of assets and liabilities analysed according to when they are expected to be recovered or settled (continued).

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	10,584,494	-	-	-	7,919,761	18,504,255
Cash in hand	5,484,534	-	-	-	-	5,484,534
Balances with SAMA	5,099,960	-	-	-	7,919,761	13,019,721
Due from banks and other financial institutions	8,737,200	635,000	-	-	-	9,372,200
Current accounts	1,095,753	-	-	-	-	1,095,753
Money market placements	7,641,447	635,000	-	-	-	8,276,447
Positive fair value of derivatives	8,687	6,512	73,614	27,077	-	115,890
Investments, net	3,416,420	4,642,727	17,675,388	17,926,104	2,709,264	46,369,903
Trading portfolio	-	-	-	-	303,760	303,760
Available for sale	356,220	397,681	5,008,498	6,461,896	2,405,504	14,629,799
Other investments held at amortised cost	3,060,200	4,245,046	12,666,890	11,464,208	-	31,436,344
Investment in associates	-	-	-	-	564,769	564,769
Loans and advances, net	40,731,476	18,668,451	36,917,876	42,519,815	-	138,837,618
Overdraft	6,705,539	-	-	-	-	6,705,539
Credit cards	717,226	-	-	-	-	717,226
Consumer loans	153,621	433,720	20,962,566	19,874,710	-	41,424,617
Commercial loans	32,905,147	18,234,731	15,955,310	22,645,105	-	89,740,293
Others	249,943	-	-	-	-	249,943
Other real estate	-	-	-	-	235,119	235,119
Property and equipment, net	-	-	-	-	1,752,408	1,752,408
Other assets	209,941	-	-	-	320,068	530,009
Accounts receivable and others	209,941	-	-	-	320,068	530,009
Total assets	63,688,218	23,952,690	54,666,878	60,472,996	13,501,389	216,282,171
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,999,917	56,251	-	-	-	7,056,168
Current accounts	1,058,894	-	-	-	-	1,058,894
Money market deposits	5,941,023	56,251	-	-	-	5,997,274
Negative fair value of derivatives	14,468	7,195	30,802	25,458	-	77,923
Customer deposits	146,648,283	6,223,055	1,455,140	39,071	-	154,365,549
Demand	81,011,365	-	-	-	-	81,011,365
Saving	366,380	-	-	-	-	366,380
Time	55,618,279	5,091,423	720,374	-	-	61,430,076
Other	9,652,259	1,131,632	734,766	39,071	-	11,557,728
Debt securities in issue	-	-	4,011,562	4,005,077	-	8,016,639
Other liabilities	-	-	-	-	8,142,899	8,142,899
Accounts payable and others	-	-	-	-	8,142,899	8,142,899
Shareholders' equity	-	-	-	-	38,622,993	38,622,993
Total liabilities and shareholders' equity	153,662,668	6,286,501	5,497,504	4,069,606	46,765,892	216,282,171

Assets available to meet all of 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 cumulative maturities of commitments and contingencies are given in note 19 c) .

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

Fair value and fair value hierarchy

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

2017 SAR'000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Investments Held as FVIS	303,760	-	-	303,760
Available for sale investments	14,313,044	843	315,912	14,629,799
Positive fair value derivatives	-	115,890	-	115,890
Financial liabilities measured at fair value				
Negative fair value derivatives	-	77,923	-	77,923

The fair value of loans and advances, net amounts to SAR 155,451 million (2017: SAR 143,052 million).

The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. Cash and balances with SAMA, due from banks with maturity of less than 90 days and other short term receivables, other assets and other liabilities are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature. The fair value of investments held at amortized cost amounted to SAR 32,825 million (2017: SAR 31,545 million)

The fair values of due from banks and other financial institutions, due to banks and other financial institutions, customer deposits and debt securities issued at 31 December 2018 and 2017 approximate their carrying values.

There were no transfers between the fair value hierarchy levels.

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

Although the Group believes that its estimates of fair value of Level 3 securities are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Level 3 consists of local and international unquoted equity securities. The Group uses net assets valuation and price to book value method based on most recent available audited financial statements to fair value these investments. Other methodology that could be used to value the securities is discounted cash flow model based on expected dividend yield for which no data is available. Therefore potential impact of using reasonably possible alternative assumptions for the valuation techniques is not quantified.

Reconciliation of movement in Level 3	2018 SAR'000	2017 SAR'000
Opening balance	315,912	266,649
Total gains or losses		
- recognised in consolidated statement of income	18,536	2,145
- recognised in other comprehensive income	(45,572)	47,118
Redemptions	-	-
Purchases	-	-
Closing balance	288,876	315,912

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

a) In the principal market for the asset or liability, or

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

34. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. Related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA. The balances at December 31 resulting from such transactions are as follows:

	2018 SAR'000	2017 SAR'000
a) Directors, key management personnel, other major shareholders' and their affiliates:		
Loans and advances	6,446,784	3,428,410
Customer deposits	26,552,085	26,136,098
Derivatives asset (at fair value)	6,378	2,972
Commitments and contingencies (irrevocable)	6,786,554	2,099,008
Executive end of service	32,671	52,518

Key management personnel are those persons, including a non-executive director, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

b) Bank's mutual funds:		
Customer deposits	-	135,000

34. RELATED PARTY TRANSACTIONS (continued)

Income and expenses pertaining to transactions with related parties included in these consolidated financial statements are as follows:

	2018 SAR'000	2017 SAR'000
Special commission income	322,129	119,614
Special commission expense	403,924	420,291
Fees from banking services, net	174,092	112,150
Directors and committees remuneration and expenses	5,772	5,445
Executive remuneration and bonus	67,621	64,375
Executive end of service	3,984	4,681
Other expenses	50,872	23,713

35. CAPITAL ADEQUACY

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

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

The Group management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers the Group's business plans along with economic conditions which directly and indirectly affect its business environment. SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from January 1, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

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

	2018		2017	
	Capital SAR'000	Ratio %	Capital SAR'000	Ratio %
Top consolidated level				
Tier 1 capital	36,774,216	16.1%	38,622,993	17.3%
Tier 2 capital	4,383,731		5,072,349	
Total regulatory capital (Tier 1 + Tier 2)	41,157,947	18.1%	43,695,342	19.6%

	2018	2017
Risk weighted assets	SAR '000s	SAR '000s
Credit risk weighted assets	210,879,810	207,783,403
Operational risk weighted assets	14,705,072	14,035,238
Market risk weighted assets	2,330,200	1,250,963
Total Pillar 1 Risk Weighted Assets	227,915,082	223,069,604

36. STAFF INVESTMENT SAVINGS PLANS

The Group operates a Staff Savings Investment Plan. Under the terms of the Staff Savings Investment Plan, participating employees of the Group make monthly contributions by way of a deduction from their salary subject to a maximum of 15% of their basic salaries. The Group also contributes on a monthly basis a pre-determined percentage (subject to a maximum of 6%) of the basic salary of an employee based on the varying service periods. The proceeds are invested in the Group's existing range of mutual funds for the benefit of the employees.

The cost of the above plan is charged to the consolidated statement of income over the term of the plan.

37. INVESTMENT MANAGEMENT SERVICES

The Group offers investment management services to its customers, which include management of certain investment funds with assets totaling SAR 31.4 billion (2017: SAR 24.4 billion).

The Group's assets under management include non-interest based funds amounting to SAR 8.2 billion (2017: SAR 8.1 billion).

38. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Group's accounting years beginning on or after 1 January 2019 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after January 01, 2019:

- IFRS 16 – "Leases", applicable for the period beginning on or after 1 January 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 proposes on-balance sheet accounting model.

  -Transition to IFRS 16

  The Group plans to adopt IFRS 16 retrospectively to each prior reporting period presented. 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 by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

  During 2018, the Group has performed an assessment of IFRS 16 and the impact is not material to the Group's consolidated financial statements as a whole.

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, applicable for the period beginning on or after 1 January 2019. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period.

For other Standards, amendments or interpretations effective for annual periods beginning on or after 1 January 2019, the Group does not anticipate that these will have a material impact.

39. COMPARATIVE FIGURES

Certain other comparative amounts have been reclassified to conform with the current year presentation

40. BOARD OF DIRECTORS' APPROVAL

These consolidated financial statements were approved by the Board of Directors on Jumada Al-Awwal 24, 1440 (corresponding to January 30, 2019).