البنك الأول
Alawwal bank

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended

December 31, 2018

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Alawwal bank (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Alawwal 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 income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the 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 that are 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 judgement, 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.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Alawwal bank (A Saudi Joint Stock Company) - continued

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

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit</th></tr>
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Impairment of loans and advances
At 31 December 2018, the gross loans and advances of the Group were Saudi Riyals 61.7 billion against which an impairment allowance of Saudi Riyals 3.9 billion was maintained.

During the year the Group has adopted IFRS 9 – Financial Instruments which introduced a forward looking, expected credit loss ("ECL") impairment model. On adoption, the Group has applied the requirements of IFRS 9 retrospectively without restating the comparatives. The adoption of IFRS 9 resulted in transition adjustment of Saudi Riyals 461 million (out of which Saudi Riyals 350 million relates to loans and advances) to the Group's equity as at 1 January 2018 and the impacts of transition are explained in note 3.1.1 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 this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include:

1. Categorisation of loans in Stage 1, 2 or 3 based on identification of:
   (a) exposures with significant increase in credit risk ("SICR") since their origination; and
   (b) individually impaired / default exposures.

2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc.

3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.

Refer to note 3.1.1 to the consolidated financial statements for the impacts of adoption of IFRS 9 – Financial Instruments, note 2(d) which contains the disclosure of critical accounting judgement, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7 which contains the disclosure of impairment against loans and advances and note 29(c) for details of credit quality analysis and key assumptions and factors considered in determination of ECL.

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We have obtained an understanding of management's assessment of impairment of loans and advances including the IFRS 9 implementation process, Group's internal rating model, Group's impairment allowance policy and 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,
- integrity of data inputs into the ECL model.

We assessed the Group's criteria for determination of significant increase in credit risk and identification of "default" or "individually impaired" exposures and their classification into various stages.

For a sample of customers, we assessed:

- the internal ratings determined by the management based on Group's internal rating model;
- the staging as identified by management;
- management's computation of ECL.

We assessed underlying assumptions including forward looking assumptions used by the Group in ECL calculations, Where management's 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 reviewing model calculations and data integrity.

As the Group has used, modified restrospective approach for adoption of IFRS 9, we performed all the above mentioned tasks to evaluate management's computation of adjustment to the Group's equity as at 1 January 2018 (as a result of adoption of IFRS 9).

We assessed the disclosures included by management in the consolidated financial statements.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Alawwal 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
Fee from banking services The Group charges loan transaction and service fees upfront to customers on corporate and retail loan financing. Due to the large volume of transactions with mostly insignificant fee amounts, adjustments to the effective yield of loan financing is made by management based on certain thresholds and such adjustments are recognised within consolidated income statement. All such fees which are an integral part of generating an involvement with the resulting financial instrument should be recognized within Special Commission Income, regardless of the thresholds, as an adjustment to the effective yield of loan financing. We considered this as a key audit matter since the use of assumptions for setting these thresholds by management could result in a material over / under statement of the Group's profitability. *Refer to the significant accounting policies note 3.2(g)(ii) to the consolidated financial statements.*	We assessed the design and implementation and tested the operating effectiveness of the control over the consistent application of the thresholds by management. We considered and evaluated the thresholds established by the Group for making adjustments to the effective yield of loan financing. We obtained management's assessment of the impact of the use of the aforementioned thresholds and: - On a sample basis, traced the current and historical data used by management in their assessment to the underlying accounting records; and - Assessed the impact of the use of thresholds 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 Alawwal 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
Other assets As at 31 December 2018, other assets of the Group included an amount of Saudi Riyals 438 million, which was disbursed to a third party who defaulted on payment and the management expects to recover this balance from a related party. The Group had a settlement agreement (the "existing settlement agreement") in place with the related party for recovery of this amount and until 30 September 2018, the Group maintained an impairment allowance of Saudi Riyals 150 million against the outstanding balance due to uncertainty around the timing of recoverability of this balance. However, during the last quarter of 2018, the Group entered into three settlement agreements (the "new settlement agreements") to replace the existing settlement agreement and based on the recent developments, the impairment allowance was fully reversed. This is considered a key audit matter due to the subjectivity involved in the assessment of provision against the recoverable balance which can have a material impact on the Group's profitability. *Refer to note 10 to the consolidated financial statements for disclosure of the aforementioned receivable.*	We performed the following procedures: • Read the existing settlement agreement and the new settlement agreements. • Held meetings with those charged with governance and senior management of the Group to obtain an update on this matter and the results of their interactions with its related parties. • Held meetings with the legal counsel of the Group to discuss the terms of the new settlement agreements. • Evaluated the basis used by management for reversal of the impairment allowance against the receivable. • Assessed the appropriateness of the disclosures included in the consolidated financial statements of the Group.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Alawwal 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 IFRSs as modified by SAMA for the accounting of Zakat and income tax, the applicable requirements of the Regulations for Companies, 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 Alawwal 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 the 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.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Alawwal 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 Regulations for Companies, 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.

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8 Jumada Al-Akhirah 1440H
(13 February 2019)

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Alawwal bank البنك الأول

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2018

Amounts in SAR'000

	Notes	2018	2017
ASSETS			
Cash and balances with SAMA	**4**	**4,890,038**	15,137,005
Due from banks and other financial institutions, net	**5**	**1,116,012**	2,115,271
Positive fair value derivatives, net	**11**	**110,107**	212,218
Investments, net	**6**	**16,068,538**	16,688,747
Loans and advances, net	**7**	**57,767,123**	63,639,483
Investment in an associate	**8**	**53,762**	45,507
Property and equipment, net	**9**	**1,268,639**	1,347,009
Other assets	**10**	**753,983**	684,590
Total assets		**82,028,202**	99,869,830
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	**12**	**1,531,816**	3,344,671
Negative fair value derivatives, net	**11**	**57,093**	91,679
Customers' deposits	**13**	**64,572,713**	78,274,963
Subordinated debt	**14**	**-**	2,505,026
Other liabilities	**15**	**2,006,183**	2,053,795
Total liabilities		**68,167,805**	86,270,134
Shareholders' equity			
Share capital	**16**	**11,430,720**	11,430,720
Statutory reserve	**17**	**882,675**	600,062
General reserve		**130,000**	130,000
Other reserves	**18**	**37**	13,129
Retained earnings		**1,443,809**	1,297,728
Proposed dividends	**26**	**-**	171,461
Share based plan reserve	**36**	**(26,844)**	(43,404)
Total shareholders' equity		**13,860,397**	13,599,696
Total liabilities and shareholders' equity		**82,028,202**	99,869,830

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

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2018

Amounts in SAR'000

	Notes	2018	2017
Special commission income	20	**3,755,276**	3,903,289
Special commission expense	20	**1,000,570**	1,137,527
Net special commission income		**2,754,706**	2,765,762
Fee and commission income, net	21	**601,265**	689,799
Exchange income, net		**125,268**	129,885
Trading income, net	22	**75,354**	95,916
Gain on FVTPL financial instruments		**6,921**	-
Gain on non-trading investments	23	**-**	30,260
Total operating income		**3,563,514**	3,711,622
Salaries and employee-related expenses	24	**661,958**	670,845
Rent and premises-related expenses		**140,825**	140,230
Depreciation and amortisation	9	**173,292**	165,191
General and administrative expenses		**302,347**	289,349
Impairment charge for credit and other losses, net	7b (i)	**1,167,476**	1,120,299
Impairment reversal for other financial assets, net		**(4,579)**	-
Total operating expenses		**2,441,319**	2,385,914
Operating income		**1,122,195**	1,325,708
Share in earnings of an associate	8	**8,255**	9,810
Net income for the year		**1,130,450**	1,335,518
Basic and diluted earnings per share (Expressed in SAR per share)	25	**0.99**	1.17

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

Alawwal bank البنك الأول

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2018

Amounts in SAR'000

	Note	2018	2017
Net income for the year		**1,130,450**	1,335,518
Other comprehensive loss			
Items that are or may be reclassified to consolidated income statement in subsequent periods:			
Available for sale investments:			
- Net changes in fair values	**18**	**-**	(4,060)
- Net amounts transferred to consolidated income statement		**-**	(24,360)
Total available for sale investments		**-**	(28,420)
Cash flow hedge:			
- Net changes in fair values	**18**	**(644)**	402
Other comprehensive loss for the year		**(644)**	(28,018)
Total comprehensive income for the year		**1,129,806**	1,307,500

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

Alawwal bank

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2018

Amounts in SAR'000

	Notes	Share capital	Statutory Reserve	General reserve	Other reserves: Available for sale	Other reserves: Cash flow hedges	Retained earnings	Proposed dividends	Share based plan reserve	Total shareholders' equity
2018										
Balance at beginning of the year - *as reported*		**11,430,720**	**600,062**	**130,000**	**12,448**	**681**	**1,297,728**	**171,461**	**(43,404)**	**13,599,696**
Impact of adoption of new standards at January 1, 2018	**3**	**-**	**-**	**-**	**(12,448)**	**-**	**(448,853)**	**-**	**-**	**(461,301)**
Balance at beginning of the period - *restated*		**11,430,720**	**600,062**	**130,000**	**-**	**681**	**848,875**	**171,461**	**(43,404)**	**13,138,395**
Net income for the year		**-**	**-**	**-**	**-**	**-**	**1,130,450**	**-**	**-**	**1,130,450**
Net changes in fair values	**18**	**-**	**-**	**-**	**-**	**(644)**	**-**	**-**	**-**	**(644)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(644)**	**1,130,450**	**-**	**-**	**1,129,806**
Transfer to statutory reserve	**17**	**-**	**282,613**	**-**	**-**	**-**	**(282,613)**	**-**	**-**	**-**
Dividends paid	**26**	**-**	**-**	**-**	**-**	**-**	**-**	**(171,461)**	**-**	**(171,461)**
Zakat for the year	**26**	**-**	**-**	**-**	**-**	**-**	**(58,299)**	**-**	**-**	**(58,299)**
Zakat for the prior years	**26**	**-**	**-**	**-**	**-**	**-**	**(100,408)**	**-**	**-**	**(100,408)**
Tax for the year	**26**	**-**	**-**	**-**	**-**	**-**	**(94,196)**	**-**	**-**	**(94,196)**
Share based plan transactions	**36**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,560**	**16,560**
Balance at end of the year		**11,430,720**	**882,675**	**130,000**	**-**	**37**	**1,443,809**	**-**	**(26,844)**	**13,860,397**
2017										
Balance at beginning of the year		11,430,720	266,183	130,000	40,868	279	854,003	-	(59,328)	12,662,725
Net income for the year		-	-	-	-	-	1,335,518	-	-	1,335,518
Net changes in fair values	18	-	-	-	(4,060)	402	-	-	-	(3,658)
Net amounts transferred to the consolidated income statement	18	-	-	-	(24,360)	-	-	-	-	(24,360)
Total comprehensive income for the year		-	-	-	(28,420)	402	1,335,518	-	-	1,307,500
Transfer to statutory reserve	17	-	333,879	-	-	-	(333,879)	-	-	-
Proposed dividends	26	-	-	-	-	-	(171,461)	171,461	-	-
Zakat for the year	26	-	-	-	-	-	(26,884)	-	-	(26,884)
Tax for the year	26	-	-	-	-	-	(102,188)	-	-	(102,188)
Zakat and income tax for prior years	26	-	-	-	-	-	(257,381)	-	-	(257,381)
Share based plan transactions	36	-	-	-	-	-	-	-	15,924	15,924
Balance at end of the year		11,430,720	600,062	130,000	12,448	681	1,297,728	171,461	(43,404)	13,599,696

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

Alawwal bank

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

Amounts in SAR'000

	Notes	2018	2017
OPERATING ACTIVITIES			
Net income for the year		**1,130,450**	1,335,518
Adjustments to reconcile net income to net cash (used in) / from operating activities:			
Amortisation of premium and (accretion of discount) on non-trading investments, net		**4,220**	(4,405)
Gain on non-trading investments	**23**	**-**	(30,260)
Derivative fair value, net		**66,881**	2,447
Subordinated debt		**(5,026)**	(4,879)
Depreciation and amortisation	**9**	**173,292**	165,191
Loss on disposal of property and equipment	**9**	**49**	-
Impairment charge for credit and other losses, net	**7b (i)**	**1,167,476**	1,120,299
Gain on FVTPL financial instruments		**(6,921)**	-
Impairment reversal for other financial assets, net		**(4,579)**	-
Share in earning of an associate	**8**	**(8,255)**	(9,810)
Share based plan transactions	**36**	**5,345**	13,686
		2,522,932	2,587,787
Net decrease / (increase) in operating assets:			
Statutory deposit with SAMA		**614,436**	321,273
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**114,854**	5,000
Loans and advances, net		**4,204,685**	7,983,315
Other assets		**91,730**	83,860
Net (decrease) / increase in operating liabilities:			
Due to banks and other financial institutions		**(1,812,855)**	1,996,939
Customers' deposits		**(13,702,250)**	(7,083,825)
Other liabilities		**(384,287)**	227,231
Net cash (used in) / from operating activities		**(8,350,755)**	6,121,580
INVESTING ACTIVITIES			
Proceeds from sale and maturity of investments		**600,397**	7,121,398
Purchase of non-trading investments		**-**	(2,545,000)
Purchase of property and equipment	**9**	**(94,971)**	(231,177)
Net cash from investing activities		**505,426**	4,345,221
FINANCING ACTIVITIES			
Dividends paid	**16**	**(171,461)**	-
Repayment of subordinated debt	**14**	**(2,500,000)**	(1,400,000)
Net cash used in financing activities		**(2,671,461)**	(1,400,000)
Net (decrease) / increase in cash and cash equivalents		**(10,516,790)**	9,066,801
Cash and cash equivalents at beginning of the year		**13,006,065**	3,939,264
Cash and cash equivalents at end of the year	**27**	**2,489,275**	13,006,065
Special commission received during the year		**3,715,327**	3,949,633
Special commission paid during the year		**1,030,006**	1,304,750
<u>Supplemental non-cash information</u>			
Impact of first time adoption of IFRS 9	**3**	**461,301**	-
Net changes in fair value and transfers to consolidated income statement		**(644)**	(28,018)

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

1 GENERAL

Alawwal bank (the "Bank"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and was formed pursuant to Royal Decree No. M/85 dated 29 Dhul Hijjah 1396H (corresponding to December 21, 1976). The Bank commenced business on 17 Shaaban 1397H (corresponding to August 2, 1977) when it took over the operations of Algemene Bank Nederland N.V. in the Kingdom of Saudi Arabia. The Bank operates under commercial registration No. 1010064925 dated 6 Jumada II 1407H (corresponding to February 5, 1987) through its 67 branches (2017: 67 branches) in the Kingdom of Saudi Arabia. The registered address of the Bank's head office is:

Alawwal bank
Head Office
Al-Dhabab Street
P O Box 1467
Riyadh 11431, Kingdom of Saudi Arabia.

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

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries. The details of these subsidiaries are set out below:

Alawwal Invest (AI)

Alawwal Invest, is a Saudi Closed Joint Stock Company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank, was formed in accordance with the Capital Market Authority's (CMA) Resolution number 1-39-2007 under commercial registration number 1010242378 dated 30 Dhul Hijjah 1428H (corresponding to January 9, 2008) to take over and manage the Group's Investment Services and Asset Management activities regulated by CMA related to dealing, managing, arranging, advising and taking custody of securities. Alawwal Invest commenced its operations effective on 2 Rabi'II 1429H (corresponding to April 8, 2008).

Alawwal Real Estate Company (AREC)

AREC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010250772 dated 21 Jumada I 1429H (corresponding to May 26, 2008) with the approval of the Saudi Arabian Monetary Authority (SAMA). The Company was formed to register real estate assets under its name which are received by the Bank from its borrowers as collaterals.

Alawwal Insurance Agency Company (AIAC)

AIAC, a limited liability company incorporated in the Kingdom of Saudi Arabia, a wholly owned subsidiary of the Bank through direct ownership was established under commercial registration number 1010300250 dated 29 Muharram 1432H (corresponding to January 4, 2011) with the approval of SAMA. The Company was formed to act as an agent for Wataniya Insurance Company (WIC), an associate, for selling its insurance products.

Alawwal Financial Markets Limited (SPV)

The Bank has established a wholly owned SPV subsidiary, formed with the approval of SAMA solely to facilitate trading of certain derivative financial instruments. The SPV is consolidated in these consolidated financial statements as the Bank controls the SPV.

Further to the announcement of a non-binding agreement between the Bank and The Saudi British Bank ("SABB") on May 16, 2018 (corresponding to Ramadan 1, 1439H) with respect to the exchange ratio of the proposed merger, the Bank announced to its shareholders that it entered into a binding merger agreement with SABB on October 3, 2018 (corresponding to Muharram 23, 1440H) under which the two banks agreed to take the necessary steps to implement the merger by way of a statutory merger pursuant to Articles 191-193 of the Companies Law and Article 49(a)(1) of the Merger and Acquisition Regulations. The merger is subject to the approval of SAMA, the Capital Market Authority, the General Authority for Competition, the Saudi Stock Exchange, shareholders of both the banks and certain agreed contractual conditions.

2 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group have been prepared on a going concern basis;

- 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. Further, certain accounting policies followed in the current and comparative period are different as explained in Note 3"; 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.

b) Basis of measurement and presentation

These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial assets held at Fair Value through Profit and Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI). In addition, financial assets or 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 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 Bank's functional currency. Financial information has been rounded off to the nearest thousand, except where otherwise indicated.

d) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRs as modified by SAMA for the accounting of Zakat and income tax requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment for losses on loans and advances

The measurement of impairment losses under IFRS 9 across all 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 expected credit losses 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 probability of default (PD) 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.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

ii) Fair value measurement

The Group measures financial instruments, such as, derivatives, FVOCI and FVTPL investments at fair value at each reporting date. Fair values hierarchy is disclosed in note 32.

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. 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 annual consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active primary markets

Level 2 — Adjusted market prices in active markets for identical assets or liabilities using 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 in the annual consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

iii) Determination of control over investees

The control indicators as set out in note 3.2 (a) are subject to management's judgement that can have an impact in the case of the Group's interests in investments funds.

iv) Fee and commission income

The Group recognizes revenue in line with the accounting policy stated in note 3 (g), the application of which requires judgement.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Change 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 has 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. The impact and disclosures pertaining to adoption of IFRS 9 has been illustrated in the subsequent notes of these financial statements.

3.1.1 Adoption of New Standards or amendments to existing 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:

a) IFRS 15 Revenue from Contracts with Customers

The Group adopted IFRS 15 "Revenue from Contracts with Customers" resulting in a change in the revenue recognition policy of the Group in relation to its contracts with customers. IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after January 1, 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes previous revenue guidance, which was available across several Standards and Interpretations within the IFRSs. 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 also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity. There is no significant impact of IFRS 15 adoption in these consolidated financial statements.

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

b-i) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). These classifications are generally based 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 profit or loss, 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 Consolidated statement of comprehensive income with no subsequent reclassification to profit or loss; and
- The remaining amount of change in the fair value is presented in consolidated income statement.

b-ii) 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 FVTPL, 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 its 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 special commission 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. 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.

c) IFRS 7

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 and detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used which are set out as shown in note 3 and note 29. Reconciliations from opening to closing ECL are presented in respective notes 7. IFRS 7 also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

d) IFRS 9 Transition

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

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for the year 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 FVTPL.
  iii) The designation of certain investments in equity instruments not held for trading as FVOCI.
  iv) For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the issuer's liability credit risk in Consolidated statement of comprehensive income would create or enlarge an accounting mismatch in profit or loss.

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.

e) Financial assets and financial liabilities

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

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying values under IAS 39	New carrying values under IFRS 9
Financial assets				
Cash and balances with SAMA	Loans and receivables	Amortized cost	15,137,005	15,137,005
Due from banks and other financial institutions	Loans and receivables	Amortized cost	2,115,271	2,115,125
Positive fair value of derivatives	FVTPL	FVTPL	212,218	212,218
Investments, net	HTM	Amortized cost	60,151	60,151
	AFS	FVOCI	174,125	174,006
	AFS	FVTPL	153,347	153,347
	Loans and receivables	Amortized cost	16,112,843	16,103,815
	Loans and receivables	FVTPL	188,281	170,337
			16,688,747	16,661,656
Loans and advances	Loans and receivables	Amortized cost	63,639,483	63,289,192
Other assets, net	Loans and receivables	Amortized cost	684,590	684,590
			98,477,314	98,099,786
Financial liabilities				
Due to banks and other financial institutions	Amortized cost	Amortized cost	3,344,671	3,344,671
Negative fair value of derivatives	FVTPL	FVTPL	91,679	91,679
Customers' deposits	Amortized cost	Amortized cost	78,274,963	78,274,963
Subordinated debt	Amortized cost	Amortized cost	2,505,026	2,505,026
Other liabilities	Amortized cost	Amortized cost	2,053,795	2,137,568
			86,270,134	86,353,907

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

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

	IAS 39 carrying values as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying values as at 1 January 2018
Financial assets:				
Amortized cost:				
Cash and balances with SAMA	15,137,005	-	-	15,137,005
Due from banks and other financial institutions, net	2,115,271	-	(146)	2,115,125
Loans and advances, net	63,639,483	-	(350,291)	63,289,192
Investments (HTM and OI)	16,361,275	(188,281)	(9,028)	16,163,966
Other assets, net	684,590	-	-	684,590
Total amortized cost	97,937,624	(188,281)	(359,465)	97,389,878
Available for Sale Investments	327,472	(327,472)	-	-
FVOCI – Investment:				
From available for sale	-	174,125	(119)	174,006
Total FVOCI	-	174,125	(119)	174,006
FVTPL:				
Positive fair value derivatives	212,218	-	-	212,218
Investment:				
From available for sale	-	153,347	-	153,347
From amortized cost	-	188,281	(17,944)	170,337
Total investment	-	341,628	(17,944)	323,684
Total FVTPL	212,218	341,628	(17,944)	535,902
Financial liabilities:				
Amortized cost:				
Due to banks and other financial institutions	3,344,671	-	-	3,344,671
Customers' deposits	78,274,963	-	-	78,274,963
Subordinated debt	2,505,026	-	-	2,505,026
Other liabilities	2,053,795	-	83,773	2,137,568
Total amortized cost	86,178,455	-	83,773	86,262,228
FVTPL:				
Negative fair value derivatives	91,679	-	-	91,679

Available for sale investments reclassification includes SAR 174 million reclassified to FVOCI and SAR 153 million reclassified to FVTPL.

iii) Impact on retained earnings and other reserves

	Retained earnings	Other reserves
Closing balance under IAS 39 as at December 31, 2017	**1,297,728**	**13,129**
Re-measurement on reclassifications under IFRS 9	**(17,944)**	**-**
Available for sale investments reserve transferred to retained earnings	**12,448**	**(12,448)**
Recognition of ECL under IFRS 9	**(443,357)**	**-**
Opening balance under IFRS 9 as at January 1, 2018	**848,875**	**681**

Recognition of ECL under IFRS 9 comprises ECL for loans and advances, indirect exposure, investments and due from banks and other financial institutions amounting to SAR 350.29 million, SAR 83.77 million, SAR 9.15 million and SAR 0.15 million, respectively.

iv) The following table provides carrying values of financial assets and financial liabilities in the statement of financial position.

December 31, 2018	**FVTPL**	**FVOCI – equity investments**	**Amortized cost**	**Total carrying amount**
Financial assets:				
Cash and balances with SAMA	**-**	**-**	**4,890,038**	**4,890,038**
Due from banks and other financial institutions, net	**-**	**-**	**1,116,012**	**1,116,012**
Positive fair value derivatives, net	**110,107**	**-**	**-**	**110,107**
Investments, net	**313,263**	**4,330**	**15,750,945**	**16,068,538**
Loans and advances, net	**-**	**-**	**57,767,123**	**57,767,123**
Other assets	**-**	**-**	**753,983**	**753,983**
Total	**423,370**	**4,330**	**80,278,101**	**80,705,801**
Financial liabilities:				
Due to banks and other financial institutions	**-**	**-**	**1,531,816**	**1,531,816**
Negative fair value derivatives, net	**57,093**	**-**	**-**	**57,093**
Customers' deposits	**-**	**-**	**64,572,713**	**64,572,713**
Other liabilities	**-**	**-**	**2,006,183**	**2,006,183**
Total	**57,093**	**-**	**68,110,712**	**68,167,805**

December 31, 2017	Held for trading	Available for sale	Held to maturity	Loans and receivables	Total carrying amount
Financial assets:					
Cash and balances with SAMA	-	-	-	15,137,005	15,137,005
Due from banks and other financial institutions	-	-	-	2,115,271	2,115,271
Positive fair value derivatives	212,218	-	-	-	212,218
Investments	-	327,472	60,151	16,301,124	16,688,747
Loans and advances, net	-	-	-	63,639,483	63,639,483
Other assets, net	-	-	-	684,590	684,590
Total	212,218	327,472	60,151	97,877,473	98,477,314
Financial liabilities:					
Due to banks and other financial institutions	-	-	-	3,344,671	3,344,671
Negative fair value derivatives	91,679	-	-	-	91,679
Customers' deposits	-	-	-	78,274,963	78,274,963
Subordinated debt	-	-	-	2,505,026	2,505,026
Other liabilities	-	-	-	2,053,795	2,053,795
Total	91,679	-	-	86,178,455	86,270,134

3.1.2 POLICIES APPLICABLE FROM 1 JANUARY 2018

a) Classification of financial assets

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

i) Financial asset at Amortized cost

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

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

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 FVTPL:

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in consolidated statement of comprehensive income. Special commission income and foreign exchange gains and losses are recognised in consolidated income statement.

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 consolidated statement of comprehensive income. This election is made on an instrument-by-instrument basis. Changes in fair value are recognized in OCI and are never recycled to consolidated income statement, even if the asset is sold or impaired.

iii) Financial asset at FVTPL

All other financial assets are classified as FVTPL. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

e) 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 commission revenue or maintaining a particular commission 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;
- 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 FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. '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.

g) Financial liabilities at FVTPL

For financial liabilities classified as FVTPL using fair value option after initial recognition, changes in fair value related to changes in own credit risk are presented separately in consolidated statement of comprehensive income and all other fair value changes are presented in the consolidated income statement. Amounts in consolidated statement of comprehensive income relating to changes in own credit risk are not recycled to the consolidated income statement even when the liability is derecognized and the amounts are realized.

On initial recognition of the financial liability, the Group assesses whether presenting the amount of change in the fair value of the liability that is attributable to changes in issuer's credit risk in the consolidated statement of comprehensive income would create or enlarge an accounting mismatch in the consolidated income statement. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on profit or loss of expected changes in fair value of the related instruments.

h) 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 consolidated income statement.

From January 1, 2018, any cumulative gain/loss recognized in consolidated statement of other comprehensive income 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.

ii) Financial liabilities

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

i) Modification 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 amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and 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 consolidated income statement.

j) Impairment

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

- financial assets that are debt instruments;
- 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.

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 ECL that results from modelled default events within 12 months of the reporting date.

k) Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group 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.

l) 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, 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.

m) Credit-impaired financial assets

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the 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. 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.

n) Presentation of allowance for ECL in the consolidated statement of financial position

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- 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 or loss and changes between the Amortized cost of the assets and their fair value are recognised in consolidated statement of comprehensive income.

o) 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.

p) 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 1 January 2018: at the higher of the un-amortized amount and the amount of loss allowance;
- before 1 January 2018: at the higher of the un-amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

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

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

q) Revenue / expense recognition

i) Special commission income and expenses

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

When calculating the effective commission 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 commission rate is calculated using estimated future cash flows including expected credit losses. Subsequent to the recognition of an impairment loss on a financial asset or a group of financial assets, special commission income continues to be accounted for in consolidated statement of financial position on the effective special commission rate basis, on the asset's carrying value.

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

ii) Measurement of amortized cost and special commission income

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

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance. In calculating commission income and expense, the effective commission rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, commission income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of commission income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, commission income is calculated by applying the credit-adjusted effective commission rate to the amortized cost of the asset. The calculation of commission income does not revert to a gross basis, even if the credit risk of the asset improves.

r) 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.

s) Customer Loyalty Program

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

3.1.3 POLICIES APPLICABLE BEFORE ADOPTION OF IFRS 9

The Group classified its financial assets into one of the following categories:

a) Investments

Initial recognition

All investment securities are initially recognised at fair value plus incremental direct transaction costs except for fair value through income statement ("FVIS") instruments where incremental direct transaction costs are charged to the consolidated income statement. These 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 special commission rate basis and are taken to special commission income.

Determination of fair value

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

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base 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.

Reclassification

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

- If the investments would have met the definition of "held at amortised cost" and had not been required to be classified as held for trading at initial recognition, these may be reclassified if the Group has the intention and ability to hold the investments for the foreseeable future or until maturity.
- If the investments would not have met the definition of held at amortised cost, and then it is reclassified out of the trading category only in 'rare circumstances'.

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

Subsequent measurement

The investments under each class are accounted for and presented using the basis set out in the following paragraphs:

i) Held as FVIS

Investments in this category are classified if they are held for trading or designated by management as FVIS on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short term and are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognized in net trading income / (loss).

An investment may be designated at FVIS by the management, at initial recognition if doing so significantly reduces measurement inconsistencies which would otherwise arise except for equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

Investments at FVIS are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are recognised in the consolidated income statement for the year in which it arises. Special commission income and dividend income on financial assets held as FVIS are reflected as either trading income or income from FVTPL financial instruments in the consolidated income statement.

ii) Available for sale

Available-for-sale investments (AFS) are those non-derivative equity and debt securities which are neither classified as held to maturity (HTM) investments, other investments held at amortized cost (OI) nor designated as FVIS, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices. Investments which are classified as AFS are initially recognised at fair value plus direct and incremental transaction costs and subsequently measured at fair value except for certain unquoted equity securities whose fair value cannot be reliably measured and are carried at cost. Unrealised gains or losses arising from a change in its fair value is recognised in other comprehensive income until the investment is de-recognised or impaired whereupon any cumulative gain or loss previously recognized in other comprehensive income is reclassified to consolidated income statement.

iii) Held to maturity

Investments with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity (HTM). Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and 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 special commission rate method. Any gain or loss on such investments is recognised in the consolidated income statement 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 special commission rate or prepayment risk, reflecting the longer-term nature of these investments. However, sales and reclassifications in any of the following circumstances would not impact the Group's ability to use this classification;

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

iv) 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 (OI). Such investments whose fair values have not been hedged are stated at amortised cost using effective special commission rate method basis, less provision for impairment. Any gain or loss is recognised in the consolidated income statement when the investment is derecognised or impaired.

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. They are derecognised when either the borrower repays the obligations, the loans are written off or substantially all the risks and rewards of ownership are transferred. All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances.

Subsequently loans and advances that are not quoted in an active market and for which fair value has not been hedged, are stated at amortised cost less any amount written off and impairment for credit losses. For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

c) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is an objective evidence that a financial asset or group of financial assets may be impaired.

If such evidence exists, the net present value of future anticipated cash flows from that asset is determined and any impairment loss, is recognised for changes in its carrying amounts. The Group considers evidence of impairment for loans and advances and held to maturity investments at both a specific asset and collective level. When a financial asset is uncollectible, it is either written off against the related allowances for impairment or is charged directly to the consolidated income statement. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was 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 income statement in impairment charge for credit losses.

d) Impairment of financial assets held at amortised cost

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

A specific allowance 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 allowances is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected future cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective special commission rate.

Consumer loans are considered to be impaired when a payment is overdue for specified number of days as per related product programs. Since the risk metrics for consumer loans are based on a collective "pool" basis, rather than on individual loans, the provisions for consumer loans are also computed on a "pool basis" using the 'flow rate" methodology. The provision coverage is 70% for the non-performing loans (other than home finance), which are overdue by 90 days whereas the loans are considered as a total write off once overdue by 180 days. In case of home finance, exposure is downgraded to non-performing loans and special commission income is suspended once the loan is overdue by 90 days. Specific provision is raised for non performing loans overdue by 180 days and above and are written off once overdue by 720 days.

In addition to specific provision for credit losses, provision for collective impairment is made on a portfolio basis for credit losses where there is objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience that the Group has had in dealing with a borrower or group of borrowers and available historical default information.

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 special commission to genuinely distressed borrowers. This results in the asset continuing to be overdue and individually impaired as the renegotiated payments of special commission and principal do not recover the original carrying amount of the loan. In other cases, renegotiation leads to a new loan agreement based on revised terms. 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 special commission rate.

(e) Impairment of available-for-sale financial assets

In the case of debt instruments classified as available for sale, Management assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. 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 income statement.

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

For equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through the consolidated income statement 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 the consolidated statement of changes in shareholders' equity. On derecognition, any cumulative gain or loss previously recognised in the consolidated statement of changes in shareholders' equity is included in the consolidated income statement for the year.

f) Trading income / (loss), net

Results arising from trading activities include all realised and unrealised gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

3.2) SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries drawn up to December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank and changes have been made to their accounting policies where necessary to align them with the accounting policies of the Bank.

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. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the date of the acquisition or up to the date of disposal, as applicable. The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

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

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

b) 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. The Group has conducted a detailed assessment and 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. See notes 6 and 35.

c) Investments in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting based on annual audited or latest available financial statements. An associate is an entity in which the Group has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. Investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets, less any impairment in the value of individual investments. The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement and its share of post-acquisition movements in statement of comprehensive income is recognised in the Group's consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

The Group's share of profit / loss of an associate is shown on the face of the consolidated income statement. This is the earnings / (losses) attributable to equity holders of the associate and, therefore, is earnings / (losses) after tax and non-controlling interests in the subsidiaries of the associate. After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of earning of an associate' in the consolidated income statement.

d) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, foreign exchange and commodity forward contracts, commission rate swaps, commodity options, futures and forward rate agreements, currency and commission rate swaps, currency and commission rate 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 income statement.
and are subsequently re-measured at fair value in the consolidated statement of financial position.

All derivatives are carried at their fair value and classified as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are derived by applying discounted cash flow models or 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 held for trading are taken directly to the consolidated income statement and disclosed in net trading income. Derivatives held for trading include all those derivatives which do not qualify for hedge accounting including embedded derivatives.

ii) Embedded derivatives

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

- the host contract is not an asset in the scope of IFRS 9 / IAS 39;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

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

iii) Hedge accounting

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

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges that hedge the exposure to changes in the fair value of a recognised asset or liability (or assets or liabilities in case of portfolio hedging) 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 losses; 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 affects the reported net gains or loss.

In order to qualify for hedge accounting, hedge should be expected to be highly effective, i.e. changes in the fair value or cash flows of the hedging instruments should effectively offset corresponding changes in the hedged items, and should be reliably measurable. At 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 management will assess the effectiveness of the hedging relationship. Subsequently hedges are assessed for effectiveness on an on-going basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrable that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods.

Fair Value Hedges

When a derivative is designated as a hedging instrument in a fair value hedge relationship, any gain or loss from re-measuring the hedging instruments to fair value is recognised in the consolidated income statement together with the change in the fair value of the hedged item attributable to the hedged risk.

Where the fair value hedge of a commission bearing hedged item measured at amortized cost 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 commission rate. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

Cash Flow Hedges

For designated and qualifying cash flow hedging, derivative instruments are used in a hedge of a variability in cash flows attributable to a particular risk associated with recognised asset or a liability or a highly probable forecast transaction that could affect the consolidated income statement. 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 recognised in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated income statement in the same period in which the hedged item affects the consolidated income statement. However, if the Group expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the consolidated income statement as a reclassification adjustment the amount that is not to be recognized.

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. When the hedging instrument is expired or 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 and hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to consolidated income statement when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the consolidated income statement, the net cumulative gain or loss recognised in "other comprehensive income" is transferred immediately to the consolidated income statement for the year.

e) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is the functional currency of the Bank and all its subsidiaries. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot rates prevailing at transaction dates. Monetary assets and liabilities at year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into Saudi Arabian Riyals at rates of exchange prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective interest rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non-operating income in the consolidated income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity.

Foreign currency differences arising from the translation of the following items are recognized in Consolidated statement of comprehensive income:

- available-for-sale equity instruments (before 1 January 2018) or equity investments in respect of which an election has been made to present subsequent changes in fair value in Consolidated statement of comprehensive income (from 1 January 2018);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedge is effective.

Foreign exchange gains or losses from settlement of transactions and translation of period end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except for differences that are deferred in other comprehensive income relating to qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment, unless the non-monetary items have an effective hedging strategy. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

f) Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a legally 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 income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

g) Revenue / expense recognition

i) Exchange income / (loss)

Exchange income / (loss) is recognised when earned / incurred, as discussed in the foreign currencies policy earlier.

ii) Fee and commission income

Fee and commission income that are integral to the effective special commission rate are included in the measurement of the relevant assets. Fee and commission income that are not integral part of the effective special commission rate calculation on a financial asset or liability are recognised when the related service is provided as follows:

- Portfolio and other management advisory and service fees are recognised over the period of 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 services are being provided.
- Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective special commission rate 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.

- Other fee and commission expense relate mainly to transaction and service fees and are expensed as the services are received and are disclosed net of the related fee and commission income.

iii) Dividend income

Dividend income is recognised when the Group's right to receive dividend is established. Dividends are reflected as a component of net trading income, net income from FVTPL financial instruments or other operating income based on the classification of the related equity instrument.

iv) Gains / (loss) from FVTPL financial instruments

Net income from FVIS financial instruments relates to financial assets and liabilities designated as FVIS and include all realised and unrealised fair value changes, commission, dividends and foreign exchange differences.

v) Trading income / (loss), net

Net income from other financial instruments at FVTPL relates to non-trading derivatives that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVTPL and from 1 January 2018, also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, commission, dividends and foreign exchange differences.

h) Day one profit or loss

Where the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a ‘Day one’ profit or loss) in the consolidated income statement in ‘Net trading income’. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

i) 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. These assets are continued to be measured in accordance with related accounting policies for investments held as FVTPL, FVOCI, other investments held at amortized cost. The transactions are treated as collateralised borrowing and counter-party liability for amounts received under these agreements is included in “Due to banks and other financial institutions” or “Customer deposits”, as appropriate.

The difference between sale and repurchase price is treated as special commission expense and 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 repo) 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”, “Due from banks and other financial institutions” or “Loans and advances”, as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective special commission rate basis.

j) Trade date accounting

All 'regular-way' purchases and sales of financial assets are initially recognised and derecognised on trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. 'Regular-way' purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A contract that requires or permits net settlement of the change in the value of the contract is not a regular way contract. Instead, such a contract is accounted for as a derivative in the period between the trade date and the settlement date.

k) Impairment of non–financial assets

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset’s or CGU’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement. Impairment loss recognized against the goodwill is not reversed subsequently.

l) Provisions for liabilities and charges

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

m) End of service benefits

The benefits payable to the employees of the Group at the end their services are accrued on actuarial valuation in accordance with Saudi Arabian Labour Laws. Net obligation, with respect to end of service benefits, to the Group is reviewed by using a projected unit credit method. The assumptions used to calculate the scheme obligations include assumptions such as expected future salaries growth, expected employee resignation rates, and discount rate to discount the future cash flows. Benefits payable to the employees are included in other liabilities in the consolidated statement of financial position.

n) 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 assets are considered as assets held for sale and are initially stated at the lower of net realisable value of due loans and advances and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate assets. Rental income from other real estate is recognised in the consolidated income statement. Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated income statement. Any subsequent revaluation gain in the fair value less costs to sell these assets to the extent this does not exceed the cumulative write down is recognised in the consolidated income statement. Gains or losses on disposal are recognised in the consolidated income statement.

Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margin requirements, is valued daily. To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers.

Collateral repossessed

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Group's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group's policy. In its normal course of business, the Group does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the consolidated statement of financial position.

o) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land and capital work in progress are not depreciated. The cost of other items property and equipment is depreciated / amortised on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the shorter of lease period or economic useful life i.e 5 years
Furniture and fixtures, computer hardware and software and motor vehicles	3 to 10 years

Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement. All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and the carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

p) 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 FVTPL are recognised initially at fair value and transaction costs are taken directly to the consolidated statement of income. Subsequently all commission-bearing financial liabilities other than those held at FVTPL or where fair values have been hedged are measured at 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. For financial liabilities carried at amortised cost, any gain or loss is recognised in the consolidated statement of income when derecognised. Financial liabilities classified as FVTPL, if any, include (i) liabilities held for trading and (ii) liabilities designated as FVTPL on initial recognition. After initial recognition, these liabilities are measured at fair value and the resulting gain or loss is included in the consolidated statement of income.

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognised in the consolidated statement of income.

q) Provisions

Provisions are recognised when management can reliably estimate 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.

r) Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent asset is recognized in the consolidated financial statements when it becomes virtually certain that an inflow of economic benefits will arise.

s) Accounting for leases

Leases entered into by the Group as a lessee are all operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis. When an operating lease is terminated before the lease period has expired, any penalty required to be paid to the lessor is recognised as an expense in the period in which termination takes place.

t) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, "cash and cash equivalents" include notes and coins on hand, balances with SAMA excluding statutory deposit, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

u) Share based plan transactions

The Group's share plan is classified as an equity settled plan. The fair value of shares which the Group expects will eventually vest is determined at the grant date and is expensed on a straight line basis over the vesting period with corresponding increase in share based plan reserve. Details regarding the plan and determination of the fair value are set out in note 36. At each reporting date, management revises its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the share base plan reserve.

v) Short term employee benefits

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

w) Zakat and income tax

The Group recognizes a liability for Zakat and tax on a quarterly basis. Zakat and income tax is charged to retained earnings. Zakat and tax is calculated based on the Zakat and tax rules and regulations in the Kingdom of Saudi Arabia. Zakat is computed based on equity or net income using the basis defined under the Zakat regulations.

x) Investment management services

The Group offers investment services to its customers through its subsidiary AI. The services include the management of certain investment funds in consultation with professional investment advisors. The Group's share of investment in these funds is included in the FVTPL investments and fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

y) Non-special commission based banking products

In addition to conventional banking, the Group also offers its customers certain non-special commission based banking products, which are approved by its independent Shariah Board, as follows:

All non-special commission based banking products are included in loans and advances, customers' deposits and due from and to banks and other financial institutions and are in conformity with the related accounting policies described in these consolidated financial statements.

Brief description of non-special commission based banking products:

(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 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) **Musharaka** is an agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

(iv) **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.

Amounts in SAR'000

4 CASH AND BALANCES WITH SAMA

	2018	2017
Cash in hand	**978,844**	876,270
Current accounts	**51,419**	145,524
Balances with SAMA:		
- Statutory deposit	**3,491,775**	4,106,211
- Reverse repo with SAMA (note 29)	**368,000**	10,009,000
Total	**4,890,038**	15,137,005

In accordance with the requirements of the Banking Control Law and Regulations issued by SAMA, the Group 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 Group's day-to-day operations and therefore does not form part of cash and cash equivalents (note 27).

5 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

	2018	2017
Current accounts	**674,985**	914,899
Money market placements	**441,071**	1,200,372
Less: Impairment allowance for credit losses	**(44)**	-
Total	**1,116,012**	2,115,271

The credit quality of due from banks and other financial institutions is managed using credit ratings from reputable external credit rating agencies. The table below shows the credit quality of balances due from banks and other financial institutions.

	2018	2017
Investment grade (credit rating AAA to BBB-)	**1,107,257**	2,103,319
Unrated	**8,755**	11,952
Total	**1,116,012**	2,115,271

6 INVESTMENTS, NET

a) Investments are classified as follows:

	2018	2017
Investment at amortized cost	**15,755,580**	-
Other investments held at amortized cost (2017)	**-**	16,301,124
Investments at FVOCI – Equity investments	**4,330**	-
Available for sale investments (2017)	**-**	327,472
Investment at FVTPL	**313,263**	-
Held to maturity investments (2017)	**-**	60,151
Less: Impairment allowance for credit losses	**(4,635)**	-
	16,068,538	16,688,747

b) Breakdown of Investments by type of securities is as follows:

	Domestic		International		Total	
	2018	2017	2018	2017	2018	2017
Fixed rate securities	**7,997,076**	8,000,584	**38,120**	38,223	**8,035,196**	8,038,807
Floating rate securities	**7,342,506**	7,866,823	**544,752**	625,440	**7,887,258**	8,492,263
Mutual funds	**146,389**	153,347	**-**	-	**146,389**	153,347
Equities	**4,330**	4,330	**-**	-	**4,330**	4,330
Less: Impairment allowance for credit losses	**(4,590)**	-	**(45)**	-	**(4,635)**	-
Total	**15,485,711**	16,025,084	**582,827**	663,663	**16,068,538**	16,688,747

The impairment allowance related to debt instruments carried at amortized cost amounts to SAR 4.6 million (2017: SAR nil).

Amounts in SAR'000

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

	2018			2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	**242,338**	**7,792,858**	**8,035,196**	242,306	7,796,501	8,038,807
Floating rate securities	**242,953**	**7,644,305**	**7,887,258**	325,189	8,167,074	8,492,263
Mutual funds	**146,389**	**-**	**146,389**	153,347	-	153,347
Equities	**-**	**4,330**	**4,330**	-	4,330	4,330
	631,680	**15,441,493**	**16,073,173**	720,842	15,967,905	16,688,747
Less: Impairment allowance for credit losses	**(325)**	**(4,310)**	**(4,635)**	-	-	-
Total	**631,355**	**15,437,183**	**16,068,538**	720,842	15,967,905	16,688,747

Unquoted securities principally comprise of Saudi Government Bonds and floating rate notes.

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

	2018	2017
Government and quasi-government	**13,552,283**	13,552,992
Corporates	**1,676,186**	1,907,080
Banks and other financial institutions	**689,350**	1,070,998
Others	**150,719**	157,677
Total	**16,068,538**	16,688,747

Investments held at amortized cost amounting to SAR nil (2017: SAR 8 million) are pledged under repurchase agreements with customers. The market value of these investments is SAR nil (2017: SAR 8 million).

e) Credit risk exposures of investments

	2018				2017			
	Investments at FVOCI	*Investment at FVTPL*	*Investment at amortized cost*	*Total*	*Available for sale*	*Held to maturity*	*Other investments held at amortized cost*	*Total*
Saudi Sovereign bonds	**-**	**-**	**12,035,644**	**12,035,644**	-	-	12,031,861	12,031,861
Investment grade securities	**-**	**166,874**	**2,429,688**	**2,596,562**	-	60,151	2,922,332	2,982,483
Unrated securities	**-**	**-**	**1,285,613**	**1,285,613**	169,795	-	1,346,931	1,516,726
Total credit risk exposure of investments	**-**	**166,874**	**15,750,945**	**15,917,819**	169,795	60,151	16,301,124	16,531,070
Equities and mutual funds	**4,330**	**146,389**	**-**	**150,719**	157,677	-	-	157,677
Total	**4,330**	**313,263**	**15,750,945**	**16,068,538**	327,472	60,151	16,301,124	16,688,747

Investment grade securities includes those investments having an external agency ratings of AAA to BBB-. Where specific bonds are not rated, but the issuer of the bond has been rated, issuer ratings have been used. Bonds falling in this category amounted to SAR 2.2 billion (2017: SAR 2.1 billion). Investments under life time ECL not credit impaired at December 31, 2018 amounted to SAR 75.9 million.

7 LOANS AND ADVANCES, NET

a) Loans and advances held at amortised cost

2018	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Performing loans and advances, gross	**363,485**	**16,468,409**	**42,349,952**	**59,181,846**
Non performing loans and advances, net	**17,511**	**283,314**	**2,178,957**	**2,479,782**
Total loans and advances	**380,996**	**16,751,723**	**44,528,909**	**61,661,628**
Impairment allowance for credit losses	**(53,106)**	**(366,505)**	**(3,474,894)**	**(3,894,505)**
Total loans and advances, net	**327,890**	**16,385,218**	**41,054,015**	**57,767,123**

Amounts in SAR'000

2017	Notes	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Performing loans and advances, gross		380,945	18,248,471	45,797,325	64,426,741
Non performing loans and advances, net		15,269	145,647	1,824,688	1,985,604
Total loans and advances		396,214	18,394,118	47,622,013	66,412,345
Impairment allowance for credit losses		(15,590)	(281,279)	(2,475,993)	(2,772,862)
Total loans and advances, net		380,624	18,112,839	45,146,020	63,639,483

b) Movements in impairment allowance for credit losses:

2018		**Credit cards**	**Consumer loans**	**Commercial loans and overdrafts**	**Total**
Impairment allowance as at January 1, 2018 under IAS 39		**15,590**	**281,279**	**2,475,993**	**2,772,862**
Amounts re-stated through opening retained earnings		**41,062**	**104,873**	**200,420**	**346,355**
Impairment allowance as at January 1, 2018 under IFRS 9		**56,652**	**386,152**	**2,676,413**	**3,119,217**
Provided during the year	**7 b (i)**	**45,121**	**179,601**	**1,348,271**	**1,572,993**
Recoveries of amounts previously provided	**7 b (i)**	**-**	**-**	**(17,735)**	**(17,735)**
Impairment allowance against indirect exposure transferred to other liabilities	**15**	**-**	**-**	**(16,584)**	**(16,584)**
		45,121	**179,601**	**1,313,952**	**1,538,674**
Bad debts written off		**(48,667)**	**(199,248)**	**(515,471)**	**(763,386)**
Balance at end of the year		**53,106**	**366,505**	**3,474,894**	**3,894,505**
2017					
Balance at beginning of the year		21,770	326,305	1,804,165	2,152,240
Provided during the year	7 b (i)	38,628	146,475	1,019,013	1,204,116
Recoveries of amounts previously provided	7 b (i)	-	-	(7,746)	(7,746)
Impairment allowance against indirect exposure transferred to other liabilities	15	-	-	(28,575)	(28,575)
		38,628	146,475	982,692	1,167,795
Bad debts written-off		(44,808)	(191,501)	(310,864)	(547,173)
Balance at end of the year		15,590	281,279	2,475,993	2,772,862

7 b (i) Impairment charge for credit and other losses, net

		2018	*2017*
Impairment charge for credit and others losses, net		**1,572,993**	1,204,116
Less: Reversal of impairment charge for other assets	10	**(149,908)**	-
Recoveries of amounts previously provided		**(17,735)**	(7,746)
Recoveries of amounts previously written-off		**(237,874)**	(76,071)
Total impairment charge for credit and other losses, net		**1,167,476**	1,120,299

c) Credit quality of loans and advances

i) Loans and advances neither past due nor impaired

The Group has categorised the loans and advances portfolio that is neither past due nor impaired into three sub categories according to its internal rating system, i.e. strong, satisfactory and watch.

Loans and advances under the strong category are performing, have sound fundamental characteristics and include those that exhibit characteristics that are expected to allow them to weather adverse business, financial or economic conditions without materially impairing the obligor's ability to meet its commitments.

Loans and advances under the satisfactory category are loans where borrowers are capable to meet their financial obligations and are expected to remain able to do so in the medium term. However, unexpected adverse business, financial or economic conditions could impair the obligor's ability to meet its commitments in future.

Amounts in SAR'000

The watch category includes loans and advances that are performing, generally current and up-to date in terms of principal and special commission payments. However, the obligors require close management attention as their ability to meet their financial commitments has deteriorated and currently exhibits vulnerability to default or non-payment. Such borrowers may be dependent upon more favorable business, financial, and economic conditions to meet their financial commitments in full and on time.

2018	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Strong	**-**	**-**	**5,466,153**	**5,466,153**
Satisfactory	**328,093**	**15,388,062**	**31,512,761**	**47,228,916**
Watch	**-**	**-**	**3,391,423**	**3,391,423**
Total	**328,093**	**15,388,062**	**40,370,337**	**56,086,492**
2017				
Strong	-	-	6,904,034	6,904,034
Satisfactory	346,320	17,598,009	36,745,284	54,689,613
Watch	-	-	1,958,400	1,958,400
Total	346,320	17,598,009	45,607,718	63,552,047

ii) Ageing of past due but not impaired loans and advances

2018	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Up to 30 days	**20,630**	**810,887**	**550,979**	**1,382,496**
From 31 days to 90 days	**14,762**	**269,460**	**172,340**	**456,562**
Above 90 days	**-**	**-**	**1,256,296**	**1,256,296**
Total	**35,392**	**1,080,347**	**1,979,615**	**3,095,354**
2017				
Up to 30 days	25,323	506,958	93,449	625,730
From 31 days to 90 days	9,302	143,504	18,421	171,227
Above 90 days	-	-	77,737	77,737
Total	34,625	650,462	189,607	874,694

Past due but not impaired loans provided above comprise of total loan values except for commercial loans and overdraft which comprise overdue instalment amounts. Commercial loans and overdraft total loans and advances past due but not impaired amounted to SAR 5,598.93 million (2017: SAR 1,655.98 million).

d) Economic sector risk concentration for loans and advances and allowances for impairment of credit losses are as follows:

2018	Performing	Non performing, net	Impairment allowance for credit losses	Loans and advances, net
Government and quasi-government	**931,325**	**-**	**-**	**931,325**
Banks and other financial institutions	**1,241,641**	**-**	**(2,163)**	**1,239,478**
Agriculture and fishing	**761,030**	**303**	**(63,956)**	**697,377**
Manufacturing	**9,901,872**	**268,594**	**(913,002)**	**9,257,464**
Electricity, water, gas and health services	**1,321,130**	**50,087**	**(51,796)**	**1,319,421**
Building and construction	**8,054,835**	**1,338,913**	**(1,744,635)**	**7,649,113**
Commerce	**12,149,419**	**448,492**	**(535,872)**	**12,062,039**
Transportation and communication	**2,529,592**	**-**	**(15,046)**	**2,514,546**
Services	**2,879,493**	**52,127**	**(80,257)**	**2,851,363**
Consumer loans and credit cards	**16,831,894**	**300,825**	**(419,612)**	**16,713,107**
Others	**2,579,615**	**20,441**	**(68,166)**	**2,531,890**
Total	**59,181,846**	**2,479,782**	**(3,894,505)**	**57,767,123**

Amounts in SAR'000

2017	Performing	Non performing, net	Impairment allowance for credit losses	Loans and advances, net
Government and quasi-government	1,003,218	-	-	1,003,218
Banks and other financial institutions	1,125,709	-	-	1,125,709
Agriculture and fishing	751,622	304	(304)	751,622
Manufacturing	10,401,382	374,748	(374,748)	10,401,382
Electricity, water, gas and health services	1,406,932	7,193	(7,193)	1,406,932
Building and construction	8,943,814	909,639	(709,607)	9,143,846
Commerce	13,330,292	454,562	(432,245)	13,352,609
Transportation and communication	2,475,835	7,654	(7,654)	2,475,835
Services	3,404,209	68,413	(68,413)	3,404,209
Consumer loans and credit cards	18,629,416	160,916	(104,276)	18,686,056
Others	2,954,312	2,175	(2,175)	2,954,312
	64,426,741	1,985,604	(1,706,615)	64,705,730
Portfolio Impairment allowance	-	-	(1,066,247)	(1,066,247)
Total	64,426,741	1,985,604	(2,772,862)	63,639,483

Loans and advances include Islamic products amounting to SAR 39 billion (2017: SAR 43 billion).

e) Collateral

The Group, in the ordinary course of its lending activities holds collaterals to mitigate the associated credit risk. These mostly consists of time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. Collaterals are mainly held against commercial and consumer loans and are managed against relevant exposures at their net realisable value. Total collateral fair value amounted to SAR 23.6 billion (2017: SAR 26.2 billion).

f) An analysis of credit quality of loans and advances is as follows:

	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Strong	**5,466,101**	**-**	**-**	**5,466,101**
Satisfactory	**38,568,956**	**11,093,451**	**-**	**49,662,407**
Watch list	**-**	**4,053,338**	**-**	**4,053,338**
Non-performing	**-**	**-**	**2,479,782**	**2,479,782**
Gross Loans	**44,035,057**	**15,146,789**	**2,479,782**	**61,661,628**
Impairment allowance for credit losses	**(198,986)**	**(1,644,731)**	**(2,050,788)**	**(3,894,505)**
Carrying amount	**43,836,071**	**13,502,058**	**428,994**	**57,767,123**

g) An analysis of changes in impairment allowance for loans and advances is as follows:

Impairment allowance as at January 1, 2018	**220,014**	**1,155,890**	**1,743,313**	**3,119,217**
Transfers to 12 month ECL	**12,899**	**(12,899)**	**-**	**-**
Transfers to life time ECL not credit impaired	**(8,901)**	**8,901**	**-**	**-**
Transfers to life time ECL credit impaired	**-**	**(100,919)**	**100,919**	**-**
Net change for the year (note 7 b)	**(25,026)**	**593,758**	**969,942**	**1,538,674**
Write-offs	**-**	**-**	**(763,386)**	**(763,386)**
Impairment allowance as at December 31, 2018	**198,986**	**1,644,731**	**2,050,788**	**3,894,505**

Movement in retail ECL has been presented on a net basis.

8 INVESTMENT IN AN ASSOCIATE

	2018	*2017*
Balance at beginning of the year	**45,507**	35,697
Share in earning of an associate	**8,255**	9,810
Balance at end of the year	**53,762**	45,507

Investment in an associate represents a 20% (2017: 20%) shareholding in Wataniya Insurance Company (WIC) formed in the Kingdom of Saudi Arabia, pursuant to Royal Decree No. M/53 dated Shawwal 21, 1430H (corresponding to October 10, 2009).

Amounts in SAR'000

9 PROPERTY AND EQUIPMENT, NET

Property and equipment details are as follows:

2018	**Land and buildings**	**Leasehold improvements**	**Softwares**	**Computer hardware**	**Furniture / fixtures**	**Motor vehicles**	**Capital work in progress (CWIP)**	**Total**
Cost:								
Balance at beginning of the year	**805,371**	**408,584**	**738,413**	**500,442**	**341,841**	**5,351**	**123,472**	**2,923,474**
Additions during the year	**-**	**-**	**-**	**-**	**-**	**-**	**94,971**	**94,971**
Disposal during the year	**-**	**-**	**-**	**-**	**-**	**(472)**	**-**	**(472)**
Transfers from CWIP during the year	**25,621**	**12,628**	**48,282**	**4,546**	**20,454**	**-**	**(111,531)**	**-**
Balance at end of the year	**830,992**	**421,212**	**786,695**	**504,988**	**362,295**	**4,879**	**106,912**	**3,017,973**
Accumulated depreciation / amortisation:								
Balance at beginning of the year	**71,853**	**306,769**	**527,426**	**440,656**	**225,016**	**4,745**	**-**	**1,576,465**
Charge for the year	**5,869**	**20,604**	**83,957**	**28,185**	**34,522**	**155**	**-**	**173,292**
Disposal during the year	**-**	**-**	**-**	**-**	**-**	**(423)**	**-**	**(423)**
Balance at end of the year	**77,722**	**327,373**	**611,383**	**468,841**	**259,538**	**4,477**	**-**	**1,749,334**
Net book value as at December 31, 2018	**753,270**	**93,839**	**175,312**	**36,147**	**102,757**	**402**	**106,912**	**1,268,639**

2017	Land and buildings	Leasehold improvements	Softwares	Computer hardware	Furniture / fixtures	Motor vehicles	Capital work in progress (CWIP)	Total
Cost:								
Balance at beginning of the year	783,825	317,715	635,707	422,406	282,304	5,351	244,989	2,692,297
Additions during the year	-	-	-	-	-	-	231,177	231,177
Transfers from CWIP during the year	21,546	90,869	102,706	78,036	59,537	-	(352,694)	-
Balance at end of the year	805,371	408,584	738,413	500,442	341,841	5,351	123,472	2,923,474
Accumulated depreciation / amortisation:								
Balance at beginning of the year	59,861	291,441	448,564	413,696	193,357	4,355	-	1,411,274
Charge for the year	11,992	15,328	78,862	26,960	31,659	390	-	165,191
Balance at end of the year	71,853	306,769	527,426	440,656	225,016	4,745	-	1,576,465
Net book value as at December 31, 2017	733,518	101,815	210,987	59,786	116,825	606	123,472	1,347,009

10 OTHER ASSETS

As at December 31, 2018, other assets include an amount of US dollar 116.9 million equivalent to SAR 438 million (2017: US dollar 116.9 million) plus accrued interest, which was disbursed to a third party who defaulted on repayment. The management expected to recover this balance from its related party under a settlement agreement (the "existing settlement agreement"). Due to uncertainty around the timing of recoverability of this balance, an impairment allowance of SAR 150 million was maintained against the outstanding balance until September 30, 2018. On October 3, 2018, the Group entered into three settlement agreements (the "new settlement agreements") with its related parties replacing the existing settlement agreement. Based on recent developments, management reassessed the recoverability of the above balance and reversed the impairment allowance of SAR 150 million during the last quarter of 2018.

The conditional settlement agreement also includes an additional claim amounting to SAR 656.25 million along with accrued interest which is currently not being recognised in these consolidated financial statements.

Amounts in SAR'000

11 DERIVATIVES

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

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For cross-currency commission rate swaps, principal and 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 commission rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are settled daily.

c) Forward-rate agreements

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

d) Options

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

Derivatives 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 to inter alia, 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 price differentials between markets or products with the expectation of profiting.

Derivatives held for hedging purposes

The Group has adopted a comprehensive process for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and special commission rates to acceptable levels as determined by the Board of Directors and management. The Board of Directors has established risk appetite for market risks including currency and special commission rate risk. Management, through the Bank's Asset and Liability Committee, have established a framework of limits to ensure that risk is maintained within the appetite set by the Board. As part of its asset and liability management process, positions are monitored regularly and the Group uses derivatives for hedging purposes in order to adjust its exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions. The Group uses commission rate swaps to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Group also uses commission rate swaps to hedge against the cash flow risk arising on certain floating-rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Cash flow hedges

The Group is exposed to variability in future commission cash flows on non-trading assets and liabilities which bear commission at a variable rate. The Group uses commission rate swaps as cash flow hedges of these commission rate risks. The Group is also exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect the consolidated income statement:

	Within 1 year	
	2018	*2017*
Cash inflows (assets)	**4,876**	8,366
Cash out flows (liabilities)	**(4,865)**	(14,569)
Net cash flows	**11**	(6,203)

The schedule reflects special commission income cash flows expected to arise on the hedged items in cash flow hedges based on the repricing profile of the hedged assets and liabilities.

Amounts in SAR'000

Derivative financial instruments 2018	*Positive fair value*	*Negative fair value*	*Notional amount total*	*Notional amounts by maturity* Within three months	3-12 months	1-5 years	Over 5 years	*Monthly average*
Held for trading:								
Special commission rate swaps	**93,561**	**44,504**	**22,554,743**	**833,833**	**3,902,669**	**16,645,897**	**1,172,344**	**25,819,887**
Foreign exchange and commodity forward contracts	**5,421**	**4,216**	**2,797,987**	**2,266,963**	**456,024**	**75,000**	**-**	**6,637,188**
Currency and commodity options	**6,619**	**6,394**	**5,767,393**	**1,219,643**	**3,277,886**	**1,269,864**	**-**	**7,016,431**
Special commission rate options	**4,506**	**1,972**	**1,807,893**	**-**	**-**	**832,893**	**975,000**	**1,938,032**
Held as fair value hedges:								
Special commission rate swaps	**-**	**4**	**37,515**	**-**	**37,515**	**-**	**-**	**37,515**
Held as cash flow hedges:								
Special commission rate swaps	**-**	**3**	**1,095,000**	**1,095,000**	**-**	**-**	**-**	**1,534,584**
Total	**110,107**	**57,093**	**34,060,531**	**5,415,439**	**7,674,094**	**18,823,654**	**2,147,344**	
Fair values of netting arrangements	**623,715**	**623,715**						
Fair values before netting	**733,822**	**680,808**						

Derivative financial instruments 2017	*Positive fair value*	*Negative fair value*	*Notional amount total*	*Notional amounts by maturity* Within three months	3-12 months	1-5 years	Over 5 years	*Monthly average*
Held for trading:								
Special commission rate swaps	125,130	53,192	31,843,039	864,120	3,791,360	24,713,833	2,473,726	29,836,618
Foreign exchange and commodity forward contracts	59,419	29,916	11,062,273	7,146,516	3,560,189	355,568	-	14,372,492
Currency and commodity options	20,208	3,765	6,179,525	2,854,363	3,230,053	95,109	-	12,848,144
Special commission rate options	7,461	3,871	2,121,768	-	-	-	2,121,768	2,242,809
Held as fair value hedges:								
Special commission rate swaps	-	366	37,500	-	-	37,500	-	37,502
Held as cash flow hedges:								
Special commission rate swaps	-	569	4,196,137	4,196,137	-	-	-	2,598,801
Total	212,218	91,679	55,440,242	15,061,136	10,581,602	25,202,010	4,595,494	
Fair values of netting arrangements	843,727	843,727						
Fair values before netting	1,055,945	935,406						

Amounts in SAR'000

The net fair value of the derivatives is SAR 53.01 million (2017: SAR 120.54 million).

The tables below shows a summary of hedged items, its fair value, the nature of the risk being hedged and hedging instrument:

Description	Hedged items: Fair value	Hedged items: Hedge inception value	Risk	Hedging instruments
2018				
Fixed special commission rate investments	**38,479**	**37,504**	**Fair value**	**Special commission rate swaps**
Fixed special commission rate deposits	**1,102,538**	**1,098,688**	**Cash flow**	**Special commission rate swaps**
2017				
Fixed special commission rate investments	40,249	37,504	Fair value	Special commission rate swaps
Fixed special commission rate deposits	3,035,372	3,026,186	Cash flow	Special commission rate swaps

The net gains on the hedging instruments held for fair value hedge are SAR 0.36 million (2017: SAR 0.56 million).

Approximately 68% (2017: 26%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 19% (2017: 9%) of the total positive fair value of the derivatives are with any single counterparty at the reporting date. Derivative activities are carried out by the Group's treasury segment. Margins placed with and received from counter parties for derivative instruments amounted to SAR 33.94 million and SAR 13.01 million (2017: SAR 38.06 million and SAR 23.21 million), respectively.

12 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018	*2017*
Current accounts	**328,285**	422,838
Money market deposits	**1,203,531**	2,921,833
Total	**1,531,816**	3,344,671

13 CUSTOMERS' DEPOSITS

	2018	*2017*
Time	**35,048,023**	47,387,509
Demand	**28,063,408**	29,370,600
Saving	**357,082**	403,046
Others	**1,104,200**	1,113,808
Total	**64,572,713**	78,274,963

Time deposits include:

i) Deposits against repurchase agreements with customers	**-**	8,000
ii) Islamic deposits	**27,017,264**	28,177,231

Customers' deposits include SAR 822 million (2017: SAR 815 million) of margins held for irrevocable commitments and other non-special commission based deposits amounting to SAR 29 billion (2017: SAR 30 billion). Foreign currency deposits at December 31 are as follows:

	2018	*2017*
Time	**2,766,179**	5,331,353
Demand	**2,036,134**	2,494,703
Saving	**23,231**	26,877
Others	**60,105**	79,640
Total	**4,885,649**	7,932,573

14 SUBORDINATED DEBT

Subordinated debt represents the following debt security:

Issued on December 12, 2013:

The Group issued SAR 2,500 million unsecured subordinated Tier II Sukuk which was due in 2023. The Group exercised the option of early redemption of these certificates at their redemption amount in December 2018. The commission rate paid on the above averaged 6 months SIBOR plus 155 basis points (2016: 6 months SIBOR plus 155 basis points). All the required approvals from regulatory authorities were obtained for the purpose of redemptions.

The Group has not defaulted on any principal or commission repayments and there has been no breaches with regard to above debt security during 2018 or 2017.

Amounts in SAR'000

15 OTHER LIABILITIES

	2018	2017
Accrued expenses and accounts payable	**1,482,283**	1,486,783
Allowances for indirect facilities (note 7 b and note 3)	**192,834**	95,395
Others	**331,066**	471,617
Total	**2,006,183**	2,053,795

16 SHARE CAPITAL

The authorised, issued and fully paid share capital consists of 1,143.07 million shares of SAR 10 each (2017: 1,143.07 million shares of SAR 10 each).

The ownership of the Bank's share capital is as follows:

	Percentage	2018	2017
Saudi shareholders	**60%**	**6,858,432**	6,858,432
Royal Bank of Scotland N.V. (formerly known as ABN AMRO Bank N.V.)	**40%**	**4,572,288**	4,572,288
Total	**100%**	**11,430,720**	11,430,720

17 STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the By-Laws of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up share capital of the Bank. Accordingly, SAR 282.61 million (2017: SAR 333.88 million) has been transferred from retained earnings to the statutory reserve.

18 OTHER RESERVES

	2018		2017	
	Available for sale	Cash flow hedges	Available for sale	Cash flow hedges
Balance at beginning of the year	**12,448**	**681**	40,868	279
Impact on available for sale reserve on adoption of IFRS9 at January 1, 2018	**(12,448)**	**-**	-	-
Net changes in fair value	**-**	**(644)**	(4,060)	402
Net amounts transferred to consolidated income statement	**-**	**-**	(24,360)	-
Balance at end of the year	**-**	**37**	12,448	681

19 COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2018 and 2017, there were certain legal proceedings outstanding against the Group that arose in the normal course of business. No additional provision was raised during the current or prior years, as professional legal advice indicates that it is not probable that any further losses will arise with respect to these proceedings.

b) Capital commitments

The Group has capital commitments of SAR 29.9 million (2017: SAR 40.6 million) in respect of leasehold improvements and computer hardware and software purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Letters of guarantees and stand-by 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 the full funds under the agreement.

Documentary letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and 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.

Irrevocable commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss of an amount equal to the total unused commitments. However, the likely amount of loss, 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 the commitments could expire or terminate without being funded.

Amounts in SAR'000

i) The contractual maturities of the Group's commitments and contingencies are as follows:

2018	Within 3 months	3 to 12 months	1 to 5 Years	Over 5 Years	Total
Letters of guarantee	**1,401,765**	**7,725,482**	**6,925,266**	**210,780**	**16,263,293**
Letters of credit	**1,648,898**	**2,271,870**	**238,210**	**350**	**4,159,328**
Acceptances	**775,402**	**353,725**	**1,778**	**-**	**1,130,905**
Irrevocable commitments to extend credit	**175**	**-**	**36,771**	**1,062,183**	**1,099,129**
Total	**3,826,240**	**10,351,077**	**7,202,025**	**1,273,313**	**22,652,655**
2017					
Letters of guarantee	1,556,321	9,442,183	5,931,634	212,303	17,142,441
Letters of credit	2,770,839	2,263,983	240,588	-	5,275,410
Acceptances	1,192,645	533,982	8,276	-	1,734,903
Irrevocable commitments to extend credit	-	32,008	72,856	1,907,338	2,012,202
Total	5,519,805	12,272,156	6,253,354	2,119,641	26,164,956

Outstanding and unused portion of commitments that can be revoked unilaterally at any time by the Group amounts to SAR 25.3 billion (2017: SAR 28.6 billion).

ii) Commitments and contingencies by counterparty are as follows:

	2018	2017
Government and quasi-government	**82,066**	101,987
Corporate	**18,189,631**	21,495,747
Banks and other financial institutions	**3,963,996**	4,137,773
Other	**416,962**	429,449
Total	**22,652,655**	26,164,956

d) Operating lease commitments

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

	2018	2017
Less than 1 year	**21,987**	19,849
1 to 5 years	**37,244**	39,989
Over 5 years	**19,981**	5,459
Total	**79,212**	65,297

20 SPECIAL COMMISSION INCOME AND EXPENSE

Special commission income on:

Investments:	2018	2017
FVOCI / Available for sale (2017)	**5,472**	7,029
Amortised cost / Held to maturity (2017)	**399,553**	351,473
	405,025	358,502
Due from banks and other financial institutions	**78,481**	82,114
Loans and advances	**3,271,770**	3,462,673
Total	**3,755,276**	3,903,289

Special commission expense on:

	2018	2017
Due to banks and other financial institutions	**7,168**	16,144
Customers' deposits	**898,335**	986,320
Subordinated debt	**95,067**	135,063
Total	**1,000,570**	1,137,527

Amounts in SAR'000

21 FEE AND COMMISSION INCOME, NET

Fee and commission income from:	2018	2017
Corporate finance and advisory	**196,992**	261,641
Trade finance	**248,588**	266,876
Card products	**168,431**	157,149
Share brokerage and fund management	**25,261**	28,739
Others	**73,948**	70,907
Total fee and commission income	**713,220**	785,312
Fee and commission expenses on:		
Card products	**91,540**	72,612
Others	**20,415**	22,901
Total fee and commission expenses	**111,955**	95,513
Fee and commission income, net	**601,265**	689,799

22 TRADING INCOME, NET

	2018	2017
Derivatives and others, net	**75,354**	95,916
Total	**75,354**	95,916

23 GAIN ON NON-TRADING INVESTMENTS

Realised gain on disposal of non- trading investments	**-**	30,260
Total	**-**	30,260

24 SALARIES AND EMPLOYEE-RELATED EXPENSES

The following table summarizes 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 year ended December 31, 2018 and 2017, and the forms of such payments.

2018			Variable compensation		
Categories of employees	Number of employees	Fixed compensation paid	Cash	Shares	Total
Senior executives who require SAMA's no objection	**19**	**25,322**	**9,773**	**7,739**	**42,834**
Employees engaged in control and risk management functions	**142**	**40,752**	**5,866**	**2,654**	**49,272**
Employees engaged in risk taking activities	**657**	**143,843**	**12,561**	**5,277**	**161,681**
Other employees	**1,659**	**271,470**	**23,639**	**5,498**	**300,607**
Total	**2,477**	**481,387**	**51,839**	**21,168**	**554,394**
Variable compensation accrued during the year		**49,536**			
Other employee related expenses paid during the year		**83,028**			
Other employee related expenses accrued during the year		**48,007**			
Total salaries and employee related expenses		**661,958**			
2017					
Senior executives who require SAMA's no objection	15	23,969	6,838	3,574	34,381
Employees engaged in control and risk management functions	137	40,091	5,180	1,046	46,317
Employees engaged in risk taking activities	643	141,333	15,672	4,558	161,563
Other employees	1,683	258,741	22,429	2,678	283,848
Total	2,478	464,134	50,119	11,856	526,109
Variable compensation accrued during the year		59,325			
Other employee related expenses paid during the year		75,722			
Other employee related expenses accrued during the year		71,664			
Total salaries and employee related expenses		670,845			

Senior executives requiring SAMA's no objection:

This comprises senior management having responsibility and authority for formulating strategies and directing and controlling the activities of the Group. This covers the Managing Director (MD) and certain other employees directly reporting to the MD.

Employees engaged in control and risk management functions:

This refers to employees working in divisions that are not involved in risk taking activities but are engaged in review and control functions, for example Risk Management, Compliance, Internal Audit, Operations and Finance. These functions are fully independent from the risk taking units.

Employees engaged in risk taking activities:

This comprises staff within business lines (Corporate Banking, Personal Banking, Treasury and Alawwal Invest), who are responsible for executing and implementing the business strategy on behalf of the Group, for example staff involved in recommending credit limits, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

Other employees:

This includes all other employees of the Group, excluding those already mentioned above.

Group Compensation policy:

The purpose of the policy is to establish and apply compensation policies and processes which support the delivery of the Bank’s business strategy, reinforce the desired organisational culture, reflect prudent risk management and comply with SAMA regulations.

The Group's compensation policy is aimed at rewarding both risk-adjusted performance and appropriate behavior that is in line with the Group's core values. Performance measurement is risk adjusted and monitored by the independent risk management function of Group's. The Risk Management Committee is reviewing the Group’s Compensation Policy to ensure that the Group’s processes are ensuring rewards are adjusted for the level of risk incurred.

The Board of Directors is responsible for ensuring the effective implementation of the compensation policy. The Board is advised by the Nominations and Remuneration Committee (the "Committee"), which comprises five Non Executive Directors out of which three are independent. The Committee receives compensation reports and recommendations from Executive Management supported by Human Resources and reviews and approves employee related compensation decisions.

The compensation policy ensures that staff in control functions are remunerated independently of the businesses they oversee. Compensation recommendations are based on an understanding of the intended total reward package; decisions consider the balance between external competitiveness and affordability while also paying attention to motivational and performance related compensation arrangements for staff.

25 BASIC AND DILUTED EARNINGS PER SHARE (EPS)

Basic and diluted earnings per share for the year 2018 and 2017 are calculated by dividing the net income for the year attributable to the equity shareholders by 1,143.07 million shares.

26 PROPOSED DIVIDENDS, ZAKAT AND INCOME TAX

The Board of Directors in its meeting held on December 25, 2017 proposed a dividend of SAR 400.1 million, which was approved by the Extra Ordinary General Assembly meeting held on March 27, 2018. After deducting Zakat, the dividend resulted in a net payment of SAR 0.25 per share to Saudi shareholders during the current year. The income tax liability of the foreign shareholders is adjusted from their share of current and future dividends. Zakat and income tax liabilities for the local and foreign shareholders are as follows:

a) Saudi shareholders:

Zakat attributable to Saudi Shareholders for the year is estimated to be SAR 58 million (2017: SAR 27 million), which will be adjusted against their share of current and future dividends.

b) Non-Saudi shareholders:

Income tax payable on the share of income of foreign shareholders is estimated to be SAR 94 million (2017: SAR 102 million), which will be adjusted against their share of current and future dividends.

c) Status of Zakat and Income Tax assessments

Zakat Assessments

During the current year, the Bank has reached a Settlement Agreement (the “Agreement”) with the GAZT in order to settle Zakat claims for the years from 2006 to 2017 against a full and final payment of SAR 374.48 million, payable in 6 instalments over a period ending December 1, 2023. The settlement resulted in an additional provision of SAR 100.4 million, which was charged to shareholders' equity during the current year. The Bank has settled the first installment of SAR 74.90 million during the month of December 2018. Under the Agreement, the Bank and the GAZT have also agreed to settle Zakat for the year 2018 in accordance with the basis agreed in the Agreement, which has been accounted for in the current year's Zakat liability.

Income Tax assessments

The Bank will continue to contest its appeals before the Appellate Committee for Resolution of tax disputes for the years from 2006 to 2013 and expects a favourable outcome of the aforementioned appeals.

Amounts in SAR'000

27 CASH AND CASH EQUIVALENTS

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

	2018	2017
Cash and balances with SAMA (note 4)	**4,890,038**	15,137,005
Statutory deposit (note 4)	**(3,491,775)**	(4,106,211)
	1,398,263	11,030,794
Due from banks and other financial institutions maturing within three months or less from the acquisition date	**1,091,012**	1,975,271
Total	**2,489,275**	13,006,065

28 OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the senior management responsible for operational decision making in the Group in order to allocate resources to the segments and to assess performance. Transactions between operating segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between operating segments, resulting in funding cost transfers. Special commission is charged to operating segments based on a pool rate, which approximates the marginal cost of funds. The revenue from external parties reported to the senior management, is measured in a manner consistent with that in the consolidated income statement. There have been no changes in the measurement basis for the segment profit or loss since December 31, 2017. Following are the reportable operating segments of the Group:

Corporate banking

The corporate banking segment offers a range of products and services to corporate and institutional customers. It accepts customer deposits and provides financing, including term loans, overdrafts, syndicated loans and trade finance services. Services provided to customers include internet banking, global transaction services and a centralised service that manages all customer transfers, electronic or otherwise.

Personal banking

The personal banking group operates through a national network of branches and ATMs supported by a 24-hour phone banking centre. This segment accepts customers' deposits in various savings and deposit accounts and provides retail banking products and services, including consumer loans, overdrafts and credit cards to individuals and small-to-medium-sized enterprises.

Investment banking and investment services

The investment banking and investment services segment offers security dealing, managing, arranging, advising and maintaining custody services in relation to securities.

Central treasury and ALCO

Treasury transacts mainly in money market, foreign exchange, special commission rate and other derivatives for corporate and institutional customers as well as for the Group's own benefit. It is also responsible for managing the Group's funding and centralized risk management and investment portfolio. ALCO include the group-wide assets and liabilities other than the business and treasury's core activities maintaining Group-wide liquidity and managing its consolidated financial position. It also includes the net interdepartmental revenues / charges on Funds Transfer Pricing as approved by ALCO and unallocated income and expenses relating to Head Office and other departments.

a) The following is an analysis of the Group's assets, revenues and results by operating segments for the year ended December 31:

2018	*Corporate banking*	*Personal banking*	*Investments banking and investments services*	*Central treasury and ALCO*	*Total*
External revenue / (expense):					
Net special commission income	**2,009,572**	**901,086**	**9,806**	**(165,758)**	**2,754,706**
Fee and commission income, net	**435,961**	**157,863**	**31,868**	**(24,427)**	**601,265**
Trading income, net	**24,107**	**752**	**1,748**	**48,747**	**75,354**
Other revenue	**72,975**	**52,293**	**-**	**6,921**	**132,189**
Inter-segment (expense) / revenue	**(866,576)**	**313,511**	**10,410**	**542,655**	**-**
Total segment revenue	**1,676,039**	**1,425,505**	**53,832**	**408,138**	**3,563,514**
Operating expenses	**(370,769)**	**(800,794)**	**(43,892)**	**(62,967)**	**(1,278,422)**
Other material non-cash items: impairment charge for credit and other losses, net	**(1,014,499)**	**(152,977)**	**-**	**-**	**(1,167,476)**
Other material non-cash items: Impairment reversal for other financial assets, net	**-**	**-**	**-**	**4,579**	**4,579**
Non-operating income	**-**	**-**	**-**	**8,255**	**8,255**
Segment profit	**290,771**	**471,734**	**9,940**	**358,005**	**1,130,450**
Segment assets	**39,719,589**	**18,047,534**	**810,629**	**23,450,450**	**82,028,202**
Segment liabilities	**16,116,244**	**27,588,970**	**268,549**	**24,194,042**	**68,167,805**

Amounts in SAR'000

2017	*Corporate banking*	*Personal banking*	*Investments banking and investments services*	*Central treasury and ALCO*	*Total*
External revenue / (expense):					
Net special commission income	2,057,304	1,058,531	2,090	(352,163)	2,765,762
Fee and commission income, net	502,539	180,460	31,426	(24,626)	689,799
Trading income, net	51,988	2,349	1,552	40,027	95,916
Other revenue	78,631	51,254	-	30,260	160,145
Inter-segment (expense) / revenue	(1,004,776)	235,483	9,254	760,039	-
Total segment revenue	1,685,686	1,528,077	44,322	453,537	3,711,622
Operating expenses	(393,895)	(767,510)	(37,570)	(66,640)	(1,265,615)
Other material non-cash items: impairment charge for credit losses, net	(940,300)	(179,999)	-	-	(1,120,299)
Non-operating income	-	-	-	9,810	9,810
Segment profit	351,491	580,568	6,752	396,707	1,335,518
Segment assets	43,661,906	19,977,577	748,030	35,482,317	99,869,830
Segment liabilities	22,392,629	27,180,681	208,884	36,487,940	86,270,134

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

2018	***Corporate banking***	***Personal banking***	***Central treasury and ALCO***	***Total***
Non derivative financial assets	**39,719,589**	**18,047,534**	**17,787,814**	**75,554,937**
Commitments and contingencies stated at credit equivalents	**12,326,557**	**-**	**-**	**12,326,557**
Derivatives stated at credit equivalents	**269,100**	**-**	**332,322**	**601,422**
2017				
Non derivative financial assets	43,661,906	19,977,577	19,330,931	82,970,414
Commitments and contingencies stated at credit equivalents	12,693,340	-	-	12,693,340
Derivatives stated at credit equivalents	438,691	-	462,360	901,051

Credit exposure comprises the carrying value of non derivative financial assets, excluding cash and balances with SAMA, investments in equities, associate, mutual funds and property and equipment. The credit equivalent value of commitments and contingencies and derivatives are also included in credit exposure.

29 FINANCIAL RISK MANAGEMENT

a) Credit Risk

Credit risk is the risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also a credit risk on credit related commitments, contingencies and derivatives. The Group controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

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 by limiting the duration of exposure. In certain cases management may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk on derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation. To control the level of credit risk taken, management assesses counterparties using the same techniques as for its lending activities. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

Management seeks to manage concentration of credit risk within Board approved Risk Appetite and in line with SAMA guidelines, through a system of limits and strategies designed to ensure appropriate diversification of lending activities and to prevent undue concentration of risks with individuals or groups of customers in specific locations or businesses. The Group also takes security when appropriate. Management monitors on a regular basis the market value of collateral and requests additional collateral in accordance with the underlying agreement, if required. In addition it also specifically monitors the market value of collateral during its review of the adequacy of the allowances for impairment losses. Management regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The Group's maximum exposure to credit risk computed as per SAMA guidelines as at December 31, 2018 and 2017, without taking into account any collateral held or credit enhancements attached is reflected below:

Amounts in SAR'000

	2018	2017
Due from banks and other financial institutions	**1,116,012**	2,115,271
Investments, net	**15,917,819**	16,531,070
Loans and advances, net	**57,767,123**	63,639,483
Other assets, net	**753,983**	684,590
Derivatives	**601,422**	901,051
Credit related commitments and contingencies	**12,326,557**	12,693,340
Total	**88,482,916**	96,564,805

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. In addition to the three categories mentioned in note 7, management maintains further classification grades that differentiates between performing and impaired portfolios and allocate allowances respectively. Management determines each individual borrower's grade based on specific financial ratios and other quantitative indicators and criteria such as activity, cash flows, capital structure, security, quality of management and borrower's character. A further quality classification is performed over existing borrowers and the results of this exercise are validated by the independent risk management unit.

b) Geographical concentration

Concentration of risks of financial assets with credit risk exposure and financial liabilities:

2018	*Saudi Arabia*	*GCC and Middle East*	*Europe*	*Americas*	*South East Asia*	*Other countries*	*Total*
Assets							
Cash and balances with SAMA (note 4)	**368,000**	**-**	**-**	**-**	**-**	**-**	**368,000**
Due from banks and other financial	**25,096**	**177,810**	**583,781**	**317,900**	**532**	**10,893**	**1,116,012**
Positive fair value derivatives, net	**44,118**	**21,474**	**44,515**	**-**	**-**	**-**	**110,107**
Investments, net							
Held as FVTPL	**146,389**	**-**	**166,836**	**-**	**-**	**-**	**313,225**
Held at amortised cost	**15,334,992**	**38,119**	**-**	**377,872**	**-**	**-**	**15,750,983**
Held as FVOCI	**4,330**	**-**	**-**	**-**	**-**	**-**	**4,330**
Loans and advances, net	**57,767,123**	**-**	**-**	**-**	**-**	**-**	**57,767,123**
Other assets	**270,574**	**454,245**	**27,128**	**1,989**	**2**	**45**	**753,983**
Total	**73,960,622**	**691,648**	**822,260**	**697,761**	**534**	**10,938**	**76,183,763**
Liabilities							
Due to banks and other financial institutions	**1,057,461**	**380,918**	**62,099**	**14,138**	**268**	**16,932**	**1,531,816**
Negative fair value derivatives, net	**31,131**	**4,128**	**21,830**	**4**	**-**	**-**	**57,093**
Customers' deposits	**64,572,713**	**-**	**-**	**-**	**-**	**-**	**64,572,713**
Other liabilities	**1,967,500**	**33,222**	**5,461**	**-**	**-**	**-**	**2,006,183**
Total	**67,628,805**	**418,268**	**89,390**	**14,142**	**268**	**16,932**	**68,167,805**
Commitments and Contingencies	**19,436,800**	**714,763**	**1,469,027**	**359,921**	**10,395**	**661,749**	**22,652,655**
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	**10,406,399**	**482,927**	**636,849**	**172,128**	**5,198**	**623,057**	**12,326,558**
Derivatives	**281,393**	**137,802**	**175,864**	**6,363**	**-**	**-**	**601,422**
2017							
Assets							
Cash and balances with SAMA (note 4)	10,009,000	-	-	-	-	-	10,009,000
Due from banks and other financial institutions, net	572,792	653,680	770,483	102,999	330	14,987	2,115,271
Positive fair value derivatives, net	107,535	45,526	59,157	-	-	-	212,218
Investments, net							
Available- for- sale	327,472	-	-	-	-	-	327,472
Other investments held at amortised cost	15,697,612	38,224	188,281	377,007	-	-	16,301,124
Held to maturity	-	60,151	-	-	-	-	60,151
Loans and advances, net	63,639,483	-	-	-	-	-	63,639,483
Other assets, net	312,516	298,525	45,487	28,062	-	-	684,590
Total	90,666,410	1,096,106	1,063,408	508,068	330	14,987	93,349,309

Amounts in SAR'000

	Saudi Arabia	*GCC and Middle East*	*Europe*	*Americas*	*South East Asia*	*Other countries*	*Total*
Liabilities							
Due to banks and other financial institutions	3,011,961	255,638	44,367	11,278	386	21,041	3,344,671
Negative fair value derivatives, net	59,463	7,189	23,653	1,374	-	-	91,679
Customers' deposits	78,274,963	-	-	-	-	-	78,274,963
Subordinated debt	2,505,026	-	-	-	-	-	2,505,026
Other liabilities	1,987,050	21,712	42,898	2,135	-	-	2,053,795
Total	85,838,463	284,539	110,918	14,787	386	21,041	86,270,134
Commitments and contingencies	22,522,530	573,609	1,075,683	363,892	-	1,629,242	26,164,956
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies	11,324,416	290,596	485,532	174,116	-	418,680	12,693,340
Derivatives	461,616	190,555	248,405	475	-	-	901,051

Credit equivalent amounts reflect the amounts that result from translating the Group's contingent liabilities and commitments and derivatives into the risk equivalents using credit conversion factors prescribed by SAMA. The credit conversion factor is meant to capture the potential credit risk related to the exercise of that commitment. Impaired loans and advances and allowances for credit losses are all within the Kingdom of Saudi Arabia.

c) 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 an assessment of the change in probability of default (PD) as at the reporting date with the PD at the time of initial recognition of the exposure. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

i) the remaining lifetime probability of default (PD) as at the reporting date; with
ii) the remaining lifetime 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 Groups categories 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 ECL. 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, 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 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.

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

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

i) the criteria are capable of identifying significant increase in credit risk before an exposure is in default;

ii) the criteria does align with the point in time when an asset becomes 30 days past due; and

iii) there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

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. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3. Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

i) 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, and senior management changes.

ii) Data from credit reference agencies, press articles, changes in external credit ratings.

iii) Quoted bond and credit default swap (CDS) prices for the borrower where available.

iv) Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

v) Payment records – this includes overdue status as well as a range of variables about payment ratios.

vi) Utilization of the granted limits or requests for and granting of forbearance.

vii) Existing and forecast changes in business, financial and economic conditions.

Credit risk grades

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 jurisdiction or region as well as by credit risk grading. 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 an 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 indicator includes oil prices.

Based on 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. The Group then uses these forecasts to adjust its estimates of PDs.

Definition of 'Default'

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

i) 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

ii) the borrower is past due more than 90 days on any material credit obligation to the Group, unless there are reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. 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:

i) qualitative- e.g. breaches of covenant;

ii) quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and

iii) based on data developed internally and obtained from external sources.

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

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

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. 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 set out in Note 3. 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:

i) its remaining lifetime PD at the reporting date based on the modified terms; with

ii) the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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 timing of interest payments and amending the terms of loan covenants. Both retail and non-retail loans are subject to the forbearance policy. The Bank 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 Bank 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. 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 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.

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. Based on 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. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Measurement of ECL

The Group recognizes impairment allowances based on a forward looking Expected Credit Loss (ECL) approach on financial assets that are not measured as FVIS. This mainly includes financing and investments that are measured at amortised cost or at FVOCI (other than equity investments), due from banks and financial institutions, financial guarantees, lease receivables and credit commitments. No impairment loss will be recognised on equity investments. The key inputs into the measurement of ECL are the term structure of the following variables:

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

The above parameters are derived from statistical models, historical data and expert judgement and are adjusted where appropriate to take account of forward looking information.

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

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

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. 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 Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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

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

- instrument type;
- credit risk grading;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

Amounts in SAR'000

30 MARKET RISK

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, and equity prices. Management classifies exposures to market risk into either trading book, or non-trading book (also referred to as banking book).

a) MARKET RISK - TRADING BOOK

The Board of Directors has set limits for the acceptable level of risk in managing the trading book. In order to manage market risk in the trading book, Management applies a VaR methodology daily 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 the market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses simulation models to assess the possible changes in the market value of the trading book based on historical data. 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.

VaR that management uses 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 one day. The use of 99% confidence level depicts that within a one-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 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, management maintains a framework of non-modelled limits that show potential loss for a given change in a market factor and makes no assumption about the behaviour of market factors. Furthermore, management employs stop loss limits on market risk positions and carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Asset and Liability Committee (ALCO) for review.

The Group's VaR related information for the year ended December 31, 2018 and 2017 is as provided below.

2018 (VaR)	***Foreign exchange rate risk***	***Special commission rate risk***	***Foreign exchange forwards***	***Overall risk***
As at December 31	**57**	**146**	**190**	**393**
Average for the year	**52**	**150**	**120**	**322**

2017 (VaR)	*Foreign exchange rate risk*	*Special commission rate risk*	*Foreign exchange forwards*	*Overall risk*
As at December 31	38	67	5	110
Average for the year	140	262	72	474

b) MARKET RISK – NON-TRADING OR BANKING BOOK

Market risk on non-trading or banking positions mainly arises from special commission rate, foreign currency exposures and equity price changes.

i) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board of Directors has established special commission rate gap limits for stipulated periods. Management monitors positions daily and uses hedging strategies to ensure maintenance of positions within 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 income statement 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, based on the floating rate non-trading financial assets and financial liabilities held at year end including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges at year end for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap.

Banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed below:

2018			**Sensitivity of equity**				
Currency	**Increase/ (decrease) in basis points**	**Sensitivity of net special commission income**	**6 months or less**	**6 to12 months**	**1 to 5 years**	**Over 5 years**	**Total**
USD	**25**	**(1)**	-	-	-	-	-
	(25)	**1**	-	-	-	-	-
SAR	**25**	**35**	-	-	-	-	-
	(25)	**(35)**	-	-	-	-	-

Amounts in SAR'000

2017 Currency	Increase/ (decrease) in basis points	Sensitivity of net special commission income	Sensitivity of equity				
			6 months or less	6 to12 months	1 to 5 years	Over 5 years	Total
USD	25	-	-	-	-	-	-
	(25)	-	-	-	-	-	-
SAR	25	35	(104)	(3)	-	-	(107)
	(25)	(35)	104	3	-	-	107

The exposure to the effect of various risks associated with fluctuations in the prevailing levels of market special commission rates on the Group's financial position and cash flows is managed. The Board of Directors sets limits on the level of special commission rate risk to which the Group may be exposed. These limits are monitored by the Group's Asset and Liability Committee, Risk Management and Treasury departments. The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and other financial instruments that mature or re-price in a given period. This risk is managed by matching the re-pricing of financial assets and liabilities through risk management strategies. The table below summarises the Group's exposure to special commission rate risks. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of the contractual re-pricing or the maturity dates.

2018	*Within 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Non-commission bearing*	*Total*
Assets						
Cash and balances with SAMA	**368,000**	**-**	**-**	**-**	**4,522,038**	**4,890,038**
Due from banks and other financial institutions	**415,931**	**25,140**	**-**	**-**	**674,941**	**1,116,012**
Positive fair value derivatives, net	**6,957**	**7,533**	**89,275**	**6,342**	**-**	**110,107**
Investments, net	**7,079,910**	**892,962**	**7,944,947**	**-**	**150,719**	**16,068,538**
Loans and advances, net	**33,260,652**	**11,651,342**	**6,109,906**	**6,745,223**	**-**	**57,767,123**
Other assets	**455,390**	**-**	**-**	**-**	**298,593**	**753,983**
Total	**41,586,840**	**12,576,977**	**14,144,128**	**6,751,565**	**5,646,291**	**80,705,801**
Liabilities						
Due to banks and other financial institutions	**1,187,448**	**10,223**	**5,860**	**-**	**328,285**	**1,531,816**
Negative fair value derivatives, net	**5,696**	**3,633**	**43,806**	**3,958**	**-**	**57,093**
Customers' deposits	**28,951,707**	**6,759,366**	**55,451**	**-**	**28,806,189**	**64,572,713**
Other liabilities	**-**	**-**	**-**	**-**	**2,006,183**	**2,006,183**
Shareholders' equity	**-**	**-**	**-**	**-**	**13,860,397**	**13,860,397**
Total liabilities and shareholders' equity	**30,144,851**	**6,773,222**	**105,117**	**3,958**	**45,001,054**	**82,028,202**
Special commission rate sensitivity - financial position gap	**11,441,989**	**5,803,755**	**14,039,011**	**6,747,607**		
Special commission rate sensitivity on derivative financial instruments	**-**	**267,005**	**(238,431)**	**(28,574)**		
Total special commission rate sensitivity gap	**11,441,989**	**6,070,760**	**13,800,580**	**6,719,033**		
Cumulative special commission rate sensitivity gap	**11,441,989**	**17,512,749**	**31,313,329**	**38,032,362**		
2017						
Assets						
Cash and balances with SAMA	10,009,000	-	-	-	5,128,005	15,137,005
Due from banks and other financial institutions	1,124,804	75,568	-	-	914,899	2,115,271
Positive fair value derivatives	25,047	57,040	99,631	30,500	-	212,218
Investments, net	7,680,122	864,529	7,802,446	183,973	157,677	16,688,747
Loans and advances, net	35,267,827	13,740,016	6,742,284	7,889,356	-	63,639,483
Other assets, net	336,275	22,580	-	-	325,735	684,590
Total	54,443,075	14,759,733	14,644,361	8,103,829	6,526,316	98,477,314

Amounts in SAR'000

	Within 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Non-commission bearing*	*Total*
Liabilities						
Due to banks and other financial institutions	2,901,400	13,329	7,104	-	422,838	3,344,671
Negative fair value derivatives	12,721	20,553	32,481	25,924	-	91,679
Customers' deposits	37,840,687	10,155,394	124,127	-	30,154,755	78,274,963
Subordinated debt	-	2,505,026	-	-	-	2,505,026
Other liabilities	44,916	24,438	-	-	1,984,441	2,053,795
Shareholders' equity	-	-	-	-	13,599,696	13,599,696
Total liabilities and shareholders' equity	40,799,724	12,718,740	163,712	25,924	46,161,730	99,869,830
Special commission rate sensitivity - financial position gap	13,643,351	2,040,993	14,480,649	8,077,905		
Special commission rate sensitivity on derivative financial instruments	608,807	(32,565)	(585,617)	9,375		
Total special commission rate sensitivity gap	14,252,158	2,008,428	13,895,032	8,087,280		
Cumulative special commission rate sensitivity gap	14,252,158	16,260,586	30,155,618	38,242,898		

Special commission rate sensitivity on derivative financial instruments represents the net notional amounts that are used to manage special commission rate risk. The effective yield of a monetary financial instrument is the yield that the Group earns from its clients taking into consideration the contractual special commission rate.

ii) CURRENCY RISK

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board of Directors have set risk appetite for market risks including currency risk and the Group's Asset and Liability Committee have set a framework of limits on positions by currency and in aggregate, which are monitored daily. Hedging strategies are also used to ensure that positions are maintained within these limits. The table below shows the currencies to which the Group has a significant exposure as at year end on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect on the consolidated income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) of a potential movement in the foreign currency against SAR, with all other variables held constant. A positive effect shows a potential increase in consolidated income statement or equity, whereas a negative effect shows a potential net reduction in consolidated income statement or equity.

2018

Currency exposure	**Change in Currency Rate (%)**	**Effect on Net Income**
USD	**5** **(5)**	**8,366** **(8,366)**
AED	**5** **(5)**	**108** **(108)**
CHF	**5** **(5)**	**3** **(3)**
EUR	**5** **(5)**	**(63)** **63**
GBP	**5** **(5)**	**(18)** **18**
JPY	**5** **(5)**	**17** **(17)**
Others	**5** **(5)**	**237** **(237)**

2017

Currency exposure	Change in Currency Rate (%)	Effect on Net Income
USD	5 (5)	3,734 (3,734)
AED	5 (5)	(30) 30
CHF	5 (5)	(10) 10
EUR	5 (5)	(68) 68
GBP	5 (5)	(32) 32
JPY	5 (5)	28 (28)
Others	5 (5)	132 (132)

Amounts in SAR'000

Currency position:

At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	Long / (short)	
	2018	2017
US Dollar	**167,314**	74,689
UAE Dirham	**2,166**	(608)
Swiss Franc	**60**	(203)
Euro	**(1,256)**	(1,367)
Pound Sterling	**(355)**	(640)
Japanese Yen	**345**	558
Others	**4,734**	2,642

31 LIQUIDITY RISK

Liquidity risk is the risk that the Group may encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up at short notice. To mitigate this risk, management has diversified funding sources and assets are managed considering liquidity positions to maintain a healthy balance of cash and cash equivalents and readily marketable securities.

i) Maturity profile of assets and liabilities

The tables below summarise the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period to contractual maturity date as at year end and do not take into account the effective maturities as indicated by the Group's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and other operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO and the Board and its Committees also receive regular reporting on key liquidity risk indicators.

In accordance with the 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 savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposits liabilities, in the form of cash, Saudi Government Development Bonds or assets which can be converted into cash within a period not exceeding 30 days or the Bank may raise additional funds through repo facilities available with SAMA against securities issued by the Saudi Government up to 75% of the nominal value of bonds held.

ii) The maturity profile of assets and liabilities at year end is as follows:

2018	*No fixed maturity*	*Within 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Assets						
Cash and balances with SAMA	**3,491,775**	**1,398,263**	**-**	**-**	**-**	**4,890,038**
Due from banks and other financial institutions	**674,941**	**415,931**	**25,140**	**-**	**-**	**1,116,012**
Positive fair value derivatives, net	**-**	**6,957**	**7,533**	**89,275**	**6,342**	**110,107**
Investments, net	**150,720**	**435,752**	**222,257**	**8,734,157**	**6,525,652**	**16,068,538**
Loans and advances, net	**1,433,279**	**20,862,462**	**12,391,304**	**13,279,828**	**9,800,250**	**57,767,123**
Investments in an associate	**53,762**	**-**	**-**	**-**	**-**	**53,762**
Property and equipment, net	**1,268,639**	**-**	**-**	**-**	**-**	**1,268,639**
Other assets, net	**753,983**	**-**	**-**	**-**	**-**	**753,983**
Total	**7,827,099**	**23,119,365**	**12,646,234**	**22,103,260**	**16,332,244**	**82,028,202**
Liabilities and shareholders' equity						
Due to banks and other financial institutions	**328,285**	**1,187,448**	**10,223**	**5,860**	**-**	**1,531,816**
Negative fair value derivatives, net	**-**	**5,696**	**3,633**	**43,806**	**3,958**	**57,093**
Customers' deposits	**34,332,399**	**23,425,497**	**6,759,366**	**55,451**	**-**	**64,572,713**
Other liabilities	**2,006,183**	**-**	**-**	**-**	**-**	**2,006,183**
Shareholders' equity	**13,860,397**	**-**	**-**	**-**	**-**	**13,860,397**
Total	**50,527,264**	**24,618,641**	**6,773,222**	**105,117**	**3,958**	**82,028,202**

Amounts in SAR'000

2017 Assets	No fixed maturity	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Cash and balances with SAMA	4,106,211	11,030,794	-	-	-	15,137,005
Due from banks and other financial institutions	914,899	1,124,804	75,568	-	-	2,115,271
Positive fair value derivatives	-	25,047	57,040	99,631	30,500	212,218
Investments, net	157,677	63,382	239,372	9,335,992	6,892,324	16,688,747
Loans and advances, net	1,154,544	23,205,228	12,114,187	15,629,529	11,535,995	63,639,483
Investments in an associate	45,507	-	-	-	-	45,507
Property and equipment, net	1,347,009	-	-	-	-	1,347,009
Other assets, net	612,976	49,034	22,580	-	-	684,590
Total	8,338,823	35,498,289	12,508,747	25,065,152	18,458,819	99,869,830

Liabilities and shareholders' equity	No fixed maturity	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Due to banks and other financial institutions	422,838	2,901,400	13,329	7,104	-	3,344,671
Negative fair value derivatives	-	12,721	20,553	32,481	25,924	91,679
Customers' deposits	30,154,755	37,840,687	10,155,394	124,127	-	78,274,963
Subordinated debt	-	-	5,026	-	2,500,000	2,505,026
Other liabilities	1,984,441	44,916	24,438	-	-	2,053,795
Shareholders' equity	13,599,696	-	-	-	-	13,599,696
Total	46,161,730	40,799,724	10,218,740	163,712	2,525,924	99,869,830

The cumulative maturity of commitments and contingencies and derivatives are given in note 19 (c) and note 11 of the consolidated financial statements, respectively.

iii) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at year end based on contractual undiscounted repayment obligations. As special commission payments upto 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 year end 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 therefore the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

2018	***No fixed maturity***	***Within 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Financial Liabilities						
Due to banks and other financial institutions	**328,285**	**1,187,965**	**10,422**	**6,340**	**-**	**1,533,012**
Customers' deposits	**34,332,399**	**23,503,423**	**6,884,174**	**59,213**	**-**	**64,779,209**
Derivatives						
Contractual amounts payable	**-**	**(2,916,514)**	**(1,876,284)**	**(6,574,010)**	**(29,727)**	**(11,396,535)**
Contractual amounts receivable	**-**	**2,928,336**	**1,896,668**	**6,591,570**	**29,791**	**11,446,365**
Total undiscounted financial liabilities	**34,660,684**	**24,703,210**	**6,914,980**	**83,113**	**64**	**66,362,051**
2017						
Financial Liabilities						
Due to banks and other financial institutions	422,838	2,902,089	13,590	7,529	-	3,346,046
Customers' deposits	30,154,755	38,065,115	10,315,886	131,720	-	78,667,476
Subordinated debt	-	-	107,090	657,347	2,500,000	3,264,437
Derivatives						
Contractual amounts payable	-	(9,485,150)	(3,274,956)	(6,450,348)	(65,210)	(19,275,664)
Contractual amounts receivable	-	9,503,271	3,319,687	6,488,989	65,698	19,377,645
Total undiscounted financial liabilities	30,577,593	40,985,325	10,481,297	835,237	2,500,488	85,379,940

Amounts in SAR'000

32 FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair value and the fair value hierarchy

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

Level 1 - Quoted (unadjusted) market prices in active primary markets.

Level 2 - Adjusted market prices in active markets for identical assets or liabilities using 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.

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2018		**Fair value**			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:					
Derivative financial instruments	**110,107**	**-**	**110,107**	**-**	**110,107**
Held as FVTPL	**313,263**	**146,389**	**166,874**	**-**	**313,263**
Held as FVOCI	**4,330**	**-**	**-**	**4,330**	**4,330**
Total financial assets measured at fair value:	**427,700**	**146,389**	**276,981**	**4,330**	**427,700**
Financial assets not measured at fair value:					
Due from banks and other financial institutions	**1,116,012**	**-**	**1,116,012**	**-**	**1,116,012**
Investments held at amortised cost	**15,755,580**	**238,095**	**15,410,601**	**-**	**15,648,696**
Loans and advances	**57,767,123**	**-**	**-**	**57,514,331**	**57,514,331**
Total financial assets not measured at fair value	**74,638,715**	**238,095**	**16,526,613**	**57,514,331**	**74,279,039**
Financial liabilities measured at fair value:					
Derivative financial instruments	**57,093**	**-**	**57,093**	**-**	**57,093**
Financial liabilities not measured at fair value:					
Due to banks and other financial institutions	**1,531,816**	**-**	**1,531,816**	**-**	**1,531,816**
Customers' deposits	**64,572,713**	**-**	**64,572,713**	**-**	**64,572,713**
Total financial liabilities not measured at fair value	**66,104,529**	**-**	**66,104,529**	**-**	**66,104,529**

2017					
Financial assets measured at fair value:					
Derivative financial instruments	212,218	-	212,218	-	212,218
Financial investments available for sale	327,472	153,347	169,795	4,330	327,472
Total financial assets measured at fair value:	539,690	153,347	382,013	4,330	539,690
Financial assets not measured at fair value:					
Due from banks and other financial institutions	2,115,271	-	2,115,271	-	2,115,271
Held to maturity investments	60,151	-	60,052	-	60,052
Other investments at amortised cost	16,301,124	-	16,224,881	-	16,224,881
Loans and advances	63,639,483	-	-	63,388,863	63,388,863
Total financial assets not measured at fair value:	82,116,029	-	18,400,204	63,388,863	81,789,067
Financial liabilities measured at fair value:	Carrying value	Level 1	Level 2	Level 3	Total
Derivative financial instruments	91,679	-	91,679	-	91,679
Financial liabilities not measured at fair value:					
Due to banks and other financial institutions	3,344,671	-	3,344,671	-	3,344,671
Customers' deposits	78,274,963	-	78,274,963	-	78,274,963
Subordinated debt	2,505,026	-	2,505,026	-	2,505,026
Total financial liabilities not measured at fair value:	84,124,660	-	84,124,660	-	84,124,660

Amounts in SAR'000

The fair values of financial instruments included in the consolidated statement of financial position, except for those held to maturity, other investments held at amortised cost and loans and advances that are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The estimated fair values of other investments held at amortised cost and held-to-maturity investments are based on quoted market prices, when available, or pricing models in the case of certain fixed rate bonds. The fair value of special commission-bearing customers' deposits are not significantly different from their book values since the current market special commission rates for similar financial liabilities are not significantly different from the contracted rates.

The fair values of cash and balances with SAMA, due from / to banks and other financial institutions, other assets and other liabilities are not significantly different from their carrying values since the underlying amounts for these categories are for shorter durations which indicates that their booking rates are not significantly different from the current market rates. The fair value of subordinated debt approximates carrying value since this is a floating rate liability with special commission rates re-priced every six months.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Group uses widely recognized valuation models for determining the fair value of common and simpler financial instruments. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The following table shows the valuation techniques used in measuring fair values at December 31, as well as the significant unobservable inputs used.

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter- relationship between significant unobservable inputs and fair value measurement**
FVOCI / Available for sale investments (2017)	Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.	None	Not applicable
Loans and advances	Fair valued using discounted cash flow techniques that use observable market data inputs for yield curves and credit spread	Credit spreads	The wider the movement in credit spread, the higher the difference between the carrying values and fair values

33 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. The related party transactions are carried out based on the terms agreed between the parties. Banking transactions with related parties are governed by limits set by the Banking Control Law and regulations issued by SAMA.

The balances at reporting date, unless reported elsewhere in the consolidated financial statements, resulting from such transactions are as follows:

Royal Bank of Scotland N.V. (formerly known as ABN AMRO Bank N.V.)	***2018***	*2017*
Due from banks and other financial institutions	**29,971**	189,337
Due to banks and other financial institutions	**839**	1,990
Derivatives at fair value, net	**212**	239
Commitments and contingencies	**33,118**	45,769
Associates & other major shareholders and their affiliate entities with significant influence:		
Loans and advances	**1,160,928**	576,689
Derivatives at fair value, net	**3,629**	9,366
Customers' deposits	**5,331,347**	4,656,774
Subordinated debt	**-**	424,533
Commitments and contingencies	**104,103**	289,146
Mutual funds managed by the Group:		
Investments	**146,389**	153,347
Subordinated debt	**-**	15,271
Customers' deposits	**273,101**	167,453
Derivatives at fair value, net	**89**	311

Amounts in SAR'000

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital. Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	2018	2017
Special commission income	**7,657**	12,880
Special commission expense	**122,486**	190,336
Fees from banking services, net	**1,355**	944
Fees from management services	**14,572**	17,732
General and administrative expenses	**30,214**	41,320
Directors' remuneration and other related expenses	**4,691**	4,763
Compensation paid to key management personnel (note 24)	**42,834**	34,381
End of service benefits paid to key management personnel	**1,391**	691

Key management personnel are those persons having responsibility and authority for formulating strategies and directing and controlling the activities of the Group.

34 CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored daily by management. SAMA requires holding the minimum level of regulatory capital and maintaining a ratio of total regulatory capital to the Risk-Weighted Assets (RWA) at or above the agreed minimum of 8%.

Management monitors the adequacy of its capital using ratios established by SAMA. These ratios expressed as a percentage, measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at amounts weighted to reflect their relative risk. During the year, the Group has fully complied with regulatory capital requirement.

The components of RWA, capital and ratios are as follows:

	2018	2017
Credit Risk RWA	**67,881,975**	77,414,670
Operational Risk RWA	**6,403,504**	6,262,700
Market Risk RWA	**423,902**	223,114
Total Pillar-I RWA	**74,709,381**	83,900,484
Tier I Capital	**14,547,619**	13,599,696
Tier II Capital	**848,525**	3,467,683
Total Tier I & II Capital	**15,396,144**	17,067,379
Capital Adequacy Ratio %		
Tier I	**19.47**	16.21
Tier I + Tier II	**20.61**	20.34

35 INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Group offers investment management services to its customers that include the management of investment funds and discretionary portfolios with total assets of SAR 2.14 billion (2017: SAR 2.85 billion), in consultation with professional investment advisors. This includes funds managed under Shariah approved portfolios amounting to SAR 1.35 billion (2017: SAR 1.56 billion). The financial statements of these funds are not consolidated with the consolidated financial statements of the Group. The Group's investment in these funds is included in investments held as FVTPL. Fees earned from management services are recorded within fee and commission income and are disclosed under "related party transactions". Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, therefore, are not included in these consolidated financial statements.

36 SHARE BASED PLAN RESERVE

In January 2008, the Group launched an equity settled share-based payment plan (the "Plan") for executives and senior employees ("Eligible Employees"). The initial Plan was approved by the Board of Directors in their meeting held on 10 Dhu-al-Qa'dah 1428H (corresponding to November 20, 2007) and SAMA in their letter dated 26 Safar 1429H (corresponding March 4, 2008). The vesting conditions were amended in 2009 as approved by the Board of Directors in their meeting held on 5 Shabaan 1430H (corresponding July 27, 2009) and SAMA in their letter dated 20 Dhualqada 1430H (corresponding November 9, 2009). According to the amendment made in the Plan during 2017, eligible employees will receive shares in the Bank if the following terms and conditions are met:

- Eligible employees are required to continue their employment with the Group for a period of one year from the grant date to have 1/3rd of shares vest, two years from the grant to have another 1/3rd of shares vest and three years from the grant to have remaining 1/3rd of shares to vest; and
- The Group achieves specific growth thresholds as approved by the Board of Directors where each threshold will accrue a certain value of shares to the Eligible Employees.

Amounts in SAR'000

The amendments made in the Plan during 2017, with respect to vesting period of the grant is applicable to 2017 grant onwards only and the vesting period of the prior grants will be subject to the policy applicable before the aforementioned amendment. Before the amendments, Eligible employees were required to continue their employment with the Group for a period of 2 years from the grant date to have half of their shares vest and another year for the remainder to vest.

Under the provisions of the Plan, the Group at no point becomes the legal owner of the underlying shares. Until such time as these shares vest they will not carry voting rights. As per the plan, Alawwal Invest manages the Staff Share Plan Fund (the Fund) which will operate in accordance with the terms and conditions as approved by the Board of Directors in their above referred meeting and by SAMA in their above referred letter. Any further modifications in the terms and conditions of the Plan require prior approval of SAMA.

During 2008, the Fund purchased 2.15 million Bank's shares for a total consideration of SR 114 million which are held by it in fiduciary capacity until the shares vest to the eligible employees. The Fund purchased one million shares in 2012 and 999,063 shares in 2016 worth of SAR 27 million and 25 million, respectively. At the vesting date the ownership of these shares will pass to the employees. The number of shares granted is calculated in accordance with the performance based formula approved by the Board of Directors and is subject to approval of the Nomination and Remuneration Committee.

In accordance with the terms of the Plan, shares will be granted to eligible employees annually and will vest as described above and in addition, eligible employees may be granted shares subject to specified vesting terms and conditions. The Group has granted 9 tranches of the Plan over the period from 2008 to 2018 and the tranches granted for the years from 2016 to 2018 are currently under their vesting periods. The Plan details are as follows:-

	Grant in 2018	*Grant in 2017*	*Grant in 2016*
Plan Commencement date	**February 2018**	March 2017	March 2016
Value of shares granted on the grant date (SAR)	**13,168,117**	11,855,820	26,301,969
Fair value per share at grant date (SAR)	**12**	12	27
Number of shares granted	**1,097,342**	987,985	974,147
Vesting period	**January 2019 - 2021**	March 2018 - 2020	March 2018 - 2019
Method of settlement	**Bank's shares**	Bank's shares	Bank's shares

The following is the movement in number of shares in grant at December 31, 2018 and 2017.

	Number of shares	
	2018	2017
Beginning of the year	**2,978,636**	3,417,001
Grant / additions during the year	**1,649,065**	987,985
Vested during the year	**(1,543,620)**	(1,116,845)
Forfeited during the year	**(490,901)**	(309,505)
	2,593,180	2,978,636

During the year Share Based Plan related charge to consolidated income statement amounted to SAR 5.34 million (2017: SAR 13.69 million).

37 EMPLOYEE END OF SERVICE BENEFITS

The Group operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labour Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due. Following are the key assumptions resulting in net liability of SAR 223.1 million as of December 31, 2018 (2017: 207.4 million) and charge to the consolidated income statement for the year amounted to SAR 34.4 million (2017: SAR 42.8 million).

	2018	*2017*
Discount rate (per annum)	**4.60%**	4.60%
Expected rate of salary increase (per annum)	**5.21%**	5.31%
Mortality rate	**0.583 - 2.926**	0.583 - 2.926
Normal retirement age - (years)	**55-60**	55-60

Above assumptions are based on actuarial input. Actuarial liability is more sensitive to change in salary inflation and discount rate. A 0.5% change in either discount rate or salary increase can increase or decrease the end of service liability by SAR 5 to SAR 10 million.

38 PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Group has chosen not to early adopt the following new standards and amendments which have been issued but not yet effective for the current accounting year. Following is a brief on the new IFRSs and amendments to IFRSs and the related impact assessment, effective for annual periods beginning on or after January 01, 2018:

- **IFRS 16 – "Leases"**

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 using modified retrospective approach. 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 impact on the consolidated statement of financial position as at December 31, 2018 is estimated to be an increase of 0.3% and 0.4% in assets and liabilities, respectively. The adoption of IFRS 16 is not expected to have significant impact on Group's operating results.

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 January 1, 2019, the Group does not anticipate that these will have a material impact on the Group's consolidated financial statements.

39 COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year's presentation.

40 BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorised for issue by the Board of Directors on 5 Jumada II, 1440H (corresponding to February 10, 2019).