Arab National Bank

(A Saudi Joint Stock Company)

Consolidated Financial Statements
For the year ended 31 December 2019

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Independent Auditors' Report
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Arab National Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

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

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Independent Auditors' Report
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matter
Impairment of loans and advances	
At 31 December 2019, the gross loans and advances of the Group were SAR 122.24 billion against which an impairment allowance of SAR 3.40 billion was maintained. We considered impairment of loans and advances as a key audit matter as the determination of expected credit loss (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 into Stages 1, 2 and 3 based on the identification of: a) exposures with a significant increase in credit risk ("SICR") since their origination b) individually impaired / defaulted exposures 2. Assumptions used in the ECL model for determining probability of default (PD), loss given default (LGD) and exposure at default (EAD) including but not limited to assessment of financial condition of counterparty, expected future cash flows and forward looking macroeconomic factors. 3. The need to apply overlays to reflect current or future external factors that might not be captured by the expected credit loss model. 4. Disclosures relating to IFRS 9 and the related incremental disclosures of IFRS 7. *Refer to the note 2 (e) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7 which contains the disclosure of impairment against loans and advances and note 32 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.*	We obtained an understanding of management's process of assessment of the impairment of loans and advances as per IFRS 9, the Group's internal rating model, impairment allowance policy and the ECL modelling methodology. We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9. We assessed the design and implementation, and tested the operating effectiveness of the key controls over: • the modelling process, including governance over the monitoring of the model and approval of key assumptions; • the classification of borrowers into various stages and timely identification of SICR and determination of default / individually impaired exposures; and • the integrity of data inputs into the ECL model. We assessed the Group's criteria for determination of SICR and identification of "default" or "individually impaired" exposures and their classification into stages. For a sample of customers, we assessed: • the internal ratings determined by the management based on the Group's internal rating model and assessed these ratings were in line with the ratings used in the ECL model; • the staging as identified by management; and • management's computations for ECL. We assessed the reasonableness of underlying assumptions including forward looking assumptions used by the Group in the ECL model. Where management overlays were used, we assessed those overlays and the governance process around such overlays. We tested the completeness of data underlying the ECL calculations as of 31 December 2019. Where relevant, we involved specialists to assist us in the review of model calculations. We assessed the disclosures included in the consolidated financial statements.

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Independent Auditors' Report
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matter
Valuation of derivatives The Group has entered into various derivative transactions, including commission rate and cross currency swaps ("swaps"), forward foreign exchange and commodity contracts ("forwards"), commission rate futures ("futures") and commission rate options ("options"). Swaps, forwards and options derivative contracts are over the counter (OTC) derivatives and hence, the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations including adjustments to counterparty's own credit risk. The majority of these derivatives are held for trading purposes; however, certain commission rate swaps are also categorized as fair value hedges in the consolidated financial statements. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and in case of hedge ineffectiveness also impact the hedge accounting. We considered this as a key audit matter as there is complexity and subjectivity involved in determining the valuation, where complex modelling techniques and valuation inputs that are not market observable are being used. *Refer to note 3 (m) of the consolidated financial statements for the accounting policy relating to valuation of derivatives and note 11 which explains the derivative positions and valuation methodology used by the Group.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for the valuation of derivatives including the testing of relevant automated controls covering the fair valuation process for derivatives. We selected a sample of derivatives and: • Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; • Checked the accuracy and appropriateness of the key inputs to the valuation model; • Involved valuation specialists to assist in performing an independent valuation of the derivatives and compared the result with management's valuation; • Checked hedge effectiveness performed by the Group and the related hedge accounting; and • Considered the adequacy of the Group's disclosures about the valuation basis and inputs used in the fair value measurement.

Independent Auditors' Report
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements (continued)

Other Information included in the Group's 2019 Annual Report

Management is responsible for the other information. The other information consists of the information included in the Group's 2019 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 Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA, 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 management 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 management is 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 management either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Board of Directors, 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 that are 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
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company)

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 that are 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 management.
- Conclude on the appropriateness of the management's 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.

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

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Independent Auditors' Report
To the Shareholders of Arab National Bank (A Saudi Joint Stock Company)

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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3 Rajab 1441H
(27 February 2020)

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2019 and 2018
(Amount in SAR '000)

	Notes	**2019**	2018 (Restated)
ASSETS			
Cash and balances with SAMA	4	**17,167,044**	22,980,266
Due from banks and other financial institutions, net	5	**2,067,992**	1,134,048
Positive fair value of derivatives	11	**1,225,136**	1,580,334
Investments, net	6	**38,038,140**	27,857,183
Loans and advances, net	7	**118,837,121**	121,038,239
Investments in associates	8	**889,115**	887,276
Other real estate		**222,197**	220,697
Property and equipment, net	9	**2,183,641**	1,552,491
Other assets	10	**2,812,091**	1,104,298
Total assets		**183,442,477**	178,354,832
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**3,082,181**	1,536,602
Negative fair value of derivatives	11	**2,341,184**	1,291,384
Customers' deposits	13	**142,128,897**	142,055,608
Other liabilities	14	**5,529,026**	4,894,002
Sukuk	15	**2,017,903**	2,020,491
Total liabilities		**155,099,191**	151,798,087
Equity			
Equity attributable to equity holders of the Bank			
Share capital	16	**15,000,000**	10,000,000
Statutory reserve	17	**7,756,000**	10,000,000
Other reserves		**230,786**	(7,263)
Retained earnings		**4,627,232**	5,677,522
Proposed dividends	27	**694,205**	850,000
Total equity attributable to equity holders of the Bank		**28,308,223**	26,520,259
Non-controlling interest		**35,063**	36,486
Total equity		**28,343,286**	26,556,745
Total liabilities and equity		**183,442,477**	178,354,832

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Latifa Al-Sabhan	Robert Eid	Hesham Al-Jabr
Chief Financial Officer	Managing Director	Authorized Board Member

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2019 and 2018
(Amount in SAR '000)

	Notes	2019	2018 (Restated)
Special commission income	19	**7,632,624**	6,832,413
Special commission expense	19	**2,079,685**	1,680,971
Net special commission income		**5,552,939**	5,151,442
Fee and commission income	20	**1,290,651**	1,335,185
Fee and commission expense	20	**632,920**	684,071
Fees and commission income, net		**657,731**	651,114
Exchange income, net		**362,798**	404,529
Unrealized gains on investments at FVTPL, net		**10,127**	19,502
Trading (losses) / income, net	21	**(10,393)**	21,155
Dividend income	22	**84,531**	63,376
Gains / (losses) on sale of FVOCI debt financial assets, net	23	**407**	(208)
Unrealized gain on remeasurement of investment upon loss of control	8	**-**	34,319
Other operating income, net	24	**74,698**	189,594
Total operating income		**6,732,838**	6,534,823
Salaries and employee related expenses	29	**1,281,170**	1,265,985
Rent and premises related expenses		**57,698**	161,533
Depreciation and amortization	9	**253,207**	204,990
Other general and administrative expenses		**610,782**	608,217
Total operating expenses before impairment charges		**2,202,857**	2,240,725
Impairment charges for credit losses and other provisions, net	25	**970,596**	998,323
Impairment charges / (reversal of impairment charges) for other financial assets, net		**18,466**	(3,542)
Total operating expenses		**3,191,919**	3,235,506
Net operating income		**3,540,919**	3,299,317
Share in earnings of associates, net	8	**9,711**	12,500
Net income before zakat and income tax		**3,550,630**	3,311,817
Zakat charge for the year	27	**248,628**	182,051
Zakat reversal for the prior year	27	**-**	(1,113,261)
Income tax charge for the year	27	**286,996**	272,368
Deferred tax reversal for the year	27	**(6,806)**	-
Net income for the year		**3,021,812**	3,970,659
Attributable to:			
Equity holders of the Bank		**3,023,235**	3,969,006
Non-controlling interest		**(1,423)**	1,653
Net income for the year		**3,021,812**	3,970,659
Basic and diluted earnings per share (expressed in SAR)	26	**2.02**	2.65

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Latifa Al-Sabhan | Robert Eid | Hesham Al-Jabr

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2019 and 2018
(Amount in SAR '000)

	2019	2018 (Restated)
Net income for the year	**3,021,812**	3,970,659
Other comprehensive income:		
Items that cannot be reclassified to consolidated statement of income in subsequent periods		
Equity instruments at fair value through other comprehensive income:		
- Net changes in fair value	**144,755**	97,764
Actuarial gains (losses) on defined benefit plans	**2,471**	(20,662)
Items that can be reclassified to the consolidated statement of income in subsequent periods		
Debt instruments at fair value through other comprehensive income:		
- Net changes in fair value	**76,548**	(28,899)
- Net amounts transferred to consolidated statement of income	**441**	(1,429)
Total other comprehensive income	**224,215**	46,774
Total comprehensive income for the year	**3,246,027**	4,017,433
Attributable to:		
Equity holders of the Bank	**3,247,450**	4,015,780
Non-controlling interest	**(1,423)**	1,653
Total comprehensive income for the year	**3,246,027**	4,017,433

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Latifa Al-Sabhan　　　Robert Eid　　　Hesham Al-Jabr

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2019 and 2018
(Amount in SAR '000)

		Attributable to equity holders of the Bank								
				Other Reserves						
2019	**Notes**	**Share capital**	**Statutory reserve**	**FVOCI**	**Actuarial (losses)/gains on defined benefit plan**	**Retained earnings**	**Proposed dividends**	**Total**	**Non-controlling interests**	**Total equity**
Restated balance at December 31, 2018		**10,000,000**	**10,000,000**	**73,216**	**(80,479)**	**5,677,522**	**850,000**	**26,520,259**	**36,486**	**26,556,745**
Impact of adopting IFRS 16 at January 1, 2019		-	-	-	-	**(76,804)**	-	**(76,804)**	-	**(76,804)**
Changes in equity for the year:										
Net changes in fair values of FVOCI equity investments		-	-	**144,755**	-	-	-	**144,755**	-	**144,755**
Net changes in fair values of FVOCI debt instruments		-	-	**76,548**	-	-	-	**76,548**	-	**76,548**
Actuarial gains		-	-	-	**2,471**	-	-	**2,471**	-	**2,471**
Net transfers to consolidated statement of income		-	-	**441**	-	-	-	**441**	-	**441**
Net income for the year		-	-	-	-	**3,023,235**	-	**3,023,235**	**(1,423)**	**3,021,812**
Total comprehensive income for the year		-	-	**221,744**	**2,471**	**3,023,235**	-	**3,247,450**	**(1,423)**	**3,246,027**
Net loss on derecognition of FVOCI equity investments	6	-	-	**13,834**	-	**(13,834)**	-	-	-	-
Transfer to statutory reserve	17	-	**756,000**	-	-	**(756,000)**	-	-	-	-
Bonus shares	16	**5,000,000**	**(3,000,000)**	-	-	**(2,000,000)**	-	-	-	-
2018 final dividends	27	-	-	-	-	-	**(850,000)**	**(850,000)**	-	**(850,000)**
2019 proposed dividend	27	-	-	-	-	**(694,205)**	**694,205**	-	-	-
2019 interim dividend, net	27	-	-	-	-	**(532,682)**	-	**(532,682)**	-	**(532,682)**
Balance at the end of the year		**15,000,000**	**7,756,000**	**308,794**	**(78,008)**	**4,627,232**	**694,205**	**28,308,223**	**35,063**	**28,343,286**
2018										
Balance at the beginning of the year (as previously reported)		10,000,000	10,000,000	(11,197)	(59,817)	3,161,167	650,000	23,740,153	696,278	24,436,431
Impact of change in accounting policy for zakat and income tax		-	-	-	-	64,326	-	64,326	-	64,326
Restated balance at January 1, 2018		10,000,000	10,000,000	(11,197)	(59,817)	3,225,493	650,000	23,804,479	696,278	24,500,757
Changes in equity for the year:										
Net changes in fair values of FVOCI equity investments		-	-	97,764	-	-	-	97,764	-	97,764
Net changes in fair values of FVOCI debt instruments		-	-	(28,899)	-	-	-	(28,899)	-	(28,899)
Actuarial losses		-	-	-	(20,662)	-	-	(20,662)	-	(20,662)
Net transfers to consolidated statement of income		-	-	(1,429)	-	-	-	(1,429)	-	(1,429)
Net income for the year		-	-	-	-	3,969,006	-	3,969,006	1,653	3,970,659
Total comprehensive income for the year		-	-	67,436	(20,662)	3,969,006	-	4,015,780	1,653	4,017,433
Net loss on derecognition of FVOCI equity investments	6	-	-	16,977	-	(16,977)	-	-	-	-
Distribution from a subsidiary		-	-	-	-	-	-	-	(24,780)	(24,780)
Derecognition of non-controlling interest due to loss of control	8	-	-	-	-	-	-	-	(636,665)	(636,665)
2017 final dividends		-	-	-	-	-	(650,000)	(650,000)	-	(650,000)
2018 interim and proposed dividends	27	-	-	-	-	(1,500,000)	850,000	(650,000)	-	(650,000)
Balance at the end of the year (restated)		10,000,000	10,000,000	73,216	(80,479)	5,677,522	850,000	26,520,259	36,486	26,556,745

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Latifa Al-Sabhan | Robert Eid | Hesham Al-Jabr

Arab National Bank – Saudi Joint Stock Company
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2019 and 2018
(Amount in SAR '000)

	Notes	2019	2018 (Restated)
OPERATING ACTIVITIES			
Net income before zakat and income tax		**3,550,630**	3,311,817
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of premium on investments not held as FVTPL, net		**1,567**	642
Special commission expense on sukuk	19	**85,129**	78,054
(Gains) / losses on investments not held as FVTPL, net	23	**(407)**	208
Unrealized gains on FVTPL financial instruments, net		**(10,127)**	(19,502)
Dividend income	22	**(84,531)**	(63,376)
Depreciation of investment property		**-**	18,600
Depreciation and amortization of property and equipment	9	**253,207**	204,990
Losses on disposal of property and equipment, net	24	**3,562**	1,284
Impairment charges for credit losses and other provisions, net	25	**970,596**	998,323
Charges / (reversal) for impairment of other financial assets, net		**18,466**	(3,542)
Unrealized gain on remeasurement of investment upon loss of control	8	**-**	(34,319)
Share in earnings of associates, net	8	**(9,711)**	(12,500)
		4,778,381	4,480,679
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA	4	**(56,480)**	166,910
Investments held at FVTPL	6	**(27,885)**	(447,309)
Positive fair value of derivatives		**355,198**	(636,574)
Loans and advances		**1,523,788**	(7,185,847)
Other assets		**(1,752,400)**	105,771
Other real estate		**(1,500)**	-
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**1,545,579**	(1,154,947)
Negative fair value of derivatives		**1,049,800**	435,482
Customers' deposits		**73,289**	5,926,673
Other liabilities		**(1,347,797)**	627,739
Net cash from operating activities		**6,139,973**	2,318,577
INVESTING ACTIVITIES			
Proceeds from sale and maturities of investments not held as FVTPL		**1,244,108**	7,609,057
Purchase of investments not held as FVTPL		**(10,016,642)**	(2,729,045)
Investment in associate		**7,872**	-
Purchase of property and equipment	9	**(78,876)**	(66,670)
Proceeds from sale of property and equipment		**1,551**	2,377
Dividends received		**84,531**	63,376
Net cash (used in) from investing activities		**(8,757,456)**	4,879,095
FINANCING ACTIVITIES			
Dividends paid		**(1,589,809)**	(1,300,403)
Zakat and income tax paid		**(639,315)**	(476,479)
Special commission paid on sukuk		**(87,717)**	(73,837)
Non-controlling interest from distributions from a subsidiary		**-**	(24,780)
Net cash used in financing activities		**(2,316,841)**	(1,875,499)
Net (decrease) / increase in cash and cash equivalents		**(4,934,324)**	5,322,173
Cash and cash equivalents at the beginning of the year		**17,094,956**	11,772,783
Cash and cash equivalents at the end of the year	28	**12,160,632**	17,094,956
Special commission received during the year		**7,498,875**	6,547,113
Special commission paid during the year		**(1,784,605)**	(1,440,734)
Supplemental non-cash information			
Net changes in fair value of investments held at fair value through other comprehensive income		**221,303**	68,865

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Latifa Al-Sabhan   Robert Eid   Hesham Al-Jabr

1. General

Arab National Bank (a Saudi Joint Stock Company, the "Bank") was formed pursuant to Royal Decree No. M/38 dated Rajab 18,1399H (corresponding to June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (corresponding to January 19, 1980) through its 138 branches (2018: 140 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

Arab National Bank
P.O. Box 56921
Riyadh 11564
Kingdom of Saudi Arabia

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

The consolidated financial statements comprise the financial statements of the Bank and the following subsidiaries (collectively referred to as "the Group"):

Arab National Investment Company (ANB Invest)

In accordance with the Capital Market Authority (CMA) directives, the Bank has established ANB Invest, a wholly owned subsidiary, a Saudi closed joint stock company, registered in the Kingdom under Commercial Registration No. 1010239908 issued on Shawwal 26, 1428H (corresponding to November 7, 2007), to takeover and manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the CMA. The subsidiary commenced its operations effective Muharram 3, 1429H (corresponding to January 12, 2008). Accordingly, the Bank started consolidating the financial statements of the above mentioned subsidiary effective from January 12, 2008. On Muharram 19, 1436H (corresponding to November 12, 2014), the subsidiary changed its legal structure from a limited liability company to a closed joint stock company. The objective of the subsidiary was amended and approved by CMA Board of Commissioners on Muharram 28, 1437H (corresponding to November 10, 2015) through a resolution number S/1/6/14832/15 to include dealing as a principal activity. The objective of the subsidiary was further amended on Sha'ban 26, 1437H (corresponding to June 2, 2016) to provide loans to the subsidiary's customers to trade in financial papers as per the Saudi Arabian Monetary Authority's circular No. 371000014867 dated 5/2/1437H, and the CMA's circular No. S/6/16287/15 dated 10/3/1437H.

Arabian Heavy Equipment Leasing Company (AHEL)

An 87.5% owned subsidiary incorporated in the Kingdom, as a Saudi closed joint stock company, under Commercial Registration no 1010267489 issued in Riyadh dated Jumada I 15, 1430H (corresponding to May 10, 2009). The company is engaged in the leasing of heavy equipment and operates in compliance with Shari'ah principles. The Bank started consolidating the subsidiary's financial statements effective May 10, 2009, the date the subsidiary started its operations. On May 6, 2014 the Bank increased its ownership percentage in this subsidiary from 62.5% to reach 87.5%.

ANB Insurance Agency

A Saudi limited liability company established during 2013 as a wholly owned subsidiary, registered in the Kingdom under Commercial Registration no. 1010396423 issued in Riyadh dated Muharram 28, 1435H (corresponding to December 1, 2013). The subsidiary obtained its license from the Saudi Arabian Monetary Authority (SAMA) to start its activities in insurance agency and related business on Jumada I 5, 1435H (corresponding to March 6, 2014).

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned Saudi limited liability company, registered in the Kingdom under the commercial registration no. 1010199647 issued in Riyadh dated Jumada I 18, 1425H (corresponding to July 6, 2004). The subsidiary is engaged in the purchase of lands and real estates and invest them through sale or rent in favor of the company, maintenance and management of owners and others' assets as guarantee, sale and purchase of real estates for financing purposes as per SAMA approval No. 361000109161 dated 10/8/1436H.

1. General (continued)

ANB Global Markets Limited

The Bank established on January 31, 2017 ANB Global Markets Limited, as a limited liability company registered in the Cayman Islands. The Bank has 100% ownership. The objective of ANB Global Markets Limited is trading in derivatives and Repo activities on behalf of the Bank.

Change in status of a subsidiary

The Group owns 25.47% of ANBI Business Gate Fund (the Fund), which is a closed-ended private placement real estate investment fund. The Fund was consolidated as a subsidiary until September 2018. Thereafter, the Group has reassessed its control over the Fund and after considering the Fund Board composition and other factors concluded that the Group does not control the relevant activities of the Fund, effective October 2018, though, significant influence over the Fund is still retained by the Group. Accordingly, the Group has discontinued consolidation of the Fund in its consolidated financial statements and has accounted for the Fund as an associate (see Note 8).

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Group have been prepared;

i) in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA:); and
ii) 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.

The interim condensed consolidated financial statements of the Group as at and for the period ended March 31, 2019 and consolidated financial statements at year end December 31, 2018, respectively, were prepared in compliance with IFRS respectively, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to zakat and income tax) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

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

Accordingly, the Group changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 3) and the effects of this change are disclosed in note 27 to the consolidated financial statements). The Group has adopted IFRS 16 Leases from January 1, 2019. The change in accounting policies due to this new standard and treatment of Zakat and Income Tax are disclosed in the Note 3.

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at Fair Value through Profit or Loss (FVTPL), FVOCI investments, (January 1, 2018: AFS investments). In addition, financial assets or liabilities that are hedged in a fair value hedging relationship and that are otherwise carried at cost are adjusted to record changes in fair value attributable to the risks that are being hedged.

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

c) Basis of consolidation

The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Adjustments have been made to the financial statements of the subsidiaries where necessary to align them with the Bank's financial statements.

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.

2. Basis of preparation (continued)

c) Basis of consolidation (continued)

Specifically, the Group controls an investee if and only if it 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; and
- 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

If the Group loses control over a subsidiary, it:

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

Non-controlling interests represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of income and separately from equity holders of the Bank within equity in the consolidated statement of financial position. Any losses related to the non-controlling interest in a subsidiary are allocated to non-controlling interest even if doing so causes non-controlling interest to have a deficit balance.

Acquisitions of non-controlling interests are accounted for using the purchase method of accounting, whereby, the difference between the cost of acquisition and the fair value of the share of the net assets acquired is recognized as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-controlling interest is subsequently adjusted for the Group's share of changes in the equity of the consolidated subsidiary after the date of acquisition.

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

d) Functional and presentation currency

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

2. Basis of preparation (continued)

e) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA, 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 current circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment losses on financial assets

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

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

(ii) Fair value measurement (Note 36)
(iii) Impairment of FVOCI debt investments (Note 32)
(iv) Classification of investments at Amortised Cost (Note 6)
(v) Determination of control over investees
(vi) Provisions for liabilities and charges
(vii) Define benefit plans (Note 30)
(viii) Going concern
(ix) Deferred tax

3. Summary of significant accounting policies

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

a. Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of the following one new standard and other amendments to the accounting treatment of zakat and income tax mentioned below. Except for adoption of new accounting treatment of zakat and income tax and adoption of IFRS 16 ("leases"), 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.

Adoption of New Standard and Interpretation

Effective from January 1, 2019, the Group has adopted a new accounting standard and an amendment to the accounting treatment to the zakat and income tax, the impact of the adoption of the standard is explained below:

3. Summary of significant accounting policies (continued)

a. Changes in accounting policies (continued)

Adoption of New Standard and Interpretation (continued)

IFRS 16 Leases

The Group adopted IFRS 16 'Leases'.

Before January 1, 2019, the Group follow Accounting for leases:

i) Where the Group is a lessee

Leases entered into by the Group are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

Penalties paid to a lessor when an operating lease is terminated before the lease period has expired, is recognized as an expense in the period in which termination takes place.

ii) Where the Group is a lessor

When assets are sold under a finance lease, including Shari'ah compliant leases, the present value of the lease payments is recognized as a receivable and disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the effective yield basis, which reflects a constant periodic rate of return.

The Group adopted IFRS 16 'Leases' the standard replaces the existing guidance on leases, including IAS 17 'Leases", IFRIC 4 'Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after January 1, 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Group's statement of financial position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, using the interest rate at the time of first time application. IFRS 16 transition disclosures also requires the Group to present the reconciliation the off-balance sheet lease obligations as of December 31, 2018 are reconciled as follows to the recognized the lease liabilities as of January 1, 2019.

RECONCILIATION OF LEASE LIABILITIES	**SAR '000**
Off-balance sheet lease obligations as of December 31, 2018	**415,843**
Operating lease obligations as of January 1, 2019 (Gross without discounting)	**415,843**
Operating lease obligations as of January 1, 2019 (net, discounted)	**328,716**
Reasonably certain extension or termination option	**500,298**
Lease liabilities due to initial application of IFRS 16 as January 1, 2019	**829,014**

	December 31, 2019
Less than one year	**102,927**
One to five year	**366,487**
More than 5 years	**565,286**
Total undiscounted lease liability	**1,034,700**

3. Summary of significant accounting policies (continued)

a. Changes in accounting policies (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Change in the accounting for Zakat and income tax

As mentioned above, the basis of preparation has been changed effective from the period ended June 30, 2019 as a result of the issuance of latest instructions from SAMA dated July 17, 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. With the latest instructions issued by SAMA dated July 17, 2019, the zakat and income tax shall be recognized in the statement of income. The Group has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in note 27 to the consolidated financial statements.

b. Classification of financial assets

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

Financial asset at amortised cost

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

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

Financial asset at FVOCI

Debt instrument

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income (OCI). Interest income and foreign exchange gains and losses are recognised in the consolidated statement of income.

3. Summary of significant accounting policies (continued)

b. Classification of financial assets (continued)

Equity Instruments

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

Financial Asset at FVTPL

All other financial assets are classified measured at 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 or 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.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

Assessments whether contractual cash flows are 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.

3. Summary of significant accounting policies (continued)

b. Classification of financial assets (continued)

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

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

Designation at fair value through profit or loss

At initial recognition, the Group may designate certain financial assets at FVTPL. The designated financial assets (if any) are required to be managed, evaluated and reported internally on a fair value basis.

c. Classification of financial liabilities

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

d. 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 the consolidated statement of income.

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

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

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

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

ii) Financial liabilities

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

3. Summary of significant accounting policies (continued)

e. Modifications of financial assets and financial liabilities

i) Financial assets

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

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 profit or loss.

f. Impairment

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

- Due from banks and other financial institutions;
- Financial assets that are debt instruments;
- Lease receivables;
- Loans and advances;
- 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 are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

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

3. Summary of significant accounting policies (continued)

f. Impairment (continued)

Restructured financial assets

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

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

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

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at 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 Bank 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.

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

Loss allowances for ECL are presented in the consolidated 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 recognized in the consolidated statement of income and changes between the amortised cost of the assets and their fair value are recognized in OCI.

3. Summary of significant accounting policies (continued)

f. Impairment (continued)

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.

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. Collateral, unless repossessed, is not recorded on the Group's 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 margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Collateral repossessed

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.

g. 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 at the higher of this amortized amount and the amount of loss allowance. The Group has issued no loan commitments that are measured at FVTPL. For other loan commitments, the Group recognizes loss allowance.

h. Revenue/expenses recognition

Special commission income and expenses

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

3. Summary of significant accounting policies (continued)

h. Revenue/expenses recognition (continued)

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

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

Measurement of amortized cost and special commission income

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

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

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

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

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

Exchange income / (loss)

Exchange income / loss is recognized when earned / incurred.

Fee and commission income

Fee and commission income are recognized on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized rateably over the period that the service is being provided.

Dividend income

Dividend income is recognized when the right to receive income is established.

Net trading income / (loss)

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVTPL.

i. 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. Whereas for free services related to credit card, the Group recognizes revenue over the period of time.

3. Summary of significant accounting policies (continued)

j. Customer Loyalty Program

The Group offers customer loyalty program (reward points), 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 statement of income when reward points are redeemed.

The cumulative amount of contract liability related unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

k. Investments in associates

Associates are enterprises in which the Group generally holds 20% to 50% of the voting power and/or over which it exercises significant influence. Investments in associates are initially recorded at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity accounted or recoverable amount.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables (if applicable), the Group does not recognize 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.

After application of the equity method of accounting, the Group determines whether it is necessary to recognize an additional impairment loss on its investment in the 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 recognizes the amount in share of earnings of associates in the consolidated statement of income.

l. Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on settlement date. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or market convention. For financial instruments held at fair value, the Group accounts for any change in fair values between the trade date and the settlement date.

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.

m. Derivative financial instruments and hedge accounting

Derivative financial instruments, including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps and currency and commission rate options are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

The treatment of changes in fair values depends on classifying derivatives into the following categories:

i) Derivatives held for trading

Changes in the fair value of derivatives held for trading are taken directly to the consolidated statement of income and disclosed under trading income, net. Derivatives held for trading also include derivatives which do not qualify for hedge accounting and embedded derivatives.

ii) Embedded derivatives

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself held for trading or designated at FVTPL. Embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in the consolidated statement of income.

3. Summary of significant accounting policies (continued)

m. Derivative financial instruments and hedge accounting (continued)

iii) Hedge accounting

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

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

In relation to fair value hedges that meet the criteria for hedge accounting, any gain or loss from fair valuing the hedging instruments to fair value is recognized immediately in the consolidated statement of income. An equal and opposite adjustment is made against the carrying amount of the hedged item and recognized in the consolidated statement of income. For hedged items measured at amortized cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and its face value is amortized over the remaining term of the original hedge using the effective commission rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated statement of income.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves through the consolidated statement of comprehensive income. The ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. However, if the Group expects that all or a portion of a loss recognized in other reserve will not be recovered in one or more future periods, it reclassifies the amount that is not to be recovered into the consolidated statement of income.

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

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, the forecasted transaction is no longer expected to occur or the Group revokes the designation. At that time, any cumulative gain or loss on the hedging instrument that was previously recognized in other reserves is retained in equity until the forecasted transaction occurs. Where it is not expected that the forecasted transaction will occur and that it will affect the consolidated statement of income, the net cumulative gain or loss recognized in other reserves is transferred to the consolidated statement of income.

n. Foreign currencies

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the Bank's functional currency. Each entity determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into SAR at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the date of the consolidated statement of financial position.

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 profits rate and payments during the year and the amortized cost in foreign currency translated at exchange rate at the end of the year.

3. Summary of significant accounting policies (continued)

n. Foreign currencies (continued)

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

Foreign currency differences arising from the translation of the following items are recognized in OCI:

Available-for-sale equity instruments (before January 1, 2018) or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (from January 1, 2018);

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.

As at the reporting date, the assets and liabilities of foreign operations are translated into SAR at the rate of exchange as at the reporting date, and their statement of incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognized in the consolidated statement of other comprehensive income.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the statement of income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

o. 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 recognized amounts and when the Group intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

p. Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized on the consolidated statement of financial position and are measured in accordance with relevant accounting policies for trading securities, investments held as FVTPL, FVOCI and at amortized cost. The counterparty liability for amounts received under these agreements is included in Due to banks and other financial institutions or Customers' deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognized 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 the purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

q. Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as 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.

Subsequent to initial recognition, write downs to fair value, less costs to sell, is charged to the consolidated statement of income. Similarly, subsequent gains in fair value less costs to sell are recognized as income to the extent that it does not exceed the cumulative write down. Gains or losses on disposal are recognised in the consolidated statement of income.

r. Property and equipment

Property and equipment are stated at cost and presented net of accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated.

3. Summary of significant accounting policies (continued)

r. Property and equipment (continued)

The cost of property and equipment is depreciated on a straight-line method over the estimated useful lives of assets as follows:

Buildings	33 years
Leasehold improvements	over lease period
Furniture, equipment and vehicles	3 to 10 years

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

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

s. Investment property

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives. The estimated useful live of buildings is (30-33) years.

No depreciation is charged on land and capital work-in-progress.

The useful live and depreciation method is reviewed periodically to ensure that the method and period of depreciation are consistent with the expected inflow of economic benefits from these assets.

The Group determines at each reporting date whether there is objective evidence that investment properties are impaired. Whenever the carrying amount of an investment property exceeds its recoverable amount, an impairment loss is recognized in the consolidated statement of income.

t. Provisions

Provisions other than impairment charges for credit losses are recognized when a reliable estimate can be made of a present legal or constructive obligation as a result of past events that is more likely than not to lead to an outflow of resources to settle the obligation.

u. Accounting for leases

Right of Use Asset / Lease Liabilities

On initial recognition, at inception of the contract, the Group shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the group and the group can direct the usage of such assets.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of Use Assets

Group apply cost model, and measure right of use asset at cost;

1. less any accumulated depreciation and any accumulated impairment losses; and
2. adjusted for any re-measurement of the lease liability for lease modifications

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

3. Summary of significant accounting policies (continued)

u. Accounting for leases (continued)

Lease Liability (continued)

After the commencement date, Group measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability; and
2. Reducing the carrying amount to reflect the lease payments made and:
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term."

v. Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA excluding statutory deposit and due from banks and other financial institutions maturing within 90 days.

w. End-of-service benefits

Benefits payable to the employees of the Group at the end of their services are accrued based on actuarial valuation in accordance with Saudi Arabian Labor laws. These are included in other liabilities in the consolidated statement of financial position.

x. Loss of Control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the consolidated statement of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

y. Zakat and income tax

The basis of preparation has been changed effective from the period ended June 30, 2019 as a result of the issuance of latest instructions from SAMA dated July 17, 2019. Previously, zakat and income tax were recognized in the consolidated statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. With the latest instructions issued by SAMA dated July 17, 2019, the zakat and income tax shall be recognized in the consolidated statement of income. The Group has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in note 27 to the consolidated financial statements. The change has resulted in increment of reported income of the Group for the year ended December 31, 2018 by SR 658.8 million. The change has had no impact on the consolidated statement of cash flows for the year ended December 31, 2018.

Zakat

The Group is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

3. Summary of significant accounting policies (continued)

y. Zakat and income tax (continued)

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised.

z. Investment management services

The Group offers investment services to its customers, through its subsidiary, which include management of certain investment funds. The Group's share of these funds is included in the FVTPL investments and fees earned are disclosed under related party transactions.

aa. Shari'ah compliant banking products

In addition to conventional banking, the Group offers its customers certain non-interest based banking products, which are approved by its Shari'ah Board, as follows:

High level definitions of non-commission based 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 Bank, 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) **Tawaraq** is a form of Murabaha transactions where the Bank 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.

These non-commission based banking products are included in "loans and advances" and are in conformity with the related accounting policies described in these consolidated financial statements.

(Amount in SAR '000)

4. Cash and balances with SAMA

	2019	2018
Cash in hand	**1,723,910**	1,642,662
Statutory deposit	**7,078,289**	7,021,809
Reverse repo with SAMA	**8,363,000**	14,312,000
Current account	**1,845**	3,795
Total	**17,167,044**	22,980,266

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and is therefore not part of cash and cash equivalents (note 28). The Bank holds balances with SAMA which has investment grade credit rating.

5. Due from banks and other financial institutions

	2019	2018
Current accounts	**1,133,575**	563,753
Money market placements	**938,303**	572,746
Less: impairment	**(3,886)**	(2,451)
Total	**2,067,992**	1,134,048

An analysis of changes in loss allowance for due from banks and other financial institutions is, as follows:

	December 31, 2019			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss allowance balance at January 1, 2019	**2,451**	**-**	**-**	**2,451**
Transfers to 12 month ECL	**-**	**-**	**-**	**-**
Transfers to Life time ECL not credit impaired	**-**	**-**	**-**	**-**
Transfers to Life time ECL credit impaired	**-**	**-**	**-**	**-**
Net charge for the year	**1,435**	**-**	**-**	**1,435**
Write-offs	**-**	**-**	**-**	**-**
Loss allowance as at December 31, 2019	**3,886**	**-**	**-**	**3,886**

	December 31, 2018			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance balance at January 1, 2018	423	-	-	423
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	2,028	-	-	2,028
Write-offs	-	-	-	-
Loss allowance as at December 31, 2018	2,451	-	-	2,451

6. Investments, net

a) Investment securities are classified as follows:

	2019	2018
Investments at amortized cost	**32,736,543**	23,539,433
Investments at FVOCI – equity investment	**1,983,435**	988,140
Investments at FVOCI – debt investment	**2,791,416**	2,824,286
Investments at FVTPL	**554,675**	516,663
Less: Impairment	**(27,929)**	(11,339)
Total	**38,038,140**	27,857,183

(Amount in SAR '000)

6. Investments, net (continued)

a) Investment securities are classified as follows (continued)

Certain equity investments designated at FVOCI were disposed off during the year and cumulative net loss transferred within the equity related to these investments amounted to SAR 13,834 thousands (December 31, 2018: SAR 16,997 thousands). Dividend income recognized in the consolidated statement of income amounted to SAR 53,030 thousands for the year ended December 31, 2019 (December 31, 2018: SAR 45,943 thousands).

b) Investments by type of securities:

	Domestic		**International**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018
Fixed rate securities	**19,191,214**	10,500,558	**3,357,953**	2,125,856	**22,549,167**	12,626,414
Floating rate securities	**12,978,792**	13,737,305	**-**	-	**12,978,792**	13,737,305
Equities	**1,983,034**	987,732	**401**	408	**1,983,435**	988,140
Other	**67,675**	40,480	**487,000**	476,183	**554,675**	516,663
Less: impairment (*)	**(27,696)**	(11,148)	**(233)**	(191)	**(27,929)**	(11,339)
Total	**34,193,019**	25,254,927	**3,845,121**	2,602,256	**38,038,140**	27,857,183

(*) The impairment relates to debt instruments carried at amortized cost only. The reversal of impairment allowance on debt instruments at FVOCI amounts to SAR 441 thousand (2018: 1,638 thousand), which has been charged to the consolidated statement of income.

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

	December 31, 2019			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss allowance as at January 1, 2019	**11,339**	**-**	**-**	**11,339**
Transfers to 12 month ECL	**-**	**-**	**-**	**-**
Transfers to Life time ECL not credit impaired	**(12)**	**12**	**-**	**-**
Transfers to Life time ECL credit impaired	**-**	**-**	**-**	**-**
Net charge for the year	**16,458**	**132**	**-**	**16,590**
Write-offs	**-**	**-**	**-**	**-**
Loss allowance as at December 31, 2019	**27,785**	**144**	**-**	**27,929**

	December 31, 2018			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at January 1, 2018	15,271	-	-	15,271
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	(3,932)	-	-	(3,932)
Write-offs	-	-	-	-
Loss allowance as at December 31, 2018	11,339	-	-	11,339

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

	2019			2018		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate securities	**3,357,952**	**19,191,215**	**22,549,167**	2,125,922	10,500,492	12,626,414
Floating rate securities	**-**	**12,978,792**	**12,978,792**	-	13,737,305	13,737,305
Equities	**1,982,141**	**1,294**	**1,983,435**	985,839	2,301	988,140
Others	**-**	**554,675**	**554,675**	-	516,663	516,663
Less: impairment	**-**	**(27,929)**	**(27,929)**	(285)	(11,054)	(11,339)
Investments, net	**5,340,093**	**32,698,047**	**38,038,140**	3,111,476	24,745,707	27,857,183

Unquoted fixed rate securities and floating rate notes are mainly Sukuk, treasury bills and Saudi Government Bonds; and others mainly include investments in mutual funds.

(Amount in SAR '000)

6. Investments, net (continued)

d) The analysis of unrealized gains and losses and fair values of investments held at amortized cost is as follows:

	2019				2018			
	Carrying value	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed rate securities	**20,345,759**	**1,136,169**	**(127,777)**	**21,354,151**	10,735,328	50,433	(268,327)	10,517,434
Floating rate securities	**12,390,784**	**135,005**	**(11,606)**	**12,514,183**	12,804,105	58,199	(26,659)	12,835,645
Less: impairment	**(27,929)**	**-**	**-**	**(27,929)**	(11,339)	-	-	(11,339)
Total	**32,708,614**	**1,271,174**	**(139,383)**	**33,840,405**	23,528,094	108,632	(294,986)	23,341,740

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

	2019	2018
Government and quasi government	**35,758,067**	25,386,956
Banks and other financial institutions	**903,824**	1,133,534
Corporate	**816,788**	810,449
Other	**559,461**	526,244
Total	**38,038,140**	27,857,183

Investment include SAR 2,821 million (2018: nil), which have been pledged under repurchase agreement with other banks and customers. The market value of such investment is SAR 2,866 million (2018: nil).

7. Loans and advances, net

a) Loans and advances (held at amortized cost) comprise the following:

2019	**Overdrafts**	**Credit cards**	**Consumer loans**	**Commercial loans and others**	**Total**
Performing loans and advances, gross	**4,320,311**	**468,857**	**27,251,509**	**87,699,378**	**119,740,055**
Non-performing loans and advances, net	**8,974**	**7,633**	**89,022**	**2,393,020**	**2,498,649**
Total loans and advances	**4,329,285**	**476,490**	**27,340,531**	**90,092,398**	**122,238,704**
Impairment allowance	**(80,878)**	**(32,136)**	**(359,241)**	**(2,929,328)**	**(3,401,583)**
Loans and advances, net	**4,248,407**	**444,354**	**26,981,290**	**87,163,070**	**118,837,121**
2018					
Performing loans and advances, gross	3,694,867	496,547	24,387,163	93,641,280	122,219,857
Non-performing loans and advances, net	5,364	11,727	93,141	1,385,454	1,495,686
Total loans and advances	3,700,231	508,274	24,480,304	95,026,734	123,715,543
Impairment allowance	(22,066)	(35,953)	(432,806)	(2,186,479)	(2,677,304)
Loans and advances, net	3,678,165	472,321	24,047,498	92,840,255	121,038,239

Loan and advances include Shari'ah compliant banking products: Murabaha and Tawarruq agreements and Ijarah, which are stated at amortized cost, of SAR 81.7 billion (2018: SAR 76.9 billion).

b) Impairment allowance for credit losses

Movement in impairment allowances for credit losses are as follows:

2019	**Overdrafts**	**Credit cards**	**Consumer loans**	**Commercial loans and others**	**Total**
Impairment allowance balance at January 1, 2019	**22,066**	**35,953**	**432,806**	**2,186,479**	**2,677,304**
Charges for the year, net	**58,812**	**22,259**	**206,055**	**744,209**	**1,031,335**
Bad debts written off against impairment allowance	**-**	**(26,076)**	**(279,620)**	**(1,360)**	**(307,056)**
Impairment allowance balance at the end of the year	**80,878**	**32,136**	**359,241**	**2,929,328**	**3,401,583**

(Amount in SAR '000)

7. Loans and advances, net (continued)

b) Impairment allowance for credit losses (continued)

2018	Overdrafts	Credit cards	Consumer loans	Commercial loans and others	Total
Impairment allowance balance at January 1, 2018	66,768	42,620	463,166	2,067,168	2,639,722
Charges (reversals) for the year, net	(26,515)	22,019	214,324	835,188	1,045,016
Bad debts written off against impairment allowance	(18,187)	(28,686)	(244,684)	(715,877)	(1,007,434)
Impairment allowance balance at the end of the year	22,066	35,953	432,806	2,186,479	2,677,304

Impairment charge for credit losses, net for the year ended December 31, 2019 amounted to SAR 926,039 thousand (2018: SAR 990,327 thousand) (note 25), including bad debts directly written-off to consolidated income statement amounting to SAR 39,937 thousand (2018: SAR 81,553 thousand), and net of recoveries amounting to SAR 145,233 thousand (2018: SAR 136,242 thousand).

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

	December 31, 2019			
ECL on Total Loans and advances	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 1, 2019	**431,022**	**1,122,906**	**1,123,376**	**2,677,304**
Transfer to 12-month ECL	**356,694**	**(341,007)**	**(15,687)**	**-**
Transfer to lifetime ECL not credit - impaired	**(24,992)**	**48,410**	**(23,418)**	**-**
Transfer to lifetime ECL credit impaired	**(1,507)**	**(143,148)**	**144,655**	**-**
Net charge for the year	**27,225**	**236,861**	**767,249**	**1,031,335**
Write-offs	**-**	**-**	**(307,056)**	**(307,056)**
Balance at December 31, 2019	**788,442**	**924,022**	**1,689,119**	**3,401,583**

	December 31, 2018			
ECL on Total Loans and advances	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 1, 2018	390,196	1,174,118	1,075,408	2,639,722
Transfer to 12-month ECL	38,134	(26,348)	(11,786)	-
Transfer to lifetime ECL not credit - impaired	(36,113)	61,042	(24,929)	-
Transfer to lifetime ECL credit impaired	(2,272)	(65,739)	68,011	-
Net charge for the year	41,077	(20,167)	1,024,106	1,045,016
Write-offs	-	-	(1,007,434)	(1,007,434)
Balance at December 31, 2018	431,022	1,122,906	1,123,376	2,677,304

	December 31, 2019			
ECL on overdrafts	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 1, 2019	**9,037**	**6,323**	**6,706**	**22,066**
Transfer to 12-month ECL	**88**	**(88)**	-	-
Transfer to lifetime ECL not credit - impaired	**(3,207)**	**3,207**	-	-
Transfer to lifetime ECL credit impaired	**(11)**	**(803)**	**814**	-
Net charge for the year	**18,998**	**13,750**	**26,064**	**58,812**
Write-offs	-	-	-	-
Balance at December 31, 2019	**24,905**	**22,389**	**33,584**	**80,878**

	December 31, 2019			
ECL on Credit Cards	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 1, 2019	**15,172**	**10,389**	**10,392**	**35,953**
Transfer to 12-month ECL	**5,219**	**(4,791)**	**(428)**	**-**
Transfer to lifetime ECL not credit - impaired	**(1,089)**	**1,420**	**(331)**	**-**
Transfer to lifetime ECL credit impaired	**(133)**	**(288)**	**421**	**-**
Net charge for the year	**347**	**(276)**	**22,188**	**22,259**
Write-offs	**-**	**-**	**(26,076)**	**(26,076)**
Balance at December 31, 2019	**19,516**	**6,454**	**6,166**	**32,136**

(Amount in SAR '000)

7. Loans and advances, net (continued)

b) Impairment allowance for credit losses (continued)

	December 31, 2019			
ECL on Consumer Loans	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 1, 2019	**211,349**	**81,653**	**139,804**	**432,806**
Transfer to 12-month ECL	**33,262**	**(18,003)**	**(15,259)**	**-**
Transfer to lifetime ECL not credit - impaired	**(9,696)**	**32,714**	**(23,018)**	**-**
Transfer to lifetime ECL credit impaired	**(1,124)**	**(5,511)**	**6,635**	**-**
Net charge for the year	**(43,216)**	**(41,837)**	**291,108**	**206,055**
Write-offs	**-**	**-**	**(279,620)**	**(279,620)**
Balance at December 31, 2019	**190,575**	**49,016**	**119,650**	**359,241**

	December 31, 2019			
ECL on Commercial Loans and others	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 1, 2019	**195,464**	**1,024,541**	**966,474**	**2,186,479**
Transfer to 12-month ECL	**318,125**	**(318,125)**	**-**	**-**
Transfer to lifetime ECL not credit - impaired	**(11,000)**	**11,069**	**(69)**	**-**
Transfer to lifetime ECL credit impaired	**(239)**	**(136,546)**	**136,785**	**-**
Net charge for the year	**51,096**	**265,224**	**427,889**	**744,209**
Write-offs	**-**	**-**	**(1,360)**	**(1,360)**
Balance at December 31, 2019	**553,446**	**846,163**	**1,529,719**	**2,929,328**

c) Economic sector risk concentration for loans and advances and allowance for impairment are as follows:

2019	**Performing**	**Non-performing**	**Allowance for impairment**	**Loans and advances, net**
1. Government and quasi government	**14,862**	**-**	**(70)**	**14,792**
2. Banks and other financial institutions	**2,903,612**	**138**	**(10,738)**	**2,893,012**
3. Agriculture and fishing	**988,371**	**39,828**	**(42,429)**	**985,770**
4. Manufacturing	**11,006,165**	**1,470,544**	**(1,029,300)**	**11,447,409**
5. Mining and quarrying	**165,235**	**-**	**(763)**	**164,472**
6. Electricity, water, gas and health services	**6,084,292**	**241**	**(82,497)**	**6,002,036**
7. Building and construction	**7,802,185**	**473,343**	**(697,379)**	**7,578,149**
8. Commerce	**12,543,641**	**332,354**	**(339,966)**	**12,536,029**
9. Transportation and communication	**7,312,072**	**1,804**	**(207,206)**	**7,106,670**
10. Services	**3,825,542**	**20,488**	**(69,555)**	**3,776,475**
11. Consumer loans and credit cards	**27,720,366**	**96,655**	**(391,377)**	**27,425,644**
12. Other	**39,373,712**	**63,254**	**(530,303)**	**38,906,663**
Total	**119,740,055**	**2,498,649**	**(3,401,583)**	**118,837,121**

(Amount in SAR '000)

7. Loans and advances, net (continued)

c) Economic sector risk concentration for loans and advances and allowance for impairment are as follows: (continued)

2018	Performing	Non-performing	Allowance for impairment	Loans and advances, net
1. Government and quasi government	11,175	-	(22)	11,153
2. Banks and other financial institutions	2,547,827	-	(19,505)	2,528,322
3. Agriculture and fishing	1,452,683	39,858	(43,683)	1,448,858
4. Manufacturing	13,640,743	815,747	(605,672)	13,850,818
5. Mining and quarrying	161,133	-	(283)	160,850
6. Electricity, water, gas and health services	5,924,203	406	(90,056)	5,834,553
7. Building and construction	9,844,768	233,245	(493,142)	9,584,871
8. Commerce	14,652,732	97,288	(199,946)	14,550,074
9. Transportation and communication	6,469,632	4,081	(369,731)	6,103,982
10. Services	3,743,979	14,644	(30,654)	3,727,969
11. Consumer loans and credit cards	24,883,710	104,868	(468,759)	24,519,819
12. Other	38,887,272	185,549	(355,851)	38,716,970
Total	122,219,857	1,495,686	(2,677,304)	121,038,239

8. Investments in associates

	2019	2018
Balance at beginning of the year	**887,276**	637,222
Investment made during the year / (dividend)	**(7,872)**	217,235
Unrealized gain on remeasurement of investment upon loss of control	**-**	34,319
Share in earnings, net	**9,711**	12,500
Share of impact of adopting IFRS 9	**-**	(14,000)
Balance at end of the year	**889,115**	887,276

Saudi Home Loans Company

The Bank participated in the setting up of Saudi Home Loans Company (SHL). The associate's authorized capital was SAR 2 billion and its issued and paid-up capital was SAR 800 million. During 2017, SHL increased the paid-up capital by issuing 20 million shares for SAR 10 each, by transfer from its retained earnings to its existing shareholders in proportion to the existing number of shares (by capitalizing profit). This increase in share capital was approved in the Extraordinary General Assembly (EGM) held on May 24, 2017. Later, SHL's EGM took the decision to cancel unpaid shares of the authorized share capital for 100 million shares for SAR 10 each with a total value of SAR 1 billion, which was effected in April 2018. Accordingly, SHL's authorized and fully paid share capital amounts to SAR 1 billion as of December 31, 2018. The Bank's share of the paid-up capital amounted to SAR 400 million, representing 40% of the issued share capital of the associate.

The associate is a specialized Islamic home and real estate finance company with all its products and services being fully Shariah compliant. The associate was launched at the end of the fourth quarter of 2007 and is accounted for under the equity method.

MetLife – AIG – ANB Cooperative Insurance Company

The Bank participated in the setting up of MetLife – AIG – ANB Cooperative Insurance Company (the MetLife) in the Kingdom. The Bank's share is 30% of the associate's initial total capital of SAR 175 million. MetLife was launched during the fourth quarter of 2013 and is accounted for under the equity method. SAMA has provided the associate with final approval to conduct insurance business in the Kingdom on February 25, 2014. The Bank initially paid SAR 52.5 million representing 30% of the issued share capital of MetLife.

On April 27, 2015, the MetLife's board of directors has recommended increasing the associate's capital from SAR 175 million to SAR 350 million through a rights issue. The Bank owns 10.5 million shares (30%) at a nominal value of SAR 10 per share as of December 31, 2017.

(Amount in SAR '000)

8. Investments in associates (continued)

MetLife – AIG – ANB Cooperative Insurance Company (continued)

MetLife in its extraordinary general meeting held on April 18, 2018 approved the reduction of the share capital from SAR 350 million to SAR 180 million by reducing the number of shares from 35 million to 18 million shares of SAR 10 each to restructure the associate's capital to offset SAR 170 million of the associate's accumulated losses in line with the new Regulations for companies. The Bank owns 5.4 million shares (30%) at a nominal value of SAR 10 per share at December 31, 2019. The MetLife's shares are listed on the Saudi Arabian Stock Exchange and the quoted value of the Bank's investment in its associate is SAR 104.2 million (2018: SAR 246.3 million).

The Company signed a binding merger agreement with Walaa Cooperative Insurance Company (Walaa) before the year end 2019. The company received approvals from all relevant government and regulatory authorities including SAMA and CMA. On January 27, 2020, the merger was approved in Extraordinary General Assemblies held by both companies.

ANBI Business Gate Fund

As mentioned in note 1, during October 2018, the Group ceased to consolidate the Fund and the Group's interest in the Fund has been accounted for using equity method and is presented as an investment in associate in these consolidated financial statements.

The retained interest of the Group in the Fund is recorded at fair value at the date of loss of control and the value of investment was determined using fair value of the assets and liabilities of the Fund. The Group involved valuation experts for the valuation of the real estate property held by the Fund.

The Group has recorded an unrealized gain of SAR 34.3 million in the consolidated statement of income on re-measurement of its retained interest in the Fund and has derecognized its total assets, total liabilities and non-controlling interest amounting to SAR 676 million, SAR 39 million and SAR 637 million, respectively from the consolidated financial statements.

The original Fund's duration expires on January 11, 2020, however; on December 10, 2019, the Fund's board of directors resolved to extend the Fund's duration by additional six months ending on July 13, 2020. The said resolution was approved by the Unitholders. The Group has accounted for its share in the Fund on financial information prepared on a basis other than going concern.

The Group's share of associates' financial statements:

	ANBI Business Gate Fund		**Saudi Home Loans Company**		**MetLife – AIG – ANB Cooperative Insurance Company (*)**	
	2019	2018	**2019**	2018	**2019**	2018
Total assets	**410,764**	417,163	**1,785,531**	1,746,894	**129,663**	177,536
Total liabilities	**200,565**	199,454	**1,183,132**	1,155,740	**87,410**	128,934
Total equity	**210,199**	217,709	**602,400**	591,154	**42,253**	48,602
Total income	**29,047**	7,380	**64,414**	74,010	**9,772**	5,956
Total expenses	**(28,770)**	(6,875)	**(40,334)**	(43,698)	**(13,625)**	(10,193)

(*) Based on latest available financial information.

(Amount in SAR '000)

9. Property and equipment, net

	Land and buildings	Leasehold improvements	Equipment, furniture and vehicles	Computer and Software	Work-in-progress	Total 2019	Total 2018
Cost							
Balance at beginning of the year	1,396,978	606,148	787,923	1,188,515	69,140	4,048,704	4,120,654
Adjustment on transition to IFRS 16	-	796,819	-	-	-	796,819	-
Additions	5	9,618	5,252	37,058	26,943	78,876	66,670
Disposals	(8,276)	(12,591)	(5,468)	(3,691)	(1,481)	(31,507)	(138,457)
Derecognized upon deconsolidation of a subsidiary (note 8)	-	-	-	-	-	-	(163)
Transfers	-	15,226	745	16,685	(32,656)	-	-
Balance at end of the year	**1,388,707**	**1,415,220**	**788,452**	**1,238,567**	**61,946**	**4,892,892**	4,048,704
Accumulated depreciation							
Balance at beginning of the year	424,675	473,671	525,836	1,072,031	-	2,496,213	2,426,063
Charge for the year	31,465	112,718	55,072	53,952	-	253,207	204,990
Disposals / adjustments	(6,021)	(11,155)	(19,302)	(3,691)	-	(40,169)	(134,796)
Derecognized upon deconsolidation of a subsidiary (note 8)	-	-	-	-	-	-	(44)
Balance at end of the year	**450,119**	**575,234**	**561,606**	**1,122,292**	**-**	**2,709,251**	2,496,213
Net book value							
As at December 31, 2019	**938,588**	**839,986**	**226,846**	**116,275**	**61,946**	**2,183,641**	
As at December 31, 2018	972,303	132,477	262,087	116,484	69,140		1,552,491

Movement in right-of-use-assets

	Leasehold improvements
Balance at January 1, 2019	796,819
Amortisation	(80,346)
Balance at December 31, 2019	716,473

10. Other assets

	2019	2018 (restated)
Prepaid expenses	**118,453**	166,091
Other	**2,693,638**	938,207
Total	**2,812,091**	1,104,298

Other includes cash margins placed against derivatives SAR 2,022 million (2018: SAR 164 million)

11. Derivative financial instruments

In the ordinary course of business, the Group utilizes 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 currency swaps, fixed commission payments and principal are exchanged in different currencies. For cross-currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price on a date in the future. Forwards are customized contracts transacted in the over the counter market.

Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges with changes in fair values settled daily.

11. Derivative financial instruments (continued)

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for the cash settlement, on a specified future date or series of dates, of the difference between the contracted commission rate and the market rate calculated on a notional principal.

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, on a fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order 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 favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting, price differentials between markets or products.

Held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to acceptable levels as determined by the Board of Directors (the Board) within the guidelines issued by SAMA.

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

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging, other than portfolio hedges for commission rate risk, do not qualify for hedge accounting and related derivatives are accounted for as held for trading.

The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses commission rate swaps and commission rate futures to hedge against 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 either fair value or cash flow hedges.

The tables below show the notional amounts and the positive and negative fair values of derivative financial instruments analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

(Amount in SAR '000)

11. Derivative financial instruments (continued)

Held for hedging purposes (continued)

				Notional amounts by term to maturity				
2019	**Positive fair value**	**Negative fair value**	**Notional amount total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Commission rate and cross currency swaps	**598,400**	**561,452**	**21,730,255**	**-**	**4,513,160**	**9,818,452**	**7,398,643**	**21,108,834**
Commission rate futures and options	**565,834**	**567,318**	**12,714,748**	**7,500**	**-**	**502,857**	**12,204,391**	**14,597,594**
Forward foreign exchange and commodity contracts	**28,357**	**6,344**	**5,268,865**	**3,288,004**	**1,980,861**	**-**	**-**	**2,955,462**
Currency and commodity options	**737**	**845**	**210,929**	**171,933**	**38,996**	**-**	**-**	**126,209**
Held as fair value hedges:								
Commission rate swaps	**31,808**	**1,205,225**	**23,727,537**	**197,539**	**168,300**	**2,739,051**	**20,622,647**	**21,351,533**
Total	**1,225,136**	**2,341,184**	**63,652,334**	**3,664,976**	**6,701,317**	**13,060,360**	**40,225,681**	**60,139,632**

				Notional amounts by term to maturity				
2018	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Commission rate and cross currency swaps	671,122	630,828	20,242,545	1,937,005	336,602	11,544,864	6,424,074	19,401,193
Commission rate futures and options	619,698	617,373	13,189,978	3,007,477	-	1,488,571	8,693,930	13,324,861
Forward foreign exchange and	31,059	7,489	4,898,307	4,578,554	285,618	34,135	-	3,282,822
Currency and commodity options	2,383	1,691	134,026	41,336	92,690	-	-	369,685
Held as fair value hedges:								
Commission rate swaps	256,072	34,003	17,150,089	922,719	1,701,245	3,474,169	11,051,956	17,310,925
Total	1,580,334	1,291,384	55,614,945	10,487,091	2,416,155	16,541,739	26,169,960	53,689,486

Derivatives have been disclosed at gross amounts as at the reporting date and have not been netted off by cash margins placed and received against derivatives, which are detailed as follows:

	2019	2018
Held for trading:		
Commission rate and cross currency swaps	**820,751**	148,071
Commission rate futures and options	**119,284**	(123)
Forward foreign exchange and commodity contracts	**9,606**	268
Currency and commodity options	**1,019**	1,068
Held as fair value hedges:		
Commission rate swaps	**1,070,442**	(194,931)
Total	**2,021,102**	(45,647)

(Amount in SAR '000)

11. Derivative financial instruments (continued)

Held for hedging purposes (continued)

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

Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
2019						
Fixed commission rate investments	**16,397,969**	**15,434,423**	Fair value	Commission rate	**455**	**970,382**
Fixed commission rate loans	**8,498,016**	**7,293,114**	Fair value	Commission rate	**31,353**	**234,843**
2018						
Fixed commission rate investments	10,023,782	10,213,214	Fair value	Commission rate	205,676	27,770
Fixed commission rate loans	6,979,976	6,936,875	Fair value	Commission rate	50,396	7,295

Cash flow hedges

The Group is not exposed to variability in future commission rate cash flows on non-trading assets and liabilities which bear commission at a variable rate. The Group did not use commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Group is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. For the years ended December 31, 2019 and 2018 the Group had no outstanding cash flow hedges.

No discontinuation of hedge accounting took place in 2019 and 2018.

Approximately 39% (2018: 63%) of the positive fair value of the Group's derivatives are entered into with financial institutions and approximately 45% (2018: 32%) of the positive fair value contracts are with any single counter-party at the reporting date. Derivative activities are mainly carried out by the Group's treasury segment.

12. Due to banks and other financial institutions

	2019	2018
Current accounts	**178,800**	576,979
Money market deposits	**2,903,381**	959,623
Total	**3,082,181**	1,536,602

13. Customers' deposits

	2019	2018
Demand	**66,977,660**	65,759,753
Time	**68,393,317**	67,888,136
Saving	**141,297**	112,263
Other	**6,616,623**	8,295,456
Total	**142,128,897**	142,055,608

Time deposits includes SAR 2,837 million (2018: nil) deposits against sale of securities with agreements to repurchase the same at fixed future dates. Other customers' deposits include SAR 2,314 million (2018: SAR 5,304 million) of margins held against irrevocable commitments.

The above include foreign currency deposits as follows:

	2019	2018
Demand	**2,387,836**	2,633,540
Time	**10,713,694**	12,460,448
Saving	**2,617**	2,761
Other	**254,266**	233,971
Total	**13,358,413**	15,330,720

(Amount in SAR '000)

14. Other liabilities

	2019	2018
Provision for end of service benefits (note 30)	**547,794**	536,942
Provision for credit related commitments and contingencies (a)	**746,671**	702,114
Accrued expenses	**642,450**	661,459
Zakat and income tax accrual / provision payable (note 27)	**845,214**	934,358
Lease liability	**760,925**	-
Others	**1,985,972**	2,059,129
Total	**5,529,026**	4,894,002

a) Movement in the provision for credit related commitments and contingencies:

	2019	2018
Balance at January 1	**702,114**	715,401
Provided during the year (note 25)	**44,557**	7,996
Write-offs	**-**	(21,283)
Balance at the end of the year	**746,671**	702,114

15. Sukuk

At October 7, 2015 the Bank issued SAR 2 billion, 10 year subordinated and unsecured Tier II Capital (Sukuk), callable in 5 years. These Sukuk carry a special commission rate of SIBOR plus 140 bps.

16. Share capital

As at December 31, 2019, the authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares of SAR 10 each (2018: 1,000 million shares of SAR 10 each). The ownership of the Bank's share capital is as follows:

	2019	2018
Saudi shareholders	**60%**	60%
Arab Bank PLC – Jordan	**40%**	40%

The Board of Directors has proposed a bonus issue of 500 million shares of SAR 10 each, through transfer of SAR 3 billion and SAR 2 billion from statutory reserves and retained earnings respectively, which was approved in the shareholders' extraordinary general assembly meeting, held on March 27, 2019.

Basic and diluted earnings per share for the period ended December 31, 2019 and 2018 is calculated by dividing the net income for the period attributable to the equity holders of the Bank by 1,500 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus share issue. The diluted earnings per share is the same as the basic earnings per share.

17. Statutory reserve

In accordance with the 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 756 million has been transferred from 2019 net income (2018: nil). The statutory reserve is not currently available for distribution.

18. Commitments and contingencies

a) Legal proceedings

As at December 31, 2019 and 2018 there were legal proceedings of a routine nature outstanding against the Group. No material provision has been made as professional legal advice indicates that it is not probable that a significant loss will arise.

b) Capital commitments

As at December 31, 2019 the Group had capital commitments of SAR 45.2 million (2018: SAR 65.1 million) in respect of building and equipment purchases.

(Amount in SAR '000)

18. Commitments and contingencies (continued)

c) Credit related commitments and contingencies

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

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

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

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

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The contractual maturity structure of the Bank's commitments and contingencies is as follows:

2019	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**2,690,480**	**2,064,017**	**56,741**	**-**	**4,811,238**
Letters of guarantee	**5,060,819**	**13,320,278**	**4,177,864**	**37,418**	**22,596,379**
Acceptances	**357,707**	**1,094,756**	**-**	**-**	**1,452,463**
Irrevocable commitments to extend credit	**870,305**	**45,833**	**1,690,770**	**-**	**2,606,908**
Other	**-**	**-**	**-**	**77,221**	**77, 221**
Total	**8,979,311**	**16,524,884**	**5,925,375**	**114,639**	**31,544,209**

2018	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,689,141	1,815,049	586,674	-	5,090,864
Letters of guarantee	8,161,326	9,618,886	4,428,888	484,497	22,693,597
Acceptances	787,297	437,407	5,355	-	1,230,059
Irrevocable commitments to extend credit	-	488,825	2,165,634	-	2,654,459
Other	-	-	-	86,030	86,030
Total	11,637,764	12,360,167	7,186,551	570,527	31,755,009

The unutilized portion of non-firm commitments for commercial and corporate loans as at December 31, 2019, which can be revoked unilaterally at any time by the Bank, amounts to SAR 19,388 million (2018: SAR 13,536 million).

ii) The analysis of commitments and contingencies by counter-party is as follows:

	2019	2018
Corporate	**28,182,213**	27,469,563
Banks and other financial institutions	**2,635,176**	3,291,219
Other	**726,820**	994,227
Total	**31,544,209**	31,755,009

(Amount in SAR '000)

18. Commitments and contingencies (continued)

d) Assets pledged

Securities pledged under repurchase agreements with other banks include government and non-government banks. Assets pledged as collateral with other financial institutions for security are as follows:

	2019		2018	
	Assets	**Related liabilities**	Assets	Related liabilities
Held at amoritsed cost (notes 6e, 13 and 14)	**2,820,898**	**2,829,028**	-	-

19. Net special commission income

Special commission income	**2019**	2018
Investments:		
FVOCI	**115,960**	121,147
Amortized cost	**889,916**	644,870
	1,005,876	766,017
Due from banks and other financial institutions	**213,732**	137,727
Loans and advances	**6,413,016**	5,928,669
Total	**7,632,624**	6,832,413
Special commission expense		
Due to banks and other financial institutions	**52,765**	46,670
Customers' deposits	**1,911,479**	1,556,247
Sukuk	**85,129**	78,054
Other	**30,312**	-
Total	**2,079,685**	1,680,971
Net special commission income	**5,552,939**	5,151,442

20. Fees and commission income, net

Fee and commission income	**2019**	2018
Share trading and fund management	**79,219**	53,116
Trade finance	**213,569**	224,564
Credit cards	**222,861**	208,948
Credit facilities	**501,398**	583,785
Other banking services	**273,604**	264,772
Total	**1,290,651**	1,335,185
Fee and commission expense		
Credit cards	**193,069**	156,501
Credit facilities	**227,049**	307,976
Other banking services	**212,802**	219,594
Total	**632,920**	684,071
Fees and commission income, net	**657,731**	651,114

21. Trading (loss) / income, net

	2019	2018
Debt securities	**(8,442)**	1,726
Derivatives	**(1,951)**	19,429
Total	**(10,393)**	21,155

22. Dividend income

	2019	2018
FVTPL investments	**31,501**	17,433
FVOCI investments	**53,030**	45,943
Total	**84,531**	63,376

(Amount in SAR '000)

23. Gains / (Losses) on investments not held at FVTPL, net

	2019	2018
FVOCI – Debt investments	**407**	(208)
Total	**407**	(208)

24. Other operating income, net

	2019	2018
Rental income, net	**65,614**	152,384
Losses on disposal of property and equipment, net	**(3,562)**	(1,284)
Others	**12,646**	38,494
Total	**74,698**	189,594

25. Impairment charges for credit losses and other provisions, net

	2019	2018
Impairment charges for credit losses, net (note 7)	**926,039**	990,327
Provision for credit-related commitments and contingencies (note 14)	**44,557**	7,996
Total	**970,596**	998,323

26. Basic and diluted earnings per share

Basic and diluted earnings per share for the period ended December 31, 2019 and 2018 is calculated by dividing the net income for the period attributable to the equity holders of the Bank by 1,500 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus share issue. The diluted earnings per share is the same as the basic earnings per share.

27. Dividends, Zakat and Income Tax

(a) On December 24, 2019 the Board recommended to pay cash dividends of SAR 750 million (2018: SAR 850 million) from net income for the year. After deducting zakat this proposed final dividend will result in a net payment of SAR 0.50 per share (2018: 0.85 per share) to Saudi shareholders. The income tax liability of the foreign shareholders for the current and prior period (if any) will be deducted from their share of the dividend. These dividends are subject to final approval by the general assembly.

(b) An interim dividend of SAR 750 million (2018: SAR 650 million) was approved on July 04, 2019 for payment to shareholders. After deducting zakat, this interim dividend resulted in a net payment of SAR 0.50 per share (2018: SAR 0.65 per share) to the Saudi shareholders. The income tax liability of the foreign shareholders for the current and prior period (if any) was deducted from their share of the dividend.

(c) Zakat and income tax

The dividends are paid to Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

Zakat

Zakat for the year attributable to Saudi Shareholders amounted to approximately SAR 249 million (2018: SAR 182 million). The Zakat charge for the year ended December 31, 2018 has been computed in line with the basis of settlement agreement with the GAZT.

Income Tax

Income tax payable by the non-Saudi Shareholder on the current year's share of net income is SAR 287 million (2018: SAR 272 million).

(Amount in SAR '000)

27. Dividends, Zakat and Income Tax (continued)

Zakat Claims Settlement with the General Authority of Zakat and Income Tax (GAZT)

The Group has filed its Zakat and Income Tax returns with GAZT and paid Zakat and Income Tax for financial years up to and including the year 2018 and received assessments for the years up to 2013 in which the GAZT raised additional demands. On December 20, 2018 the Group has reached a settlement agreement with GAZT to settle Zakat liability amounting to SAR 649 million for previous years and accordingly all assessments are finalized until 2017. The settlement agreement requires the Bank to settle 20% of the agreed Zakat liability upfront and the remaining to be settled over a period of five years. Yet, the settlement agreement resulted in an increase in shareholders' equity in the amount of SAR 1,113 million being surplus in Zakat provision for the years up to and including the year 2017, and the Zakat provision has been disclosed in note 14 to the accompanying consolidated financial settlements.

The change in the accounting for zakat and income tax (as explained in note 3) has the following impact on the line items of the statement of income, statement of financial position and changes in shareholders' equity:

Financial statements impacted	Account	Before the restatement for the year ended December 31, 2018	Effect of restatement	As restated as at and for the year December 31, 2018
Statement of changes in equity	Provision for zakat (retained earnings)	182,051	(182,051)	-
	Zakat reversal (retained earnings)	(1,113,261)	1,113,261	-
	Provision for income tax (retained earnings)	272,368	(272,368)	-
Statement of income	Zakat for the period	-	182,051	182,051
	Zakat reversal (retained earnings)	-	(1,113,261)	(1,113,261)
	Income tax for the period	-	272,368	272,368
	Earnings per share (expressed in SAR per share)	2.21	0.44	2.65
Statement of financial position	Other assets (deferred tax asset)	-	64,326	64,326

As at December 31, 2018

Financial statements impacted	Account	Before the restatement as at December 31, 2018	Effect of restatement	As restated as at December 31, 2018
Statement of financial position	Other assets (deferred tax asset)	-	64,326	64,326
Statement of financial position	Retained earnings	5,613,196	64,326	5,677,522

As at January 1, 2018

Financial statements impacted	Account	Before the restatement as at January 1, 2018	Effect of restatement	As restated as at January 1, 2018
Statement of financial position	Other assets (deferred tax asset)	-	64,326	64,326
Statement of financial position	Retained earnings	3,161,167	64,326	3,225,493

Deferred Tax

The components and movements of deferred tax is as follows:

	2019		
	Opening deferred tax	**Recognised in P&L**	**Closing deferred tax**
Accelerated depreciation for accounting purposes	**6,650**	**8,660**	**15,310**
Provision for employee benefit obligation	**38,729**	**615**	**39,344**
Provision for losses	**11,034**	**(2,469)**	**8,565**
Total	**56,413**	**6,806**	**63,219**

(Amount in SAR '000)

28. Cash and cash equivalents

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

	2019	2018
Cash and balances with SAMA excluding statutory deposit (note 4)	**10,088,755**	15,958,457
Due from banks and other financial institutions maturing within ninety days of acquisition	**2,071,877**	1,136,499
Total	**12,160,632**	17,094,956

29. Compensation practices

The Bank has implemented a "Risk-Based Compensation Policy" in compliance with the rules issued by SAMA, which are consistent with the principles and standards of the Financial Stability Board (FSB). The policy was approved by the Board and gives highest consideration to the alignment of compensation with risk and provides a competitive and balanced package of fixed and variable compensation. The policy ensures that compensation takes into account the likelihood and timelines of earnings and its impact on the Bank's capital. It also focuses on promoting effective risk management, achieving financial stability and dealing with risks posed by the Bank's compensation practices. The Bank takes into account all types of existing and potential material risks and ensures a balance between general industry practices and bank-specific factors such as business model, financial condition, operating performance, market perception, business prospects and appropriate managerial judgement, etc.

The Board, while determining and approving the bonus pool of the Bank, considers performance in absolute and relative terms, consistency of earnings, long term performance, historical bonus pool, market conditions, etc. Similarly, while allocating the Bank-wide bonus pool to business units, due consideration is given to the type of business transacted, level of risk assumed, relative importance of earnings, distinctive business drivers, historical bonus pool, current performance and the business unit's consistency of performance.

The Board has ultimate responsibility for promoting effective governance and sound compensation practices. In order to assist it in overseeing the Compensation policies design and its operation, the Board has appointed a Nomination & Compensation Committee. The Nomination & Compensation Committee comprises three non-executives members of the Board and is chaired by an independent member of the Board. The Committee has full authority on behalf of the Board to review and where considered appropriate propose changes to the Bank's compensation policy and practices and recommend the same to the Board, for its approval and to ensure adequacy and effectiveness of the policy in meeting its intended objectives. The Committee also reviews the level and composition of remuneration of key executives of the Bank and recommends a risk-adjusted bonus pool to the Board, for approval.

The governance process ensures that the Compensation Policy is consistently applied and operates as intended. The Bank has established an oversight mechanism to regularly evaluate the design characteristics of compensation practices and their implementation.

2019	**Categories of employees**	**Number of employees**	**Fixed compensation**	**Variable cost paid cash in 2019**
1.	Senior executive requiring SAMA no objections	**20**	**40,443**	**33,405**
2.	Employees engaged in risk taking activities	**189**	**96,118**	**32,933**
3.	Employees engaged in control functions	**558**	**147,290**	**23,996**
4.	Other employees	**3,403**	**628,105**	**67,337**
	Total	**4,170**	**911,956**	**157,671**
	Variable compensation accrued in 2019		**146,000**	
	Other employment related costs*		**223,214**	
	Total salaries and employee related expenses		**1,281,170**	

2018	Categories of employees	Number of employees	Fixed compensation	Variable cost paid cash in 2018
1.	Senior executive requiring SAMA no objections	20	42,543	32,460
2.	Employees engaged in risk taking activities	180	85,178	30,031
3.	Employees engaged in control functions	530	140,862	21,558
4.	Other employees	3,402	633,817	65,707
	Total	4,132	902,400	149,756
	Variable compensation accrued in 2018		145,000	
	Other employment related costs*		218,585	
	Total salaries and employee related expenses		1,265,985	

*Other employee related costs include end of service benefits, GOSI, business travel, training and development, and other employees' benefits.

(Amount in SAR '000)

30. Employee benefit obligation

a) General description

The Bank operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labor 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.

b) The amounts recognized in the consolidated statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2019	2018
Defined benefit obligation at the beginning of the year	**536,942**	491,350
Past service cost	**451**	-
Current service cost	**50,045**	50,050
Special commission cost	**23,677**	19,590
Benefits paid	**(60,850)**	(44,710)
Unrecognized actuarial loss	**(2,471)**	20,662
Defined benefit obligation at the end of the year	**547,794**	536,942

c) Charge for the year

	2019	2018
Current service cost	**50,045**	50,050
Special commission cost	**23,677**	19,590
Past service cost	**451**	-
	74,173	69,640

d) Re-measurement recognised in Other comprehensive income

	2019	2018
(Gain) / loss from change in experience assumptions	**(11,271)**	48,568
Loss / (gain) from change in financial assumptions	**8,800**	(27,906)
	(2,471)	20,662

e) Principal actuarial assumptions (in respect of the employee benefit scheme)

	2019	2018
Discount rate	**3.4%**	4.8%
Expected rate of salary increase	**3%**	4%
Normal retirement age	**11.7 years**	11.4 years

f) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at December 31, 2019 and 2018 based on the principal actuarial assumptions disclosed in note (e) above.

2019	**Impact on defined benefit obligation – Increase / (Decrease)**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**+1%**	**(47,402)**	**-**
	-1%	**-**	**55,903**
Expected rate of salary increase	**+1%**	**55,552**	**-**
	-1%	**-**	**(48,001)**
Normal retirement age	**+20%**	**20**	**-**
	-20%	**-**	**(20)**

2018	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+1%	(44,871)	-
	-1%	-	52,693
Expected rate of salary increase	+1%	52,584	-
	-1%	-	(45,594)
Normal retirement age	+20%	32	-
	-20%	-	(31)

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

(Amount in SAR '000)

30. Employee benefit obligation (continued)

g) Expected maturity

Expected maturity analysis of undiscounted define benefit obligation for the end of service plan is as follows:

Less than a year	**(1-2) years**	**(3-5) years**	**Over 5 years**	**Total as at December 31, 2019**
59,718	**61,157**	**165,325**	**276,197**	**562,397**

Less than a year	(1-2) years	(3-5) years	Over 5 years	Total as at December 31, 2018
59,330	65,114	174,531	303,143	602,118

The weighted average duration of the defined benefit obligation as of December 31, 2019 is 11.7 years (2018: 11.4 years).

31. Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief executive officer in order to allocate resources to the segments and to assess its performance.

For management purposes, the Group is organized into the following major operating segments:

Retail banking

Deposit, credit and investment products for individuals.

Corporate banking

Loans and advances, deposits and other credit products for corporate and institutional customers, small to medium sized businesses and the Bank's London Branch.

Treasury

Manages the Bank's trading and investment portfolios and the Bank's funding, liquidity, currency and commission rate risks.

Investment and brokerage services

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

Other

Includes income on capital and unallocated costs and assets and liabilities of Head Office and other supporting departments.

Transactions between operating segments are reported as recorded in the Group's transfer pricing system. The basis for determining intersegment operating income/(expense) for the current year are consistent with the basis used for December 31, 2018. Segment assets and liabilities comprise mainly operating assets and liabilities.

The Group's primary business is conducted in the Kingdom with one international branch in London. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Group's overall consolidated financial statements.

(Amount in SAR '000)

31. Operating segments (continued)

a) The Group's total assets and liabilities as at December 31, 2019 and 2018 and its total operating income, expenses and net income for the years then ended, by operating segments, are as follows:

2019	**Retail banking**	**Corporate banking**	**Treasury**	**Investment and brokerage services**	**Other**	**Total**
Total assets	**41,072,411**	**82,064,505**	**58,297,036**	**123,769**	**1,884,756**	**183,442,477**
Investments in associates	**-**	**-**	**-**	**210,533**	**678,582**	**889,115**
Total liabilities	**67,106,110**	**78,622,167**	**7,264,746**	**82,651**	**2,023,517**	**155,099,191**
Operating income (loss) from external customers	**2,293,210**	**4,378,455**	**(133,582)**	**120,627**	**74,128**	**6,732,838**
Intersegment operating income/(expense)	**456,739**	**(1,810,822)**	**1,090,431**	**-**	**263,652**	**-**
Total operating income	**2,749,949**	**2,567,633**	**956,849**	**120,627**	**337,780**	**6,732,838**
Of which:						
Net special commission income	**2,449,436**	**2,091,326**	**669,220**	**40,145**	**302,812**	**5,552,939**
Fees and commission income, net	**138,542**	**463,037**	**6,321**	**84,383**	**(34,552)**	**657,731**
Impairment charges for credit losses and other provisions, net	**209,031**	**761,565**	**-**	**-**	**-**	**970,596**
Impairment charges for other financial assets, net	**-**	**-**	**18,466**	**-**	**-**	**18,466**
Depreciation and amortization	**185,984**	**8,719**	**1,212**	**4,519**	**52,773**	**253,207**
Total operating expenses	**1,620,488**	**1,388,180**	**115,548**	**62,564**	**5,139**	**3,191,919**
Share in earnings of associates, net	**-**	**-**	**-**	**-**	**9,711**	**9,711**
Net income attributable to equity holders of the Bank	**1,129,461**	**1,179,453**	**841,301**	**32,117**	**(159,097)**	**3,023,235**
Net income attributable to non-controlling interest	**-**	**-**	**-**	**-**	**(1,423)**	**(1,423)**

2018	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	38,204,960	86,119,766	51,467,059	73,226	2,489,821	178,354,832
Investments in associates	-	-	-	251,676	635,600	887,276
Total liabilities	67,303,484	77,773,557	4,827,343	44,464	1,849,239	151,798,087
Operating income (loss) from external customers	2,065,930	4,169,340	(39,659)	208,529	130,683	6,534,823
Intersegment operating income/(expense)	390,887	(1,698,513)	1,115,424	(146)	192,348	-
Total operating income	2,456,817	2,470,827	1,075,765	208,383	323,031	6,534,823
Of which:						
Net special commission income	2,216,053	2,044,393	648,621	37,381	204,994	5,151,442
Fees and commission income, net	142,104	427,645	8,352	59,308	13,705	651,114
Impairment charges for credit losses and other provisions, net	127,265	871,058	-	-	-	998,323
Reversal of impairment charges for other financial assets, net	-	-	(3,542)	-	-	(3,542)
Depreciation and amortization	102,645	8,231	1,559	2,119	90,436	204,990
Total operating expenses	1,588,613	1,422,072	86,320	85,907	52,594	3,235,506
Share in earnings of associates, net	-	-	-	-	12,500	12,500
Net income attributable to equity holders of the Bank	868,204	1,048,755	989,445	122,476	940,126	3,969,006
Net income attributable to non-controlling	-	-	-	-	1,653	1,653

(Amount in SAR '000)

31. Operating segments (continued)

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

2019	**Retail Banking**	**Corporate banking**	**Treasury**	**Investment and brokerage services**	**Other**	**Total**
Total assets	**37,882,399**	**81,785,733**	**56,098,408**	**67,641**	**666,456**	**176,500,637**
Credit-related commitment and contingencies	**1,328,777**	**13,519,076**	**112,114**	**38,611**	**56,389**	**15,054,967**
Derivatives	**-**	**1,974,940**	**1,119,341**	**-**	**-**	**3,094,281**

2018	Retail Banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	35,947,299	85,986,354	51,206,108	40,425	654,497	173,834,683
Credit-related commitment and contingencies	1,742,685	13,016,031	106,772	43,015	56,772	14,965,275
Derivatives	-	2,983	2,303,024	-	-	2,306,007

Credit exposure comprises the carrying value of consolidated statement of financial position assets, excluding cash, property and equipment, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure (note 33a).

32. Credit Risk

Credit risk is the risk that a customer or counter-party may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from the potential that a customer or counter-party is either unwilling to perform an obligation or its ability to perform such an obligation is impaired, resulting in an economic loss to the Bank. The Bank is exposed to credit risk when its business units extend credit to counterparties. The Bank's Executive Committee (ExCom)/Board provides oversight of Credit Risk through Credit Policy document.

The enterprise-wide requirements for identification, assessment, monitoring and reporting of credit risk is set by the Risk Management Group, while business/support units are accountable for the credit risks within their respective areas, aligning business strategies with Bank's risk appetite.

Credit Risk policies and procedures are established to provide control on credit portfolios through periodic assessment of the credit standing of borrowers and quantifying maximum permissible exposure to specific borrower. Such individual and/or group exposures are monitored periodically on a portfolio basis. The Bank's Credit Policy provides detailed guidelines to manage credit risk effectively; it is reviewed and updated from time to time based on experience, emerging issues, best market practices and directives from regulatory authorities. The Credit Policy is designed to ensure clear recognition of credit risk management strategies and objectives, which, inter-alia, include:

- Strengthening and enhancing Bank's ability to measure and mitigate credit risks on pre-emptive basis to minimize credit losses.
- Strengthening and enhancing credit portfolio management process.
- Strengthening and enhancing Bank's systems and procedures for early problem recognition.
- Compliance with local regulatory requirement and industry's best practices for credit risk management.

The Policy addresses all functions and activities related to the credit process including the underwriting criteria. It stipulates Bank's appetite for risk, which, inter-alia, provides guidance on the target markets (Corporate, Commercial/Small and Medium Enterprises (SMEs), Consumer and High Net-Worth Individuals) and desirable type of borrowers/industries. Some criteria are product-specific and are governed by individual credit product policies while others generally include credit quality standards, purpose and terms of facilities, undesirable loans, credit analysis, concentrations of credit, repayment ability, compliance with laws & regulations, expected losses and documentation.

Portfolio Monitoring

Portfolio management is ensured through diversification of the credit portfolio on the basis of tenor, industries/business segments, risk grades and geographical areas to avoid the risk of over-exposure to certain economic sectors/credit products, which might be impacted by unfavorable developments in the economy. The Bank broadly uses borrower and sector criteria for mitigating concentration risk. The Bank's business is predominantly concentrated in Saudi Arabia, minimizing cross-currency risk although geographical concentration remains but this is considered acceptable and within Bank's risk appetite.

Consumer Banking portfolio is a diversified one since relatively small exposures are approved to a large number of individuals, based mainly on assignment of salary or security with exposure caps on products/employers, etc.

32. Credit Risk (continued)

Risk Measurement and Reporting System

Credit Risk tracks trends and identifies weaknesses in the quality of corporate, commercial, retail and private banking loans portfolio by employing:

- Obligor and Facility risk rating system to assess the quality of obligor and riskiness of facilities; and
- Periodic reviews and reporting of aggregate statistics on asset diversification and credit quality for key segments of the portfolio.

Rating system is established with the objective to:

- place the responsibility on business units to regularly evaluate credit risk on exposures and identify problems within their portfolios;
- establish early warning signals for detecting deterioration in credit quality;
- set standards for business units to submit their inputs on problematic exposures; and
- provide guidelines to respond and take remedial actions as soon as deterioration in credit quality is detected.

The Bank classifies its exposures into 13 risk categories, of which 10 are for performing obligors and 3 are for non-performing obligors. Rating is assigned to a borrower through a system-based methodology, which takes into account financial and non-financial information, translating into a grade and Probability of Default (PD) for the relationship.

Facility Risk Rating (FRR), which assesses the riskiness of facilities, is used for deriving the Loss Given Default (LGD) for a relationship, thus assigning separate rating for obligor and facility characteristics.

Management reports are generated for monitoring and control purposes on periodical basis - monthly, quarterly, semi-annually and annually. These reports are comprehensive, have wide scope and address several issues including:

- Portfolio quality, industry concentration and large exposures;
- Product concentration, credit monitoring and concentration of shares held by the Bank as collateral; and
- Past due follow-up, customer-provisioning details and provision movement.

Retail portfolio comprises of personal loans, credit cards, housing loans and auto leasing.

Individual customers are assessed on the basis of standardized pre-set criteria for specific schemes to assess eligibility for each of the above products. Delinquent customers, based on days past due (bucket-wise), are classified as non-performing.

Major portion of retail portfolio is personal loans, which are granted against salary assignments to borrowers who are employees of approved list of acceptable employers, mainly government departments. The main criteria for lending to this portfolio include approved employer, minimum salary requirements, length of service and pre-specified Debt Service Ratio (DSR). Housing loan and auto leasing products are considered generally secured since the underlying assets are owned by the Bank and leased to customers, thus mitigating risk to a large extent.

The Bank has developed application score-cards and behavior score-cards, using internal and external data, to evaluate, monitor and control consumer credits as this is expected to go a long way in making consumer credit risk management more effective and efficient.

Asset Quality

Corporate and commercial exposures are considered non-performing and placed on non-accrual status in the following circumstances:

- The principal of loan or interest payment remains past due more than 90 days after its due date;
- The outstanding of an overdraft remains in excess of approved limit for more than 90 days or the overdraft account is in-active for more than 180 days.

Non-performing exposures migrate across the non-performing risk grades (Substandard, Doubtful and Loss) according to their days past due and/or deterioration in credit quality.

In determining whether a corporate exposure has become impaired, the Bank makes judgments as to whether there is any observable data indicating decrease in the estimated future cash flows. This evidence may include an indication that there has been an adverse change in the payment status of borrowers. Management uses estimates based on historical loss experience for loans with similar credit risk characteristics, when estimating the cash flows. The methodology and assumptions used for estimating both - the amount and timing of future cash flows - are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Consumer assets are considered non-performing and placed on non-accrual status if payment remains past due more than 90 days after its due date.

(Amount in SAR '000)

32. Credit Risk (continued)

Credit quality analysis

a. The following table sets out information about the credit quality of financial assets measured at amortized cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	December 31, 2019			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Due from Bank and other financial institutions				
Investment grade	**1,908,577**	**-**	**-**	**1,908,577**
Non-investment grade	**125,946**	**-**	**-**	**125,946**
Unrated	**37,355**	**-**	**-**	**37,355**
Gross carrying amount	**2,071,878**	**-**	**-**	**2,071,878**

	December 31, 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Due from Bank and Other financial institutions				
Investment grade	976,115	-	-	976,115
Non-investment grade	142,480	-	-	142,480
Unrated	17,904	-	-	17,904
Gross carrying amount	1,136,499	-	-	1,136,499

	December 31, 2019			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loans and advances to customers at amortized cost				
Grades 1-8: Low – fair risk	**104,673,939**	**9,421,947**	**34,745**	**114,130,631**
Grades 9-10: Watch list	**-**	**5,578,944**	**30,480**	**5,609,424**
Grades 11-13 Substandard, Doubtful, Loss	**-**	**-**	**2,498,649**	**2,498,649**
Gross carrying amount	**104,673,939**	**15,000,891**	**2,563,874**	**122,238,704**

	December 31, 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost				
Grades 1-8: Low – fair risk	101,038,326	15,598,458	48,524	116,685,308
Grades 9-10: Watch list	-	5,487,986	46,563	5,534,549
Grades 11-13 Substandard, Doubtful, Loss	-	-	1,495,686	1,495,686
Gross carrying amount	101,038,326	21,086,444	1,590,773	123,715,543

	December 31, 2019			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loans and advances to customers at amortized cost – Consumer Loans and Credit cards				
Grades 1-8: Low – fair risk	**25,762,875**	**1,705,871**	**34,745**	**27,503,491**
Grades 9-10: Watch list	**-**	**191,189**	**25,686**	**216,875**
Grades 11-13: Substandard, doubtful, loss	**-**	**-**	**96,655**	**96,655**
Gross carrying amount	**25,762,875**	**1,897,060**	**157,086**	**27,817,021**

(Amount in SAR '000)

32. Credit Risk (continued)

Credit quality analysis (continued)

	December 31, 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost – Consumer Loans and Credit cards				
Grades 1-8: Low – fair risk	22,556,504	1,988,718	46,694	24,591,916
Grades 9-10: Watch list	-	253,736	38,058	291,794
Grades 11-13: Substandard, doubtful, loss	-	-	104,868	104,868
Gross carrying amount	22,556,504	2,242,454	189,620	24,988,578

	December 31, 2019			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loans and advances to customers at amortized cost – Commercial Loans, Overdrafts and others				
Grades 1-8: Low – fair risk	**78,911,064**	**7,716,076**	**-**	**86,627,140**
Grades 9-10: Watch list	**-**	**5,387,755**	**4,794**	**5,392,549**
Grades 11-13: Substandard, doubtful, loss	**-**	**-**	**2,401,994**	**2,401,994**
Gross carrying amount	**78,911,064**	**13,103,831**	**2,406,788**	**94,421,683**

	December 31, 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost – Commercial Loans, Overdrafts and others				
Grades 1-8: Low – fair risk	78,481,822	13,609,740	1,830	92,093,392
Grades 9-10: Watch list	-	5,234,250	8,505	5,242,755
Grades 11-13: Substandard, doubtful, loss	-	-	1,390,818	1,390,818
Gross carrying amount	78,481,822	18,843,990	1,401,153	98,726,965

	December 31, 2019			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Debt investment securities at amortized cost				
Investment grade	**31,181,613**	**-**	**-**	**31,181,613**
Non-investment grade	**-**	**-**	**-**	**-**
Unrated	**1,554,930**	**-**	**-**	**1,554,930**
Gross carrying amount	**32,736,543**	**-**	**-**	**32,736,543**

	December 31, 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at amortized cost				
Investment grade	21,371,280	-	-	21,371,280
Non-investment grade	-	-	-	-
Unrated	2,168,153	-	-	2,168,153
Gross carrying amount	23,539,433	-	-	23,539,433

(Amount in SAR '000)

32. Credit Risk (continued)

Credit quality analysis (continued)

	December 31, 2019			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Debt investment securities at FVOCI				
Investment grade	**2,208,886**	**-**	**-**	**2,208,886**
Non-investment grade	**86,242**	**7,708**	**-**	**93,950**
Unrated	**488,580**	**-**	**-**	**488,580**
Carrying amount – fair value	**2,783,708**	**7,708**	**-**	**2,791,416**

	December 31, 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at FVOCI				
Investment grade	1,729,166	-	-	1,729,166
Non-investment grade	86,045	-	-	86,045
Unrated	1,009,075	-	-	1,009,075
Carrying amount – fair value	2,824,286	-	-	2,824,286

Investment Grade comprises investments having credit rating equivalent to Standard & Poor's AAA to BBB. The unrated investments comprise mainly corporate debt securities, sukuk, mutual funds and investment in equities.

	December 31, 2019			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Credit-related commitments and contingencies				
Grades 1-8: Low - fair risk	**9,180,703**	**1,272,557**	**-**	**10,453,260**
Grades 9-10: Watch list	**-**	**79,093**	**-**	**79,093**
Grades 11-13: Substandard, doubtful, loss	**-**	**-**	**129,220**	**129,220**
Gross carrying amount	**9,180,703**	**1,351,650**	**129,220**	**10,661,573**

	December 31, 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Credit-related commitments and contingencies				
Grades 1-8: Low - fair risk	8,142,608	534,997	-	8,677,605
Grades 9-10: Watch list	-	137,857	-	137,857
Grades 11-13: Substandard, doubtful, loss	-	-	126,884	126,884
Gross carrying amount	8,142,608	672,854	126,884	8,942,346

b. Credit analysis of financial assets held as FVTPL

The following table sets out the credit analysis for financial assets measured at FVTPL.

	December 31, 2019	December 31, 2018
Investment funds		
Investment grade	**-**	-
Non-investment grade	**-**	-
Unrated	**554,675**	516,663
Total carrying amount - Fair value	**554,675**	516,663

32. Credit Risk (continued)

Credit quality analysis (continued)

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 Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

Credit risk grades

The Bank allocates credit risk grades to each exposure based on a variety of variables 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 significantly 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 8 and 9.

Credit risk grade or score is allocated to corporate exposures 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 or score. The monitoring of exposures involve use of the following data:

Corporate exposures	Retail exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, etc. and senior management changes.	• Internally collected data and customer behavior data – e.g. utilization of credit card facilities
• Data from credit reference agencies, press articles, changes in external credit ratings.	• Affordability metrics
• Quoted bond and credit default swap (CDS) prices for the borrower where available. • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	• External data from credit reference agencies including default information.

i) Generating the term structure of PD

Credit risk grades are a primary input in the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For retail portfolios, SIMAH information is also used.

The Bank 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 over a period of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors. For most exposures, key macro-economic indicators include Oil Price, GDP growth, Government Expenditures, Share Price Index and Employment.

Based on the available economic data and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios.. The Bank then uses these forecasts to adjust its estimates of PDs.

32. Credit Risk (continued)

Credit quality analysis (continued)

c. Amounts arising from ECL - Significant increase in credit risk (continued)

ii) Determining whether credit risk has increased significantly

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

Using its expert credit judgment and, where possible, relevant historical experience, the Bank 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 Bank 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 when full payment became due.

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

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

iii) Modified financial assets

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

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining Net Present Value (NPV) of the cash-flows at the reporting date based on the modified terms; with
- the remaining NPV of the cash-flows calculated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. As per Bank's policy, loan restructuring 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 corporate loans are subject to the restructuring policy.

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

32. Credit Risk (continued)

Credit quality analysis (continued)

c. Amounts arising from ECL - Significant increase in credit risk (continued)

iv) Definition of 'Default'

The following criteria are used to determine obligor default. The obligor:

- Has an obligation which is 90 (or more) days past due.
- Has an obligation for which the Bank has stopped accruing interest.
- Has obligation(s) that has/have been restructured with loss to the Bank.
- Has an obligation that is classified as non-performing by the Bank.
- Has an obligation that the Bank has charged off in part or in full.

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

- Qualitative - e.g. breaches of covenant;
- Quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

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

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

v) Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts provided by agencies, such as Moody's Economic Data services.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and pessimistic outcomes.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio using an analysis of historical data and estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2019 included the following key indicators.

Oil Price
GDP growth
Employment rates
Government Expenditures
Share Price Index

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

vi) Measurement of ECL

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

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

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

(Amount in SAR '000)

32. Credit Risk (continued)

Credit quality analysis (continued)

d. Amounts arising from ECL - Significant increase in credit risk (continued)

vi) Measurement of ECL (continued)

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating 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 and recovery costs of any collateral that is integral to the financial asset. For secured retail loans, asset value / type are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios. 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, however this contractual right is not enforced in the normal day-to-day management but only when the Bank becomes aware of significant increase in credit risk at the facility level, prompting such action. 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.

d. Aging of loans and advances (past due but not impaired)

2019	Credit cards	Consumer loans	Commercial loans, overdrafts and others	Total
Past due (1-30) days	**17,105**	**669,257**	**168,223**	**854,585**
Past due (31-60) days	**2,866**	**131,410**	**94,632**	**228,908**
Past due (61-90) days	**5,496**	**51,417**	**94,905**	**151,818**
Past due (91-180) days	**-**	**-**	**118,766**	**118,766**
Above 180 days	**-**	**-**	**835,873**	**835,873**
Total	**25,467**	**852,084**	**1,312,399**	**2,189,950**

(Amount in SAR '000)

32. Credit Risk (continued)

Credit quality analysis (continued)

d. Aging of loans and advances (past due but not impaired) (continued)

2018	Credit cards	Consumer loans	Commercial loans, overdrafts and others	Total
Past due (1-30) days	23,683	661,439	276,244	961,366
Past due (31-60) days	7,267	162,492	71,329	241,088
Past due (61-90) days	3,446	80,529	105,783	189,758
Past due (91-180) days	-	-	392,333	392,333
Above 180 days	-	-	290,458	290,458
Total	34,396	904,460	1,136,147	2,075,003

e. Collateral

In the ordinary course of lending activities, the Bank hold collaterals as security to mitigate credit risk. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial loans and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

The Bank obtained assets by taking possession of collateral held as security, or calling upon other credit enhancements. The collateral for commercial and corporate loans are as follows:

	2019	2018
Nature of collateral held as security		
Listed securities	**24,878,682**	18,890,073
Properties	**25,294,454**	28,330,585
Others	**7,178,073**	10,009,013
Total	**57,351,209**	57,229,671

(Amount in SAR '000)

33. Concentration risk of financial assets with credit risk exposure and financial liabilities

a) Geographical concentration

The bank's main credit exposure by geographical region is as follows:

2019	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA								
Cash in hand	1,721,999	-	1,911	-	-	-	-	1,723,910
Balances with SAMA	15,443,134	-	-	-	-	-	-	15,443,134
Due from banks and other financial institutions								
Current accounts	236,905	78,068	85,878	684,951	-	43,407	480	1,129,689
Money market placements	375,035	188,256	375,012	-	-	-	-	938,303
Investments, net								
Held as FVTPL	67,675	-	262	2,956	-	483,782	-	554,675
Held as FVOCI	4,194,127	558,648	22,076	-	-	-	-	4,774,851
Held at amortised cost	32,633,534	75,080	-	-	-	-	-	32,708,614
Positive fair value of derivatives								
Held for trading	228,037	3,076	962,215	-	-	-	-	1,193,328
Held as fair value hedges	649	-	31,159	-	-	-	-	31,808
Loans and advances, net								
Overdraft	4,219,494	-	28,840	-	-	-	73	4,248,407
Credit cards	444,354	-	-	-	-	-	-	444,354
Consumer loans	26,981,093	-	197	-	-	-	-	26,981,290
Commercial loans and others	84,692,630	625,416	1,745,986	-	-	-	99,038	87,163,070
Other assets								
Accounts receivable	2,693,638	-	-	-	-	-	-	2,693,638
Total assets	173,932,304	1,528,544	3,253,536	687,907	-	527,189	99,591	180,029,071
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	175,601	1,243	100	-	1,856	-	178,800
Money market deposits	-	2,547,120	356,261	-	-	-	-	2,903,381
Customers' deposits								
Demand	66,801,190	104,387	31,670	-	-	527	39,886	66,977,660
Time	68,315,579	1,905	72,623	486	-	-	2,724	68,393,317
Saving	141,297	-	-	-	-	-	-	141,297
Other	6,616,623	-	-	-	-	-	-	6,616,623
Negative fair value of derivatives								
Held for trading	23,139	2,372	1,110,448	-	-	-	-	1,135,959
Held as fair value hedges	11,452	10,098	1,183,675	-	-	-	-	1,205,225
Other liabilities								
Accrued expenses and accounts payable	5,524,968	-	4,058	-	-	-	-	5,529,026
Sukuk	2,017,903	-	-	-	-	-	-	2,017,903
Total liabilities	149,452,151	2,841,483	2,759,978	586	-	2,383	42,610	155,099,191
Commitments and contingencies								
Letters of credit	2,190,461	804,258	827,529	124,570	30,840	825,529	8,051	4,811,238
Letters of guarantee	19,158,853	978,477	1,650,582	6,889	-	755,566	46,012	22,596,379
Acceptances	612,747	82,119	285,282	355,666	-	116,527	122	1,452,463
Irrevocable commitments to extend credit	2,606,908	-	-	-	-	-	-	2,606,908
Other	77,221	-	-	-	-	-	-	77,221
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives								
Held for trading	1,788,466	59,597	218,422	-	-	-	-	2,066,485
Held as fair value hedges	4,436	2,833	1,020,527	-	-	-	-	1,027,796
Commitments and contingencies								
Letters of credit	438,092	160,852	165,506	24,914	6,168	165,106	1,610	962,248
Letters of guarantee	9,579,427	489,239	825,291	3,445	-	377,783	23,006	11,298,191
Acceptances	612,747	82,119	285,282	355,666	-	116,527	122	1,452,463
Irrevocable commitments to extend credit	1,303,454	-	-	-	-	-	-	1,303,454
Other	38,611	-	-	-	-	-	-	38,611

(Amount in SAR '000)

33. Concentration risk of financial assets with credit risk exposure and financial liabilities (continued)

a) Geographical concentration (continued)

2018	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Assets								
Cash and balances with SAMA								
Cash in hand	1,641,276	-	1,386	-	-	-	-	1,642,662
Balances with SAMA	21,337,604	-	-	-	-	-	-	21,337,604
Due from banks and other financial institutions								
Current accounts	271,455	28,241	116,654	81,860	-	61,202	1,890	561,302
Money market placements	25,051	184	375,000	172,511	-	-	-	572,746
Investments, net								
Held as FVTPL	40,480	-	471,190	4,993	-	-	-	516,663
Held as FVOCI	3,057,772	731,778	22,876	-	-	-	-	3,812,426
Held at amortised cost	23,338,925	189,169	-	-	-	-	-	23,528,094
Positive fair value of derivatives								
Held for trading	92,003	2,505	1,229,742	-	-	-	12	1,324,262
Held as fair value hedges	214	1,338	254,520	-	-	-	-	256,072
Loans and advances, net								
Overdraft	3,579,693	-	98,321	-	-	-	151	3,678,165
Credit cards	472,321	-	-	-	-	-	-	472,321
Consumer loans	24,047,362	-	136	-	-	-	-	24,047,498
Commercial loans and others	90,337,614	571,593	1,712,363	-	-	-	218,685	92,840,255
Other assets								
Accounts receivable	936,756	-	1,451	-	-	-	-	938,207
Total assets	169,178,526	1,524,808	4,283,639	259,364	-	61,202	220,738	175,528,277
Liabilities								
Due to banks and other financial institutions								
Current accounts	493,255	80,869	1,198	100	-	772	785	576,979
Money market deposits	-	821,626	137,997	-	-	-	-	959,623
Customers' deposits								
Demand	65,610,500	88,884	29,305	-	-	182	30,882	65,759,753
Time	67,787,753	382	91,230	468	-	-	8,303	67,888,136
Saving	112,263	-	-	-	-	-	-	112,263
Other	8,295,456	-	-	-	-	-	-	8,295,456
Negative fair value of derivatives								
Held for trading	27,946	2,874	1,226,561	-	-	-	-	1,257,381
Held as fair value hedges	958	95	32,950	-	-	-	-	34,003
Other liabilities								
Accrued expenses and accounts payable	3,651,485	-	3,460	-	-	-	-	3,654,945
Sukuk	2,020,491	-	-	-	-	-	-	2,020,491
Total liabilities	148,000,107	994,730	1,522,701	568	-	954	39,970	150,559,030
Commitments and contingencies								
Letters of credit	2,605,069	642,966	911,650	51,970	82,997	766,310	29,902	5,090,864
Letters of guarantee	21,588,865	262,678	707,977	-	-	87,268	46,809	22,693,597
Acceptances	352,877	238,707	259,782	58,988	471	226,984	92,250	1,230,059
Irrevocable commitments to extend credit	2,654,459	-	-	-	-	-	-	2,654,459
Other	86,030	-	-	-	-	-	-	86,030
Maximum credit exposure (stated at credit equivalent amounts)								
Derivatives								
Held for trading	518,357	18,593	567,676	42,452	-	-	142	1,147,220
Held as fair value hedges	-	-	489,541	669,246	-	-	-	1,158,787
Commitments and contingencies								
Letters of credit	521,014	128,593	182,330	10,394	16,599	153,262	5,980	1,018,172
Letters of guarantee	10,794,432	131,339	353,989	-	-	43,634	23,405	11,346,799
Acceptances	352,876	238,707	259,782	58,988	471	226,984	92,250	1,230,058
Irrevocable commitments to extend credit	1,327,230	-	-	-	-	-	-	1,327,230
Other	43,016	-	-	-	-	-	-	43,016

Credit equivalent amounts reflect the amounts that result from translating the Bank's off consolidated statement of financial position liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to commitments being exercised.

(Amount in SAR '000)

33. Concentration risk of financial assets with credit risk exposure and financial liabilities (continued)

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

2019	**Non-Performing Loans, net**				**Impairment allowance for Credit Losses**			
	Overdraft	**Credit cards**	**Consumer loans**	**Commercial loans and others**	**Overdraft**	**Credit cards**	**Consumer loans**	**Commercial loans and others**
Saudi Arabia	**8,974**	**7,633**	**89,022**	**2,393,020**	**80,878**	**32,136**	**359,241**	**2,929,328**

2018	Non-Performing Loans, net				Impairment allowance for Credit Losses			
	Overdraft	Credit cards	Consumer loans	Commercial loans and others	Overdraft	Credit cards	Consumer loans	Commercial loans and others
Saudi Arabia	5,364	11,727	93,141	1,385,454	22,066	35,953	432,806	2,186,479

34. Market risk

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

a) Market risk - Trading book

The Board has set limits for the acceptable level of risk in managing the trading book. In order to manage market risk in the trading book, the Bank periodically applies a VaR (Value at Risk) methodology to assess the market risk positions held and to estimate the potential economic loss based on a set of parameters and assumptions regarding changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses risk 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 thereof has limitations due to it being based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

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

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

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

I. A 1-day holding period assumes that it is possible to hedge or dispose of positions within a one day horizon. This is considered to be a realistic assumption in most cases but may not be true in situations where there is severe market liquidity for a prolonged period.
II. A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed VaR.
III. VaR is calculated on an end of day basis and does not reflect exposures that may arise on positions during the trading day.
IV. VaR is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of VaR are recognized by supplementing the VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank carries out stress testing on its trading book to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset and Liabilities Committee (ALCO) for review.

34. Market risk (continued)

a) Market risk - Trading book (continued)

The Bank's calculated VaR for the years ended December 31, 2019 and 2018 is as follows. All the figures are in SAR million:

	2019				2018			
	Year-end	**Average**	**High**	**Low**	Year-end	Average	High	Low
Special commission rate risk	**0.0490**	**0.5600**	**4.0657**	**0.0092**	0.2844	1.1452	7.6250	0.1993
Foreign exchange risk	**0.4558**	**0.6488**	**4.1152**	**0.1212**	0.7039	0.6315	1.6036	0.2325
Diversification effect *	**(0.2778)**	**(0.2526)**	**n/m**	**n/m**	(0.2027)	(0.3641)	n/m	n/m
Total VaR (one day measure)	**0.2270**	**0.9562**	**5.2293**	**0.1715**	0.7856	1.4126	7.6351	0.3745

* Total VaR is less than the sum of the VaR of the different market risk types due to risk offsets resulting from a portfolio diversification effect.
n/m – It is not meaningful to compute a diversification effect because the high and low may occur on different days for different risk types.

b) Market risk: non-trading or banking book

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

i) Commission rate risk

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

The following table shows the sensitivity of the Group's consolidated statement of income and equity to a reasonable possible change in commission rates, with other variables held constant. Income sensitivity arises from the impact of assumed changes in commission rates on special commission income for one year, based on floating rate non-trading financial assets and liabilities held as at December 31, after taking into account the effect of hedging. Equity sensitivity is calculated by revaluing fixed rate FVOCI / AFS financial assets, including the effect of any associated hedges as at December 31, 2019 and 2018, for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap. Banking book exposures are monitored and analyzed in their respective currencies and relevant sensitivities are disclosed in SAR million.

2019

Currency	**Increase in basis points**	**Sensitivity of special commission income**	**Sensitivity of equity**				
			6 months or less	**1 year or less**	**1-5 years or less**	**Over 5 years**	**Total**
SAR	**+10**	**38.90**	**-**	**-**	**(0.03)**	**(0.16)**	**(0.19)**
USD	**+10**	**10.80**	**(0.05)**	**(0.07)**	**(0.09)**	**(0.06)**	**(0.27)**
Others	**+10**	**0.50**	**-**	**(0.02)**	**-**	**-**	**(0.02)**

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	**-10**	**(38.90)**	**-**	**-**	**0.03**	**0.16**	**0.19**
USD	**-10**	**(10.80)**	**0.05**	**0.07**	**0.09**	**0.06**	**0.27**
Others	**-10**	**(0.50)**	**-**	**0.02**	**-**	**-**	**0.02**

(Amount in SAR '000)

34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

	2018						
Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	+10	50.86	(0.09)	-	(0.01)	(0.18)	(0.28)
USD	+10	2.96	(0.03)	(0.03)	(0.43)	0.43	(0.06)
Others	+10	0.68	-	-	(0.02)	-	(0.02)

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				
			6 months or less	1 year or less	1-5 years or less	Over 5 years	Total
SAR	-10	(50.86)	0.09	-	0.01	0.18	0.28
USD	-10	(2.96)	0.03	0.03	0.43	(0.43)	0.06
Others	-10	(0.68)	-	-	0.02	-	0.02

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The table below summarizes the Group's exposure to commission rate risk. Included in the table are the Group's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of financial assets and liabilities and derivatives, credit related commitment and contingencies that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

(Amount in SAR '000)

34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

2019	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	8,363,000	-	-	-	8,804,044	17,167,044
Due from banks and other financial institutions	938,303	-	-	-	1,129,689	2,067,992
Positive fair value derivatives	9,813	28,978	156,316	1,030,029	-	1,225,136
Investments, net						
Held as FVTPL	-	-	-	-	554,675	554,675
Held as FVOCI	527,838	395,966	481,829	1,385,783	1,983,435	4,774,851
Held at amortised cost	11,829,250	1,338,600	3,398,502	16,142,262	-	32,708,614
Loans and advances, net						
Overdrafts	4,248,407	-	-	-	-	4,248,407
Credit cards	444,354	-	-	-	-	444,354
Consumer loans	1,606,146	4,613,125	14,216,962	6,545,057	-	26,981,290
Commercial loans and others	54,762,204	26,488,912	4,863,353	1,048,601	-	87,163,070
Other assets – accounts receivable	-	-	-	-	2,693,638	2,693,638
Total assets	82,729,315	32,865,581	23,116,962	26,151,732	15,165,481	180,029,071
Liabilities						
Due to banks and other financial institutions	2,903,381	-	-	-	178,800	3,082,181
Negative fair value derivatives	5,008	11,994	174,083	2,150,099	-	2,341,184
Customers' deposits	40,627,864	25,191,089	2,715,661	-	73,594,283	142,128,897
Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	4,236,506	4,236,506
Sukuk	-	2,017,903	-	-	-	2,017,903
Total liabilities	43,536,253	27,220,986	2,889,744	2,150,099	78,009,589	153,806,671
Commission rate sensitivity on consolidated statement	39,193,062	5,644,595	20,227,218	24,001,633	(62,844,108)	26,222,400
Commission rate sensitivity off consolidated statement of financial position gap	13,989,626	8,413,076	(3,399,388)	(19,003,314)	-	-
Total commission rate sensitivity gap	53,182,688	14,057,671	16,827,830	4,998,319	(62,844,108)	26,222,400
Cumulative commission rate sensitivity gap	53,182,688	67,240,359	84,068,189	89,066,508	26,222,400	-

(Amount in SAR '000)

34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

i) Commission rate risk (continued)

Commission rate sensitivity of assets, liabilities and off consolidated statement of financial position items (continued)

2018	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA	14,312,000	-	-	-	8,668,266	22,980,266
Due from banks and other financial institutions	572,746	-	-	-	561,302	1,134,048
Positive fair value derivatives	1,580,334	-	-	-	-	1,580,334
Investments, net						
Held as FVTPL	-	-	-	-	516,663	516,663
Held as FVOCI	376,156	736,389	699,883	1,011,858	988,140	3,812,426
Held at amortised cost	12,216,817	644,029	3,121,349	7,545,899	-	23,528,094
Loans and advances, net						
Overdrafts	3,678,165	-	-	-	-	3,678,165
Credit cards	472,321	-	-	-	-	472,321
Consumer loans	2,358,974	3,027,723	15,773,212	2,887,589	-	24,047,498
Commercial loans and others	52,007,065	28,936,766	10,138,117	1,758,307	-	92,840,255
Other assets – accounts receivable	-	-	-	-	938,207	938,207
Total assets	87,574,578	33,344,907	29,732,561	13,203,653	11,672,578	175,528,277
Liabilities						
Due to banks and other financial institutions	959,623	-	-	-	576,979	1,536,602
Negative fair value derivatives	1,291,384	-	-	-	-	1,291,384
Customers' deposits	48,176,822	16,447,512	7,378,082	-	70,053,192	142,055,608
Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	3,654,945	3,654,945
Sukuk	-	2,020,491	-	-	-	2,020,491
Total liabilities	50,427,829	18,468,003	7,378,082	-	74,285,116	150,559,030
Commission rate sensitivity on consolidated statement of financial position gap	37,146,749	14,876,904	22,354,479	13,203,653	(62,612,538)	24,969,247
Commission rate sensitivity off consolidated statement of financial position gap	10,220,494	4,012,087	(3,465,997)	(10,766,584)	-	-
Total commission rate sensitivity gap	47,367,243	18,888,991	18,888,482	2,437,069	(62,612,538)	24,969,247
Cumulative commission rate sensitivity gap	47,367,243	66,256,234	85,144,716	87,581,785	24,969,247	-

The off consolidated statement of financial position gap represents the net notional amounts of derivative financial instruments, which are used to manage commission rate risk.

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

34. Market risk (continued)

b) Market risk: non-trading or banking book (continued)

ii) Currency risk

Currency risk represents the risk of changes in the value of financial instruments due to changes in foreign exchange rates. Foreign currency risk exposures that arise in the banking book are transferred to the trading book and are managed as part of the trading portfolio. The Board sets various types of currency risk limits that are monitored daily, including position, stop-loss and VaR limits.

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

Currency risk exposures	**2019** Changes in currency rate in %	**2019** Effect on net income	2018 Changes in currency rate in %	2018 Effect on net income
US Dollar	+5	**94.737**	+5	(7.595)
	-5	**(94.737)**	-5	7.595
Euro	+3	**(0.089)**	+3	0.118
	-3	**0.089**	-3	(0.118)
Pound Sterling	+3	**(0.126)**	+3	(0.184)
	-3	**0.126**	-3	0.184

iii) Currency position

The Bank manages exposure to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions. These limits are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	Long (short) 2019	Long (short) 2018
US Dollar	**1,894,741**	(151,893)
Euro	**(2,974)**	3,946
Pound Sterling	**(4,206)**	(6,125)

iv) Equity price risk

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

The effect on the Bank's FVOCI / available for sale equity investments due to reasonable possible change in equity indices, with all other variables held constant is as follows:

Market indices	**2019** Change in index %	**2019** Effect in SAR'000	2018 Change in index %	2018 Effect in SAR'000
Tadawul	+5	**99,107**	+5	49,292
	-5	**(99,107)**	-5	(49,292)

(Amount in SAR '000)

34. Market risk (continued)

c) Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). The Group has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is uncertainty over the methods of transition. The Group anticipates that IBOR reform will have operational, risk management, accounting, legal and Shariah impacts across all of its business lines. The Group established a cross-functional IBOR Committee to manage its transition to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which exposures have reference to IBOR, whether such legal contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties, as well as system implications. The IBOR Committee collaborates with other business functions and reports to ALCO as needed. The IBOR Committee is currently conducting a comprehensive assessment (financial and non-financial) on the transition for which it can be identified as to whether or not a significant impact is determined. This would include a quantitative impact assessment that would gauge the potential impact of such transition.

35. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up suddenly. To mitigate this risk, management has diversified funding sources, manages assets with liquidity in mind and maintains a healthy balance of cash, cash equivalents and readily marketable securities.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2018: 7%) of total demand deposits and 4% (2018: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets that can be converted into cash within 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

i) Analysis of undiscounted financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history.

2019	Within 3 months	3-12 months	1-5 years	Above 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	2,904,507	-	-	-	178,800	3,083,307
Customers' deposits	40,100,686	26,873,889	2,962,887	-	72,704,718	142,642,180
Derivative financial instruments						
Contractual amounts payable	246,725	700,038	2,784,404	3,371,758	-	7,102,925
Contractual amounts receivable	(223,242)	(640,096)	(2,133,889)	(2,466,632)	-	(5,463,859)
Sukuk	17,903	57,436	287,943	2,074,272	-	2,437,554
Total financial liabilities	43,046,579	26,991,267	3,901,345	2,979,398	72,883,518	149,802,107

(Amount in SAR '000)

35. Liquidity risk (continued)

i) Analysis of undiscounted financial liabilities by remaining contractual maturities

2018	Within 3 months	3-12 months	1-5 years	Above 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	961,241	-	-	-	576,979	1,538,220
Customers' deposits	47,595,378	24,181,184	872,149	-	68,907,006	141,555,717
Derivative financial instruments						
Contractual amounts payable	285,143	1,137,666	5,913,470	3,546,446	-	10,882,725
Contractual amounts receivable	(287,689)	(1,172,331)	(6,014,824)	(3,716,530)	-	(11,191,374)
Sukuk	20,491	69,224	381,950	2,203,709	-	2,675,374
Total financial liabilities	48,574,564	24,215,743	1,152,745	2,033,625	69,483,985	145,460,662

ii) Maturity profile of Bank's financial assets and liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. See note (i) above for the Bank's contractual undiscounted financial liabilities.

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 the Bank, operating subsidiaries and the foreign branch. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

2019	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	**8,363,000**	**-**	**-**	**-**	**8,804,044**	**17,167,044**
Due from banks and other financial institutions	**938,303**	**-**	**-**	**-**	**1,129,689**	**2,067,992**
Positive fair value of derivatives	**9,813**	**28,978**	**156,316**	**1,030,029**	**-**	**1,225,136**
Investments, net						
Held as FVTPL	**-**	**-**	**-**	**-**	**554,675**	**554,675**
Held as FVOCI	**256,596**	**97,673**	**421,526**	**2,015,621**	**1,983,435**	**4,774,851**
Held at amortised cost	**-**	**802,247**	**4,500,644**	**27,405,723**	**-**	**32,708,614**
Loans and advances, net						
Overdraft	**4,248,407**	**-**	**-**	**-**	**-**	**4,248,407**
Credit cards	**444,354**	**-**	**-**	**-**	**-**	**444,354**
Consumer loans	**1,624,784**	**4,572,565**	**14,232,909**	**6,551,032**	**-**	**26,981,290**
Commercial loans and others	**37,442,155**	**19,823,193**	**20,295,425**	**9,602,297**	**-**	**87,163,070**
Other assets						
Accounts receivable	**-**	**-**	**-**	**-**	**2,693,638**	**2,693,638**
Total assets	**53,327,412**	**25,324,656**	**39,606,820**	**46,604,702**	**15,165,481**	**180,029,071**
Liabilities						
Due to banks and other financial institutions	**2,903,381**	**-**	**-**	**-**	**178,800**	**3,082,181**
Negative fair value of derivatives	**5,008**	**11,994**	**174,083**	**2,150,099**	**-**	**2,341,184**
Customers' deposits	**40,627,864**	**25,194,219**	**2,712,531**	**-**	**73,594,283**	**142,128,897**
Other liabilities						
Accrued expenses and accounts payable	**-**	**-**	**-**	**-**	**4,236,506**	**4,236,506**
Sukuk	**-**	**17,903**	**-**	**2,000,000**	**-**	**2,017,903**
Total liabilities	**43,536,253**	**25,224,116**	**2,886,614**	**4,150,099**	**78,009,589**	**153,806,671**

(Amount in SAR '000)

35. Liquidity risk (continued)

ii. Maturity profile of Bank's financial assets and liabilities (continued)

2018	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	14,312,000	-	-	-	8,668,266	22,980,266
Due from banks and other financial institutions	570,295	-	-	-	563,753	1,134,048
Positive fair value of derivatives	383,813	22,859	93,830	1,079,832	-	1,580,334
Investments, net						
Held as FVTPL	-	-	-	-	516,663	516,663
Held as FVOCI	47,420	385,435	763,834	1,627,597	988,140	3,812,426
Held at amortised cost	114,847	276,403	4,603,881	18,532,963	-	23,528,094
Loans and advances, net						
Overdraft	3,678,165	-	-	-	-	3,678,165
Credit cards	472,321	-	-	-	-	472,321
Consumer loans	1,701,331	4,597,608	14,794,834	2,953,725	-	24,047,498
Commercial loans and others	37,873,689	22,063,837	23,590,077	9,312,652	-	92,840,255
Other assets						
Accounts receivable	-	-	-	-	938,207	938,207
Total assets	59,153,881	27,346,142	43,846,456	33,506,769	11,675,029	175,528,277
Liabilities						
Due to banks and other financial institutions	959,623	-	-	-	576,979	1,536,602
Negative fair value of derivatives	353,813	4,369	42,522	890,680	-	1,291,384
Customers' deposits	47,496,683	23,683,947	821,786	-	70,053,192	142,055,608
Other liabilities						
Accrued expenses and accounts payable	-	-	-	-	3,654,945	3,654,945
Sukuk	-	20,491	-	2,000,000	-	2,020,491
Total liabilities	48,810,119	23,708,807	864,308	2,890,680	74,285,116	150,559,030

36. Fair values of financial assets and liabilities

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

i) In the accessible principal market for the asset or liability; or

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

The fair values of on-consolidated statement of financial position financial instruments are not significantly different from their carrying amounts included in the consolidated financial statements.

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking);

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

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

(Amount in SAR '000)

36. Fair values of financial assets and liabilities (continued)

a. Carrying amounts and fair value

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. It does not include the fair value hierarchy information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial assets

		Fair value			
December 31, 2019	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Investments at FVTPL	**554,675**	**-**	**67,675**	**487,000**	**554,675**
Investments at FVOCI	**4,774,851**	**1,982,142**	**2,791,816**	**893**	**4,774,851**
Positive fair value of derivatives	**1,225,136**	**-**	**1,225,136**	**-**	**1,225,136**
Financial assets not measured at fair value					
Due from banks and other financial institutions	**2,067,992**	**-**	**-**	**-**	**2,067,992**
Investments at amortised cost	**32,708,614**	**-**	**33,840,405**	**-**	**33,840,405**
Loans and advances	**118,837,121**	**-**	**-**	**123,018,365**	**123,018,365**

		Fair value			
December 31, 2018	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Investments at FVTPL	516,663	-	40,480	476,183	516,663
Investments at FVOCI	3,812,426	985,839	2,824,694	1,893	3,812,426
Positive fair value of derivatives	1,580,334	-	1,580,334	-	1,580,334
Financial assets not measured at fair value					
Due from banks and other financial institutions	1,134,048	-	-	-	1,134,048
Investments at amortised cost	23,528,094	-	23,341,740	-	23,341,740
Loans and advances	122,038,239	-	-	122,887,396	122,887,396

Financial Liabilities

		Fair value			
December 31, 2019	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value					
Negative fair value of derivatives	**2,341,184**	**-**	**2,341,184**	**-**	**2,341,184**
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	**3,082,181**	**-**	**-**	**-**	**3,082,181**
Customers' Deposits	**142,128,897**	**-**	**-**	**-**	**142,128,897**
Sukuk	**2,017,903**	**-**	**-**	**2,024,235**	**2,024,235**

		Fair value			
December 31, 2018	Carrying value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value					
Negative fair value of derivatives	1,291,384	-	1,291,384	-	1,291,384
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	1,536,602	-	-	-	1,536,602
Customers' Deposits	142,055,608	-	-	-	142,055,608
Sukuk	2,020,491	-	-	1,962,503	1,962,503

(Amount in SAR '000)

36. Fair values of financial assets and liabilities (continued)

b. Measurement of fair values

i. Transfer between levels of the fair value hierarchy

There have been no transfers between levels of the fair value hierarchy during the years ended December 31, 2019 and 2018.

ii. Level 3 fair values

Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances for Level 3 fair values.

	2019		2018	
	Investments at FVTPL	**Investments at FVOCI**	Investments at FVTPL	Investments at FVOCI
Balance at the beginning of the year	**476,183**	**1,893**	-	-
Transferred from available for sale financial assets at initial application of IFRS 9	**-**	**-**	8,823	1,893
Total unrealized gain in consolidated statement of income	**12,931**	**-**	20,033	-
Settlements / adjustments	**(2,114)**	**(1,000)**	(2,673)	-
Purchases	**-**	**-**	450,000	-
Balance at the end of the year	**487,000**	**893**	476,183	1,893

iii. Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring level 2 and Level 3 fair values at December 31, 2019 and 2018, as well as the significant unobservable inputs used.

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
FVTPL investments	Fair value is determined based on the investee fund's most recent reported net assets value.	None	Not applicable
FVOCI investments classified as Level 2 include plain vanilla bonds for which market quotes are not available.	Fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	None	Not applicable
FVOCI investments classified as Level 3 include Private Equity Funds	Fair value is determined based on the fund's most recent reported net assets value.	None	Not applicable
Derivatives classified as Level 2 are comprised of over the counter special commission rate swaps, cross currency swaps, special commission rate futures and options, forward foreign exchange contracts, currency and commodity options and other derivative financial instruments	These instruments are fair valued using the Bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs on these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.	None	Not applicable

(Amount in SAR '000)

Financial assets and liabilities that are disclosed at fair value and classified as Level 2 include investments held at amortized cost.	These instruments are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	Additional buffer is added to account for any potential model discrepancy or any stressed market conditions.	Not applicable
Financial assets and liabilities that are disclosed at fair value and classified as Level 3 include loans and advances and debt issuances.	These instruments are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	Additional buffer is added to the credit spreads to account for any potential model discrepancy or any stressed market conditions.	The higher the credit spread, the lower is the valuation; vice versa.

37. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of management and the Board, the related party transactions are performed on an arm's length basis. Related party transactions are governed by limits set by the Banking Control Law and regulations issued by SAMA.

a) The balances as at December 31 resulting from transactions with related parties included in the consolidated financial statements are as follows:

	2019	2018
Non-Saudi Major Shareholder and their Affiliates:		
Due from banks and other financial institutions	**46,650**	22,574
Due to banks and other financial institutions	**1,356,849**	444,635
Commitments and contingencies	**1,722,960**	2,125,839
Directors, key management personnel, other major shareholders and their affiliates:		
Loans and advances	**7,066,534**	7,198,437
Customers' deposits	**11,755,608**	10,786,582
Commitments and contingencies	**2,253,916**	2,045,672
Bank's mutual funds:		
Investments	**67,676**	40,480
Loans and advances	**1,163,781**	164,242
Customers' deposits	**584,281**	6,729
Associates:		
Investments in associates	**855,186**	887,276
Loans and advances	**2,650,413**	2,952,273
Customers' deposits	**52,153**	81,269
Commitments and contingencies	**47,543**	47,346
Local sukuk	**-**	10,000

Other major shareholders represent shareholdings (excluding the non-Saudi shareholder) of more than 5% of the Bank's issued share capital.

(Amount in SAR '000)

37. Related party transactions (continued)

b) Income and expense transactions with related parties included in the consolidated financial statements are as follows:

	2019	2018
Special commission income	**381,708**	393,001
Special commission expense	**(324,950)**	(225,993)
Fees and commission income	**58,535**	34,688
Unrealized gain on remeasurement of investment upon loss of control	**-**	34,319
Share in earnings of associates, net	**9,711**	12,500
Directors' remuneration	**(6,935)**	(6,309)
Miscellaneous expenses	**(42,571)**	(5,810)
Insurance contracts	**(825)**	(903)

c) The total amount of compensation paid to key management personnel during the year is as follows:

	2019	2018
Short-term employee benefits (Salaries and allowances)	**59,273**	54,571
Post-employment benefits (End of service indemnity and social security)	**7,040**	6,547

Key management personnel are those persons, including an executive director, having direct or indirect authority and responsibility for planning, directing and controlling the activities of the Bank.

38. Capital Adequacy

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

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

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III – which are effective starting January 1, 2013. Accordingly, the Group's Pillar I consolidated Risk Weighted Assets (RWA), total capital and related ratios are as follows:

	2019	2018
Credit Risk RWA	**147,798,558**	143,485,274
Operational Risk RWA	**13,670,185**	13,565,927
Market Risk RWA	**1,603,591**	1,174,055
Total Pillar I RWA	**163,072,334**	158,225,256
Tier I Capital	**27,944,791**	26,046,963
Tier II Capital	**2,951,286**	2,519,304
Total Tier I & II Capital	**30,896,077**	28,566,267
Capital Adequacy Ratio %		
Tier I ratio	**17.14%**	16.46%
Tier I + Tier II ratio	**18.95%**	18.05%

The increase in regulatory capital for the year is mainly due to the contribution of current-year profit.

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by SAMA in supervising the Bank.

(Amount in SAR '000)

39. Investment management services

The Group offers investment services to its customers, which include management of investment funds with assets totaling SAR 4,808 million (2018: SAR 4,287 million).

The financial statements of these funds are not consolidated with these consolidated financial statements, except for consolidating the financial statements of ANBI Business Gate Fund, from inception date (December 31, 2015) until date of loss of control in October 2018; as the Group is not significantly exposed to variability of return and hence do not qualify to be considered as a subsidiary. However, the Group's share of these non-consolidated funds is included in 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 these consolidated financial statements.

40. Prospective changes in the International Financial Reporting Framework

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Group's accounting years beginning on or after January 1, 2020.

Following is a brief on the new IFRS and amendments to IFRS.

	Effective for annual periods
IFRS 17 Insurance Contracts IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.	January 1, 2021
Amendments to IAS 1 and IAS 8: Definition of Material The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. The amendments clarify that materiality will depend on the nature or magnitude of information, or both.	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform In September 2019, the IASB issued amendments to IFRS 9, 1AS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).	January 1, 2020
Amendments to IFRS 3: Definition of a business The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all the inputs and processes needed to create outputs. That is, the inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'.	January 1, 2020

41. Comparative figures

Certain prior year figures have been reclassified/restated to conform with current year presentation.

42. Board of directors' approval

The consolidated financial statements were approved by the Board on Jumada II 25, 1441 (corresponding to February 19, 2020).