



**BANQUE SAUDI FRANSI**  
**INTERIM CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS PERIOD ENDED**  
**June 30, 2019**



KPMG Al Fozan & Partners  
Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON REVIEW OF  
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**TO: THE SHAREHOLDERS OF BANQUE SAUDI FRANSI  
(A Saudi Joint Stock Company)**

**Introduction**

We have reviewed the accompanying interim consolidated statement of financial position of Banque Saudi Fransi and its subsidiaries (the "Bank") as at June 30, 2019, and the related interim consolidated statements of income and comprehensive income for the three and six month periods then ended, and the interim consolidated statements of changes in equity and cash flows for the six month period then ended and other explanatory notes (the "interim condensed consolidated financial statements"). The Bank's management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of review**

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

**Conclusion**

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



**KPMG Al Fozan & Partners**  
**Certified Public Accountants**

### Other regulatory matters

As required by SAMA, certain capital adequacy information has been disclosed in note (17) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (17) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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7 August 2019  
6 Dhul-Hijjah 1440H



**BANQUE SAUDI FRANSI**  
**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at**

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SAR '000	Notes	Jun 30, 2019 (Unaudited)	Dec 31, 2018 (Audited) (Restated)	Jun 30, 2018 (Unaudited) (Restated)
<b>ASSETS</b>				
Cash and balances with SAMA		14,018,753	20,925,860	12,344,497
Due from banks and other financial institutions		7,573,044	15,938,529	21,727,303
Investments, net	6	33,694,751	28,371,980	27,227,800
Positive fair value of derivatives	9	3,855,182	1,932,464	1,830,186
Loans and advances, net	7	124,233,009	120,631,634	122,810,924
Investment in associates		9,695	9,695	42,195
Property and equipment, net		1,348,465	690,369	708,412
Other real estate		443,509	463,509	493,330
Deferred Tax	16	42,267	49,571	42,746
Other assets		1,360,015	1,236,666	1,733,644
<b>Total assets</b>		<b>186,578,690</b>	<b>190,250,277</b>	<b>188,961,037</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Due to banks and other financial institutions		2,601,895	2,145,481	2,770,774
Customers' deposits	8	142,226,318	148,368,004	146,704,729
Negative fair value of derivatives	9	2,618,491	1,414,128	1,511,824
Debt securities and sukuk		-	2,003,340	2,002,790
Other liabilities		6,530,108	5,457,374	3,824,648
<b>Total liabilities</b>		<b>153,976,812</b>	<b>159,388,327</b>	<b>156,814,765</b>
<b>Equity</b>				
Share capital		12,053,572	12,053,572	12,053,572
Statutory reserve		12,053,572	12,053,572	12,053,572
General reserve		982,857	982,857	982,857
Other reserves		716,352	(318,304)	(551,145)
Retained earnings		6,907,406	5,249,613	7,724,139
Proposed dividend		-	958,081	-
Treasury shares		(111,881)	(117,441)	(116,723)
<b>Total equity</b>		<b>32,601,878</b>	<b>30,861,950</b>	<b>32,146,272</b>
<b>Total liabilities and equity</b>		<b>186,578,690</b>	<b>190,250,277</b>	<b>188,961,037</b>

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Abdulelah N. Alharoura

Chief Financial Officer

Rayan M. Fayez

Managing Director & CEO

SAR '000	For the three months ended		For the six months ended	
	Jun 30, 2019	Jun 30, 2018 (Restated)	Jun 30, 2019	Jun 30, 2018 (Restated)
Special commission income	1,869,243	1,726,113	3,714,957	3,332,767
Special commission expense	571,718	473,765	1,144,492	824,416
<b>Net special commission income</b>	<b>1,297,525</b>	<b>1,252,348</b>	<b>2,570,465</b>	<b>2,508,351</b>
Fee and commission income	375,385	352,863	759,399	703,129
Fee and commission expense	93,576	76,541	172,510	149,176
<b>Net fee and commission income</b>	<b>281,809</b>	<b>276,322</b>	<b>586,889</b>	<b>553,953</b>
Exchange income, net	84,371	75,128	165,286	153,797
Trading income, net	23,299	50,001	69,795	71,178
Dividend income	1,668	203	1,668	451
Gain / (losses) on FVOCI / non-trading investments, net	5,329	(8,109)	5,202	(8,109)
Gains on sale of associate	-	-	-	97,310
Other operating income	12,430	19,239	29,807	32,684
<b>Total operating income</b>	<b>1,706,431</b>	<b>1,665,132</b>	<b>3,429,112</b>	<b>3,409,615</b>
Salaries and employee related expenses	329,060	358,875	620,499	697,161
Rent and premises related expenses	19,086	42,615	35,555	82,406
Depreciation and amortization	46,659	39,576	105,197	76,978
Other general and administrative expenses	143,142	143,132	256,933	272,116
Impairment charge for credit losses, net	200,317	126,182	344,486	215,925
(Reversal) / charge of impairment for investments and other financial assets, net	(3,329)	16,470	(41,905)	(14,607)
Other operating expenses	16,367	17,625	26,793	49,389
<b>Total operating expenses</b>	<b>751,302</b>	<b>744,475</b>	<b>1,347,558</b>	<b>1,379,368</b>
<b>Net operating income</b>	<b>955,129</b>	<b>920,657</b>	<b>2,081,554</b>	<b>2,030,247</b>
Share in earnings of associates, net	-	-	-	2,529
<b>Net income for the period before zakat and income tax</b>	<b>955,129</b>	<b>920,657</b>	<b>2,081,554</b>	<b>2,032,776</b>
Zakat and income tax for the period	151,504	79,347	361,095	141,519
<b>Net income for the period after zakat and income tax</b>	<b>803,625</b>	<b>841,310</b>	<b>1,720,459</b>	<b>1,891,257</b>
Basic and diluted earnings per share for the period after zakat and income tax (SAR)	0.67	0.70	1.43	1.58

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Abdulelah N. Alharoura

Chief Financial Officer

Rayan M. Fayez

Managing Director & CEO



SAR '000	For the three months ended		For the six months ended	
	Jun 30, 2019	Jun 30, 2018 (Restated)	Jun 30, 2019	Jun 30, 2018 (Restated)
Net income for the period after zakat and income tax	803,625	841,310	1,720,459	1,891,257
<b>Other comprehensive income (loss):</b>				
<b>Items that cannot be recycled back to consolidated statement of income in subsequent periods</b>				
<u>Movement in fair value reserve (equity instruments)</u>				
Net change in the fair value	(18,198)	(16,627)	(18,774)	(14,060)
<b>Items that can be recycled back to consolidated statement of income in subsequent periods</b>				
<u>Debt instruments at fair value through other comprehensive income</u>				
Net change in the fair value	35,482	2,637	82,741	(26,003)
Loss / (income) transferred to interim consolidated statement of income	(5,329)	8,109	(5,329)	8,109
<u>Cash flow hedge</u>				
Net change in the fair value	459,694	(64,469)	896,668	(112,644)
Loss / (income) transferred to interim consolidated statement of income	34,741	(38,251)	79,350	(121,375)
<b>Total comprehensive income for the period after zakat and income tax</b>	<b>1,310,015</b>	<b>732,709</b>	<b>2,755,115</b>	<b>1,625,284</b>

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Abdulelah N. Alharoura



Chief Financial Officer

Rayan M. Fayez



Managing Director & CEO



**BANQUE SAUDI FRANSI**  
**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**Unaudited**

SAR '000	Share capital	Statutory reserve	General reserve	Retained earnings	Other reserves		Proposed dividend	Treasury shares	Total
					FVOCI	Cash flow hedge			
<b>For the six months period ended June 30, 2019</b>									
<b>Balance at the beginning of the period</b>									
	12,053,572	12,053,572	982,857	5,200,042	(9,786)	(308,518)	958,081	(117,441)	30,812,379
Impact of adopting IFRS 16 as at 01 January 2019 (note 4)	-	-	-	(62,666)	-	-	-	-	(62,666)
Impact of adopting IAS 12 as at 01 January 2019 (note 16)	-	-	-	49,571	-	-	-	-	49,571
<b>Restated balance as at 1 January 2019</b>									
Net income for the period after zakat and income tax	-	-	982,857	5,186,947	(9,786)	(308,518)	958,081	(117,441)	30,799,284
Net change in the fair value	-	-	-	1,720,459	63,967	896,668	-	-	1,720,459
Net amount transferred to consolidated statement of income	-	-	-	-	(5,329)	79,350	-	-	74,021
Final dividend paid for 2018	-	-	-	-	-	-	(958,081)	-	(958,081)
Net change in treasury shares	-	-	-	-	-	-	-	5,560	5,560
<b>Balance at the end of the period</b>	<b>12,053,572</b>	<b>12,053,572</b>	<b>982,857</b>	<b>6,907,406</b>	<b>48,852</b>	<b>667,500</b>	<b>-</b>	<b>(111,881)</b>	<b>32,601,878</b>
<b>For the six months period ended June 30, 2018</b>									
<b>Balance at the beginning of the period</b>									
Impact of adopting IFRS 9 as at 01 January 2018	12,053,572	12,053,572	982,857	6,628,963	10,118	(295,290)	355,237	(127,648)	31,661,381
Impact of adopting IAS 12 as at 01 January 2018 (note 16)	-	-	-	(862,875)	-	-	-	-	(862,875)
<b>Restated balance as at 1 January 2018</b>	<b>12,053,572</b>	<b>12,053,572</b>	<b>982,857</b>	<b>5,832,882</b>	<b>10,118</b>	<b>(295,290)</b>	<b>355,237</b>	<b>(127,648)</b>	<b>30,865,300</b>
Net income for the period after zakat and income tax	-	-	-	1,891,257	-	-	-	-	1,891,257
Net change in the fair value	-	-	-	-	(40,063)	(112,644)	-	-	(152,707)
Net amount transferred to interim consolidated statement of income	-	-	-	-	8,109	(121,375)	-	-	(113,266)
Final dividend paid for 2017	-	-	-	-	-	-	(355,237)	-	(355,237)
Net change in treasury shares	-	-	-	-	-	-	-	10,925	10,925
<b>Balance at the end of the period</b>	<b>12,053,572</b>	<b>12,053,572</b>	<b>982,857</b>	<b>7,724,139</b>	<b>(21,836)</b>	<b>(529,309)</b>	<b>-</b>	<b>(116,723)</b>	<b>32,146,272</b>

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Abdulelah N. Alharoura

Rayan M. Fayed

Chief Financial Officer

Managing Director & CEO

**BANQUE SAUDI FRANSI**  
**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Unaudited**

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SAR '000	Note	For the six months ended	
		Jun 30, 2019	Jun 30, 2018
<b>OPERATING ACTIVITIES</b>			
Net income for the period before zakat and income tax		2,081,554	2,032,776
<b>Adjustments to reconcile net income to net cash from operating activities:</b>			
Accretion of (premium) / discounts on investments not held as FVIS, net		(80,222)	563
Gains on sale of associate		-	(97,310)
(Gains) / losses on FVOCI / non-trading investments, net		(5,202)	8,109
Depreciation and amortization		105,197	76,978
Gains on disposal of property and equipment, net		(476)	(221)
Impairment charge for credit losses, net		344,486	215,925
Reversal of impairment charge for investments and other financial assets, net		(41,905)	(14,607)
Share in earnings of associates, net		-	(2,529)
Long term incentive scheme provision		5,560	10,925
Provision on other real estate		20,000	11,500
Change in fair value of financial instruments		22	(1,888)
<b>Operating income before changes in operating assets and liabilities</b>		<b>2,429,014</b>	<b>2,240,221</b>
<b>Net (increase) / decrease in operating assets:</b>			
Statutory deposit with SAMA ("Saudi Arabian Monetary Authority")		81,802	482,022
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		2,677,000	(677,000)
Investments held as FVIS, trading		242,208	(186,805)
Loans and advances		(3,945,861)	(1,751,036)
Other assets		(1,042,096)	(590,508)
<b>Net increase / (decrease) in operating liabilities:</b>			
Due to banks and other financial institutions		456,414	(192,499)
Customers' deposits		(6,141,686)	(4,249,458)
Other liabilities		1,760,349	(127,605)
<b>Net cash used in operating activities</b>		<b>(3,482,856)</b>	<b>(5,052,668)</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sales and maturities of investment not held as FVIS		2,991,591	3,011,044
Proceeds from sale of associate		-	81,269
Purchase of investments not held as FVIS		(8,393,364)	(4,772,701)
Purchases of property and equipment		(53,800)	(48,538)
Proceeds from sale of property and equipment		1,091	296
<b>Net cash used in investing activities</b>		<b>(5,454,482)</b>	<b>(1,728,630)</b>
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(958,081)	(355,237)
Zakat and income tax paid		(619,744)	(138,175)
Repayment of debt securities		(2,000,000)	-
<b>Net cash used in financing activities</b>		<b>(3,577,825)</b>	<b>(493,412)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(12,515,163)</b>	<b>(7,274,710)</b>
Cash and cash equivalents at the beginning of the period		23,989,879	27,715,920
<b>Cash and cash equivalents at the end of the period</b>	11	<b>11,474,716</b>	<b>20,441,210</b>
Special commission received during the period		3,689,079	3,270,781
Special commission paid during the period		1,103,127	805,129
<b>Supplemental non-cash information</b>			
Net changes in fair value and transfers to interim consolidated statement of income		1,034,656	(265,973)

The accompanying notes 1 to 19 form an integral part of these interim condensed consolidated financial statements.

Abdulelah N. Alharoura



Chief Financial Officer

Rayan M. Fayed



Managing Director & CEO



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

**1. General**

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 87 branches (June 30, 2018: 86 branches) in the Kingdom of Saudi Arabia, employing 2,943 people (June 30, 2018: 3,036 people).

The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at King Saud Road, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Bank owns a subsidiary, Saudi Fransi Capital (100% share in equity) engaged in brokerage, asset management and corporate finance business. The Bank also owns Saudi Fransi Insurance Agency (SAFIA), Saudi Fransi Financing & Leasing and Sofinco Saudi Fransi having 100% share in equity. The Bank owns 100% (95% direct ownership and 5% indirect ownership through its subsidiary) share in Sakan Real Estate Financing. These subsidiaries are incorporated in the Kingdom of Saudi Arabia.

The Bank also formed a subsidiary, BSF Markets Limited registered in Cayman Islands having 100% share in equity. The objective of this company is derivative trading and Repo activities.

The Bank owns 27% shareholding in Banque BEMO Saudi Fransi ("Associate"), incorporated in Syria.

**2. Basis of preparation**

The interim condensed consolidated financial statements of the Group as at and for the period ended 30 June 2019 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA").

The consolidated financial statements of the Group as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards ("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 17 July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organisation 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 5) and the effects of this change are disclosed in note 16 to the interim condensed consolidated financial statements).

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

**3. Basis of consolidation**

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries; Saudi Fransi Capital, Saudi Fransi Insurance Agency, Saudi Fransi Financing & Leasing, Sofinco Saudi Fransi, Sakan real estate financing and BSF Markets Limited. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments are made wherever necessary in the financial statements of the subsidiaries to align with the Bank's interim condensed consolidated financial statements.

Subsidiaries are the entities that are controlled by the Bank. The Bank controls an entity when it is exposed, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed during the period, if any, are included in the interim condensed consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

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

**4. Impact of changes in accounting policies due to adoption of new standards**

Effective 1 January 2019 the Group has adopted a new accounting standard, the impact of the adoption of this standard is explained below:

Before January 01, 2019, the Bank follows Accounting for leases (if applicable):

(i) Where the Bank is the lessee

Leases that do not transfer to the bank substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Bank 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.

(ii) Where the Bank is the lessor

When assets are transferred under a finance lease, including assets under Islamic lease arrangement (e.g. Ijara Muntahia Bittamleek or Ijara with ownership promise) (if applicable) the present value of the lease payments is recognised as a receivable and disclosed under "Loans and advances". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

The bank 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 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognize in the Bank's 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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

**4. Impact of changes in accounting policies due to adoption of new standards (continued)**

The Bank 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, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018, using the interest rate at the time of first time application. The net impact on retained earnings on 01 January 2019 was a decrease of SAR 63 million.

**RECONCILIATION OF LEASE LIABILITIES**

	SAR' 000
<b>Off-balance sheet lease obligations (with extended period) as of December 31, 2018</b>	<b>952,870</b>
Current leases with a lease term of 12 months or less & low-value leases	(247)
<b>Operating lease obligations as of January 1, 2019 (Gross without discounting)</b>	<b>952,623</b>
Discounting to present value	(274,371)
<b>Operating lease obligations as of January 1, 2019 (net, discounted)</b>	<b>678,252</b>

The Bank applied the weighted average incremental borrowing rate to lease liabilities recognized in the statement of financial position at the date of initial application.

The bank has lease contracts for Branch premises, ATM premises and leasehold improvements thereon. The Right of Use Asset (including prepaid rent) recognized by the Bank as at 1 January 2019 amounted to SR 653 million. The net impact on retained earnings, due to adoption of IFRS 16, on 01 January 2019 was a decrease of SAR 63 million.

Right of Use assets have been presented as part of property and equipment, net and lease liability has been included under other liabilities on the statement of financial position.

**5. Significant Accounting Policies**

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2018 except for the adoption of IFRS 16 'Leases' and the change in the accounting for zakat and income tax as explained below.

**IFRS 16 'Leases'****Right of Use Asset / Lease Liabilities**

On initial recognition, at inception of the contract, the Bank 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 Bank and the Bank can direct the usage of such assets.

**Right of Use Assets**

Bank applies cost model, and measure right of use asset at cost;

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

Generally, RoU asset would be equal to the lease liability. However, if there are additional costs such as Site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the RoU asset value.

## **5. Significant Accounting Policies (continued)**

### **Lease Liability**

On initial recognition, the lease liability is the present value of all remaining payments to the lessor.

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

1. Increasing the carrying amount to reflect interest on the lease liability.
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.

### **Change in the accounting for zakat and income tax:**

As mentioned in note 2, the basis of preparation has been changed for the period ended 30 June 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat and income tax shall be recognized in the statement of income. The Group has accounted for this change in the accounting for zakat and income tax retrospectively (see note 16) and the effects of the above change are disclosed in note 16 to the interim condensed consolidated financial statements. The change has resulted in reduction of reported income of the Group for the three month and six month periods ended 30 June 2018 by SR 79 million and SR 142 million respectively. The change has had no impact on the statement of financial position and cash flows as at and for the period ended 30 June 2018.

### **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 company 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. 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 adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

### **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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

**5. Significant Accounting Policies (continued)**

The Group applies significant judgement in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank's 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.

**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 recognized 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 realize the asset and settle the liability simultaneously.

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

**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 statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

**6. Investments, net**

Investments are classified as follows:

SAR'000	Jun 30, 2019 (Unaudited)	Dec 31, 2018 (Audited)	Jun 30, 2018 (Unaudited)
Investment at amortized cost	26,783,761	22,596,255	21,198,671
Investments at FVOCI – Debt instruments	6,707,029	5,511,719	5,768,635
Investments at FVOCI – Equity/ other investments	110,017	135,133	130,499
Investment at FVIS – Debt instruments	114,540	356,748	317,495
Less: Impairment	(20,596)	(227,875)	(187,500)
<b>Total</b>	<b>33,694,751</b>	<b>28,371,980</b>	<b>27,227,800</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

## 7. Loans and advances, net

Loans and advances held at amortised cost

SAR '000	June 30, 2019 (Unaudited)			
	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Total
Performing loans and advances - gross	109,244,331	463,623	15,230,505	124,938,459
Non performing loans and advances, net	3,080,207	62,473	268,186	3,410,866
<b>Total loans and advances</b>	<b>112,324,538</b>	<b>526,096</b>	<b>15,498,691</b>	<b>128,349,325</b>
Allowance for impairment	(3,646,787)	(101,256)	(368,273)	(4,116,316)
<b>Loans and advances held at amortised cost, net</b>	<b>108,677,751</b>	<b>424,840</b>	<b>15,130,418</b>	<b>124,233,009</b>

SAR '000	December 31, 2018 (Audited)			
	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Total
Performing loans and advances - gross	107,544,030	456,779	13,066,013	121,066,822
Non performing loans and advances, net	3,257,188	80,568	287,410	3,625,166
<b>Total loans and advances</b>	<b>110,801,218</b>	<b>537,347</b>	<b>13,353,423</b>	<b>124,691,988</b>
Allowance for impairment	(3,631,806)	(80,775)	(347,773)	(4,060,354)
<b>Loans and advances held at amortised cost, net</b>	<b>107,169,412</b>	<b>456,572</b>	<b>13,005,650</b>	<b>120,631,634</b>

SAR '000	June 30, 2018 (Unaudited)			
	Overdraft & Commercial Loans	Credit Cards	Consumer Loans	Total
Performing loans and advances - gross	110,856,826	491,131	12,122,661	123,470,618
Non performing loans and advances, net	2,713,011	63,422	216,316	2,992,749
<b>Total loans and advances</b>	<b>113,569,837</b>	<b>554,553</b>	<b>12,338,977</b>	<b>126,463,367</b>
Allowance for impairment	(3,323,913)	(68,164)	(260,366)	(3,652,443)
<b>Loans and advances held at amortised cost, net</b>	<b>110,245,924</b>	<b>486,389</b>	<b>12,078,611</b>	<b>122,810,924</b>

The movement in the allowance for impairment of Loans and advances to customers for the period ended 30 June 2019 is as follows:

SAR '000	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
Opening loss allowance as at 1 January	4,060,354	4,089,084
Charge for the period, net	344,486	215,925
Bad debts written off against provision	(288,524)	(652,566)
<b>Balance at the end of the period</b>	<b>4,116,316</b>	<b>3,652,443</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

**8. Customers' deposits**

SAR' 000	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)	June 30, 2018 (Unaudited)
Demand	70,245,205	67,792,228	74,294,404
Saving	548,344	547,702	560,406
Time	66,525,745	75,682,178	67,745,132
Other	4,907,024	4,345,896	4,104,787
<b>Total</b>	<b>142,226,318</b>	<b>148,368,004</b>	<b>146,704,729</b>

**9. Derivatives**

In the ordinary course of business, the Bank 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 rate swaps, fixed and floating commission payments and principal are exchanged in different currencies.

**b) Forwards and futures**

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

**c) Forward rate agreements**

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

**d) Options**

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at 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.

**e) Held for trading purposes**

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers, Banks and other financial institutions in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products. The bank also holds structured derivative which are fully back to back in accordance with the bank's risk management strategy.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

**9. Derivatives (continued)****f) Held for hedging purposes**

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

The Board of Directors has established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency rate swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

**g) Cash flow hedges**

The Bank is exposed to variability in future special commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The Bank uses 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 Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps.

The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts. 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 to market risk.

SAR '000	June 30, 2019 (Unaudited)			December 31, 2018 (Audited)			June 30, 2018 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
<b>Held for trading</b>									
Commission rate swaps	2,017,078	1,994,393	161,397,536	1,087,606	1,033,434	154,889,392	1,000,006	876,932	155,990,416
Commission rate futures and options	545,801	545,801	53,500,025	241,720	241,720	55,743,725	317,738	317,738	55,915,282
Forward foreign exchange contracts	132,422	26,803	34,043,826	134,446	18,682	28,146,685	201,719	8,098	26,900,114
Currency options	1,484	1,484	231,765	1,577	1,577	694,355	8,842	8,842	1,423,998
Others	22,892	22,892	524,818	7,791	7,791	709,920	4,116	4,116	545,091
<b>Held as fair value hedges</b>									
Commission rate swaps	-	-	-	-	-	-	211	-	264,000
<b>Held as cash flow hedges</b>									
Commission rate swaps	1,135,505	27,118	54,512,188	459,324	110,924	60,041,236	297,554	296,098	63,882,784
<b>Total</b>	<b>3,855,182</b>	<b>2,618,491</b>	<b>304,210,158</b>	<b>1,932,464</b>	<b>1,414,128</b>	<b>300,225,313</b>	<b>1,830,186</b>	<b>1,511,824</b>	<b>304,921,685</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

**10. Commitments and contingencies**

The Bank's credit related commitments and contingencies are as follows:

SAR '000	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)	June 30, 2018 (Unaudited)
Letters of credit	7,850,111	7,918,102	7,549,999
Letters of guarantee	39,426,152	41,289,519	44,048,631
Acceptances	2,068,358	1,872,827	2,103,499
Irrevocable commitments to extend credit	4,025,781	2,815,479	3,456,358
<b>Total</b>	<b>53,370,402</b>	<b>53,895,927</b>	<b>57,158,487</b>

The bank has made impairment provision amounting to SAR 555 million (December 31, 2018: 577 million) against credit related commitments and contingencies which has been classified into other liabilities. The Group is subject to legal proceedings in the ordinary course of business. There was no material change in the status of legal proceedings filed against the bank as disclosed at December 31, 2018.

**11. Cash and cash equivalents**

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

SAR '000	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)	June 30, 2018 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	5,950,193	12,775,498	4,190,907
Due from banks and other financial institutions maturing within three months from the date of acquisition	5,524,523	11,214,381	16,250,303
<b>Total</b>	<b>11,474,716</b>	<b>23,989,879</b>	<b>20,441,210</b>

Cash and cash equivalents include amount of SAR 125 million (December 31, 2018: 1,419 million) held with CA-CIB group (one of the major shareholders).

**12. 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 in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

**Valuation models**

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

**12. Fair values of financial assets and liabilities (continued)**

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values aims also to reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

**Valuation Framework**

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Market Risk Department, which is independent of Front Office management and reports to the Chief Risk Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

**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 repackaging)

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.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Derivative products valued using a valuation technique with market observable inputs are mainly commission rate swaps and options, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates and commission rate curves. Other investments in level 2 are valued based on market observable date including broker rates etc.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

## 12. Fair values of financial assets and liabilities (continued)

SAR '000	Level 1	Level 2	Level 3	Total
<b>June 30, 2019 (Unaudited)</b>				
<b>Financial assets</b>				
Derivative financial instruments positive fair value	-	3,855,182	-	3,855,182
Financial investments designated at FVIS	109,401	5,139	-	114,540
Financial investments at FVOCI	2,934,724	3,867,866	6,966	6,809,556
<b>Total</b>	<b>3,044,125</b>	<b>7,728,187</b>	<b>6,966</b>	<b>10,779,278</b>
<b>Financial Liabilities</b>				
Derivative financial instruments negative fair value	-	2,618,491	-	2,618,491
<b>Total</b>	<b>-</b>	<b>2,618,491</b>	<b>-</b>	<b>2,618,491</b>

SAR '000	Level 1	Level 2	Level 3	Total
<b>December 31, 2018 (Audited)</b>				
<b>Financial assets</b>				
Derivative financial instruments positive fair value	-	1,932,464	-	1,932,464
Financial investments designated at FVIS	336,521	20,227	-	356,748
Financial investments at FVOCI	1,468,311	4,166,211	6,984	5,641,506
<b>Total</b>	<b>1,804,832</b>	<b>6,118,902</b>	<b>6,984</b>	<b>7,930,718</b>
<b>Financial Liabilities</b>				
Derivative financial instruments negative fair value	-	1,414,128	-	1,414,128
<b>Total</b>	<b>-</b>	<b>1,414,128</b>	<b>-</b>	<b>1,414,128</b>

SAR '000	Level 1	Level 2	Level 3	Total
<b>June 30, 2018 (Unaudited)</b>				
<b>Financial assets</b>				
Derivative financial instruments positive fair value	-	1,830,186	-	1,830,186
Financial investments designated at FVIS	160,343	157,152	-	317,495
Financial investments at FVOCI	1,639,359	4,253,666	6,109	5,899,134
<b>Total</b>	<b>1,799,702</b>	<b>6,241,004</b>	<b>6,109</b>	<b>8,046,815</b>
<b>Financial Liabilities</b>				
Derivative financial instruments negative fair value	-	1,511,824	-	1,511,824
<b>Total</b>	<b>-</b>	<b>1,511,824</b>	<b>-</b>	<b>1,511,824</b>

The fair values of investments held at amortized cost are SAR 26,888 million (December 31, 2018: SAR 22,085 million and June 30, 2018: SAR 20,851 million) against carrying value of SAR 26,771 million (December 31, 2018: SAR 22,374 million and June 30, 2018: SAR 21,011 million). The fair values of commission bearing customers' deposits, debt securities, due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of due from and due to banks and other financial institutions. An active market for these instruments is not available and the Bank intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

**12. Fair values of financial assets and liabilities (continued)**

The estimated fair values of investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique. The Bank uses the discounted cash flow method using current yield curve to arrive at the fair value of loans and advances after adjusting internal credit spread which is SAR 126,831 million (December 31, 2018: SAR 122,432 million and June 30, 2018: SAR 124,723 million). The carrying values of those loans and advances are SAR 124,233 million (December 31, 2018: SAR 120,632 million and June 30, 2018 SAR 122,811 million).

**13. Segment information**

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's Board of Directors in its function as chief decision maker in order to allocate resources to the segments and to assess its performance.

Transactions between operating segments are approved by the management as per agreed terms and are reported according to the Bank's internal transfer pricing policy. These terms are in line with normal commercial terms and conditions. The revenue from external parties report to the Board is measured in a manner consistent with that in the consolidated statement of income.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2018.

The Bank is organised into the following main operating segments:

**Retail banking** – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, certain forex products and auto leasing.

**Corporate banking** – incorporates corporate and medium establishment customers' demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

**Treasury** – incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

**Investment banking and brokerage** – Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, corporate finance and international and local shares brokerage services and insurance.

The Bank's total assets and liabilities, together with total operating income, total operating expenses and net income for the six months then ended, by operating segments, are as follows:

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
<b>June 30, 2019 (Unaudited)</b>					
Total assets	21,834,981	104,338,799	59,164,121	1,240,789	186,578,690
Total liabilities	71,546,880	72,190,572	9,058,277	1,181,083	153,976,812
Total operating income	939,854	1,518,818	815,616	154,824	3,429,112
Total operating expenses	606,983	513,902	136,669	90,004	1,347,558
Net income for the period before zakat and income tax	332,871	1,004,916	678,947	64,820	2,081,554
Inter-segment revenue	546,177	102,579	(648,756)	-	-
Depreciation and amortization	65,187	27,157	10,917	1,936	105,197
Impairment charges for financial assets, net	70,539	227,649	4,393	-	302,581

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

## 13. Segment information (continued)

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
<b>December 31, 2018 (Audited)</b>					
Total assets	19,763,892	102,522,524	66,629,360	1,334,501	<b>190,250,277</b>
Total liabilities	70,767,490	78,633,093	8,734,008	1,253,736	<b>159,388,327</b>

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
<b>June 30, 2018 (Unaudited)</b>					
Total assets	18,608,292	108,708,328	60,101,236	1,543,181	<b>188,961,037</b>
Total liabilities	68,645,456	79,331,356	7,388,993	1,448,960	<b>156,814,765</b>
Total operating income	814,855	1,509,827	943,473	141,460	<b>3,409,615</b>
Total operating expenses	619,713	485,882	184,644	89,129	<b>1,379,368</b>
Share in earnings of associates, net	-	-	2,529	-	<b>2,529</b>
Net income for the period before zakat and income tax	195,142	1,023,945	761,358	52,331	<b>2,032,776</b>
Inter-segment revenue	437,709	92,383	(530,092)	-	-
Depreciation and amortization	44,277	21,173	9,135	2,393	<b>76,978</b>
Impairment charges for financial assets, net	51,007	153,680	(3,369)	-	<b>201,318</b>

## 14. Share capital and Earnings per share

The authorised, issued and fully paid share capital of the Bank consists of 1,205 million shares of SAR 10 each (December 31, 2018: 1,205 million shares of SAR 10 each and June 30, 2018: 1,205 million shares of SAR 10 each).

Basic and diluted earnings per share for the periods ended June 30, 2019 and 2018 are calculated on a weighted average basis by dividing the net income for the period by 1,205 million shares after excluding treasury shares consists of 5.7 million shares as of June 30, 2019 (December 31, 2018: 6 million shares and June 30, 2018: 6 million shares).

The final net dividend of SAR 0.80 per share for the year ended 2018 has been approved by the shareholders at the General Assembly Meeting held on May 01, 2019.

## 15. Interim dividends

The Board of Directors recommended on 03 July 2019 an interim net dividend of SAR 1.00 per share (June 30, 2018: SAR 0.90 per share) of SAR 1,155 million (June 30, 2018: SAR 1,028 million) for the six months period ended June 30, 2019.

## 16. Zakat and income tax

The change in the accounting policy for zakat and income (as explained in note 5) has the following impacts on the line items of statements of income, statement of financial position and changes in shareholders' equity:

**16. Zakat and income tax (continued)**

As at and for the six month period ended 30 June 2018:

Financial statement impacted	Account	Before the restatement for the six-month period ended 30 June 2018	Effect of restatement	As restated as at and for the six-month period ended 30 June 2018
Statement of changes in Equity	Provision for zakat and income tax (retained earnings)	117,471	(117,471)	-
Statement of income	Zakat and Income tax for the period	-	141,519	141,519
Statement of income	Earnings per share	1.69	(0.11)	1.58
Statement of financial position	Deferred Tax	-	42,746	42,746
Statement of financial position	Retained earnings	7,681,393	42,746	7,724,139

For the three month period ended 30 June 2018:

Financial statement impacted	Account	Before the restatement for the three-month period ended 30 June 2018	Effect of restatement	As restated as at and for the three-month period ended 30 June 2018
Statement of income	Zakat and Income tax for the period	-	79,347	79,347
Statement of income	Earnings per share	0.77	(0.07)	0.70

As at 31 December 2018

Financial statement impacted	Account	Before the restatement as at 31 December 2018	Effect of restatement	As restated as at 31 December 2018
Statement of financial position	Deferred tax asset	-	49,571	49,571
Statement of financial position	Retained earnings	5,200,042	49,571	5,249,613

As at 1 January 2018

Financial statement impacted	Account	Before the restatement as at 1 January 2018 after effect of IFRS 9	Effect of restatement	As restated as at 1 January 2018
Statement of financial position	Deferred tax asset	-	66,794	66,794
Statement of financial position	Retained earnings	5,766,088	66,794	5,832,882
Statement of changes in equity	Impact of adopting IAS 12	-	66,794	66,794

**Deferred tax**

The deferred tax arises on end of service benefits, impairment allowance on off-balance expected credit losses.

SAR 000	30 June 2019	31 December 2018	30 June 2018
Opening deferred tax asset	49,571	66,794	66,794
Origination or reversal of temporary differences	(5,348)	21,432	9,286
Impact of change in shareholding	(1,956)	(38,655)	(33,334)
<b>Deferred tax (expense)</b>	<b>(7,304)</b>	<b>(17,223)</b>	<b>(24,048)</b>
<b>Closing</b>	<b>42,267</b>	<b>49,571</b>	<b>42,746</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2019 and 2018

**17. Capital Adequacy**

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management.

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

SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset (RWA) at or above the agreed minimum of 8%.

SAMA through its circular number 391000029731 Dated 15/03/1439AH, which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS shall be transitioned over five years.

Bank's total risk weighted assets and total Tier I & Tier I + Tier II Capital are as follows:

<b>SAR '000</b>	<b>June 30, 2019 (Unaudited)</b>	<b>December 31, 2018 (Audited)</b>	<b>June 30, 2018 (Unaudited)</b>
Credit Risk RWA	<b>169,050,175</b>	165,236,811	169,923,672
Operational Risk RWA	<b>12,559,400</b>	12,481,250	12,325,051
Market Risk RWA	<b>2,016,665</b>	1,863,538	2,523,959
<b>Total RWA</b>	<b>183,626,240</b>	<b>179,581,599</b>	<b>184,772,682</b>
Tier I Capital	<b>32,452,103</b>	31,811,197	33,323,135
Tier II Capital	<b>1,705,761</b>	3,685,383	3,898,558
<b>Total Tier I &amp; II Capital</b>	<b>34,157,864</b>	<b>35,496,580</b>	<b>37,221,693</b>
Capital Adequacy Ratio %			
Tier I ratio	<b>17.67%</b>	17.71%	18.03%
Tier I + Tier II ratio	<b>18.60%</b>	19.77%	20.14%

**18. Comparative figures**

Certain prior period figures other than those restated as detailed in note 16 have been reclassified to conform to current period's presentation.

**19. Board of Directors Approval**

The interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 31 July 2019 corresponding to 28 Dhu Al Qidah 1440H.