The Saudi British Bank
Consolidated Financial Statements
For the year ended

31 December 2018

SABB ساب

Building a better working world

KPMG Al Fozan & Partners
Certified Public Accountants

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter is provided in that context.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

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

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
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Impairment of loans and advances

As at 31 December 2018, the gross loans and advances of the Group were SAR 115.08 billion against which an impairment allowance of SAR 4.75 billion was maintained.

During the year the Group has adopted IFRS 9, which introduced a forward-looking, expected credit loss ("ECL") impairment model. On adoption, the Group has applied the requirements of IFRS 9 retrospectively without restating the comparatives. The adoption of IFRS 9 resulted in a transition adjustment to the Group's equity as at 1 January 2018 of SAR 1.63 billion. The impact of transition is explained in note 2(B)(iv) to the consolidated financial statements.

We considered this as a key audit matter, as the determination of ECL involves significant 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 significant deterioration in credit quality since their origination; and
(b) individually impaired / defaulted exposures.
2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors, etc.
3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the ECL model.

Refer to the summary of significant accounting policies notes 2(A) and 2(B) to the consolidated financial statements for the impact of adoption of IFRS 9 – Financial Instruments and impairment of financial assets; note 1.1(f)(i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 6(b) which contains the disclosure of impairment against loans and advances; and note 31(ii) for details of credit quality analysis and key assumptions and factors considered in determination of ECL.

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- We have obtained an understanding of management's assessment of impairment of loans and advances including the IFRS 9 implementation process, the Group's internal rating model, impairment allowance policy and ECL modelling methodology.
- We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9, and assessed the underlying assumptions and the data inputs used.
- 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 significant increase in credit risk ("SICR"); and
• the integrity of data inputs into the ECL model.
- For a sample of customers, we assessed:
• the internal ratings determined by management based on the Group's internal rating model;
• the staging as identified by management; and
• management's computations for ECL.
- We checked the Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Furthermore, for a sample of exposures, we assessed the Group's staging categorisation.
- We assessed the forward looking assumptions used by the Group in the ECL calculations.
- Where management overlays were used, we assessed those overlays and the governance process around such overlays.
- We checked the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2018.
- Where relevant, we involved specialists to assist us in reviewing model calculations and data integrity.
- As the Group has used the modified retrospective approach for adoption of IFRS 9, we performed all the above mentioned tasks to evaluate management's computation of adjustments to the Group's equity as at 1 January 2018 (as a result of adoption of IFRS 9).
- We assessed the disclosures in the consolidated financial statements.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of derivative financial instruments The Group has entered into various derivative transactions, including special commission rate and currency swaps ("swaps"); forward foreign exchange contracts ("forwards"); currency, special commission rate and equity options ("options"); and other derivative contracts. Swaps, forwards, options and other derivative contracts include over-the-counter ("OTC") derivatives, and the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations. The majority of these derivatives are held for trading. However, the Group utilises certain derivatives for hedge accounting purposes in the consolidated financial statements for hedging cash flow or fair value risks. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in case of hedge ineffectiveness, impact the hedge accounting as well. We considered this as a key audit matter, as there is complexity and subjectivity involved in determining the valuation in general and, in certain cases, due to the use of complex modelling techniques and valuation inputs that are not market observable. *Refer to the basis of preparation note 1.1(f)(ii) to the consolidated financial statements which sets out the critical accounting judgements, estimates and assumptions regarding fair value measurement; the summary of significant accounting policies note 2(G) for the accounting policy relating to derivative financial instruments and hedge accounting; and note 10 which discloses the derivative positions as at the reporting date.*	▪ We assessed the design and implementation, and tested the operating effectiveness, of the key controls over management's processes for valuation of derivatives and hedge accounting, 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; • Assessed the key inputs to the valuation models; • Performed independent valuations of the derivatives and compared the result with management's valuation; • Checked the hedge effectiveness performed by the Group and the related hedge accounting; and • Assessed disclosures about the valuation basis and inputs used in the fair value measurement as detailed in the consolidated financial statements.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Fees from banking services The Group charges administrative fees up-front to borrowers in respect of certain loan financing transactions. All such fees are an integral part of generating an involvement with the resulting financial instrument, and therefore these fees should be considered as part of the effective yield on loans and advances and recognised within Special Commission Income. However, due to the large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and judgements in relation to the recognition of such fees which are recorded within "Fee and Commission Income, net". We considered this as a key audit matter since the use of management assumptions and judgements could result in material misstatement to the consolidated financial statements, as they affect the timing and recognition of fees. *Refer to the summary of significant accounting policies note 2(J) to the consolidated financial statements.*	▪ We performed the following audit procedures: • We assessed the design and implementation, and tested the operating effectiveness, of the controls over the consistent application of management's assumptions and judgements for recognition of fee income; and • We assessed the assumptions and judgements used by management for making adjustments to the effective yield of loans and advances and amortizing fee income accordingly. ▪ We obtained management's assessment of the impact of the use of assumptions and judgements and: • on a sample basis, traced the historical and current year data used by management to the underlying accounting records; • on a sample basis, checked the accuracy of the management's assessment, including calculations and related assumptions; and • assessed management's estimation of the impact on the recognition of fee and commission income and special commission income.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investments at fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL") Investments classified as FVOCI and FVTPL comprise both debt and equity instruments. These instruments are measured at fair value, with the corresponding unrealised fair value changes recognised in other comprehensive income or in the profit or loss. The fair value of these financial instruments is determined through the application of valuation techniques which often involve the exercise of judgement by management and the use of assumptions and estimates. Estimation uncertainty exists for those instruments not traded in an active market and where the internal modelling techniques use: o significant observable valuation inputs (i.e. level 2 investments); and o significant unobservable valuation inputs (i.e. level 3 investments). Estimation uncertainty is particularly high for level 2 and level 3 investments. The valuation of the Group's investments in the level 2 and level 3 categories was therefore considered a key audit matter, given the degree of complexity involved in valuing these investments and the significance of the judgements and estimates made by the management. *Refer to the summary of significant accounting policies note 2(C)(i) to the consolidated financial statements; and notes 35 and 1.1(f)(ii) which explain the investment valuation methodology used by the Group and the related critical judgements and estimates.*	▪ We assessed the design and implementation, and tested the operating effectiveness, of key controls over: • managements' processes for performing valuations of investments classified as FVOCI and FVTPL which are not traded in an active market; and • the integrity of data inputs used in the investment portfolio valuation process. ▪ We assessed the valuation techniques and inputs used by management to value the FVOCI and FVTPL investments. As part of these audit procedures, we considered the key inputs and assumptions used in the valuations, such as comparable entity data and liquidity discounts, by benchmarking them with external data. ▪ We re-performed the valuation of a sample of FVOCI and FVTPL investments not traded in an active market and compared the results with management's valuation. ▪ We assessed the disclosures in the consolidated financial statements.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

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

Other Information included in the Group's 2018 Annual Report

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

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

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

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

Responsibilities of the Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

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

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

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

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

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

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

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

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

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

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.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of The Saudi British Bank (a Saudi Joint Stock Company) (Continued)

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

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

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 for the year ended 31 December 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Bank is not in compliance with the requirements of Regulation 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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12 Jumada Al-Thani 1440H
(17 February 2019)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	2018 SAR' 000	2017 SAR' 000
ASSETS			
Cash and balances with SAMA	3	**14,101,089**	26,874,499
Due from banks and other financial institutions	4	**12,041,294**	13,490,700
Positive fair value derivatives	10	**562,373**	532,364
Investments, net	5	**34,570,456**	26,976,751
Loans and advances, net	6	**110,325,959**	117,006,087
Investment in a joint venture	7	**532,597**	524,924
Property and equipment, net	8	**1,280,670**	1,134,927
Other assets	9	**1,149,673**	1,075,092
Total assets		**174,564,111**	187,615,344
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**1,013,233**	3,690,975
Customers' deposits	12	**130,506,505**	140,239,513
Debt securities in issue	13	**1,499,282**	2,998,748
Borrowings	14	**1,695,308**	1,682,445
Negative fair value derivatives	10	**547,253**	481,195
Other liabilities	15	**6,839,433**	5,051,997
Total liabilities		**142,101,014**	154,144,873
Equity			
Equity attributable to equity holders of the Bank			
Share capital	16	**15,000,000**	15,000,000
Statutory reserve	17	**10,778,261**	9,545,984
Other reserves	18	**(3,123)**	488
Retained earnings		**5,135,131**	7,858,470
Proposed dividends	27	**1,430,954**	939,650
Total equity attributable to equity holders of the Bank		**32,341,223**	33,344,592
Non-controlling interest	19	**121,874**	125,879
Total equity		**32,463,097**	33,470,471
Total liabilities and equity		**174,564,111**	187,615,344

Mathew Pearce	David Dew
Chief Financial Officer	Managing Director & Authorized Member

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

CONSOLIDATED STATEMENT OF INCOME
For the years ended 31 December

	Notes	2018 SAR'000	2017 SAR'000
Special commission income	21	**6,642,002**	6,051,288
Special commission expense	21	**1,064,673**	953,404
Net special commission income		**5,577,329**	5,097,884
Fee and commission income, net	22	**1,182,117**	1,255,534
Exchange income, net		**412,545**	431,407
Income from FVTPL financial instruments, net		**3,515**	-
Trading income, net	23	**171,209**	258,398
Dividend income		**65,099**	52,499
Losses on FVOCI debt instruments, net	24	**(20,947)**	-
Gains on non-trading investments, net		**-**	30,944
Other operating (loss) / income, net		**(13,645)**	242
Total operating income		**7,377,222**	7,126,908
Salaries and employee related expenses	25	**1,239,055**	1,228,591
Rent and premises related expenses		**135,938**	139,773
Depreciation	8	**131,465**	124,785
General and administrative expenses		**748,180**	697,414
Provision for credit losses, net	5, 6 & 31	**259,032**	1,001,828
Impairment charge for other financial assets, net		**-**	48,855
Total operating expenses		**2,513,670**	3,241,246
Income from operating activities		**4,863,552**	3,885,662
Share in earnings of an associate and a joint venture	7	**65,551**	68,916
Net income		**4,929,103**	3,954,578
Attributable to:			
Equity holders of the Bank		**4,933,108**	3,954,578
Non-controlling interest		**(4,005)**	-
Net income		**4,929,103**	3,954,578
Basic and diluted earnings per share (in SAR)	26	**3.29**	2.64

Mathew Pearce
Chief Financial Officer

David Dew
Managing Director & Authorized Member

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended 31 December

	Note	2018 SAR' 000	2017 SAR' 000
Net income for the year		**4,929,103**	3,954,578
Other comprehensive income for the year			
Items that cannot be reclassified subsequently to consolidated statement of income in subsequent periods			
- Movement in fair value reserve (FVOCI equity instruments)		**333,078**	-
Items that can be reclassified subsequently to consolidated statement of income in subsequent periods			
Debt instrument at fair value through other comprehensive income			
- Net change in fair value	18	**(176,408)**	-
- Transfer to consolidated statement of income, net	18	**20,947**	-
Available for sale financial assets			
- Net change in fair value	18	-	(87,156)
- Transfer to consolidated statement of income, net	18	-	19,056
Cash flow hedges			
- Net change in fair value	18	**6,760**	89,927
- Transfer to consolidated statement of income, net	18	**(7,865)**	(54,276)
Total other comprehensive income / (loss) for the year		**176,512**	(32,449)
Total comprehensive income for the year		**5,105,615**	3,922,129
Attributable to:			
Equity holders of the Bank		**5,109,620**	3,922,129
Non-controlling interest		**(4,005)**	-
Total		**5,105,615**	3,922,129

Mathew Pearce
Chief Financial Officer

David Dew
Managing Director & Authorized Member

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended 31 December

		Attributable to equity holders of the Bank							
2018	**Note**	**Share capital SAR '000**	**Statutory reserve SAR '000**	**Other reserves SAR '000**	**Retained earnings SAR '000**	**Proposed dividends SAR '000**	**Total SAR '000**	**Non-controlling interest SAR '000**	**Total Equity SAR '000**
Balance at the beginning of the year		**15,000,000**	**9,545,984**	**488**	**7,858,470**	**939,650**	**33,344,592**	**125,879**	**33,470,471**
Impact of adopting of new standards at 1 January 2018									
- Re-measurement of financial instruments		-	-	-	**(1,642,777)**	-	**(1,642,777)**	-	**(1,642,777)**
- Reclassification of AFS equity to FVOCI		-	-	**(170,000)**	**170,000**	-	-	-	-
- Reclassification of AFS debt to HAC		-	-	**(11,133)**	-	-	**(11,133)**	-	**(11,133)**
Restated balance at 1 January 2018		**15,000,000**	**9,545,984**	**(180,645)**	**6,385,693**	**939,650**	**31,690,682**	**125,879**	**31,816,561**
Total comprehensive income for the year									
Net income for the year		-	-		**4,933,108**		**4,933,108**	**(4,005)**	**4,929,103**
Net changes in fair value of cash flow hedges	18	-	-	**6,760**	-	-	**6,760**	-	**6,760**
Net changes in fair value of FVOCI equity investments	18	-	-	**333,078**	-	-	**333,078**	-	**333,078**
Net changes in fair value of FVOCI debt instruments	18	-	-	**(176,408)**	-	-	**(176,408)**	-	**(176,408)**
Transfer to consolidated statement of income	18	-	-	**13,082**	-	-	**13,082**	-	**13,082**
				176,512	**4,933,108**		**5,109,620**	**(4,005)**	**5,105,615**
Treasury shares	18	-	-	**500**	-	-	**500**	-	**500**
Employee share plan reserve		-	-	**510**	-	-	**510**	-	**510**
Transfer to statutory reserve	17	-	**1,232,277**	-	**(1,232,277)**	-	-	-	-
Provision for income tax for the year	27	-	-	-	**(398,664)**	-	**(398,664)**	-	**(398,664)**
Provision for zakat for the year	27	-	-	-	**(227,649)**	-	**(227,649)**	-	**(227,649)**
Provision for zakat for previous years	27	-	-	-	**(1,628,070)**	-	**(1,628,070)**	-	**(1,628,070)**
2017 final dividend paid, net of zakat and income tax	27	-	-	-	-	**(939,650)**	**(939,650)**	-	**(939,650)**
2018 interim dividend paid, net of zakat and income tax	27	-	-	-	**(1,266,056)**	-	**(1,266,056)**	-	**(1,266,056)**
2018 final dividend proposed, net of zakat and income tax	27	-	-	-	**(1,430,954)**	**1,430,954**	-	-	-
Balance at the end of the year		**15,000,000**	**10,778,261**	**(3,123)**	**5,135,131**	**1,430,954**	**32,341,223**	**121,874**	**32,463,097**
2017									
Balance at the beginning of the year		15,000,000	8,557,339	24,052	7,127,537	570,000	31,278,928	-	31,278,928
Total comprehensive income for the year									
Net income for the year		-	-	-	3,954,578	-	3,954,578	-	3,954,578
Net changes in fair value of cash flow hedges	18	-	-	89,927	-	-	89,927	-	89,927
Net changes in fair value of available for sale investments	18	-	-	(87,156)	-	-	(87,156)	-	(87,156)
Transfer to consolidated statement of income	18	-	-	(35,220)	-	-	(35,220)	-	(35,220)
				(32,449)	3,954,578		3,922,129	-	3,922,129
Non-controlling interest arising on business combination		-	-	-	-	-	-	125,879	125,879
Treasury shares	18	-	-	6,655	-	-	6,655	-	6,655
Employee share plan reserve		-	-	2,230	-	-	2,230	-	2,230
Transfer to statutory reserve	17	-	988,645	-	(988,645)	-	-	-	-
Provision for zakat for the year	27	-	-	-	(63,000)	(27,000)	(90,000)	-	(90,000)
Provision for income tax for the year	27	-	-	-	(316,500)	(131,068)	(447,568)	-	(447,568)
2016 final dividend paid, net of zakat and income tax	27	-	-	-	-	(411,932)	(411,932)	-	(411,932)
2017 interim dividend paid, net of zakat and income tax	27	-	-	-	(915,850)	-	(915,850)	-	(915,850)
2017 final dividend proposed, net of zakat and income tax	27	-	-	-	(939,650)	939,650	-	-	-
Balance at the end of the year		15,000,000	9,545,984	488	7,858,470	939,650	33,344,592	125,879	33,470,471

Mathew Pearce
Chief Financial Officer

David Dew
Managing Director & Authorized Member

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended 31 December

	Note	2018 SAR'000	2017 SAR'000
OPERATING ACTIVITIES			
Net income for the year		**4,929,103**	3,954,578
Adjustments to reconcile net income to net cash (used in) / from operating activities:			
Amortisation of premium on investments not held as FVTPL / non-trading investments, net		**(2,873)**	10,150
Depreciation	8	**131,465**	124,785
Income from FVTPL financial instruments, net		**(3,515)**	-
Losses on FVOCI debt instruments, net	24	**20,947**	-
Gains on non-trading investments, net		**-**	(30,944)
Cash flow hedge gain transfer to consolidated statement of income		**(7,865)**	(54,276)
Share in earnings of an associate and a joint venture	7	**(65,551)**	(68,916)
Provision for credit losses, net	5, 6 & 31	**259,032**	1,001,828
Employee share plan reserve		**15,040**	13,386
Impairment charge for other financial assets, net		**-**	48,855
		5,275,783	4,999,446
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA	3	**552,214**	691,152
Due from banks and other financial institutions with an original maturity of more than three months from date of acquisition		**376,498**	(1,579,983)
Investments held at FVTPL		**(38,988)**	-
Loans and advances, net		**5,206,242**	2,956,900
Other assets and derivatives		**(104,590)**	438,566
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**(2,677,742)**	271,801
Customers' deposits		**(9,733,008)**	(373,936)
Other liabilities and derivatives		**(802,950)**	203,877
Net cash (used in) / from operating activities		**(1,946,541)**	7,607,823
INVESTING ACTIVITIES			
Proceeds from sales and maturities of non-trading investments		**-**	21,177,306
Proceeds from sales and maturities of investments not held as FVTPL		**6,190,565**	-
Purchase of investments not held as FVTPL		**(13,596,085)**	-
Purchase of non-trading investments		**-**	(18,443,972)
Purchase of property and equipment	8	**(277,208)**	(219,531)
Dividend received from investment in a joint venture	7	**57,878**	56,500
Acquisition of subsidiary, net of cash and cash equivalent acquired	19	**-**	84,384
Net cash (used in) / from investing activities		**(7,624,850)**	2,654,687
FINANCING ACTIVITIES			
Treasury shares purchased		**(14,031)**	(4,500)
Debt securities in issue	13	**(1,499,466)**	(1,518,888)
Borrowings		**12,863**	(27,513)
Dividends paid		**(2,221,982)**	(1,574,807)
Net cash used in financing activities		**(3,722,616)**	(3,125,708)
Net (decrease) / increase in cash and cash equivalents		**(13,294,007)**	7,136,802
Cash and cash equivalents at beginning of the year		**30,095,579**	22,958,777
Cash and cash equivalents at end of the year	28	**16,801,572**	30,095,579
Special commission received during the year		**6,416,182**	6,069,144
Special commission paid during the year		**1,057,604**	1,062,816
Supplemental non cash information			
Net changes in fair value and transfers to consolidated statement of income		**176,512**	(32,449)

Mathew Pearce
Chief Financial Officer

David Dew
Managing Director & Authorized Member

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

1. General

The Saudi British Bank ("SABB" or the "Bank") is a Saudi Joint Stock Company and was established by Royal Decree No. M/4 dated 12 Safar 1398H (21 January 1978). SABB formally commenced business on 26 Rajab 1398H (1 July 1978) with the taking over of the operations of The British Bank of the Middle East in the Kingdom of Saudi Arabia. SABB operates under Commercial Registration No. 1010025779 dated 22 Dhul Qadah 1399H (13 October 1979) as a commercial bank through a network of 78 branches (2017: 81 branches) in the Kingdom of Saudi Arabia. SABB employed 3,171 staff as at 31 December 2018 (2017: 3,263). The address of SABB's head office is as follows:

The Saudi British Bank
P.O. Box 9084
Riyadh 11413
Kingdom of Saudi Arabia

The objectives of SABB are to provide a range of banking services. SABB also provides Shariah approved products, which are approved and supervised by an independent Shariah Board established by SABB.

SABB has 100% (2017:100%) ownership interest in a subsidiary, SABB Insurance Agency, a Limited Liability Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010235187 dated 18 Jumada II 1428H (3 July 2007). SABB has 98% direct and 2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The principal activity of the subsidiary is to act as a sole insurance agent for SABB Takaful Company (a subsidiary company of SABB - see note 19) within the Kingdom of Saudi Arabia as per the agreement between the two subsidiaries. However, the articles of association of the subsidiary do not restrict the subsidiary from acting as an agent to any other insurance company in the Kingdom of Saudi Arabia.

SABB has 100% (2017:100%) ownership interest in a subsidiary, Arabian Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010188350 dated 12 Jumada I 1424H (12 July 2003). SABB has 99% direct and 1% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary is engaged in the purchase, sale and lease of land and real estate for investment purposes.

SABB has 100% (2017:100%) ownership interest in a subsidiary, SABB Real Estate Company Limited, a limited liability company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010428580 dated 12 Safar 1436H (4 December 2014). SABB has 99.8% direct and 0.2% indirect ownership interest in its subsidiary (the indirect ownership is held via a subsidiary registered in the Kingdom of Saudi Arabia). The subsidiary's main purpose is the registration of real estate and to hold and manage collateral on behalf of the Bank.

On 17 May 2017, SABB established a Special Purpose Vehicle ("SPV") SABB Markets Limited, a wholly owned subsidiary incorporated as a limited liability company under the laws of Cayman Islands. The subsidiary is engaged in derivatives trading and repo activities.

SABB has 65% (2017: 65%) ownership interest in a subsidiary, SABB Takaful, a joint stock company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010234032 dated 20 Jumada Awal 1428H (6 June 2007). SABB Takaful became a subsidiary of SABB effective 23 November 2017 (note 19). SABB Takaful's principal activity is to engage in Shariah compliant insurance activities and offer family and general Takaful products to individuals and corporates in the Kingdom.

SABB had 100% (2017:100%) ownership interest in a subsidiary, SABB Securities Limited, a Saudi limited liability company formed in accordance with Capital Market Authority's Resolution No. 2007-35-7 dated 10 Jumada Alakhirah 1428H (25 June 2007) and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235982 dated 8 Rajab 1428H (22 July 2007). On 15 June 2017, the subsidiary was liquidated.

SABB owns 51% (2017: 51%) of the shares of HSBC Saudi Arabia Closed Joint Stock Company, a joint venture with HSBC. The main activities of HSBC Saudi Arabia Closed Joint Stock Company are to provide a full range of investment banking services including investment banking advisory, brokerage, debt and project finance as well as Islamic finance. It also manages mutual funds and discretionary portfolios.

SABB has participated in three Structured Entities for the purpose of effecting syndicated loan transactions and to secure collateral rights over specific assets of the borrowers under Islamic financing structures. The entities have no other business operations.

1. Saudi Kayan Assets Leasing Company
2. Rabigh Asset Leasing Company
3. Yanbu Asset Leasing Company

SABB owns 50% (2017: 50%) share in each entity. SABB does not consolidate the entities as it does not have the right to variable returns from its involvement with the entities and ability to affect those returns through its power over the entities. The related underlying funding to the borrower is recorded in SABB's balance sheet.

Further to the 1/9/1439H (corresponding to May 16, 2018G) announcement of a non-binding agreement between the Saudi British Bank ("SABB") and Alawwal bank with respect to the exchange ratio of their proposed merger, SABB announced to its shareholders that it entered into a binding merger agreement on 3 October 2018 with Alawwal bank under which the two banks agreed to take the necessary steps to implement a merger by way of a statutory merger pursuant to Articles 191-193 of the Companies Law and Article 49(a)(1) of the Merger and Acquisition Regulations (the "Agreement"). The merger remains conditional upon shareholder approvals in forthcoming Extraordinary General Meetings and regulatory approvals.

1.1. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Bank have been prepared;

- in accordance with 'International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of zakat and income tax', which requires adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings; and
- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's by-laws.

Further, the above SAMA Circular has also repealed the existing Accounting Standards for Commercial Banks as promulgated by SAMA. These are no longer applicable from January 1, 2017.

b) Basis of measurement

These consolidated financial statements have been 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") and FVOCI investments. In addition, assets and liabilities that are hedged in a fair value hedging relationship are carried at fair value to the extent of the risks that are being hedged.

c) Functional and presentation currency

These consolidated financial statements are expressed in Saudi Arabian Riyals (SAR), rounded off to the nearest thousands, which is the functional currency of SABB.

d) Presentation of consolidated financial statements

The Bank presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 33 (b).

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of SABB and its subsidiaries (collectively referred to as "the Bank"). The financial statements of the subsidiaries are prepared for the same reporting year as that of SABB, using consistent accounting policies, except for SABB Takaful whose financial statements are made up to the previous quarter end for consolidation purpose to meet the group reporting timetable.

Subsidiaries are entities which are directly or indirectly controlled by SABB. SABB controls an entity (the "investee") over which it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to SABB and cease to be consolidated from the date on which the control is transferred from SABB. Intra-group transactions and balances have been eliminated upon consolidation.

f) Critical accounting judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates, and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i. Impairment losses on financial assets

Impairment methodology

The measurement of impairment losses both under IFRS 9 and IAS 39 on the applicable categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

Collateral and other credit enhancements held

The Bank's practice is to lend on the basis of customers' ability to meet their obligations out of cash flow resources rather than rely on the value of security offered. Depending on a customer's standing and the type of product, facilities may be provided without security. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the bank may utilise the collateral as a source of repayment.

Depending on its form, collateral can have a significant financial effect in mitigating our exposure to credit risk.

Additionally, risk may be managed by employing other types of collateral and credit risk enhancements such as second charges, other liens and unsupported guarantees, but the valuation of such mitigants is less certain and their financial effect has not been quantified.

ii. Fair value Measurement

The Bank measures financial instruments, such as, derivatives, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 35 to these consolidated financial statements.

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

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

The principal or the most advantageous market must be accessible to by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

iii. Impairment of debt investments

iv. Classification of investments at Amortised Cost

v. Determination of control over investees

The control indicators set out note 1.1 (e) are subject to management's judgements.

vi. Depreciation and amortisation

vii. Define benefit plan

viii. Provisions for liabilities and charges

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

g) Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

2. 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 31 December 2017 except for the following two new accounting standards and other amendments to existing standards that the Bank has adopted effective 1 January 2018. The impact of the adoption of these standards is explained below:

IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. While IFRS 15 contains more structured guidance than the IAS 18, the outcomes for revenue recognition are very similar to current practice of allocating income over the period of the service rendered and therefore IFRS 15 does not have a material impact on the Bank.

IFRS 9 – Financial Instruments

The Bank has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018.The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

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

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

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see respective section of significant accounting policies.

Under IFRS 9, the accounting for financial liabilities will largely remain similar to IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. The de-recognition rules have been transferred from IAS 39 and have not been changed. The Bank therefore does not have any material impact on its financial liabilities and the de-recognition accounting policy.

Impairment of financial assets

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

For an explanation of how the Bank applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

IFRS 7R – Financial Instruments Disclosure

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 2 (b), detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used and the reconciliation from opening to closing ECL allowances are set out in note 2(c), note 5, note 6 and note 31.

Transition

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

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  i. The determination of the business model within which a financial asset is held.
  ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.
  iii. The designation of certain investments in equity instruments not held for trading as FVOCI.

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

B) Financial assets and financial liabilities

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

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
			SAR in '000'	
Financial assets				
Cash and balances with SAMA	Loans and receivables	Amortised cost	**26,874,499**	**26,874,499**
Due from banks and other financial institutions	Loans and receivables	Amortised cost	**13,490,700**	**13,490,700**
Positive fair value derivatives	Held for trading	FVTPL	**532,364**	**532,364**
Investments- (debt and equities)	Available for Sale	FVOCI	**15,872,540**	**12,735,843**
Investments - (debt)	Loans and receivables	Amortised cost	**10,724,146**	**13,842,933**
Investments- Mutual Funds	Available for Sale	FVTPL	**380,065**	**380,065**
Loans and advances	Loans and receivables	Amortised cost	**117,006,087**	**115,860,147**
Other Assets	Loans and receivables	Amortised cost	**839,192**	**839,192**
			185,719,593	**184,555,743**

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
			SAR in '000'	
Financial liabilities				
Due to banks and other financial institutions	Amortised cost	Amortised cost	**3,690,975**	**3,690,975**
Customers' deposits	Amortised cost	Amortised cost	**140,239,513**	**140,239,513**
Debt Securities in issue	Amortised cost	Amortised cost	**2,998,748**	**2,998,748**
Borrowings	Amortised cost	Amortised cost	**1,682,445**	**1,682,445**
Negative fair value derivatives	Held for trading	FVTPL	**481,195**	**481,195**
Other liabilities (including credit provision for off-balance sheet exposures)	Amortised cost	Amortised cost	**4,671,931**	**5,161,991**
Other liabilities (reserve for takaful activities)	Held for trading	FVTPL	**380,066**	**380,066**
			154,144,873	**154,634,933**

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

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

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
	SAR in '000'			
Financial assets				
Amortized cost				
Cash and balances with SAMA	**26,874,499**	**-**	**-**	**26,874,499**
Due from banks and other financial institutions	**13,490,700**	**-**	**-**	**13,490,700**
Loans and advances:				
Opening balance	**117,006,087**	**-**	**-**	**117,006,087**
Remeasurement	**-**	**-**	**(1,145,940)**	**(1,145,940)**
Closing balance	**117,006,087**	**-**	**(1,145,940)**	**115,860,147**
Investments (debt):				
Opening balance	**10,724,146**	**-**	**-**	**10,724,146**
Transferred from FVOCI *	**-**	**3,122,300**	**-**	**3,122,300**
Remeasurement	**-**	**-**	**(3,513)**	**(3,513)**
Closing balance	**10,724,146**	**3,122,300**	**(3,513)**	**13,842,933**
Other assets	**839,192**	**-**	**-**	**839,192**
Total amortized cost	**168,934,624**	**3,122,300**	**(1,149,453)**	**170,907,471**
FVOCI (debt and equities)				
Investment:				
Opening balance	**15,872,540**	**-**	**(3,264)**	**15,869,276**
Transferred to amortized cost *	**-**	**(3,133,433)**	**-**	**(3,133,433)**
Closing balance	**15,872,540**	**(3,133,433)**	**(3,264)**	**12,735,843**

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
	SAR in '000'			
FVOCI (mutual funds)				
Investment:				
Opening balance	**380,065**	**-**	**-**	**380,065**
Transferred to FVTPL	**-**	**(380,065)**	**-**	**(380,065)**
Closing balance	**380,065**	**(380,065)**	**-**	**-**

* There are certain debt securities that have been reclassified from FVOCI to amortised cost, having a net remeasurement impact of SAR 11.13 million (the difference between transfer out and transfer in between the categories).

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
	SAR in '000'			
FVTPL				
Positive fair value of derivatives	**532,364**	**-**	**-**	**532,364**
Investment transferred from FVOCI	-	**380,065**	-	**380,065**
Closing balance	**532,364**	**380,065**	**-**	**912,429**
Financial liabilities				
Amortized cost				
Due to banks and other financial institutions	**3,690,975**	**-**	**-**	**3,690,975**
Customers' deposits	**140,239,513**	**-**	**-**	**140,239,513**
Debt Securities in issue	**2,998,748**	**-**	**-**	**2,998,748**
Borrowings	**1,682,445**	**-**	**-**	**1,682,445**
Other liabilities (including credit provision for off-balance sheet exposures)	**4,671,931**	**-**	**490,060**	**5,161,991**
Total amortized cost	**153,283,612**	**-**	**490,060**	**153,773,672**
FVTPL				
Negative fair value derivatives	**481,195**	**-**	**-**	**481,195**
Other liabilities (reserve for takaful activities)	**380,066**	**-**	**-**	**380,066**
Total FVTPL	**861,261**	**-**	**-**	**861,261**

iii) Reconciliation of reclassifications of financial assets and financial liabilities into amortized cost under IFRS 9

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

	SAR in '000'
From available for sale financial assets under IAS 39	
Fair value at 31 December 2018	**2,319,472**
Fair value loss that would have been recognized during 2018 in OCI if the financial assets had not been reclassified	**(520)**

Financial assets having fair value of SAR 1,010 million as at 31 December 2017 reclassified from AFS/FVOCI to amortised cost have been matured during the year ended 31 December 2018.

iv) Impact on retained earnings and other reserves

	Retained earnings	Other reserves
	SAR in '000'	
Closing balance under IAS 39 (31 December 2017)	**7,858,470**	**488**
Reclassifications under IFRS 9	**170,000**	**(181,133)**
Recognition of expected credit losses under IFRS 9 (including loan commitments and financial guarantee contracts)	**(1,642,777)**	**-**
Opening balance under IFRS 9 (1 January 2018)	**6,385,693**	**(180,645)**

The following table reconciles the provision recorded as per the requirements of IAS 39 to that of IFRS 9:

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

	31 December 2017 (IAS 39 / IAS 37)	Reclassification	Re-measurement	1 January 2018 (IFRS 9)
.	SAR in '000'			
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Loans and advances, net	**3,556,133**	**-**	**1,145,940**	**4,702,073**
AFS (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Investment, net	**186,571**	**(170,000)**	**3,513**	**20,084**
Held at amortised cost (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Investment, net	**-**	**-**	**3,264**	**3,264**
Loan commitments and financial guarantee Contracts	**-**	**-**	**490,060**	**490,060**
Total	**3,742,704**	**(170,000)**	**1,642,777**	**5,215,481**

The following table provides carrying value of financial assets and financial liabilities in the consolidated statement of financial position as at 31 December 2018.

	Mandatory at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI – equity investments	Amortized cost	Total carrying amount
Financial assets						
Cash and balances with SAMA	**-**	**-**	**-**	**-**	**14,101,089**	**14,101,089**
Due from banks and other financial institutions	**-**	**-**	**-**	**-**	**12,041,294**	**12,041,294**
Investments, net	**368,594**	**50,539**	**11,642,455**	**1,346,179**	**21,162,689**	**34,570,456**
Positive fair value derivatives	**562,373**	**-**	**-**	**-**	**-**	**562,373**
Loans and advances, net	**-**	**-**	**-**	**-**	**110,325,959**	**110,325,959**
Other assets	**-**	**-**	**-**	**-**	**831,919**	**831,919**
Total financial assets	**930,967**	**50,539**	**11,642,455**	**1,346,179**	**158,462,950**	**172,433,090**

	Mandatory at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI – equity investments	Amortized cost	Total carrying amount
Financial liabilities						
Due to banks and other financial institutions	**-**	**-**	**-**	**-**	**1,013,233**	**1,013,233**
Customers' deposits	**-**	**-**	**-**	**-**	**130,506,505**	**130,506,505**
Debt securities in issue	**-**	**-**	**-**	**-**	**1,499,282**	**1,499,282**
Borrowings	**-**	**-**	**-**	**-**	**1,695,308**	**1,695,308**
Negative fair value derivatives	**547,253**	**-**	**-**	**-**	**-**	**547,253**
Other liabilities	**-**	**368,594**	**-**	**-**	**6,470,839**	**6,839,433**
Total financial liabilities	**547,253**	**368,594**	**-**	**-**	**141,185,167**	**142,101,014**

C) Policies applicable from 1 January 2018

i) Classification of financial assets (policy applicable from 1 January 2018)

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

1) Amortised cost, and
2) Fair value through other comprehensive income (FVOCI);
3) Fair value through profit or loss (FVTPL);

The classification requirements for loans & advances, debt instruments and equity investment are described below:

Loans & Advances and Debt instruments

Classification and subsequent measurement of loans & advances and debt instruments depend on:
(i) the Bank's business model for managing the asset; and
(ii) the cash flow characteristics of the asset which are referred as cash flows are solely payments of principal and interest (SPPI).

Based on these factors, the Bank classifies its loans & advances and debt instruments into one of the following three measurement categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised.

- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the fair value are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognised in OCI is reclassified from equity to Consolidated Statement of Income.

- **Fair value through profit or loss:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in the consolidated Statement of Income in the period in which it arises.

Business model assessment

The Bank 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:
1) the stated policies and objectives for the portfolio and the operation of those policies in practice;
2) how the performance of the portfolio is evaluated and reported to the Bank's management;

3) 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;
4) 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
5) 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 Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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.

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 Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank'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.

Equity Instruments

On initial recognition, for an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to consolidated Statement of Income, including disposal. This election is made on an investment-by-investment basis.

Financial Asset at FVTPL

All other financial assets are classified as measured at FVTPL (for example: equity held for trading and debt securities not classified neither as AC or FVOCI, mutual fund).
In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

ii) Classification of financial liabilities

(Policy applicable before 1 January 2018)

All money market deposits, customer deposits, borrowing and debt securities in issue are initially recognised at cost, being fair value of consideration received.

Subsequently all commission bearing financial liabilities where fair values have not been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.
Financial liabilities in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognised in the consolidated statement of income.

(Policy applicable after 1 January 2018)

The Bank classifies its financial liabilities as measured at amortized cost except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
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 fair value through profit or loss. Separated embedded derivatives are presented in the condensed consolidated statement of financial position together with the host contract.

iii) Derecognition

a. Financial assets

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

On derecognition, any cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is included in the consolidated statement of income for the period.

From 1 January 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities.

b. Financial liabilities

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

iv) Modifications of financial assets and financial liabilities

a. 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.

In case the modification of asset does not result in de-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash-flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognised in the consolidated statement of income for Asset Modification.

b. Financial liabilities

The Bank 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 the consolidated statement of income.

v) Impairment

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

- financial assets that are measured at amortised cost;
- debt instruments assets measured at FVTOCI;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

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

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 Bank assesses whether financial assets carried at amortized cost and FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise ;
- it is becoming probable that the borrower will enter bankruptcy or other financial 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 Bank 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.

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 in other liabilities;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank 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 statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve. Impairment losses are recognised in profit and loss and changes between the amortised cost of the assets and their fair value are recognised in OCI.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank'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 Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank’s accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank’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 Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

Collateral repossessed

The Bank’s accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank’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 Bank’s policy.

In its normal course of business, the Bank 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.

vi) Financial guarantees and loan commitments

Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received.

Subsequent to the initial recognition,

- From 1 January 2018: the Bank's liability under each guarantee is measured at higher of the unamortized amount and the loss allowance.
- Before 1 January 2018: the Bank's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees.

The premium received is recognised in the consolidated statement of income in "Fees and commission income, net" on a straight-line basis over the life of the guarantee.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The Bank has issued no loan commitments that are measured at FVTPL. For loan commitments:

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

vii) Rendering of services

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

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

viii) Customer Loyalty Program

The Bank offers customer loyalty program (reward points / air miles herein referred to as ”reward points”), which allows card members to earn points that can be redeemed for certain Partner outlets. The Bank 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 income statement 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.

D) Policies applicable before adoption of IFRS 9

i) Investments

All investment securities are initially recognised at their fair value which represents the consideration given, including acquisition charges associated with the investment (except for investments held as FVIS, where acquisition charges are not added to the cost at initial recognition and are charged to the consolidated statement of income). Premiums are amortised and discounts accreted using the effective yield method and are taken to special commission income.

Following initial recognition, for securities traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date. Investments in listed equity instruments are valued at the exchange quoted prices as of day close. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

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

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible. The subsequent period end reporting values for each class of investment are determined on the basis as set out in the following paragraphs:

(i) Held as FVIS

Investments in this category are classified as either investment held for trading or those designated as FVIS at inception or on adoption of the revised IAS 39. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short term. An investment may be designated as FVIS by the management if it satisfies the criteria set out below (except for equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured):

- it is a financial instrument containing one or more embedded derivatives that significantly modify the cash flows resulting from the financial instrument, or
- it is a financial instrument with an embedded derivative that is required to be separated from the host contract under IAS 39, but the Bank is unable to measure reliably the embedded derivative separately either at acquisition or at a subsequent reporting date

The fair value designation is made in accordance with the Risk Management Strategy approved by the Bank's Assets and Liabilities Committee (ALCO) and is irrevocable. Designated financial assets are recognised when the Bank enters into the contractual provisions of the arrangements with counterparties on trade date and derecognised when sold.

After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the period in which it arises. Special commission income and dividend income received on financial assets held as FVIS are reflected as income from financial instruments designated as FVIS in the consolidated statement of income. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments.

(ii) Available for sale

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

Investments classified as "available for sale", are subsequently measured at fair value. For an available-for-sale investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognised directly in the consolidated statement of comprehensive income. On derecognition, any cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is included in the consolidated statement of income for the period.

Equity investments classified under available-for-sale investments whose fair value cannot be reliably measured are carried at cost.

(iii) Held at amortised cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as "held at amortised cost". Such investments whose fair values have not been hedged are stated at amortised cost, less provision for impairment. Investments in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. Any gain or loss is recognised in the consolidated statement of income when the investment is derecognised and is disclosed as gains/ (losses) on non-trading investments. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method.

(iv) Held to maturity
Investments having fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than those that meet the definition of "held at amortised cost" are classified as held to maturity. Held to maturity investments are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

ii) Loans and advances
Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market.

All loans and advances are initially measured at cost, being the fair value of consideration given, including acquisition charges associated with the loans and advances.

The Bank's loans and advances are classified as held at amortised cost less any amount written off and provisions for impairment.

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

iii) Due from banks and other financial institutions
Due from banks and other financial institutions are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks and other financial institutions are initially measured at cost, being the fair value of the consideration given.

Following initial recognition, due from banks and other financial institutions are stated at cost less any amount written off and provisions for impairment, if any.

iv) Impairment of financial assets
An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.
When a financial asset is uncollectible, it is written off against the related provision for impairment. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

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

If, in a subsequent period, the amount of the impairment loss on investments other than available for sale equity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in provision for credit losses.

i. Impairment of financial assets held at amortised cost
A financial asset is classified as impaired when there is objective evidence of credit related impairment as a result of one or more loss events that occurred after the initial recognition of the asset and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

Consumer loans are considered to be impaired when a payment is overdue for specified number of days as per related product programs. Since the risk metrics for consumer loans are based on a collective "pool" basis, rather than on individual loans, the provisions for consumer loans are also computed on a "pool basis" using the 'flow rate" methodology. The provision coverage is 100% for such non-performing loans (other than home loans), which reach the "write-off point" (write-off points which are set at 180 days past due). Write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to consolidated statement of income.

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

The carrying amount of the asset is adjusted through the use of an allowance account and the amount of the adjustment is included in the consolidated statement of income.

ii. *Impairment of financial assets held at fair value*
For financial assets held at fair value, where a loss has been recognised directly through the consolidated statement of comprehensive income under shareholders' equity, the cumulative net loss recognised in shareholders' equity is transferred to the consolidated statement of income when the asset is considered to be impaired.

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

The Bank writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted.

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's quarterly reporting schedule. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

iv. Impairment of available for sale- debt securities

In assessing objective evidence of impairment at the reporting date, the Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

v) Financial liabilities

All money market deposits, customer deposits, borrowing and debt securities in issue are initially recognised at cost, being fair value of consideration received.

Subsequently all commission bearing financial liabilities where fair values have not been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense. Financial liabilities in a fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognised in the consolidated statement of income.

vi) Guarantees and loan commitments

Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in "provision for credit losses".

The premium received is recognised in the consolidated statement of income in "Fees and commission income, net" on a straight-line basis over the life of the guarantee.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

vii) Derecognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Bank is assessed to have transferred a financial asset, the asset is derecognised if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process.

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

E) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Bank elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Bank acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Bank re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Any goodwill arising from initial consolidation is tested for impairment at least once a year and whenever events or changes in circumstances indicate the need for impairment, they are written down if required.

F) Trade date accounting

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

G) Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, special commission rate futures, forward rate agreements, currency and special commission rate swaps, currency and special commission rate options (both written and purchased), are measured at fair value (premium received for written options). 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 generally obtained by reference to quoted market prices, discounted cash flow models or pricing models, as appropriate.

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

i) Derivatives held for trading

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

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 fair value through income statement. The embedded derivatives separated from the host are carried at fair value in the trading derivatives portfolio with changes in fair value recognised in the consolidated statement of income.

iii) Hedge accounting

The Bank designates certain derivatives as hedging instruments in qualifying hedging relationships. For the purpose of hedge accounting, hedges are classified into two categories; (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect the reported net gain or loss.

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

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from remeasuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is recognised in the consolidated statement of income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment in the carrying value is amortised to the consolidated statement of income over the remaining life of the instrument. If the hedged item is derecognised, the unamortised fair value adjustment is recognised 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 recognised in the consolidated statement of comprehensive income. The ineffective portion, if any, is recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. On discontinuation of hedge accounting on cash flow hedges any cumulative gain or loss that was recognised in other reserves, is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other reserves is transferred to the consolidated statement of income for the year.

H) Foreign currencies

The consolidated financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are transferred to exchange income in the consolidated statement of income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except for differences arising on the retranslation of available for sale equity instruments or when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity depending on the underlying financial asset.

I) Offsetting financial instruments

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

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

J) Revenue/expenses recognition

Special commission income and expense

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

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

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective commission rate applied to the new carrying amount.

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

When the Bank enters into special commission rate swap to change special commission from fixed to floating (or vice versa) the amount of special commission income or expense is adjusted by the net special commission on the swap.

Special commission income on Shariah approved products received but not earned is netted off against the related assets.

Exchange income/ loss
Exchange income/loss is recognised when earned/incurred.

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

Fees and commission income and expenses
Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost are recognised as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contract, 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 recognised over the period when the related service is being performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the service is received. Any fee income received but not earned is classified under other liabilities.

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

Day one profit
Where the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated statement of income in 'Net trading income'. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated statement of income when the inputs become observable, or when the instrument is derecognised.

K) Sale and repurchase agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Bank retains substantially all the risks and reward of ownership and continued to be measured in accordance with related accounting policies for the underlying financial assets held as FVTPL, FVOCI and amortised 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 sale and repurchase price is treated as special commission expense and amortised over the life of the repo agreement, using the effective yield method.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and amortised over the life of the reverse repo agreement, using the effective yield method.

L) Investment in equity-accounted investees
The Bank's interests in equity-accounted investees comprise interests in an associate and a joint venture.

Associate is an entity in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Bank has joint control, whereby the Bank has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

Interests in an associate and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Bank's share of the profit or loss and Other Comprehensive Income ("OCI") of equity-accounted investees, until the date on which significant influence or joint control ceases.

The statement of income reflects the Bank's share of the results of operations of the associate and the joint venture.

The reporting dates of the associate and joint venture are identical to the Bank and their accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Unrealised profits and losses resulting from transactions between the Bank and its associate and joint venture are eliminated to the extent of the Bank's interest in the associate and joint venture.

M) Property and equipment

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

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

Buildings	33 years
Leasehold improvements	over the period of the lease contract
Furniture, equipment, vehicles and software	3 to 4 years

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

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

N) Provisions

Provisions are recognised when a reliable estimate can be made by the Bank of a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

O) Accounting for leases

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

P) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash, balances with SAMA and placements with SAMA excluding the statutory deposit, and due from banks and other financial institutions with an original maturity of three months or less from date of acquisition.

Q) Assets held in trust or in fiduciary capacity

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

R) Zakat and income taxes

Zakat is computed on the Saudi shareholders' share of equity and net income using the basis defined under the zakat regulations. Income taxes are computed on the foreign shareholders share of net income for the year.

Zakat and income tax are accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidance on zakat and income tax. Previously, zakat and income tax was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time.

Zakat and income taxes are not charged to the Bank's consolidated statement of income as they are the liabilities of the shareholders and therefore are deducted from the dividends paid to the shareholders.

S) Shariah approved banking products

In addition to conventional banking, the Bank offers its customers certain Shariah approved banking products, which are approved by its Shariah Board.

All Shariah approved banking products are accounted for using IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

T) End of service benefits

The provision for end of service benefits is made based on actuarial valuation in accordance with Saudi Arabian Labour Laws. Net obligation, with respect to end of service benefits, to the Bank is reviewed by using a projected unit credit method. The assumptions used to calculate the scheme obligations include assumptions such as expected future salaries growth, expected employee resignation rates, and discount rate to discount the future cash flows.

U) Share Based payments

Under the terms of the Equity Based Long Term Bonus Plan, eligible employees of the Bank are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, the Bank delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions.

The cost of the plans is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date'). The cumulative expense recognized for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

3. Cash and balances with SAMA

	2018 SAR'000	2017 SAR'000
Cash in hand	**1,542,528**	1,304,487
Statutory deposit	**7,609,549**	8,161,763
Placements with SAMA	**4,811,666**	17,379,275
Other balances	**137,346**	28,974
Total	**14,101,089**	26,874,499

In accordance with the Banking Control Law and regulations issued by SAMA, SABB is required to maintain a statutory deposit with SAMA at stipulated percentages of its deposit liabilities calculated at the end of each month. The statutory deposit with SAMA is not available to finance SABB's day-to-day operations and therefore is not part of cash and cash equivalents. Placements with SAMA represents securities purchased under an agreement to re-sell (reverse repo) with SAMA.

4. Due from banks and other financial institutions

	2018 SAR'000	2017 SAR'000
Current accounts	**6,896,890**	6,808,077
Money market placements	**5,144,404**	6,682,623
Total	**12,041,294**	13,490,700

5. Investments, net

a) Investment securities are classified as follows:

	2018 SAR'000	2017 SAR'000
- FVOCI – Debt	**11,642,455**	-
- FVOCI – Equity	**1,346,179**	-
- FVTPL	**419,133**	-
- Held at amortised cost	**21,162,689**	10,724,146
- Available for sale	**-**	16,252,605
Total	**34,570,456**	26,976,751

b) Investments by type of securities

	Domestic		International		Total	
	2018 SAR'000	2017 SAR'000	2018 SAR'000	2017 SAR'000	2018 SAR'000	2017 SAR'000
Fixed rate securities	**20,289,399**	11,680,992	**3,656,236**	5,300,583	**23,945,635**	16,981,575
Floating rate securities	**7,619,493**	7,731,928	**1,659,149**	866,673	**9,278,642**	8,598,601
Equities and others	**1,327,537**	1,375,807	**18,642**	20,768	**1,346,179**	1,396,575
Total	**29,236,429**	20,788,727	**5,334,027**	6,188,024	**34,570,456**	26,976,751

An analysis of changes in loss allowance for debt instruments not measured at fair value through profit or loss, is as follows:

	SAR'000			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2018	**3,137**	**3,640**	**16,571**	**23,348**
Transfers to 12 month ECL	**598**	**(598)**	**-**	**-**
Transfers to Life time ECL not credit impaired	**(16)**	**16**	**-**	**-**
Net charge for the period	**(1,138)**	**(2,910)**	**-**	**(4,048)**
Loss allowance as at 31 December 2018	**2,581**	**148**	**16,571**	**19,300**

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

	2018			2017		
	Quoted SAR'000	**Unquoted SAR'000**	**Total SAR'000**	Quoted SAR'000	Unquoted SAR'000	Total SAR'000
Fixed rate securities	**23,830,738**	**114,897**	**23,945,635**	16,901,399	80,176	16,981,575
Floating rate securities	**3,935,173**	**5,343,469**	**9,278,642**	3,082,064	5,516,537	8,598,601
Equities and others	**1,318,781**	**27,398**	**1,346,179**	1,367,052	29,523	1,396,575
Investments, net	**29,084,692**	**5,485,764**	**34,570,456**	21,350,515	5,626,236	26,976,751

d) The analysis of investments by counterparty is as follows:

	2018 SAR'000	2017 SAR'000
Government and quasi government	**26,862,791**	20,278,786
Corporate	**2,267,776**	3,493,616
Banks and other financial institutions	**5,429,343**	3,194,621
Others	**10,546**	9,728
Total	**34,570,456**	26,976,751

Others represent FVOCI investments in unquoted shares that are carried at cost, as their fair value cannot be reliably measured.

6. Loans and advances, net

a) Loans and advances are classified as follows:

	2018			**SAR' 000**
Held at amortised cost	**Credit cards**	**Consumer loans**	**Commercial loans and overdrafts**	**Total**
Performing loans and advances	**2,130,911**	**19,883,855**	**89,734,554**	**111,749,320**
Non-performing loans and advances	**55,305**	**242,120**	**3,029,826**	**3,327,251**
Total loans and advances	**2,186,216**	**20,125,975**	**92,764,380**	**115,076,571**
Provision for credit losses	**(195,050)**	**(686,621)**	**(3,868,941)**	**(4,750,612)**
Loans and advances, net	**1,991,166**	**19,439,354**	**88,895,439**	**110,325,959**

Held at amortised cost	2017 Credit cards	Consumer loans	Commercial loans and overdrafts	SAR' 000 Total
Performing loans and advances	2,232,841	21,552,924	94,882,921	118,668,686
Non-performing loans and advances	5,623	105,065	1,782,846	1,893,534
Total loans and advances	2,238,464	21,657,989	96,665,767	120,562,220
Provision for credit losses	(115,664)	(441,087)	(2,999,382)	(3,556,133)
Loans and advances, net	2,122,800	21,216,902	93,666,385	117,006,087

Loans and advances, net include Shariah approved products totalling SAR 84,103.9 million (2017: SAR 92,611.4 million) which are stated at cost less provision for credit losses of SAR 2,605.1 million (2017: SAR 1,842.5 million).

Non-performing loans and advances are disclosed net of accumulated special commission in suspense of SAR 172.6 million (2017: SAR 209.1 million).

b) Movement in provision for credit losses

The following table shows reconciliations from the opening to the closing balance of the provision for credit losses against loans and advances.

Loans and advances to customers at amortised cost SAR in '000'	**31 December 2018** 12 month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Purchased credit impaired	Total
Balance at 1 January	**517,743**	**1,951,464**	**2,201,897**	**30,969**	**4,702,073**
Transfer to 12 month ECL	**299,344**	**(286,794)**	**(12,550)**	**-**	**-**
Transfer to lifetime ECL not credit impaired	**(41,087)**	**155,415**	**(114,328)**	**-**	**-**
Transfer to lifetime ECL credit impaired	**(9,600)**	**(313,956)**	**323,556**	**-**	**-**
Net charge / (reversal) for the year	**(399,677)**	**118,684**	**420,581**	**11,955**	**151,543**
Write-offs	**-**	**-**	**(103,004)**	**-**	**(103,004)**
Balance as at 31 December	**366,723**	**1,624,813**	**2,716,152**	**42,924**	**4,750,612**

	2017 Credit cards	Consumer loans	Commercial loans and overdrafts	SAR' 000 Total
Balance at beginning of the year	102,355	356,714	2,430,642	2,889,711
Bad debts written off	(129,793)	(399,439)	(55,472)	(584,704)
Provided during the year, net of reversals	143,102	483,812	626,857	1,253,771
Recoveries of amounts previously provided	-	-	(2,645)	(2,645)
Balance at the end of the year	115,664	441,087	2,999,382	3,556,133

The net charge to consolidated statement of income on account of provision for credit losses is SAR 327.9 million (2017: SAR 1,001.8 million), which is net of recoveries of amounts previously provided as shown above and also includes direct write offs net of recoveries of debts previously written off amounting to SAR 176.4 million (2017: SAR (249.3) million).

c) Economic sector risk concentrations for the loans and advances and provision for credit losses are as follows:

2018 SAR'000	**Performing**	**Non performing**	**Provision for credit losses**	**Loans and advances, net**
Government and quasi Government	**8,296,736**	**-**	**(3,413)**	**8,293,323**
Finance	**6,250,863**	**-**	**(90,780)**	**6,160,083**
Agriculture and fishing	**723,932**	**-**	**(1,487)**	**722,445**
Manufacturing	**18,624,305**	**535,331**	**(1,110,702)**	**18,048,934**
Mining and quarrying	**3,491,737**	**-**	**(3,795)**	**3,487,942**
Electricity, water, gas and health services	**3,301,400**	**166,320**	**(109,269)**	**3,358,451**
Building and construction	**9,910,835**	**1,182,719**	**(1,226,655)**	**9,866,899**
Commerce	**24,770,141**	**383,865**	**(625,351)**	**24,528,655**
Transportation and communication	**6,323,640**	**77,966**	**(88,518)**	**6,313,088**
Services	**4,442,247**	**7,499**	**(60,216)**	**4,389,530**
Consumer loans and credit cards	**22,014,766**	**297,425**	**(881,671)**	**21,430,520**
Others	**2,944,364**	**676,126**	**(548,755)**	**3,071,735**
Accrued special commission (commercial loans and overdrafts)	**654,354**	**-**	**-**	**654,354**
Total	**111,749,320**	**3,327,251**	**(4,750,612)**	**110,325,959**

2017 SAR'000	Performing	Non performing	Provision for credit losses	Loans and advances, net
Government and quasi Government	7,771,991	-	-	7,771,991
Finance	7,076,588	-	-	7,076,588
Agriculture and fishing	855,355	-	-	855,355
Manufacturing	18,549,066	168,196	(144,947)	18,572,315
Mining and quarrying	3,518,518	-	-	3,518,518
Electricity, water, gas and health services	3,673,031	32,799	(32,799)	3,673,031
Building and construction	10,010,328	720,305	(583,861)	10,146,772
Commerce	28,188,884	356,945	(307,065)	28,238,764
Transportation and communication	5,758,488	77,966	(77,966)	5,758,488
Services	5,359,114	6,899	(6,899)	5,359,114
Consumer loans and credit cards	23,785,765	110,688	-	23,896,453
Others	3,526,714	419,736	(311,326)	3,635,124
Accrued special commission (commercial loans and overdrafts)	594,844	-	-	594,844
Collective impairment provision	-	-	(2,091,270)	(2,091,270)
Total	118,668,686	1,893,534	(3,556,133)	117,006,087

Consumer loans and credit cards balances include the related accrued special commission income as at the year end.

For the year ended 31 December 2017, the provision for credit losses on the consumer loans and advances was calculated on a collective basis and included in the collective impairment provision. The collective impairment provision was based on an asset quality matrix, which included the grading structure in respect of the credit risk of the customers as well as general economic outlook.

c) Collateral

The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk in the loans and advances. This collateral mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets.

As of 31 December 2018, the carrying amount of gross non-performing loans and advances amounted to SAR 3,327.3 million (2017: SAR 1,893.5 million) and the value of identifiable collateral held against those loans and advances amount to SAR 2,028.8 million (2017: SAR 1,521.1 million).

The table below set out the principal types of collateral held against loan and advances;

	2018	2017	Principal type of Collateral held
Consumer Loans			
Mortgage Finance	**100%**	100%	Residential Property
Commercial Loans and Overdrafts	**38%**	42%	Commercial and Residential Property

7. Investment in an associate and a joint venture

SABB owns 51% (2017: 51%) of the shares of HSBC Saudi Arabia Closed Joint Stock Company, a joint venture with HSBC. No single investor group can direct the activities of the entity without cooperation of the other. Both investors can appoint an equal number of board members and thereby board resolutions require joint decision making. Hence, SABB does not consolidate the entity as it does not have rights to variable returns from its involvement with the entity and ability to affect those returns through its power over the entity.

During 2017, SABB increased its ownership percentage in its associate, SABB Takaful, from 32.5% to 65% (note 19). This has resulted in SABB owning a controlling stake in SABB Takaful. SABB Takaful has become a subsidiary of SABB and therefore SABB consolidates SABB Takaful financial statements starting November 2017.

	2018			2017		
	HSBC Saudi Arabia Closed Joint Stock Company SAR' 000	**SABB Takaful SAR' 000**	**Total SAR' 000**	HSBC Saudi Arabia Closed Joint Stock Company SAR' 000	SABB Takaful SAR' 000	Total SAR' 000
Balance at beginning of the year	**524,924**	**-**	**524,924**	513,678	128,619	642,297
Share in earning	**65,551**	**-**	**65,551**	67,746	1,170	68,916
Dividend received	**(57,878)**	**-**	**(57,878)**	(56,500)	-	(56,500)
Acquired as a subsidiary (note 19)	**-**	**-**	**-**	-	(129,789)	(129,789)
Balance at end of the year	**532,597**	**-**	**532,597**	524,924	-	524,924

Share of an associate and a joint venture financial statements:	**2018**		2017	
	HSBC Saudi Arabia Closed Joint Stock Company SAR' 000	**SABB Takaful SAR' 000**	HSBC Saudi Arabia Closed Joint Stock Company SAR' 000	SABB Takaful SAR' 000
Total assets	**656,766**	**-**	**635,181**	**-**
Total liabilities	**257,949**	**-**	**228,726**	**-**
Total equity	**398,817**	**-**	**406,455**	**-**
Total income	**205,960**	**-**	**200,651**	**-**
Total expenses	**131,659**	**-**	**124,486**	**-**

8. Property and equipment, net

	Land and buildings SAR'000	Leasehold improvements SAR'000	Equipment, furniture and vehicles SAR'000	Software SAR'000	2018 Total SAR'000	2017 Total SAR'000
Cost						
As at 1 January	**921,133**	**582,009**	**590,374**	**148,341**	**2,241,857**	2,056,015
Additions	**5,595**	**2,564**	**37,221**	**31,242**	**76,622**	175,071
Acquisition of a subsidiary during the year	-	-	-	-	-	11,361
Disposals	-	-	**(9,921)**	-	**(9,921)**	(590)
As at 31 December	**926,728**	**584,573**	**617,674**	**179,583**	**2,308,558**	2,241,857
Accumulated depreciation						
As at 1 January	**383,051**	**439,258**	**468,822**	**97,883**	**1,389,014**	1,255,287
Charge for the year	**10,334**	**38,907**	**56,362**	**25,862**	**131,465**	124,785
Acquisition of a subsidiary during the year	-	-	-	-	-	9,532
Disposals	-	-	**(9,921)**	-	**(9,921)**	(590)
As at 31 December	**393,385**	**478,165**	**515,263**	**123,745**	**1,510,558**	1,389,014
Net book value						
As at 31 December 2018	**533,343**	**106,408**	**102,411**	**55,838**	**798,000**	
As at 31 December 2017	**538,082**	**142,751**	**121,552**	**50,458**		852,843
Capital work in progress					**482,670**	282,084
Total					**1,280,670**	1,134,927

9. Other assets

	2018 SAR'000	2017 SAR'000
Accounts receivable	**488,704**	521,642
Advance tax	**239,133**	235,900
Others	**421,836**	317,550
Total	**1,149,673**	1,075,092

10. Derivatives

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

a) Forwards and futures

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

b) Options

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

c) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate special commission payments in a single currency without exchanging principal. For currency swaps, fixed special commission payments and principal are exchanged in different currencies. For cross currency special commission rate swaps, principal, fixed and floating special commission payments are exchanged in different currencies.

d) Forward rate agreements

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

Risk-related adjustments

Bid-offer:

IFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Credit valuation adjustment ('CVA'):

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that SABB may not receive the full market value of the transactions.

Debit valuation adjustment ('DVA'):

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that SABB may default, and that SABB may not pay the full market value of the transactions.

Credit valuation adjustment/debit valuation adjustment methodology:

SABB calculates a separate CVA and DVA for each counterparty to which the entity has exposure. SABB calculates the CVA by applying the probability of default ('PD') of the counterparty conditional on the non-default of SABB to the expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, SABB calculates the DVA by applying the PD of SABB, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to SABB and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

Derivatives 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 in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products.

Derivatives held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk (see note 31 – financial risk management, note 32 - market risk and note 33 - liquidity risk). Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels, as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has also established the levels of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to maintain special commission rate gaps within the established limits.

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

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Bank also uses special 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 the details of the hedged items and hedging instruments, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Hedge effectiveness testing

To qualify for hedge accounting, SABB requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective both prospectively and retrospectively, on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed and the method adopted by an entity to assess hedge effectiveness will depend on its risk management strategy. For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated, with the effectiveness range being defined as 80% to 125%. Hedge ineffectiveness is recognised in the consolidated statement of income 'Trading income, net'.

Cash flow hedges

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

				SAR' 000
2018	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Cash inflows (assets)	**42,886**	**33,641**	**6,412**	**1,066**
Cash out flows (liabilities)	**(5,231)**	**(3,486)**	**-**	**-**
Net cash inflow	**37,655**	**30,155**	**6,412**	**1,066**
2017	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	41,654	86,625	38,319	6,787
Cash out flows (liabilities)	(4,964)	(9,337)	-	-
Net cash inflow	36,690	77,288	38,319	6,787

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

The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts as at 31 December, analysed by the term to maturity. 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 market risk nor credit risk, which is generally limited to the positive fair value of the derivatives.

				Notional amounts by term to maturity			
2018 SAR'000	**Positive fair value**	**Negative fair value**	**Notional amount total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
Derivatives held for trading:							
Special commission rate swaps	**283,080**	**(271,665)**	**39,675,381**	**4,389,170**	**3,584,180**	**26,207,556**	**5,494,475**
Special commission rate options	**128,632**	**(135,847)**	**18,386,296**	**37,000**	**1,038,500**	**17,050,833**	**259,963**
Forward foreign exchange contracts	**18,852**	**(14,135)**	**3,710,093**	**1,680,176**	**1,559,779**	**470,138**	**-**
Currency options	**133**	**(133)**	**5,513,328**	**1,576,414**	**3,936,914**	**-**	**-**
Currency swaps	**11,962**	**(11,113)**	**1,487,500**	**-**	**1,000,000**	**487,500**	**-**
Others	**5,198**	**(5,198)**	**360,835**	**-**	**8,063**	**352,772**	**-**
Derivatives held as fair value hedges:							
Special commission rate swaps	**76,710**	**(84,558)**	**9,420,627**	**262,500**	**881,250**	**5,621,875**	**2,655,002**
Derivatives held as cash flow hedges:							
Special commission rate swaps	**13,169**	**(10,716)**	**1,190,000**	**-**	**750,000**	**440,000**	**-**
Currency swaps	**24,637**	**(13,888)**	**1,462,500**	**-**	**168,750**	**1,106,250**	**187,500**
Total	**562,373**	**(547,253)**	**81,206,560**	**7,945,260**	**12,927,436**	**51,736,924**	**8,596,940**

2017 SAR'000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity: Within 3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:							
Special commission rate swaps	270,248	(241,185)	41,249,303	5,108,269	3,515,608	27,423,804	5,201,622
Special commission rate options	91,904	(93,830)	15,748,090	-	2,857,148	12,358,141	532,801
Forward foreign exchange contracts	34,516	(25,406)	14,073,054	12,274,747	1,608,807	189,500	-
Currency options	18,355	(18,441)	41,251,205	15,974,503	22,689,202	2,587,500	-
Currency swaps	18,023	(16,521)	3,205,935	250,000	1,468,435	1,487,500	-
Others	14,862	(14,861)	360,836	-	-	360,836	-
Derivatives held as fair value hedges:							
Special commission rate swaps	42,027	(40,034)	6,498,750	187,500	1,200,000	2,748,750	2,362,500
Derivatives held as cash flow hedges:							
Special commission rate swaps	30,282	(15,273)	1,390,000	-	-	1,190,000	200,000
Currency swaps	12,147	(15,644)	1,419,078	333,034	186,044	900,000	-
Total	532,364	(481,195)	125,196,251	34,128,053	33,525,244	49,246,031	8,296,923

The Bank enters into structured currency option products with clients which involve one or more derivatives included in the structure. In such instances, the fair value of the individual structured product represents a net valuation of the underlying derivatives. The sum of all option notionals included in each structure as of the reporting date is disclosed in the table above.

The tables below show a summary of the hedged items, the nature of the risk being hedged, the hedging instruments and their fair values.

2018 SAR'000 Description of the hedged items:	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Fixed commission rate investments	**9,367,452**	**9,420,627**	**Fair value**	**Special commission rate swap**	**76,710**	**(84,558)**
Floating commission rate investments	**1,190,072**	**1,190,000**	**Cash flow**	**Special commission rate swap**	**13,169**	**(10,716)**
Fixed commission rate investments	**1,273,205**	**1,275,000**	**Cash flow**	**Currency swap**	**24,266**	**(13,888)**
Fixed commission rate deposits	**187,500**	**187,500**	**Cash flow**	**Currency swap**	**371**	**-**

2017 SAR'000 Description of the hedged items:	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed commission rate investments	6,485,500	6,498,750	Fair value	Special commission rate swap	42,027	(40,034)
Floating commission rate investments	1,390,142	1,390,000	Cash flow	Special commission rate swap	30,282	(15,273)
Fixed commission rate investments	1,229,903	1,230,592	Cash flow	Currency swap	12,147	(15,041)
Fixed commission rate deposits	187,500	187,500	Cash flow	Currency swap	-	(603)

The hedge inception value has been adjusted, where necessary, to reflect book values.

The net losses on the hedging instruments for fair value hedges are SAR 9.8 million (2017: net losses of SAR 30.1 million). The net losses on the hedged item attributable to the hedged risk are SAR 39.9 million (2017: net gains of SAR 18.6 million).

Approximately 68% (2017: 65%) of the positive fair value of the Bank's derivatives are entered into with financial institutions and out of which 38% (2017: 8%) of the positive fair value contracts are with any individual counterparty at the consolidated statement of financial position date.

11. Due to banks and other financial institutions

	2018 SAR'000	2017 SAR'000
Current accounts	**956,730**	1,780,975
Money market deposits	**56,503**	1,910,000
Total	**1,013,233**	3,690,975

12. Customers' deposits

	2018 **SAR'000**	2017 SAR'000
Demand	**82,086,159**	88,538,701
Savings	**7,823,077**	6,868,200
Time	**39,560,510**	43,860,973
Margin	**1,036,759**	971,639
Total	**130,506,505**	140,239,513

Customers' deposits include SAR 80,450.9 million (2017: SAR 78,849.5 million) deposits under Shariah approved product contracts.

The above deposits include the following deposits in foreign currency:

	2018 **SAR'000**	2017 SAR'000
Demand	**11,076,510**	11,946,994
Savings	**237,074**	294,069
Time	**8,410,185**	8,930,155
Margin	**200,831**	216,606
Total	**19,924,600**	21,387,824

13. Debt securities in issue

	2018 **SAR'000**	2017 SAR'000
SAR 1,500 million 7 year subordinated Sukuk - 2013	**-**	1,500,452
SAR 1,500 million 10 year subordinated Sukuk- 2015	**1,499,282**	1,498,296
Total	**1,499,282**	2,998,748

SAR 1,500 million 7 year subordinated Sukuk – 2013

The Sukuk was issued by SABB on 17 December 2013 having maturity in December 2020. This was a Basel III compliant issuance and SABB had an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and the terms and conditions of the agreement. The Sukuk was repaid on 17 December 2018.

The Sukuk carried effective special commission income at six months' SAIBOR plus 140 bps payable semi-annually. The Sukuk was unsecured and was listed on the Saudi Stock Exchange (Tadawul).

SAR 1,500 million 10 year subordinated Sukuk -2015

The Sukuk was issued by SABB on 28 May 2015 and matures in May 2025. This is a Basel III compliant issuance and SABB has an option to repay the Sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

The Sukuk carries effective special commission income at six months' SAIBOR plus 130 bps payable semi-annually. The Sukuk is unsecured and is listed on the Saudi Stock Exchange (Tadawul).

14. Borrowings

Syndicated loan represents a floating rate loan obtained by the Bank on 19 October 2016 amounting to USD 450 million at three months' LIBOR plus 125 bps payable quarterly. The loan is unsecured and matures on 19 October 2019.

15. Other liabilities

	2018 SAR'000	2017 SAR'000
Accounts payable	**1,222,879**	1,098,226
Drawings payable	**590,437**	809,135
Dividends payable	**225,958**	242,234
End of service benefits	**453,605**	434,890
Others	**4,346,554**	2,467,512
Total	**6,839,433**	5,051,997

16. Share capital

The authorised, issued and fully paid share capital of SABB consists of 1,500 million shares of SAR 10 each (2017: 1,500 million shares of SAR 10 each). The ownership of the SABB's share capital is as follows:

	2018	2017
Saudi shareholders	**60%**	60%
HSBC Holdings BV	**40%**	40%
(a wholly owned subsidiary of HSBC Holdings plc)		

17. Statutory reserve

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve is equal to the paid up capital of SABB. Accordingly, a sum of SAR 1,232.2 million (2017: SAR 988.6 million) was transferred to statutory reserve. The statutory reserve is not currently available for distribution.

18. Other reserves

Cash flow hedges and available for sale investments

2018 SAR'000	**Cash flow hedges**	**FVOCI**	**Total**
Balance at beginning of the year	**10,007**	**8,209**	**18,216**
Impact of adopting of new standard at 1 Jan 2018			
- Reclassification AFS equity to FVOCI	**-**	**(181,133)**	**(181,133)**
Restated balance at 1 Jan 2018	**10,007**	**(172,924)**	**(162,917)**
Net change in fair value	**6,760**	**156,670**	**163,430**
Transfer to consolidated statement of income	**(7,865)**	**20,947**	**13,082**
Net movement during the year	**(1,105)**	**177,617**	**176,512**
Sub total	**8,902**	**4,693**	**13,595**
Treasury shares			**(36,993)**
Employee share plan reserve			**20,275**
Sub total			**(16,718)**
Balance at end of the year			**(3,123)**

2017 SAR'000	Cash flow hedges	Available for sale investments	Total
Balance at beginning of the year	(25,644)	76,309	50,665
Net change in fair value	89,927	(87,156)	2,771
Transfer to consolidated statement of income	(54,276)	19,056	(35,220)
Net movement during the year	35,651	(68,100)	(32,449)
Sub total	10,007	8,209	18,216
Treasury shares			(37,494)
Employee share plan reserve			19,766
Sub total			(17,728)
Balance at end of the year			488

The discontinuation of hedge accounting during prior years resulted in reclassification of the associated cumulative gains of SAR 7.9 million (2017: SAR 54.3 million) from equity to the consolidated statement of income included in the above numbers under cash flow hedges.

19. Business combination

On 17 August 2017, SABB entered into an agreement with HSBC Asia Holdings BV and certain other wholly-owned subsidiaries of HSBC Holdings plc (together HSBC) to purchase HSBC's combined 32.5% shareholding in SABB Takaful, a Saudi Joint Stock Company listed in Tadawul, at a purchase price of SAR 10.66 per share, totaling SAR 117.8 million. This transaction was completed on 23 November 2017, resulting in SABB owning 65% in SABB Takaful. Effective 23 November 2017, SABB Takaful has been classified as a subsidiary and no longer treated as an associate. The acquisition has been accounted for using the acquisition method. SABB elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets. SABB Takaful's principal activity is to engage in Shariah compliant insurance activities and offer family and general Takaful products to individuals and corporates in the Kingdom. The Bank completed the exercise of calculating carrying value of SABB Takaful as at 23 November 2017 and following table summarises the recognised amounts of assets and liabilities assumed at the date of acquisition:

SAR'000 **Assets**	**23 November 2017**
Due from banks and other financial institutions	**228,512**
Investments, net	**533,191**
Property and equipment, net	**1,829**
Other assets	**144,482**
Total assets	**908,014**
Liabilities	
Other liabilities	**548,359**
Total liabilities	**548,359**
Total identifiable net assets at provisional fair value	**359,655**
Non-controlling interest	**(125,879)**
Goodwill arising on acquisition	**13,806**
Total consideration	**247,582**
This comprises of:	
Cash paid on acquisition	**117,793**
Fair value of previously held equity interest	**129,789**
Cash flow on acquisition	
Cash and cash equivalents in subsidiary acquired	**202,177**
Cash consideration paid	**(117,793)**
Net cash inflow on acquisition	**84,384**

The goodwill is attributed mainly to synergies expected to arise from the integration of SABB Takaful business into SABB group.

20. Commitments and contingencies

a) Legal proceedings

As at 31 December 2018, there are legal proceedings outstanding against the Bank. No material provision has been made as professional advice indicates that it is not probable that any significant loss will eventuate.

b) Capital commitments

As at 31 December 2018, the Bank has capital commitments of SAR 576.2 million (2017: SAR 746.5 million) in respect of land, buildings and equipment purchases.

c) Credit related commitments and contingencies

Credit related commitments and contingencies mainly comprise guarantees, letters of credit, acceptances and commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank 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. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The cash requirement under these instruments is considerably less than the amount of the related commitment because the Bank generally expects the customers to fulfil their primary obligation.

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

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

2018 **SAR'000**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**5,944,584**	**2,038,908**	**628,047**	**3,164,066**	**11,775,605**
Guarantees	**8,124,323**	**20,111,100**	**10,817,155**	**14,208,658**	**53,261,236**
Acceptances	**1,851,536**	**1,132,165**	**1,101**	**-**	**2,984,802**
Irrevocable commitments to extend credit	**300,254**	**403,581**	**2,038,949**	**791,803**	**3,534,587**
Total	**16,220,697**	**23,685,754**	**13,485,252**	**18,164,527**	**71,556,230**

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	5,122,801	3,732,706	435,493	1,709,938	11,000,938
Guarantees	8,608,542	22,753,910	10,456,345	10,787,136	52,605,933
Acceptances	2,188,752	1,092,795	401	-	3,281,948
Irrevocable commitments to extend credit	125,500	1,324,643	825,000	1,242,934	3,518,077
Total	16,045,595	28,904,054	11,717,239	13,740,008	70,406,896

The unutilised portion of non-firm commitments, which can be revoked unilaterally at any time by the Bank, is SAR 51,003 million (2017: SAR 49,316 million).

e) The analysis of credit related commitments and contingencies by counterparty is as follows:

	2018 SAR'000	2017 SAR'000
Government and quasi government	**2,428,562**	3,398,385
Corporate	**55,313,975**	52,768,439
Banks and other financial institutions	**13,767,327**	14,226,426
Other	**46,366**	13,646
Total	**71,556,230**	70,406,896

f) Operating lease commitments

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

	2018 SAR'000	2017 SAR'000
Less than 1 year	**69,706**	78,187
1 to 5 years	**129,640**	188,271
Over 5 years	**53,059**	105,199
Total	**252,405**	371,657

21. Net special commission income

	2018 SAR'000	2017 SAR'000
Special commission income		
Investments		
- FVOCI / available for sale	**248,060**	380,681
- held at amortised cost	**658,030**	160,226
	906,090	540,907
Due from banks and other financial institutions	**295,406**	254,849
Loans and advances	**5,440,506**	5,255,532
Total	**6,642,002**	6,051,288
Special commission expense		
Due to banks and other financial institutions	**39,576**	15,370
Customers' deposits	**844,184**	769,596
Debt securities in issue	**119,523**	124,830
Borrowings	**61,390**	43,608
Total	**1,064,673**	953,404
Net special commission income	**5,577,329**	5,097,884

22. Fees and commission income, net

	2018 SAR'000	2017 SAR'000
Fee and commission income:		
- Fund management fees	**11,390**	9,496
- Trade finance	**609,019**	648,546
- Corporate finance and advisory	**106,948**	132,301
- Card products	**490,263**	523,074
- Other banking services	**424,533**	344,837
Total fee and commission income	**1,642,153**	1,658,254
Fee and commission expense:		
- Card products	**363,984**	307,381
- Custodial services	**834**	718
- Other banking services	**95,218**	94,621
Total fee and commission expense	**460,036**	402,720
Fees and commission income, net	**1,182,117**	1,255,534

23. Trading income, net

	2018 SAR'000	2017 SAR'000
Foreign exchange income, net	**82,424**	98,541
Derivatives	**86,471**	156,488
Debt securities	**161**	271
Others	**2,153**	3,098
Total	**171,209**	258,398

24. Losses on FVOCI debt investments, net

	2018 SAR'000	2017 SAR'000
FVOCI investments	**20,947**	**-**

25. Salaries and employee related expenses

	2018 SAR'000	2017 SAR'000
Salaries and allowance	**795,247**	**732,515**
Housing allowance	**119,338**	**120,075**
End of service benefits	**57,120**	**57,682**
Others	**267,350**	**318,319**
Total	**1,239,055**	**1,228,591**

a) Quantitative Disclosure

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

2018		**Fixed**	**Variable compensation paid in 2018**		
Category	**Number of Employees ***	**compensation SAR'000**	**Cash SAR'000**	**Shares SAR'000**	**Total SAR'000**
Senior executives requiring SAMA no objection	**21**	**34,403**	**17,517**	**8,497**	**26,014**
Employees engaged in risk taking activities	**543**	**186,936**	**53,739**	**5,971**	**59,710**
Employees engaged in control functions	**327**	**117,210**	**23,425**	**871**	**24,296**
Other employees	**2,505**	**501,225**	**76,703**	**683**	**77,386**
Outsourced employees	**375**	**36,311**	**4,078**	**-**	**4,078**
Total	**3,771**	**876,085**	**175,462**	**16,022**	**191,484**

Variable compensation accrued in 2018	**185,959**
Other employee related benefits **	**177,011**
Total salaries and employee related expenses	**1,239,055**

2017		Fixed	Variable compensation paid in 2017		
Category	Number of Employees *	compensation SAR'000	Cash SAR'000	Shares SAR'000	Total SAR'000
Senior executives requiring SAMA no objection	22	40,225	19,997	11,724	31,721
Employees engaged in risk taking activities	587	188,061	58,784	4,090	62,874
Employees engaged in control functions	299	105,114	20,293	677	20,970
Other employees	2,544	488,791	72,583	561	73,144
Outsourced employees	554	38,034	3,415	-	3,415
Total	4,006	860,225	175,072	17,052	192,124

Variable compensation accrued in 2017	215,907
Other employee related benefits **	152,459
Total salaries and employee related expenses	1,228,591

* Represent all employees who worked for the Bank and were compensated during the year 2018 or 2017, whether they are still active or no longer employed by the bank.

** Other employee related benefits include insurance premium paid, GOSI contribution, recruitment expenses, employee related cost for SABB Takaful and certain other non-recurring employee related costs.

Senior executives (requiring SAMA no objection):
This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank whose appointment requires no objection from SAMA. This covers the Managing Director and other executives directly reporting to him.

Employees engaged in risk taking activities:
This comprises of management staff within the business lines (Corporate, Trade Services, Private Banking and Treasury employees), who are responsible for executing and implementing the business strategy on behalf of the Bank. This also includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertaking and executing business proposals and treasury dealing activities.

Employees engaged in control functions:
This refers to employees working in divisions that are not involved in risk taking activities but engaged in review functions (Risk Management, Compliance, Internal Audit, Treasury Operation, Amanah Islamic Banking Services, Finance and Accounting). These functions are fully independent from risk taking units.

Other employees:
This includes all other employees of the Bank, excluding those already reported under categories mentioned above.

Outsourced employees:
This includes staff employed by various agencies who supply services to the Bank on a full-time basis in non-critical roles. None of these roles require risk undertaking or control.

b) Qualitative Disclosure

Compensation disclosure for the Annual Financial Statements
SAMA being the Banking industry regulator for the Kingdom of Saudi Arabia has issued its Rules on compensation practices. In compliance with the SAMA Rules on compensation practices, a compensation policy endorsed by Nomination and Remuneration Committee and approved by the Board of Directors has been formulated and implemented.

SABB Compensation Policy

i. Policy Objectives
The policy sets the guidelines as to how both fixed and variable pay will be managed at SABB. The scope of policy covers the following: all categories of employees; its subsidiaries; all compensation elements; key determinants of compensation; approval process; reporting processes; bonus deferral process; share retention and relevant stakeholder's roles and responsibilities.

The objectives of the policy are to: align the reward practices with the Bank's strategy & values so as to support the successful execution of the strategy in a risk compliant manner; offer an attractive employee value proposition to attract, retain and motivate competent and committed people; and ensure the financial sustainability of SABB.

ii. Compensation Structure
SABB's compensation operates on a Total Package basis that is benchmarked to market data from peers in the appropriate industry. Total Package comprises of the following blend of fixed and variable compensation elements: salaries, allowances; benefits; annual bonuses; short-term incentives; and long-term incentives.

iii. Performance Management System
The performance of all employees is evaluated against agreed targets using a Performance Scorecard methodology, financial, customer, process and people. A calibration process is applied to ensure fair and equitable performance evaluation. The performance management methodology at SABB focuses on the differentiation of individual performance and drives the variable reward strategy which encourages high performance within a risk compliant manner.

iv. Risk-adjustment for Variable Pay schemes
The Bank has reviewed all its variable pay schemes, with the assistance of external remuneration consultants, to ensure that any bonus pay pools have taken into account all relevant risks. The determination of bonus pools is based on appropriate performance factors adjusted for risk. The bonus pool for the Control functions have been ring fenced from short term profits in alignment with SAMA regulations.

v. Bonus Deferral
Bonus deferral in the form of equity applies to all employees who are either subject to SAMA "No Objection" and /or undertake or control significant risk undertaking by the Bank. Bonuses of all these employees will be subject to deferral over a three year vesting period. The vesting will be subject to malus conditions.

vi. Nomination and Remuneration Committee
The Nomination and Remuneration Committee has oversight of the remuneration structures and policies for all employees to ensure that: all performance based bonuses are adjusted for risk, compensation structures are regulatory compliant, and effective in achieving its stated objectives.

c) Share based bonus payments

The Bank has Share Based Equity settled Bonus payment plans outstanding at the end of the year. Under the terms of these plans, eligible employees of the Bank are offered shares at a predetermined price for a fixed period of time. At the vesting dates determined under the terms of the plan, the Bank delivers the underlying allotted shares to the employees, subject to the satisfactory completion of the vesting conditions. The cost of the plans is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the shares ('the vesting date'). The cumulative expense recognized for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

The movement in the number of shares under Share Based Equity settled Bonus payment plans is as follows:

	Number of shares	
	2018	2017
Beginning of the year	**1,142,854**	919,102
Forfeited	**(66,915)**	(180,850)
Exercised / Expired	**(470,281)**	(404,674)
Granted during the year	**457,863**	809,276
End of the year	**1,063,521**	1,142,854

The weighted average price of shares granted during the year was SAR 31.1 (2017: SAR 20.67).

26. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended 31 December 2018 and 2017 are calculated by dividing the net income for the year attributable to the equity holders of the Bank by the weighted average number of issued shares.

27. Gross dividends, Zakat and income tax

The Board of Directors has proposed a gross final dividend of SAR 1,820 million for the year 2018 (2017: SAR 1,110 million). During 2018, an interim dividend of SAR 1,500 million (2017: SAR 1,125 million) was also proposed and paid. Dividends will be paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

Saudi shareholders:
The zakat settlement agreed with GAZT also includes agreement on the amounts due for fiscal year 2018. The zakat liability for the year ended 31 December 2018 attributable to Saudi shareholders is SAR 227.8 million (2017: SAR 63.0 million) which will be deducted from their share of dividend, resulting in a net dividend to Saudi Shareholders of SAR 1.96 per share (2017: SAR 1.42 per share).

Non Saudi shareholders
Income tax attributable to the foreign shareholder on its current year's share of income is approximately SAR 394.8 million (2017: SAR 316.5 million). The share of dividend of HSBC Holdings BV will be paid after deducting the related taxes due.

Status of Zakat and Income Tax assessments
On 20th December 2018, the Bank announced it has entered into a settlement agreement with the General Authority of Zakat and Tax (GAZT) to settle certain claims relating to zakat pertaining to fiscal years up to 2017 against which it agreed to pay an amount of SAR 1,628.1 million. In accordance with the settlement agreement, the Bank paid 20% of the settlement amount in December 2018. The remaining amount will be settled in equal installments annually over the subsequent 5 years until the end of 2023. The incremental liability resulted in a decrease in the shareholders equity in the fourth quarter of 2018 by SAR 1,128.1 million.

The Bank has also received tax assessments for fiscal years 2005 to 2009 in which the GAZT raised additional demands for income tax and withholding tax. The amounts are not material.

28. Cash and cash equivalents

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

	2018 **SAR'000**	2017 SAR'000
Cash and balances with SAMA excluding the statutory deposit amounting to SAR 7,610 million (2017: SAR 8,162 million) (note 3)	**6,491,540**	18,712,736
Due from banks and other financial institutions with an original maturity of three months or less from date of the acquisition	**10,310,032**	11,382,843
Total	**16,801,572**	30,095,579

29. Employee benefit obligation

a) General description

The Bank operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labour Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

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:

	2018 **SAR'000**	2017 SAR'000
Defined benefit obligation at the beginning of the year	**434,890**	414,510
Current service cost	**36,756**	43,919
Interest cost	**16,737**	15,830
Benefits paid	**(32,342)**	(37,523)
Unrecognized actuarial gain	**(2,436)**	(1,846)
Defined benefit obligation at the end of the year	**453,605**	434,890

c) Charge for the year

	2018 **SAR'000**	2017 SAR'000
Current service cost	**36,756**	43,919
Interest cost	**16,737**	15,830
Total	**53,493**	59,749

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

	2018	2017
Discount rate	**4.60% p.a**	**4.00% p.a**
Expected rate of salary increase	**3.85% p.a**	**2.90% p.a**
Normal retirement age	**60 years**	**60 years**

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

e) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at 31 December 2018 to the discount rate 4.60% (December 2017: 4.00%), salary escalation rate 3.85% (December 2017: 2.90%), withdrawal assumptions and mortality rates.

	SAR'000		
2018	**Impact on defined benefit obligation – Increase / (Decrease)**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	1.00%	(43,612)	51,629
Expected rate of salary increase	1.00%	53,885	(46,233)
Normal retirement age	1 year	(980)	947

	SAR'000		
2017	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	(36,788)	42,353
Expected rate of salary increase	1.00%	44,709	(39,428)
Normal retirement age	1 year	(1,078)	1,102

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

f) Expected maturity

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

SAR'000

2018	**Less than a year**	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
453,605	**38,713**	**21,800**	**73,148**	**651,198**	**784,859**

2017	Less than a year	1-2 years	2-5 years	Over 5 years	Total
434,890	19,765	47,398	71,875	510,569	649,607

The weighted average duration of the defined benefit obligation is 10.54 years (2017: 9.11 years).

30. Operating segments

The Bank's primary business is conducted in Saudi Arabia.

Transactions between the operating segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance.

a) The Bank's reportable segments are as follows:

Retail Banking –caters mainly to the banking requirements of personal and private banking customers.

Corporate Banking –caters mainly to the banking requirements of commercial and corporate banking customers.

Treasury –manages the Bank's liquidity, currency and special commission rate risks. It is also responsible for funding the Bank's operations and managing the Bank's investment portfolio and liquidity position.

Others – includes activities of the Bank's investment in insurance subsidiary, SABB Takaful, its investment banking joint venture, HSBC Saudi Arabia, and equity investments.

Transactions between the operating segments are reported as recorded by the Bank's transfer pricing system. The Bank's total assets and liabilities as at 31 December 2018 and 2017, its total operating income and expenses, and the results for the years then ended, by operating segment, are as follows:

2018 SAR'000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others (including intergroup eliminations)**	**Total**
Total assets	**25,871,991**	**87,698,216**	**58,329,917**	**2,663,987**	**174,564,111**
Total liabilities	**59,238,230**	**67,606,923**	**14,735,343**	**520,518**	**142,101,014**
Investment in a joint venture	**-**	**-**	**-**	**532,597**	**532,597**
Total operating income, of which:	**2,677,756**	**3,439,920**	**1,199,961**	**59,585**	**7,377,222**
Special commission income, net	**2,198,966**	**2,498,199**	**869,037**	**11,127**	**5,577,329**
Fees and commission income, net	**351,464**	**830,515**	**138**	**-**	**1,182,117**
Trading income, net	**266**	**11,085**	**159,858**	**-**	**171,209**
Credit losses and impairment provision, net	**190,979**	**72,003**	**(3,950)**	**-**	**259,032**
Other operating expenses	**1,304,899**	**761,490**	**160,647**	**27,602**	**2,254,638**
Share in earnings of a joint venture	**-**	**-**	**-**	**65,551**	**65,551**
Net income for the year	**1,181,878**	**2,606,427**	**1,043,264**	**97,534**	**4,929,103**

2017 SAR'000	Retail Banking	Corporate Banking	Treasury	Others (including intergroup eliminations)	Total
Total assets	27,728,040	92,111,925	65,338,461	2,436,918	187,615,344
Total liabilities	58,902,458	73,940,989	20,753,067	548,359	154,144,873
Investment in a joint venture	-	-	-	524,924	524,924
Total operating income, of which:	2,567,438	3,219,555	1,287,416	52,499	7,126,908
Special commission income, net	2,102,772	2,190,731	804,381	-	5,097,884
Fees and commission income, net	344,590	911,173	(229)	-	1,255,534
Trading income, net	114	8,788	249,496	-	258,398
Credit losses and impairment provision, net	388,082	613,746	(1,145)	50,000	1,050,683
Other operating expenses	1,267,941	716,804	157,899	47,919	2,190,563
Share in earnings of an associate and a joint venture	-	-	-	68,916	68,916
Net income for the year	911,415	1,889,005	1,130,662	23,496	3,954,578

b) Total operating income by operating segments

2018 SAR'000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others (including intergroup eliminations)**	**Total**
External	**1,945,778**	**4,417,150**	**956,726**	**57,568**	**7,377,222**
Internal	**731,978**	**(977,230)**	**243,235**	**2,017**	**-**
Total operating income	**2,677,756**	**3,439,920**	**1,199,961**	**59,585**	**7,377,222**

2017 SAR'000	Retail Banking	Corporate Banking	Treasury	Others (including intergroup eliminations)	Total
External	2,109,765	4,331,267	633,377	52,499	7,126,908
Internal	457,673	(1,111,712)	654,039	-	-
Total operating income	2,567,438	3,219,555	1,287,416	52,499	7,126,908

c) The Bank's credit exposure by operating segment is as follows:

2018 SAR'000	**Retail Banking**	**Corporate Banking**	**Treasury**	**Others (including intergroup eliminations)**	**Total**
Assets	**23,432,481**	**86,893,478**	**57,163,466**	**292,072**	**167,781,497**
Commitments and contingencies	**26,908**	**42,404,714**	**-**	**-**	**42,431,622**
Derivatives	**-**	**-**	**828,940**	**-**	**828,940**
Total	**23,459,389**	**129,298,192**	**57,992,406**	**292,072**	**211,042,059**

2017 SAR'000	Retail Banking	Corporate Banking	Treasury	Others (including intergroup eliminations)	Total
Assets	25,586,028	91,420,059	64,285,585	355,301	181,646,973
Commitments and contingencies	6,823	33,102,276	-	-	33,109,099
Derivatives	-	-	1,207,929	-	1,207,929
Total	25,592,851	124,522,335	65,493,514	355,301	215,964,001

Credit exposure comprises the carrying value of assets excluding cash, property and equipment, other assets, investment in associate and joint venture and equity investments, and the credit equivalent value for commitments, contingencies and derivatives based on the credit conversion factor as prescribed by the SAMA.

31. Financial risk management

i) Credit risk

The Board of Directors is responsible for the overall risk management approach within SABB and for reviewing its effectiveness.

The Board's designated committee for risk matters is the Board Risk Committee which approves and provides oversight for the Bank's risk framework, plans and performance targets, which include the establishment of risk appetite statements, risk management strategies, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures.

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk on credit related commitments and contingencies and derivatives.

The Bank assesses the probability of default of counterparties using internal rating tools. Also the Bank uses external ratings, of major rating agencies, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases the Bank may also close out transactions to mitigate credit risk. The Bank's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in market's products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 5. For details of the composition of loans and advances refer to note 6. Information on credit risk relating to derivative instruments is provided in note 10 and for commitments and contingencies in note 20. The information on Bank's maximum credit exposure by operating segment is given in note 30.

a) Geographical concentration of assets, liabilities, commitments and contingencies, and credit exposure

2018 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,542,528	-	-	-	-	1,542,528
Balances with SAMA	12,421,215	-	-	-	-	12,421,215
Other balances	137,346	-	-	-	-	137,346
Due from banks and other financial institutions						
Current accounts	-	59,380	1,886,211	4,914,373	36,926	6,896,890
Money market placements	4,718,592	388,242	37,570	-	-	5,144,404
Investments, net						
FVTPL	419,133	-	-	-	-	419,133
FVOCI	8,624,106	2,726,934	1,450,879	92,065	94,650	12,988,634
Amortised Cost	20,193,190	386,827	-	-	582,672	21,162,689
Positive fair value derivatives						
Held for trading	182,582	27,706	237,519	-	50	447,857
Held as fair value hedges	-	3,556	73,154	-	-	76,710
Held as cash flow hedges	-	22,420	15,386	-	-	37,806
Loans and advances, net						
Credit cards	1,991,166	-	-	-	-	1,991,166
Consumer loans	19,439,354	-	-	-	-	19,439,354
Commercial loans and overdrafts	88,480,748	189,570	225,121	-	-	88,895,439
Investment in a joint venture	532,597	-	-	-	-	532,597
Property and equipment, net	1,280,670	-	-	-	-	1,280,670
Other assets	1,149,673	-	-	-	-	1,149,673
Total	161,112,900	3,804,635	3,925,840	5,006,438	714,298	174,564,111
Liabilities						
Due to banks and other financial institutions						
Current accounts	2,248	458,019	471,951	9,156	15,356	956,730
Money market deposits	-	56,503	-	-	-	56,503
Customer deposits						
Demand	81,961,755	1,631	83,433	21,471	17,869	82,086,159
Saving	7,823,077	-	-	-	-	7,823,077
Time	39,441,098	4,518	24,358	8,933	81,603	39,560,510
Margin	1,036,759	-	-	-	-	1,036,759
Debt securities in issue	1,499,282	-	-	-	-	1,499,282
Borrowings	-	282,551	791,145	-	621,612	1,695,308
Negative fair value derivatives						
Held for trading	93,117	12,379	332,570	-	25	438,091
Held as fair value hedges	-	4,321	80,237	-	-	84,558
Held as cash flow hedges	-	12,230	12,374	-	-	24,604
Other liabilities	6,839,433	-	-	-	-	6,839,433
Total	138,696,769	832,152	1,796,068	39,560	736,465	142,101,014
Commitments and contingencies	58,924,589	872,400	4,674,413	913,833	6,170,995	71,556,230
Credit exposure (stated at credit equivalent amounts)						
Assets	154,728,719	3,750,953	3,597,991	4,989,586	714,248	167,781,497
Commitments and contingencies	35,109,342	516,826	2,702,949	528,772	3,573,733	42,431,622
Derivatives	467,822	117,530	243,588	-	-	828,940
Total credit exposure	190,305,883	4,385,309	6,544,528	5,518,358	4,287,981	211,042,059

2017 SAR'000	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,304,487	-	-	-	-	1,304,487
Balances with SAMA	25,541,038	-	-	-	-	25,541,038
Other balances	28,974	-	-	-	-	28,974
Due from banks and other financial institutions						
Current accounts	-	33,378	1,776,450	4,944,942	53,307	6,808,077
Money market placements	5,287,342	1,132,021	175,354	78,010	9,896	6,682,623
Investments, net						
Available for sale	10,364,664	2,627,612	2,660,200	75,572	524,557	16,252,605
Amortised cost	10,424,063	-	300,083	-	-	10,724,146
Positive fair value derivatives						
Held for trading	182,547	37,273	228,088	-	-	447,908
Held as fair value hedges	-	-	42,027	-	-	42,027
Held as cash flow hedges	-	8,695	33,734	-	-	42,429
Loans and advances, net						
Credit cards	2,122,800	-	-	-	-	2,122,800
Consumer loans	21,216,902	-	-	-	-	21,216,902
Commercial loans and overdrafts	93,251,815	189,570	225,000	-	-	93,666,385
Investment in a joint venture	524,924	-	-	-	-	524,924
Property and equipment, net	1,134,927	-	-	-	-	1,134,927
Other assets	1,075,092	-	-	-	-	1,075,092
Total	172,459,575	4,028,549	5,440,936	5,098,524	587,760	187,615,344
Liabilities						
Due to banks and other financial institutions						
Current accounts	2,597	539,170	1,138,595	47,687	52,926	1,780,975
Money market deposits	1,175,123	734,877	-	-	-	1,910,000
Customer deposits						
Demand	87,667,777	6,830	812,433	37,709	13,952	88,538,701
Saving	6,868,200	-	-	-	-	6,868,200
Time	42,914,272	-	863,150	3,836	79,715	43,860,973
Margin	971,639	-	-	-	-	971,639
Debt securities in issue	2,998,748	-	-	-	-	2,998,748
Borrowings	-	280,408	785,139	-	616,898	1,682,445
Negative fair value derivatives						
Held for trading	110,945	25,517	273,782	-	-	410,244
Held as fair value hedges	-	-	40,034	-	-	40,034
Held as cash flow hedges	-	9,331	21,586	-	-	30,917
Other liabilities	5,051,997	-	-	-	-	5,051,997
Total	147,761,298	1,596,133	3,934,719	89,232	763,491	154,144,873
Commitments and contingencies	57,458,258	1,024,673	4,800,473	917,318	6,206,174	70,406,896
Credit exposure (stated at credit equivalent amounts)						
Assets	166,861,789	3,982,581	5,136,114	5,078,729	587,760	181,646,973
Commitments and contingencies	27,101,134	486,385	2,301,949	594,552	2,625,079	33,109,099
Derivatives	623,485	245,584	309,565	-	29,295	1,207,929
Total credit exposure	194,586,408	4,714,550	7,747,628	5,673,281	3,242,134	215,964,001

b) The distributions by geographical concentration of impaired loans and advances and provision for credit losses are as follows:

2018 SAR'000	**Saudi Arabia**	**GCC and Middle East**	**Europe**	**North America**	**Other Countries**	**Total**
Non-performing loans	**3,321,969**	**-**	**5,282**	**-**	**-**	**3,327,251**
Provision for credit losses	**4,745,371**	**-**	**5,241**	**-**	**-**	**4,750,612**

2017 SAR'000	Saudi Arabia	GCC and Middle East	Europe	North America	Other Countries	Total
Non-performing loans	1,893,534	-	-	-	-	1,893,534
Provision for credit losses	3,556,133	-	-	-	-	3,556,133

ii) Credit quality analysis

a. The following table sets out information about the credit quality of financial assets measured at amortized cost, and FVOCI. The amounts in the table represent gross carrying amounts, unless specifically disclosed as net.

	2018				
SAR' 000	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Purchased credit impaired**	**Total**
Due from bank and other financial institutions, net	12,041,294	-	-	-	**12,041,294**
Debt investment securities at amortized cost, net	21,162,689	-	-	-	**21,162,689**
Debt investment securities at FVOCI, net	11,428,410	214,046	-	-	**11,642,456**
Loans and advances to customers at amortized cost					
Strong	15,195,292	187,991	-	-	**15,383,283**
Good	44,387,339	1,767,356	8,715	-	**46,163,410**
Satisfactory	14,472,142	10,048,293	34,103	-	**24,554,538**
Unrated	20,766,857	721,644	463,899	62,365	**22,014,765**
Special Mention	-	3,417,329	215,995	-	**3,633,324**
Non-performing	-	-	3,325,781	1,470	**3,327,251**
Total	**94,821,630**	**16,142,613**	**4,048,493**	**63,835**	**115,076,571**
Commitments and contingencies	**62,311,456**	**8,304,422**	**940,352**	**-**	**71,556,230**

	2017			SAR' 000
Loans and advances to customers at amortized cost	Credit cards	Consumer loans	Commercial loans and overdrafts	Total
Strong	-	-	13,071,772	13,071,772
Good	-	8,244,886	46,512,304	54,757,190
Satisfactory	2,068,417	11,253,881	29,853,387	43,175,685
Special Mention	-	-	3,247,353	3,247,353
Past due	164,424	2,054,157	2,198,105	4,416,686
Non-performing	5,623	105,065	1,782,846	1,893,534
Total	2,238,464	21,657,989	96,665,767	120,562,220

Strong: Financial status, capitalisation, earnings, liquidity, cash generation and management will all be of highest quality. A strong capacity to meet longer term and short term financial commitments.

Good: Financial condition exhibits no major adverse trends prevalent. Capacity to meet medium and short term financial commitments is considered fair, but more sensitive to external changes or market conditions.

Satisfactory: A counterparty whose financial position is average but not strong. The overall position will not be causing any immediate concern but more regular monitoring will be necessary as a result of susceptibilities to external changes or market conditions.

Special Mention: Financial condition weak and capacity, or inclination, to repay, is in doubt. The financial status of the borrower requires close monitoring and ongoing assessment.

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

When determining whether the probability 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.

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

- the probability of default at the reporting date; with
- the probability of default estimated at the time of initial recognition of the exposure

In addition to the above, other major quantitative consideration include days past due and rating of customer.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the probability 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 probability of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in probability of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

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

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

i) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. Generating the PD term structure includes:

- Computation of central tendency and shift in assigned rating grade PDs, such that the rating grades reflect the current economic scenario implied portfolio PDs
- Macroeconomic adjustments of portfolio Central Tendency (CT)

Historical data of portfolio default rates is used to arrive at 1-year forward looking central tendency (CT) for the portfolio and a link between forward looking macroeconomic parameters and 1-year forward-looking CTs are established. The derived macroeconomic adjusted CT is then used to calibrate PIT PDs for each rating grade.

ii) Determining whether credit risk has increased significantly

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

The assessment of significant increase in credit risk, is assessed taking on account of:

- Days past due
- Change in probability of default occurring since initial recognition,
- Expected life of the financial instrument and
- Reasonable and supportable information, that is available without undue cost or effort that may affect credit risk.

Lifetime expected credit losses are recognized against any material facility which has experienced significant increase in credit risk since initial recognition. Recognition of lifetime expected credit losses will be made if any facility is past due for more than 30 days for Corporate and Retail Exposures and more than 7 days for Treasury investment.

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 the financial assets are modified that does not result into De-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognised in statement of income for Asset Modification.

To measure the Significant Increase in Credit Risk (for financial assets not de-recognized during the course of modification), the Bank will compare the probability of default occurring at the reporting date based on modified contract terms and the default risk occurring at initial recognition based on original and unmodified contract terms. Appropriate ECL will be recorded according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3.

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

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

The asset will be provided appropriate treatment according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3. No Asset Modification to be considered if the same were not driven by Credit Distress situation of Obligor.

iv) Definition of 'Default'

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding. In case for financial institution including Bank and Sovereign past due more 15 working days consider to be in default.

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

The definition of default largely aligns with that applied by the 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. The expected credit losses have been determined using three different, forward-looking scenarios – Baseline, Upturn and Downturn. The ECL for each of the scenario is calculated and weighted by the likelihood of that scenario is occurring.

Based on the 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 that drives the default rates of each portfolio of financial instruments. The baseline scenario represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting and other business activities. The other two scenarios represent more optimistic and more pessimistic outcomes.

Using robust macroeconomic modelling methodology, Bank has identified and documented the key macroeconomic factors that drives the change in default rates of each portfolio of financial instruments. Following macroeconomic data and forecasts published by governmental bodies and monetary authorities like SAMA, IMF, World Bank and OPEC have been utilized by the Bank to incorporate forward looking information into the PD term structure of each of the scenario.

- Inflation (average consumer prices % change)
- Unemployment Rate
- 3M Maturity SIBOR
- Income Velocity of Money (Non-Oil)
- Inflation (end of period consumer prices % change)
- Debt to GDP ratio
- General government primary net lending/borrowing (% of GDP);
- Money Supply (Million Riyals).

Predicted relationships between the key indicators and default rates of various portfolios of financial assets have been developed based on analyzing historical data over the past 13 years.

vi) Measurement of ECL

Following risk parameters, that are part of the Basel framework, have been used by the Bank to measure the ECL:

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

These parameters are derived from internally developed statistical models and other historical data.

PD is the predicted probability that a pool of obligors will default over the predefined future time horizon. For each portfolio of financial instruments, PDs have been estimated at a certain date using robust statistical models. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Default rates provided by authorized external rating agencies have been used to derive the PD for the portfolios where internal defaults are not available. Macroeconomic adjustment of the PD has been carried out as described above to reflect forward-looking information. Also, Bank has adjusted the PDs to incorporate the effect of downgrades and upgrades of borrowers over time.

LGD is the amount of the credit that is lost when a borrower defaults. For each portfolio, Bank estimates the LGD parameters using the workout approach based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For mortgage loans secured by retail property, LTV ratios and current value of the property are key parameters in determining LGD. LGD are calculated on a discounted cash flow basis using the contractual interest rate as the discounting factor.

EAD is an estimate of Bank's exposure to its counterparty at the time of default. For defaulted accounts, EAD is simply the amount outstanding at the point of default. However, for performing accounts, the following elements are considered for computation of EAD at the instrument/facility level:

- Time horizon over which EAD needs to be estimated
- Projected cash flows till the estimated default point
- Residual maturity

EAD for the amortized loans considers Contractual pay down; Impact of missed payments and subsequent interest accrual between reporting date and default occurrence; Expected drawdown amount on the unutilized balance. 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.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are Treasury Investments, Bank and Non-Banking Financial institutions and money market placements.

c. Provision for credit losses

The following table shows reconciliations from the opening to the closing balance of the provision for credit losses against off balance sheet exposures.

Off balance sheet *SAR in '000'*	**31 December 2018** 12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	**142,642**	**347,158**	**260**	**490,060**
Transfer to 12 month ECL	**38,580**	**(38,580)**	**-**	**-**
Transfer to lifetime ECL not credit impaired	**(2,308)**	**81,677**	**(79,369)**	**-**
Transfer to lifetime ECL credit impaired	**(75)**	**(29,360)**	**29,435**	**-**
Net charge / (recoveries) for the year	**(147,508)**	**(123,365)**	**205,909**	**(64,964)**
Balance as at 31 December	**31,331**	**237,530**	**156,235**	**425,096**

32. 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 special commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading and non-trading or banking-book.

Market Risk exposures in the trading book are restricted to derivatives classified as held for trading as disclosed in these consolidated financial statements. Market Risk exposures in the non-trading or banking book arise on special commission rate risk and equity price risk as disclosed in part b) of this disclosure.

The market risk for the trading book is managed and monitored using Value at Risk (VAR) methodology. Market risk for non-trading book is managed and monitored using a combination of VAR, stress testing and sensitivity analysis.

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. The Bank applies a VAR methodology to assess the market risk positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for change 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 simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

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 figure should occur, on average, not more than once every hundred days.

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

In addition to VAR, the Bank also carries out stress testing of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's Risk Management Committee (RMC) committee for their review.

The Bank's VAR related information is as follows:

2018	Foreign exchange	Special commission rate	Overall risk
			SAR'000
VAR as at 31December 2018	**109**	**564**	**575**
Average VAR for 2018	**1,104**	**1,174**	**1,778**
Minimum VAR for 2018	**74**	**423**	**424**
Maximum VAR for 2018	**3,949**	**2,850**	**4,069**

2017	Foreign exchange	Special commission rate	Overall risk
			SAR'000
VAR as at 31December 2017	567	1,686	1,663
Average VAR for 2017	1,179	6,359	6,461
Minimum VAR for 2017	385	1,202	1,312
Maximum VAR for 2017	1,958	17,846	17,495

b) Market risk – non trading or banking book

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

i) Special commission rate risk

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non- trading financial assets and financial liabilities repricing as at 31 December 2018, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate FVOCI / available for sale financial assets; including the effect of any associated hedges as at 31 December 2018 for the effect of assumed changes in commission rates. The sensitivity of equity is analysed by maturity period of the asset or swap and represent only those exposures that directly impact OCI of the Bank.

			2018				**SAR' 000**
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	**+100**	**561,800**	**(16,096)**	**(12,181)**	**(449,313)**	**(85,715)**	**(563,305)**
USD	**+100**	**117,541**	**(7,304)**	**(15,496)**	**(150,489)**	**(197,600)**	**(370,889)**
EUR	**+100**	**(8,379)**	**-**	**-**	**-**	**-**	**-**
Others	**+100**	**(2,671)**	**-**	**-**	**-**	**-**	**-**

2018 — **SAR '000**

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	**-100**	**(577,484)**	**16,096**	**12,181**	**449,313**	**85,715**	**563,305**
USD	**-100**	**(117,273)**	**7,304**	**15,496**	**150,489**	**197,600**	**370,889**
EUR	**-100**	**-**	**-**	**-**	**-**	**-**	**-**
Others	**-100**	**9**	**-**	**-**	**-**	**-**	**-**

2017 — SAR' 000

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	+ 100	573,320	(15,645)	(551)	(233,353)	(73,997)	(323,546)
USD	+ 100	47,276	(5,821)	(15,393)	(137,477)	(175,836)	(334,527)
EUR	+ 100	(7,781)	-	-	-	-	-
Others	+ 100	(2,481)	(1,244)	(654)	-	-	(1,898)

2017 — SAR '000

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	- 100	(664,789)	15,645	551	233,353	73,997	323,546
USD	- 100	(33,305)	5,821	15,393	137,477	175,836	334,527
EUR	- 100	-	-	-	-	-	-
Others	- 100	9	1,244	654	-	-	1,898

The Bank is exposed to risks associated with fluctuations in the levels of market special commission rates. The table below summarises the Bank’s exposure to special commission rate risks. Included in the table are the Bank’s assets and liabilities at carrying amounts, categorised by the earlier of the contractual repricing or the maturity dates. The Bank is exposed to special commission rate risks as a result of mismatches or gaps in the amounts of assets and liabilities and derivative financial instruments that reprice or mature in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	1,542,528	1,542,528
Balances with SAMA	4,811,666	-	-	-	7,609,549	12,421,215
Other balances	-	-	-	-	137,346	137,346
Due from banks and other financial institutions						
Current accounts	-	-	-	-	6,896,890	6,896,890
Money market placements	4,469,391	637,513	37,500	-	-	5,144,404
Investments, net						
FVTPL	368,674	-	20,324	30,135	-	419,133
FVOCI	1,849,851	2,148,283	4,325,726	3,318,595	1,346,179	12,988,634
Amortised cost	4,397,120	1,891,788	12,825,869	2,047,912	-	21,162,689
Positive fair value derivatives						
Held for trading	-	-	-	-	447,857	447,857
Held as fair value hedges	-	-	-	-	76,710	76,710
Held as cash flow hedges	-	-	-	-	37,806	37,806
Loans and advances, net						
Credit cards	1,991,166	-	-	-	-	1,991,166
Consumer loans	1,867,173	5,300,113	10,392,939	1,879,129	-	19,439,354
Commercial loans and overdrafts	53,927,642	31,563,631	2,843,510	560,656	-	88,895,439
Investment in a joint venture	-	-	-	-	532,597	532,597
Property and equipment, net	-	-	-	-	1,280,670	1,280,670
Other assets	-	-	-	-	1,149,673	1,149,673
Total assets	73,682,683	41,541,328	30,445,868	7,836,427	21,057,805	174,564,111
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	956,730	956,730
Money market deposits	56,503	-	-	-	-	56,503
Customer deposits						
Demand	-	-	-	-	82,086,159	82,086,159
Saving	7,823,077	-	-	-	-	7,823,077
Time	30,749,725	6,528,182	2,282,603	-	-	39,560,510
Margin	-	-	-	-	1,036,759	1,036,759
Debt securities in issue	5,218	1,494,064	-		-	1,499,282
Borrowings	-	1,695,308	-	-	-	1,695,308
Negative fair value derivatives						
Held for trading		-	-	-	438,091	438,091
Held as fair value hedges		-	-	-	84,558	84,558
Held as cash flow hedges		-	-	-	24,604	24,604
Other liabilities	-	-	-	-	6,839,433	6,839,433
Equity	-	-	-	-	32,463,097	32,463,097
Total liabilities and equity	38,634,523	9,717,554	2,282,603	-	123,929,431	174,564,111
Commission rate sensitivity on assets and liabilities	35,048,160	31,823,774	28,163,265	7,836,427	(102,871,626)	
Commission rate sensitivity on derivative financial instruments	7,947,083	(642,359)	(4,478,219)	(2,826,505)	-	
Total special commission rate sensitivity gap	42,995,243	31,181,415	23,685,046	5,009,922	(102,871,626)	
Cumulative special commission rate sensitivity gap	42,995,243	74,176,658	97,861,704	102,871,626	-	

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	1,304,487	1,304,487
Balances with SAMA	17,379,275	-	-	-	8,161,763	25,541,038
Other balances	-	-	-	-	28,974	28,974
Due from banks and other financial institutions						
Current accounts	-	-	-	-	6,808,077	6,808,077
Money market placements	6,682,623	-	-	-	-	6,682,623
Investments, net						
Available for sale	3,146,235	5,242,268	4,155,107	2,692,484	1,016,511	16,252,605
Amortised cost	3,104,781	-	6,274,238	1,345,127	-	10,724,146
Positive fair value derivatives						
Held for trading	-	-	-	-	447,908	447,908
Held as fair value hedges	-	-	-	-	42,027	42,027
Held as cash flow hedges	-	-	-	-	42,429	42,429
Loans and advances, net						
Credit cards	2,122,800	-	-	-	-	2,122,800
Consumer loans	50,082	275,175	12,100,664	8,790,981	-	21,216,902
Commercial loans and overdrafts	63,248,889	23,717,020	6,172,514	527,962	-	93,666,385
Investment in a joint venture	-	-	-	-	524,924	524,924
Property and equipment, net	-	-	-	-	1,134,927	1,134,927
Other assets	-	-	-	-	1,075,092	1,075,092
Total assets	95,734,685	29,234,463	28,702,523	13,356,554	20,587,119	187,615,344
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	1,780,975	1,780,975
Money market deposits	1,910,000	-	-	-	-	1,910,000
Customer deposits						
Demand	-	-	-	-	88,538,701	88,538,701
Saving	6,868,200	-	-	-	-	6,868,200
Time	32,728,263	8,663,365	2,469,345	-	-	43,860,973
Margin	-	-	-	-	971,639	971,639
Debt securities in issue	6,935	2,991,813	-	-	-	2,998,748
Borrowings	-	1,682,445	-	-	-	1,682,445
Negative fair value derivatives						
Held for trading	-	-	-	-	410,244	410,244
Held as fair value hedges	-	-	-	-	40,034	40,034
Held as cash flow hedges	-	-	-	-	30,917	30,917
Other liabilities	-	-	-	-	5,051,997	5,051,997
Equity	-	-	-	-	33,470,471	33,470,471
Total liabilities and equity	41,513,398	13,337,623	2,469,345	-	130,294,978	187,615,344
Commission rate sensitivity on assets and liabilities	54,221,287	15,896,840	26,233,178	13,356,554	(109,707,859)	
Commission rate sensitivity on derivative financial instruments	5,693,909	(1,803,430)	(1,727,979)	(2,162,500)	-	
Total special commission rate sensitivity gap	59,915,196	14,093,410	24,505,199	11,194,054	(109,707,859)	
Cumulative special commission rate sensitivity gap	59,915,196	74,008,606	98,513,805	109,707,859	-	

The net gap between derivative financial instruments represents the net notional amounts of derivative financial instruments, which are used to manage the special commission rate risk.

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank does not maintain material non trading open currency positions. Foreign currency exposures that arise in the non-trading book are transferred to the trading book and are managed as part of the trading portfolio. The foreign exchange risk VAR disclosed in note 32(a) reflects the Bank's total exposure to currency risk.

The Bank is exposed to fluctuations in foreign currency exchange rates. The Board of Directors sets limits on the level of exposure by currency, and in total for both overnight and intraday positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2018 **SAR'000** **Long (short)**	2017 SAR'000 Long (short)
US Dollar	**779,093**	1,396,961
Euro	**3,173**	(7,695)
Sterling Pounds	**(386)**	(5,756)
Other	**(20,679)**	(65,895)

iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as FVOCI / available for sale. A 10 per cent increase or decrease in the value of the bank's FVOCI / available for sale equities at 31 December 2018 would have correspondingly increase or decrease equity by SAR 133.6 million (2017: SAR 136.7 million).

33. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity on a daily basis. The Bank also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA of 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA against Saudi Government Development securities.

The table below summarises the maturity profile of the Bank's financial liabilities. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and does not take account of effective maturities as indicated by the Bank's deposit retention history. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows. All derivatives used for hedging purposes are shown by maturity based on their contractual, undiscounted repayment obligations. As the major portion of the derivatives trading book comprises of back to back transactions and consequently the open derivatives trading exposures are small, the management believes that the inclusion of trading derivatives in the contractual maturity table is not relevant for an understanding of the timing of cash flows and hence these have been excluded.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The weekly 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. A summary report, covering the bank and operating subsidiaries, including any exceptions and remedial action taken, is submitted monthly to ALCO.

a) Analysis of financial liabilities by remaining contractual maturities

The table below sets out Bank's contractual undiscounted financial liabilities.

2018 SAR'000	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Financial liabilities						
Due to banks and other financial institutions						
Current accounts	**956,730**	-	-	-	-	**956,730**
Money market deposits	**56,513**	-	-	-	-	**56,513**
Customer deposits						
Demand	**-**	**-**	**-**	**-**	**82,086,159**	**82,086,159**
Saving	**7,823,077**	**-**	**-**	**-**	**-**	**7,823,077**
Time	**30,816,061**	**6,629,480**	**2,478,641**	**-**	**-**	**39,924,182**
Margin	**88,358**	**266,315**	**392,240**	**289,846**	**-**	**1,036,759**
Debt securities in issue	**12,703**	**38,109**	**203,250**	**1,570,335**	**-**	**1,824,397**
Borrowings	**17,076**	**1,729,522**	**-**	**-**	**-**	**1,746,598**
Derivatives :						
- Special commission contractual amounts payable (receivable)	**(8,762)**	**(13,057)**	**(10,267)**	**16,966**	**-**	**(15,120)**
Total undiscounted financial iabilities	**39,761,756**	**8,650,369**	**3,063,864**	**1,877,147**	**82,086,159**	**135,439,295**

2017 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions						
Current accounts	1,780,975	-	-	-	-	1,780,975
Money market deposits	1,910,161	-	-	-	-	1,910,161
Customer deposits						
Demand	-	-	-	-	88,538,701	88,538,701
Saving	6,868,200	-	-	-	-	6,868,200
Time	32,774,761	8,738,880	2,682,084	-	-	44,195,725
Margin	97,873	158,667	490,861	224,238	-	971,639
Debt securities in issue	25,781	77,344	1,656,230	1,778,471	-	3,537,826
Borrowings	11,042	33,127	1,718,762	-	-	1,762,931
Derivatives :						
- Special commission contractual amounts payable (receivable)	(3,492)	(9,684)	(33,304)	(4,689)	-	(51,169)
Total undiscounted financial liabilities	43,465,301	8,998,334	6,514,633	1,998,020	88,538,701	149,514,989

b) Maturity analysis of assets and liabilities

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

2018 SAR'000	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,542,528	-	-	-	-	1,542,528
Balances with SAMA	4,811,666	-	-	-	7,609,549	12,421,215
Other balances	137,346	-	-	-	-	137,346
Due from banks and other financial institutions						
Current accounts	6,896,890	-	-	-	-	6,896,890
Money market placements	4,469,391	637,513	37,500	-	-	5,144,404
Investments, net						
FVTPL	368,595	-	20,324	30,214	-	419,133
FVOCI	444,133	1,794,746	5,206,333	4,197,243	1,346,179	12,988,634
Amortised cost	154,773	491,867	14,594,053	5,921,996	-	21,162,689
Positive fair value derivatives						
Held for trading	447,857	-	-	-	-	447,857
Held as fair value hedges	76,710	-	-	-	-	76,710
Held as cash flow hedges	37,806	-	-	-	-	37,806
Loans and advances, net						
Credit cards	1,991,166	-	-	-	-	1,991,166
Consumer loans	122,914	1,756,355	11,213,970	6,346,115	-	19,439,354
Commercial loans and overdrafts	55,344,347	11,286,346	6,845,501	15,419,245	-	88,895,439
Investment in a joint venture	-	-	-	-	532,597	532,597
Property and equipment, net	-	-	-	-	1,280,670	1,280,670
Other assets	202,547	597,884	-	-	349,242	1,149,673
Total assets	77,048,669	16,564,711	37,917,681	31,914,813	11,118,237	174,564,111
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	956,730	-	-	-	-	956,730
Money market deposits	56,503	-	-	-	-	56,503
Customer deposits						
Demand	-	-	-	-	82,086,159	82,086,159
Saving	7,823,077	-	-	-	-	7,823,077
Time	30,749,725	6,528,182	2,282,603	-	-	39,560,510
Margin	88,358	266,315	392,240	289,846	-	1,036,759
Debt securities in issue	5,218	-	-	1,494,064	-	1,499,282
Borrowings	-	1,695,308	-	-	-	1,695,308
Negative fair value derivatives						
Held for trading	438,091	-	-	-	-	438,091
Held as fair value hedges	84,558	-	-	-	-	84,558
Held as cash flow hedges	24,604	-	-	-	-	24,604
Other liabilities	1,197,224	344,376	1,167,793	13,981	4,116,059	6,839,433
Equity					32,463,097	32,463,097
Total liabilities and equity	41,424,088	8,834,181	3,842,636	1,797,891	118,665,315	174,564,111

2017 SAR'000	Within 3 months	3-12 months	1-5 Years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA						
Cash in hand	1,304,487	-	-	-	-	1,304,487
Balances with SAMA	17,379,275	-	-	-	8,161,763	25,541,038
Other balances	28,974	-	-	-	-	28,974
Due from banks and other financial institutions						
Current accounts	6,808,077	-	-	-	-	6,808,077
Money market placements	5,912,266	632,845	137,512	-	-	6,682,623
Investments, net						
Available for sale	1,398,652	2,066,457	7,030,538	4,740,449	1,016,509	16,252,605
Amortised cost	77,028	12,171	6,849,959	3,784,988	-	10,724,146
Positive fair value derivatives						
Held for trading	447,908	-	-	-	-	447,908
Held as fair value hedges	42,027	-	-	-	-	42,027
Held as cash flow hedges	42,429	-	-	-	-	42,429
Loans and advances, net						
Credit cards	2,122,800	-	-	-	-	2,122,800
Consumer loans	62,418	419,940	11,358,852	9,375,692	-	21,216,902
Commercial loans and overdrafts	43,697,308	18,509,759	13,378,254	18,081,064	-	93,666,385
Investment in a joint venture	-	-	-	-	524,924	524,924
Property and equipment, net	-	-	-	-	1,134,927	1,134,927
Other assets	211,724	589,042	-	-	274,326	1,075,092
Total assets	79,535,373	22,230,214	38,755,115	35,982,193	11,112,449	187,615,344
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	1,780,975	-	-	-	-	1,780,975
Money market deposits	1,910,000	-	-	-	-	1,910,000
Customer deposits						
Demand	-	-	-	-	88,538,701	88,538,701
Saving	6,868,200	-	-	-	-	6,868,200
Time	32,728,263	8,663,365	2,469,345	-	-	43,860,973
Margin	97,873	158,667	490,861	224,238	-	971,639
Debt securities in issue	6,935	-	1,495,907	1,495,906	-	2,998,748
Borrowings	-		1,682,445	-	-	1,682,445
Negative fair value derivatives						
Held for trading	410,244	-	-	-	-	410,244
Held as fair value hedges	40,034	-	-	-	-	40,034
Held as cash flow hedges	30,917	-	-	-	-	30,917
Other liabilities	1,443,904	93,182	139,773	15,530	3,359,608	5,051,997
Equity	-	-	-	-	33,470,471	33,470,471
Total liabilities and equity	45,317,345	8,915,214	6,278,331	1,735,674	125,368,780	187,615,344

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The maturities of commitments and contingencies are given in note 20(d) of the consolidated financial statements.

34. Offsetting of financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

SAR'000	Gross amount of recognised financial assets	Gross amounts offset in the consolidated statement of financial position	Amounts presented in the consolidated statement of financial position	Amount not set off in the consolidated statement of financial position: Amounts subjects to enforceable master netting arrangement	Cash collateral received	Net amount
2018						
Due from banks and other financial institutions	**97,030,182**	**(84,988,888)**	**12,041,294**	**-**	**-**	**12,041,294**
2017						
Due from banks and other financial institutions	13,913,257	(422,557)	13,490,700	-	-	13,490,700

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

SAR'000	Gross amount of recognised financial liabilities	Gross amounts offset in the consolidated statement of financial position	Amounts presented in the consolidated statement of financial position	Amount not set off in the consolidated statement of financial position: Amounts subjects to enforceable master netting arrangement	Cash collateral pledged	Net amount
2018						
Derivatives	**547,253**	**-**	**547,253**	**-**	**(103,350)**	**443,903**
2017						
Derivatives	481,195	-	481,195	-	(104,238)	376,957

35. Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or the most advantageous) market between market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Consequently, differences can arise between the carrying values and fair value estimates.

The fair values of recognised financial instruments are not materially different from their carrying values.

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.

31 December 2018 SAR' 000	Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	**562,373**	**-**	**562,373**	**-**	**562,373**
Investments held as FVTPL	**419,133**	**-**	**419,133**	**-**	**419,133**
Investments held as FVOCI	**12,988,634**	**1,318,781**	**11,642,455**	**27,398**	**12,988,634**
Financial assets not measured at fair value					
Due from banks and other financial institutions	**12,041,294**	**-**	**12,041,294**	**-**	**12,041,294**
Investments held at amortised cost	**21,162,689**	**-**	**21,028,501**	**-**	**21,028,501**
Loans and advances	**110,325,959**	**-**	**-**	**109,316,526**	**109,316,526**
Financial liabilities measured at fair value					
Derivative financial instruments	**547,253**	**-**	**547,253**	**-**	**547,253**
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	**1,013,233**	**-**	**1,013,233**	**-**	**1,013,233**
Customers deposits	**130,506,505**	**-**	**130,624,132**	**-**	**130,624,132**
Debt securities in issue	**1,499,282**	**-**	**1,499,282**	**-**	**1,499,282**
Borrowings	**1,695,308**	**-**	**1,695,308**	**-**	**1,695,308**

31 December 2017 SAR' 000	Carrying value	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Derivative financial instruments	532,364	-	532,364	-	532,364
Investments available for sale	16,252,605	1,367,052	14,856,030	29,523	16,252,605
Financial assets not measured at fair value					
Due from banks and other financial institutions	13,490,700	-	13,490,700	-	13,490,700
Investments held at amortised cost	10,724,146	-	10,632,181	-	10,632,181
Loans and advances	117,006,087	-	-	115,751,698	115,751,698
Financial liabilities measured at fair value					
Derivative financial instruments	481,195	-	481,195	-	481,195
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	3,690,975	-	3,690,975	-	3,690,975
Customers deposits	140,239,513	-	140,371,074	-	140,371,074
Debt securities in issue	2,998,748	-	2,998,748	-	2,998,748
Borrowings	1,682,445	-	1,682,445	-	1,682,445

Derivatives classified as Level 2 comprise over the counter special commission rate swaps, currency swaps, special commission rate options, forward foreign exchange contracts, currency options and other derivative financial instruments. These derivatives are fair valued using the bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs to 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.

FVOCI investments classified as Level 2 include plain vanilla bonds for which market quotes are not available. These are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.

FVOCI investments classified as Level 3 include Private Equity Funds, the fair value of which is determined based on the fund's latest reported net assets value (NAV) as at the reporting date. The movement in Level 3 financial instruments during the year relates to fair value and capital repayment movement only. Loans and advances are classified as Level 3, the fair value of which is determined by discounting future cash flows using risk adjusted expected SIBOR rates.

There were no transfers between the levels of fair value hierarchies during the year.

The total amount of the changes in fair value recognised in the consolidated statement of income, which was estimated using valuation technique, is positive SAR 34.1 million (2017: positive SAR 49.2 million).

The values obtained from valuation model may be different from the transaction price of financial instrument on transaction date. The difference between the transaction price and the model value is commonly referred to as 'day one profit and loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated income statement without reversal of deferred day one profits and losses. 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 discounts rates, bond and equity prices and foreign currency exchange rates.

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 process 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.

36. Related party transactions

Managerial and specialised expertise is provided under a technical services agreement with HSBC Holdings plc, the parent company of HSBC Holdings BV. This agreement was renewed on 30 September 2017 for a period of five years.

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

The year end balances included in the consolidated financial statements resulting from such transactions are as follows:

	2018 SAR'000	2017 SAR'000
The HSBC Group:		
Due from banks and other financial institutions	**3,074,745**	3,623,200
Investments	**265,334**	169,848
Other assets	**239,133**	235,900
Negative fair value derivatives, net	**19,996**	7,461
Due to banks and other financial institutions	**342,457**	823,819
Borrowings	**281,250**	281,250
Commitments and contingencies	**2,571,269**	2,067,824

	2018 SAR'000	2017 SAR'000
Joint venture:		
Investments	**532,597**	524,924
Loans and advances	**275,004**	150,000
Other assets	**4,804**	4,571
Customer deposits	**270,183**	191,435
Other liabilities	**433**	86,866
Commitments and contingencies	**800,925**	1,151,025

Directors, board committees, other major shareholders, key management personnel and their affiliates:

	2018 SAR'000	2017 SAR'000
Loans and advances	**2,853,721**	3,619,695
Customers' deposits	**3,775,635**	5,902,027
Debt securities issued	**385,000**	700,000
Positive fair value derivatives, net	**887**	9,976
Other liabilities	**13,028**	15,327
Commitments and contingencies	**13,734**	59,946

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

	2018 SAR'000	2017 SAR'000
Related mutual funds:		
Customers' deposits	**90,376**	279,853
Loans and advances	**126**	-

Subsidiaries:	**2018 SAR'000**	2017 SAR'000
Other assets	**34,000**	34,000
Related mutual funds:		
- Investments	**368,594**	380,066
- Other assets	**-**	724

Transactions with related parties included in the consolidated financial statements are as follows:

	2018 SAR'000	2017 SAR'000
Special commission income	**153,623**	111,526
Special commission expense	**60,990**	169,170
Fees and commission income	**14,008**	16,136
Services charges paid to HSBC group	**39,332**	42,045
Service charges recovered from a joint venture	**22,651**	26,251
Profit share paid to a joint venture relating to investment banking activities	**9,446**	23,906
Acquisition of SABB Takaful	**-**	117,793
Directors' and board committees' remuneration	**5,589**	5,014

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

	2018 SAR'000	2017 SAR'000
Short-term employee benefits *	**36,843**	42,099
Termination benefits	**-**	3,250
Post-employment benefits	**-**	2,000
Other long-term benefits	**894**	372
Share-based payments	**5,147**	6,281

** Short-Term Employee benefits includes: Salaries, Allowances, benefits, Cash bonus paid during the year*

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

The Bank offers share based payment scheme arrangements to certain senior management and employees. There were three such schemes outstanding at 31 December 2018. The details of these schemes have been separately disclosed in note 25 to these consolidated financial statements.

37. 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 regularly by the Bank's management. SAMA requires the Bank to hold the minimum level of the regulatory capital and to maintain a ratio of total regulatory capital to the risk-weighted assets at or above the agreed minimum of 8%.

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

SAMA through its circular number391000029731 Dated 15/03/1439AH (Corresponding 3/12/2017), 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 9 shall be transitioned over five years.

	2018 **SAR'000**	2017 SAR'000
Risk Weighted Assets (RWA)		
Credit Risk RWA	**155,438,168**	162,589,324
Operational Risk RWA	**12,434,259**	13,712,152
Market Risk RWA	**1,510,175**	2,278,175
Total RWA	**169,382,602**	178,579,651
Tier I Capital	**33,359,762**	33,344,592
Tier II Capital	**2,700,534**	4,132,367
Total I & II Capital	**36,060,296**	37,476,959
Capital Adequacy Ratio %		
Tier I ratio	**19.69%**	18.67%
Tier I + Tier II ratio	**21.29%**	20.99%

38. Prospective changes in accounting standards

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

Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2019:

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

- IFRS 16 – "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.

Transition to IFRS 16

The Bank will apply the standard from its mandatory adoption date of 1 January 2019. The Bank intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

For the remaining lease commitments the Bank expects to recognise right-of-use assets of approximately SAR 576 million on 1 January 2019 and lease liabilities of SAR 533 million (after adjustments for prepayments recognised as at 31 December 2018). The Bank expects that net profit for the year 2019 will decrease by approximately SAR 9 million as a result of adopting the new rules.

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

39. Comparative figures

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

40. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors on 2 Jumada Althani 1440H (Corresponding 7 February 2019).