THE NATIONAL COMMERCIAL BANK

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 DECEMBER 2018 AND AUDITORS' REPORT

Ernst & Young **KPMG Al Fozan & Partners**

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Note No.		Page No.
	AUDITORS' REPORT	
	Consolidated statement of financial position	1
	Consolidated statement of income	2
	Consolidated statement of comprehensive income	3
	Consolidated statement of changes in equity	4
	Consolidated statement of cash flows	5
	Notes to the Consolidated Financial Statements:	
1	General	6
2	Basis of preparation	8
3	Summary of significant accounting policies	12
4	Cash and balances with SAMA	40
5	Due from banks and other financial institutions	40
6	Investments, net	41
7	Financing and advances, net	45
8	Investment in associates, net	50
9	Other real estate, net	50
10	Property, equipment and software, net	51
11	Goodwill	52
12	Other assets	53
13	Derivatives	53
14	Due to banks and other financial institutions	57
15	Customers' deposits	57
16	Debt securities issued	58
17	Other liabilities	59
18	Share capital	59
19	Statutory reserve	59
20	Other reserves (cumulative changes in fair values)	59
21	Commitments and contingencies	60
22	Net special commission income	61
23	Fee income from banking services, net	62
24	Income from FVIS investments, net	62
25	Gains/Income on non-FVIS financial instruments, net	62
26	Other non-operating (expenses) income, net	62
27	Share Based Payment Reserve	63
28	Employee benefit obligation	63
29	Basic and diluted earnings per share	64
30	Tier 1 Sukuk	64
31	Dividend	64
32	Cash and cash equivalents	65
33	Operating segments	65
34	Collateral and offsetting	67
35	Credit risk	68
36	Market risk	77
37	Liquidity risk	83
38	Geographical concentration of assets, liabilities, commitments and contingencies and credit exposure	87
39	Fair values of financial assets and liabilities	89
40	Determination of fair value and fair value hierarchy	90
41	Related party transactions	92
42	Group's staff compensation	93
43	Capital adequacy	94
44	Group's interest in other entities	95
45	Investment services	97
46	Comparative figures	97
47	Prospective changes in accounting policies	97
48	Board of directors' approval	98

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements

To the Shareholders of The National Commercial Bank (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of The National Commercial Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 48.

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

Basis for Opinion

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

Key Audit Matters

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

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of The National Commercial Bank (A Saudi Joint Stock Company)

Key audit matter	Why considered most significant	How our audit addressed the key audit matter
Impairment for credit losses of financing and advances	As at 31 December 2018, the Group's gross financing and advances amounted to SR 272,743 million (2017: SR 256,035 million), against which an impairment charge of SR 1,347 million (2017: SR 1,893 million) was recognized during the year and the total allowance for credit losses maintained as at the reporting date amounts to SR 7,426 million (2017: SR 6,801 million). Due to the subjectivity inherent in the process of identifying and computing impairment charge for credit losses, it requires significant management judgment. Moreover, during the year ended 31 December 2018, the Group has implemented International Financial Reporting Standard 9 ('IFRS 9') which requires management to determine and recognize expected credit losses ('ECL'). Significant judgements, estimates and assumptions have been made by the management in the application of IFRS 9, especially in the areas of classifying financing and advances into stages as stipulated in IFRS 9, determination of significant increase in credit risk, establishing curing periods and computing probability of defaults (PD) and loss given default (LGD) percentages for counterparties. In accordance with the requirements of IFRS 9, the Group measures ECL based on the credit losses expected to arise over the next twelve months ('12 month ECL'), unless there has been a significant increase in credit risk since origination or default, in which case, the allowance is based on the ECL expected to arise over the tenure of the financing and advances ('Lifetime ECL').	Our audit procedures in response to the significant risk associated with the impairment of Group's financing and advances covered assessing the appropriateness and adequacy of the corresponding impairment allowances. Based on our understanding of the process and key controls, we focused on the determination of expected credit loss and the governance controls over the impairment process and determination of staging criteria established by the Group, including continuous re-assessment by management. We have performed walkthroughs and testing of relevant key controls to determine whether they were designed, implemented and operated effectively throughout the year. In addition, we tested the Information Technology (IT) controls related to systems in use for the computation of impairment. Also, we tested the entity and business unit level controls over the impairment model process in relation to model build (with specific focus on quantitative and qualitative attributes), and model monitoring. We obtained an understanding of the Group's credit monitoring process comprising identifying, measuring and recording ECL and tested the operating effectiveness of key controls implemented over this process. We obtained the Group's impairment allowance policy and compared it with the requirements of IFRS 9. We obtained an understanding of the Group's internal rating model for the financing and advances and for a selected sample of customers verified the internal rating determined by the management.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of The National Commercial Bank (A Saudi Joint Stock Company)

	Since, financing and advances forms a significant component of the Group's consolidated assets, and on account of the significance of judgments, estimates and assumptions applied by management, we have considered impairment charge for credit losses on financing and advances to be a key audit matter. Refer to notes 2.5(h) and 3.1.19 to the consolidated financial statements for significant judgments applied in the determination of expected credit losses, note 3.1.20 for ECL impact due to implementation of IFRS 9, note 3.1.8 for significant accounting policies pertaining to ECL, note 7 for movement in ECL during the year ended 31 December 2018 and note 35 for credit risk management strategy and credit quality analysis in respect of financing and advances.	We checked the appropriateness of the policy for identifying significant increase in credit risk and the resultant classification of exposures into the stages stipulated in IFRS 9. For a selected sample of exposures, we checked the appropriateness of the staging in line with the Group's policy. For forward looking assumptions used by the Group in ECL calculations, we had discussion with management and corroborated the assumptions using publicly available information. For data from external sources, we understood the process of selecting such data, its relevance to the Group and the controls and governance over input of such data. For a sample of exposures: • We checked the appropriateness of determining Exposure at Default (EAD) including the consideration of repayment in the cash flows and the resultant arithmetical calculations. • We checked the appropriateness of Probability of Default (PD) and Loss Given Default (LGD) used by the Group's management in the ECL calculations. For selected sample of financing and advances customers, we checked the: i. computation of PD and LGD ii. appropriateness of cash flows iii. appropriateness of discount rate We checked the completeness of financing and advances and credit related contingent items included in the ECL calculation as of 31 December 2018

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of The National Commercial Bank (A Saudi Joint Stock Company)

		Where relevant, we used specialists including IT specialists and financial risk modelling experts to gain comfort on model built, resultant ECL calculations and data integrity. We also assessed the financial statements' disclosures to ensure compliance with IFRS 9 and IFRS 7 requirements.
Classification of investments	As at 31 December 2018, the Group's gross investments amounted to SR 118,296 million (2017: SR 114,610 million), against which an impairment allowance of SR 206 million (2017: SR 32 million) has been maintained as at 31 December 2018. These include sukuks, bonds, hedge funds, mutual funds, quoted and unquoted shares and other private equity investments. In accordance with the requirements of IFRS 9, the Group classifies its investments into the following categories: measured at amortized cost ("IAC"), measured at fair value through other comprehensive income ("FVOCI") and measured at fair value through income statement ("FVIS"). These classifications are generally based on (except equity instruments and derivatives) the characteristics of contractual cash flows and the business models under which they are held. The classification of investments was considered a key audit matter considering the fact that IFRS 9 requires significant judgment in performing the contractual cash flow characteristics test and the business model assessment. Refer to note 2.5(i) to the consolidated financial statements for significant judgments applied in the	Our audit procedures in response to the significant risk associated with the classification of Group's investments covered assessing the appropriateness and adequacy of the classification criteria and performed the below procedures. We read the Group's investment classification policy and compared it with the requirements of IFRS 9. For sample of investments classified as amortized cost, we checked the appropriateness of the classification by verifying that each financial asset meets both of the following conditions and is not designated as FVIS: o the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and o the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test). For sample of investments classified as FVOCI, we checked the appropriateness of the classification by verifying that a debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVIS: o the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of The National Commercial Bank (A Saudi Joint Stock Company)

	determination of classification of investments, note 3.1.1 for significant accounting policies pertaining to classification, and note 3.1.20 for change in classification of investments from prior year due to implementation of IFRS 9.	○ the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test). We assessed the financial statements' disclosures to ensure compliance with IFRS 9 and IFRS 7 requirements.
Impairment for credit losses on debt investments held at IAC and FVOCI	As at 31 December 2018, the Group had gross investments in debt instruments held at IAC and FVOCI (2017: AFS and IAC) amounting to SR 111,851 million (2017: SR 110,108 million) against which an impairment allowance of SR 206 million (2017: SR 32 million) has been maintained as at 31 December 2018. These investments comprise government, qausi government and corporate sukuks and bonds which are subject to the risk of impairment in value due to either adverse market conditions and / or liquidity constraints faced by the issuers. Due to the subjectivity inherent in the process of identifying and computing impairment charge for credit losses, it requires significant management judgment. As per the requirements of IFRS 9, management is required to determine and recognize expected credit losses ('ECL'). This entails the exercise of considerable judgment, especially in the areas of classifying investments into stages as stipulated in IFRS 9, determination of significant increase in credit risk, establishing curing periods and computing probability of defaults (PD) and loss given default (LGD) percentages for counterparties.	Our audit procedures in response to the significant risk associated with the impairment charge for credit losses on Group's debt investments held at IAC and FVOCI covered assessing the appropriateness and adequacy of the corresponding impairment allowances. We read the Group's impairment provisioning policy against IAC and FVOCI and compared it with the requirements of IFRS 9. We assessed the design and implementation and tested the operating effectiveness of the key controls over management's processes for determining impairment allowance against investment in debt instruments held at IAC and FVOCI. We checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. For provision against debt instruments classified as Stage 1, Stage 2 and Stage 3, we obtained an understanding of the Group's provisioning methodology, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used. For a sample of investments in debt instruments, we checked the appropriateness of determining exposure at default, probability of default, and loss

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of The National Commercial Bank (A Saudi Joint Stock Company)

	In accordance with the requirements of IFRS 9, the Group measures ECL based on the credit losses expected to arise over the next twelve months ('12 month ECL'), unless there has been a significant increase in credit risk since origination or default, in which case, the allowance is based on the ECL expected to arise over the life of the investments ('Lifetime ECL'). Moreover, in making an assessment of whether an investment in a sovereign debt is credit-impaired, the Group considers creditworthiness as reflected in the bond yields and assessed by the rating agencies, the country's ability to access the capital markets for new debt issuance, the probability of debt being restructured, the international support mechanisms in place to provide the necessary support to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. Since debt investments form a significant component of the Group's consolidated assets, and on account of the significance of judgments applied by management in the aforementioned aspects, we have considered impairment charge for credit losses on IAC and FVOCI to be a key audit risk. Refer to notes 2.5 (h) and 3.1.19 to the consolidated financial statements for significant judgments applied in the determination of expected credit losses, note 3.1.8 for significant accounting policies pertaining to ECL, note 3.1.20 for ECL impact due to implementation of IFRS 9, note 6.2 for movement in ECL	given default used in the expected credit losses calculations. There were no exposures determined to be individually impaired classified as stage 3 as at 31 December 2018.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of The National Commercial Bank (A Saudi Joint Stock Company)

	during the year ended 31 December 2018, and note 35 for credit risk management strategy and credit quality analysis in respect of investments.	
Valuation of unquoted derivative and non-derivative financial instruments carried at fair value	As at 31 December 2018, the carrying values of unquoted derivative and non derivative financial assets and financial liabilities carried at fair value aggregated to SR 25,027 million (2017: SR 22,827 million) and SR 3,279 million (2017: SR 1,945 million), respectively. In the absence of observable market inputs; the valuation of certain unquoted derivative and non-derivative financial instruments is derived using complex techniques, applying varied assumptions that are considered appropriate, reasonable and relevant based on management's judgment. The valuation estimate is particularly sensitive to certain inputs, whereby small changes can have a material impact on the Group's reported consolidated financial position, results and disclosures. Accordingly, due to the significance of unquoted financial instruments and related estimation uncertainty, this has been determined as a key audit matter. Please refer to note 2.5(a) for details of the significant judgments applied in valuation of unquoted financial instruments and note 40 for the composition and gross carrying values and methodology applied in the valuation of such financial instruments.	Our audit procedures in response to the significant risk with respect to the valuation of unquoted derivative and non-derivative financial instruments included the assessment of the Group's overall valuation framework; including: • Obtaining an understanding of the management processes for identification, and mitigation of valuation risk, • Conducting an evaluation of applied judgments and significant inputs used in the valuation, • Assessing the reliability of the source and appropriateness of key assumptions, and • Understanding controls over approval of new models or changes to existing valuation models. We carried out an independent valuation assessment for a sample of unquoted financial instruments. In addition to independently testing the valuation of derivatives, we have also checked the valuation of selected samples against counterparty valuation statements. With respect to financial statements disclosure, we have assessed whether the Group has appropriately reflected its exposure to valuation risk of unquoted financial instruments, using appropriate narratives and sensitivity analysis.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of The National Commercial Bank (A Saudi Joint Stock Company)

Application of hedge accounting	As at 31 December 2018, the positive and negative fair values of derivatives designated under hedging relationships aggregated to SR 890 million (2017: SR 543 million) and SR 809 million (2017: SR 677 million) respectively, while the corresponding unrecognised notional values amounted to SR 36,167 million (2017: SR 28,794 million). The IAS 39 *'Financial Instruments: recognition and measurement'* stipulate certain criteria including hedge effectiveness testing as a pre-requisite to the application of hedge accounting. Due to the complex nature of the hedge accounting rules and their corresponding application, we have determined hedge accounting to be a key audit matter. Please refer note 13 for details of the composition, notional values and carrying values and note 3.3 for details of the corresponding accounting policy adopted by the Group in the application of hedge accounting.	Our audit procedures in response to the significant risk associated with the application of hedge accounting included: • obtaining an understanding of the Group's framework for financial risk management and hedge accounting. • Understanding the process of establishing hedge relationships, preparation of appropriate documentation and hedge monitoring process, including testing the prospective and retrospective effectiveness. In addition, we have also checked hedge effectiveness testing for a selected sample of hedges. Our audit procedures also included tests of the design, implementation and operating effectiveness of application controls embedded in the systems used in connection with the accounting for designated hedges. We have also assessed the appropriateness of the consolidated financial statements disclosures reflecting the Group's cumulative exposures under hedging relationships at the reporting date.

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

Other Information included in the Group's 2018 Annual Report

Management is responsible for the other information in Group's annual report. 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 Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as modified by SAMA for the accounting of Zakat and income tax, the Regulation for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws, and for such internal controls as management determines 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, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends 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 ISAs 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 (continued)

To the Shareholders of The National Commercial Bank (A Saudi Joint Stock Company)

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

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal controls 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 controls.

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represents 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 controls 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.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of The National Commercial Bank (A Saudi Joint Stock Company)

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us 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 the 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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23 Jumada Al Awal 1440H
(corresponding to 29 January 2019)

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(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018 AND 2017

	Notes	2018 SAR '000	2017 SAR '000
ASSETS			
Cash and balances with SAMA	4	**32,514,075**	37,969,234
Due from banks and other financial institutions, net	5	**15,964,451**	21,966,218
Investments, net	6	**118,090,208**	114,577,825
Financing and advances, net	7	**265,317,391**	249,234,246
Positive fair value of derivatives, net	13	**3,913,049**	3,004,846
Investments in associates, net	8	**447,371**	450,048
Other real estate, net	9	**1,132,277**	861,523
Property, equipment and software, net	10	**5,347,611**	5,280,672
Goodwill	11	-	303,037
Other assets	12	**10,663,464**	11,144,053
Total assets		**453,389,897**	444,791,702
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	14	**45,962,850**	48,557,941
Customers' deposits	15	**318,698,791**	308,942,120
Debt securities issued	16	**9,430,907**	10,250,310
Negative fair value of derivatives, net	13	**3,279,130**	2,554,887
Other liabilities	17	**10,349,510**	10,210,846
Total liabilities		**387,721,188**	380,516,104
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Share capital	18	**30,000,000**	20,000,000
Treasury shares	27	**(373,313)**	(226,011)
Statutory reserve	19	**22,894,980**	20,266,514
Other reserves (cumulative changes in fair values)	20	**(606,048)**	142,449
Employees' share based payments reserve	27	**196,798**	96,886
Retained earnings		**6,790,221**	18,158,718
Proposed dividend	31	**3,288,350**	1,196,879
Foreign currency translation reserve	3.4	**(4,454,071)**	(3,594,886)
Equity attributable to shareholders of the Bank		**57,736,917**	56,040,549
Tier 1 Sukuk	30	**7,000,000**	7,000,000
Equity attributable to equity holders of the Bank		**64,736,917**	63,040,549
NON-CONTROLLING INTERESTS		**931,792**	1,235,049
Total equity		**65,668,709**	64,275,598
Total liabilities and equity		**453,389,897**	444,791,702

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The accompanying notes 1 to 48 form an integral part of these consolidated financial statements.

Lama A. Ghazzaqui	**Faisal O. AlSaggaf**	**Mohammed A. Al-Hokal**
Chief Financial Officer	**Chief Executive Officer**	**Board of Directors' Member**

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(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

	Notes	2018 SAR '000	2017 SAR '000
Special commission income	22	**18,305,862**	16,980,901
Special commission expense	22	**(3,935,655)**	(3,319,923)
Net special commission income		**14,370,207**	13,660,978
Fee income from banking services, net	23	**3,282,142**	3,205,251
Exchange income, net		**1,166,248**	1,156,067
Income from FVIS instruments, net	24	**450,026**	304,040
Gains/income on non-FVIS financial instruments, net	25	**63,797**	497,885
Other operating (expenses), net		**(405,197)**	(478,993)
Total operating income		**18,927,223**	18,345,228
Salaries and employee-related expenses		**3,491,156**	3,408,766
Rent and premises-related expenses		**726,375**	771,259
Depreciation/amortisation of property, equipment and software	10	**607,325**	654,281
Other general and administrative expenses		**1,621,589**	1,589,413
Impairment charge for financing and advances losses, net	7.3	**1,347,071**	1,892,861
Impairment charge on investments, net	6.2	**83,021**	75,846
Impairment charge for goodwill	11	**204,965**	-
Total operating expenses		**8,081,502**	8,392,426
Income from operations, net		**10,845,721**	9,952,802
Other (expenses) income, net			
Other non-operating (expenses) income, net	26	**(15,602)**	11,855
Other (expenses) income, net		**(15,602)**	11,855
Net income for the year		**10,830,119**	9,964,657
Net income for the year attributable to:			
Equity holders of the Bank		**10,667,316**	9,801,982
Non-controlling interests		**162,803**	162,675
Net income for the year		**10,830,119**	9,964,657
Basic earnings per share (expressed in SAR per share)	29	**3.44**	3.16
Diluted earnings per share (expressed in SAR per share)	29	**3.43**	3.16

The accompanying notes 1 to 48 form an integral part of these consolidated financial statements.

Lama A. Ghazzaoui	Faisal O. AlSaggaf	Mohammed A. Al-Hokal
Chief Financial Officer	Chief Executive Officer	Board of Directors' Member

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(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

	2018 SAR '000	2017 SAR '000
Net income for the year	**10,830,119**	9,964,657
Other comprehensive income		
Items that cannot be reclassified to the consolidated statement of income in subsequent years		
- Movement in fair value reserve (equity instruments):	**(25,044)**	-
Other comprehensive (loss) income items that are or may be reclassified to the consolidated statement of income in subsequent years:		
Foreign currency translation reserve (losses)	**(1,239,366)**	(305,449)
FVOCI debt instruments:		
- Net change in fair values	**(1,206,252)**	-
- Transfers to the consolidated statement of income	**3,867**	-
Available for sale financial assets:		
- Net change in fair values	-	(207,598)
- Transfers to the consolidated statement of income	-	(443,296)
- Impairment charge on available for sale investments	-	66,170
Cash flow hedges:		
- Effective portion of changes in fair values	**103,095**	(93,797)
- Transfers to the consolidated statement of income	**(78,166)**	100,092
Total other comprehensive (loss)	**(2,441,866)**	(883,878)
Total comprehensive income for the year	**8,388,253**	9,080,779
Attributable to:		
Equity holders of the Bank	**8,617,494**	9,002,120
Non-controlling interests	**(229,241)**	78,659
Total comprehensive income for the year	**8,388,253**	9,080,779

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The accompanying notes 1 to 48 form an integral part of these consolidated financial statements.

Lama A. Ghazzaoui Chief Financial Officer	Faisal O. AlSaggaf Chief Executive Officer	Mohammed A. Al-Hokal Board of Directors' Member

NCB الأهلي
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

		Attributable to equity holders of the Bank			Other reserves											
	Notes	Share capital SAR' 000	Treasury shares SAR' 000	Statutory reserve SAR' 000	Available for sale financial assets reserve SAR' 000	Cash flow hedge reserves SAR' 000	FVOCI reserve SAR' 000	Employees' share based payments reserve SAR' 000	Retained earnings SAR' 000	Proposed dividend SAR' 000	Foreign currency translation reserve SAR' 000	Total equity attributable to shareholders of the Bank SAR' 000	Tier 1 Sukuk SAR' 000	Total equity attributable to equity holders of the Bank SAR' 000	Non- controlling interests SAR' 000	Total equity SAR' 000
Balance as at 1 January 2018		20,000,000	(226,011)	20,266,514	132,096	10,353	-	96,886	18,158,718	1,196,879	(3,594,886)	56,040,549	7,000,000	63,040,549	1,235,049	64,275,598
IFRS 9 first time adoption impact	3.1 20	-	-	-	(132,096)	-	574,236	-	(1,711,069)	-	-	(1,268,929)	-	(1,268,929)	(40,084)	(1,309,013)
Balance as at 1 January 2018 (restated)		20,000,000	(226,011)	20,266,514	-	10,353	574,236	96,886	16,447,649	1,196,879	(3,594,886)	54,771,620	7,000,000	61,771,620	1,194,965	62,966,585
Other comprehensive income/(loss) for the year		-	-	-	-	20,795	(1,211,432)	-	-	-	(859,185)	(2,049,822)	-	(2,049,822)	(392,044)	(2,441,866)
Net income for the year		-	-	-	-	-	-	-	10,667,316	-	-	10,667,316	-	10,667,316	162,803	10,830,119
Total comprehensive income/(loss) for the year		-	-	-	-	20,795	(1,211,432)	-	10,667,316	-	(859,185)	8,617,494	-	8,617,494	(229,241)	8,388,253
Transfer to statutory reserve	19	-	-	2,628,466	-	-	-	-	(2,628,466)	-	-	-	-	-	-	-
Adjustments in non-controlling interests and subsidiaries		-	-	-	-	-	-	-	(2,266)	-	-	(2,266)	-	(2,266)	601	(1,665)
Tier 1 Sukuk related costs	30	-	-	-	-	-	-	-	(379,303)	-	-	(379,303)	-	(379,303)	-	(379,303)
Purchase of treasury shares for employee's share based payment plan	27	-	(112,000)	-	-	-	-	-	-	-	-	(112,000)	-	(112,000)	-	(112,000)
Employees' share based payments plan reserve - charged to the consolidated statement of income	27	-	-	-	-	-	-	99,912	-	-	-	99,912	-	99,912	-	99,912
Final dividend paid for 2017		-	-	-	-	-	-	-	-	(1,195,764)	-	(1,195,764)	-	(1,195,764)	-	(1,195,764)
Interim dividend paid for 2018	31	-	-	-	-	-	-	-	(2,989,409)	-	-	(2,989,409)	-	(2,989,409)	-	(2,989,409)
Final proposed dividend 2018	31	-	-	-	-	-	-	-	(3,288,350)	3,288,350	-	-	-	-	-	-
Proposed dividend reversal		-	-	-	-	-	-	-	1,115	(1,115)	-	-	-	-	-	-
Bonus issue		10,000,000	(35,302)	-	-	-	-	-	(9,964,698)	-	-	-	-	-	-	-
Zakat and tax	17	-	-	-	-	-	-	-	(1,073,367)	-	-	(1,073,367)	-	(1,073,367)	(34,533)	(1,107,900)
Balance as at 31 December 2018		30,000,000	(373,313)	22,894,980	-	31,148	(637,196)	196,798	6,790,221	3,288,350	(4,454,071)	57,736,917	7,000,000	64,736,917	931,792	65,668,709
Balance as at 1 January 2017		20,000,000	(121,011)	20,230,366	720,507	9,581	-	34,443	15,549,488	1,996,904	(3,382,663)	53,037,615	5,700,000	58,737,615	1,188,103	59,925,718
Other comprehensive (loss)/income for the year		-	-	-	(588,411)	772	-	-	-	-	(212,223)	(799,862)	-	(799,862)	(84,016)	(883,878)
Net income for the year		-	-	-	-	-	-	-	9,801,982	-	-	9,801,982	-	9,801,982	162,675	9,964,657
Total comprehensive (loss)/income for the year		-	-	-	(588,411)	772	-	-	9,801,982	-	(212,223)	9,002,120	-	9,002,120	78,659	9,080,779
Transfer to statutory reserve	19	-	-	36,148	-	-	-	-	(36,148)	-	-	-	-	-	-	-
Adjustments in non-controlling interests and subsidiaries									24,814	-	-	24,814	-	24,814	(2,576)	22,238
Tier 1 Sukuk issuance	30	-	-	-	-	-	-	-	-	-	-	-	1,300,000	1,300,000	-	1,300,000
Tier 1 Sukuk related costs	30	-	-	-	-	-	-	-	(334,163)	-	-	(334,163)	-	(334,163)	-	(334,163)
Purchase of treasury shares for employee's share based payment plan	27	-	(105,000)	-	-	-	-	-	-	-	-	(105,000)	-	(105,000)	-	(105,000)
Employees' share based payments plan reserve - charged to the consolidated statement of income	27	-	-	-	-	-	-	62,443	-	-	-	62,443	-	62,443	-	62,443
Final dividend paid for 2016		-	-	-	-	-	-	-	-	(1,996,904)	-	(1,996,904)	-	(1,996,904)	-	(1,996,904)
Interim dividend paid for 2017	31	-	-	-	-	-	-	-	(2,196,594)	-	-	(2,196,594)	-	(2,196,594)	-	(2,196,594)
Proposed final dividend for 2017	31	-	-	-	-	-	-	-	(1,196,879)	1,196,879	-	-	-	-	-	-
Zakat and tax	17	-	-	-	-	-	-	-	(1,453,782)	-	-	(1,453,782)	-	(1,453,782)	(29,137)	(1,482,919)
Balance as at 31 December 2017		20,000,000	(226,011)	20,266,514	132,096	10,353	-	96,886	18,158,718	1,196,879	(3,594,886)	56,040,549	7,000,000	63,040,549	1,235,049	64,275,598

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The accompanying notes 1 to 48 form an integral part of these consolidated financial statements.

Lama A. Ghazzaoui	**Faisal O. AlSaggaf**	**Mohammed A. Al-Hokal**
Chief Financial Officer	**Chief Executive Officer**	**Board of Directors' Member**

NCB الأهلي

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

	Notes	2018 SAR '000	2017 SAR '000
OPERATING ACTIVITIES			
Net income for the period		10,830,119	9,964,657
Adjustments to reconcile net income to net cash from operating activities:			
Amortisation of premium on non-trading financial instruments, net		259,601	310,447
(Gains) on non-FVIS financial instruments, net	25	(26,348)	(482,048)
(Gains) on disposal of property, equipment and software, net	26	(18,014)	(13,835)
(Gains) on disposal of other real estate, net		(5,118)	(25,271)
Loss on disposal of other repossessed assets		67,314	182,564
Depreciation/amortisation of property, equipment and software	10	607,325	654,281
Impairment charge for financing and advances, net	7.3	1,347,071	1,892,861
Impairment charge on investments, net		83,021	75,846
Impairment charge on other real estate		150	34,745
Impairment charge for goodwill	11.1	204,965	-
Share of results of associates, net	26	(1,070)	(21,392)
Share based payments plan expense		99,912	62,443
		13,448,928	12,635,298
Net (increase) decrease in operating assets:			
Statutory deposits with SAMA		(1,191,903)	285,714
Due from banks and other financial institutions with original maturity of more than three months, net		2,509,702	(4,723,991)
Held at fair value through income statement (FVIS) investments		1,301,353	548,596
Financing and advances, net		(26,028,403)	74,746
Positive fair value of derivatives, net		(851,304)	64,492
Other real estate		50,345	(37,312)
Other assets		(543,768)	(4,331,704)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		(1,231,082)	3,598,506
Customers' deposits		16,014,270	(5,117,649)
Negative fair value of derivatives, net		804,707	(661,188)
Other liabilities		400,012	(371,229)
Net cash from (used in) operating activities:		4,682,857	1,964,279
INVESTING ACTIVITIES			
Proceeds from sale and maturities of non-(FVIS) investments		9,582,711	43,599,031
Purchase of non-FVIS investments		(16,575,991)	(48,001,477)
Purchase of property, equipment and software	10	(897,828)	(1,179,112)
Proceeds from disposal of property, equipment and software		26,865	28,536
Dividends from associates		3,747	2,500
Net cash (used in) investing activities:		(7,860,496)	(5,550,522)
FINANCING ACTIVITIES			
Debt securities issued	16	3,028,039	1,244,665
Debt securities payment	16	(3,457,626)	(991,044)
Net movement in non-controlling interests		6,745	5,038
Tier 1 Sukuk issuance		-	1,300,000
Tier 1 Sukuk related costs		(379,303)	(334,163)
Purchase of treasury shares	27	(112,000)	(105,000)
Final dividend paid for 2017		(1,195,764)	(1,996,904)
Interim dividend paid		(2,989,409)	(2,196,594)
Net cash (used in) financing activities:		(5,099,318)	(3,074,002)
Net (decrease) in cash and cash equivalents		(8,276,957)	(6,660,245)
Foreign currency translation reserve - net movement on cash and cash equivalents at the beginning of the period		(733,658)	(199,049)
Cash and cash equivalents at the beginning of the period		28,802,159	35,661,453
Cash and cash equivalents at the end of the period	32	19,791,544	28,802,159
Special commission income received during the period		17,732,205	16,637,299
Special commission expense paid during the period		3,557,509	3,638,793
Supplemental non-cash information			
Movement in other reserve and transfers to the interim condensed consolidated statement of income		(1,177,456)	(578,429)

The accompanying notes 1 to 48 form an integral part of these consolidated financial statements.

Lama A. Ghazzaoui	Faisal O. AlSaggaf	Mohammed A. Al-Hokal
Chief Financial Officer	Chief Executive Officer	Board of Directors' Member

1. GENERAL

(1.1) Introduction

The financial statements comprise the consolidated financial statements of The National Commercial Bank (the Bank) and its subsidiaries (the Group).

The National Commercial Bank is a Saudi Joint Stock Company formed pursuant to Cabinet Resolution No. 186 on 22 Dhul Qida 1417H (30 March 1997) and Royal Decree No. M/19 on 23 Dhul Qida 1417H (31 March 1997), approving the Bank's conversion from a General Partnership to a Saudi Joint Stock Company.

The Bank commenced business as a partnership under registration certificate authenticated by a Royal Decree on 28 Rajab 1369H (15 May 1950) and registered under commercial registration number 4030001588 dated on 19 Safar 1418H (26 June 1997). The Bank initiated business in the name of "The National Commercial Bank" under Royal Decree No. 3737 on 20 Rabi Thani 1373H (26 December 1953). The date of 1 July 1997 was determined to be the effective date of the Bank's conversion from a General Partnership to a Saudi Joint Stock Company. The Bank's shares have been trading on Saudi Stock Exchange (Tadawul) since 12 November 2014.

The Bank operates through its 401 branches (2017: 400 branches), 19 retail service centers (2017: 20 centers), 7 corporate service centers (2017: 9 centers) and 150 QuickPay remittance centers (2017: 150 centers) in the Kingdom of Saudi Arabia and one overseas branch in the Kingdom of Bahrain. The Board of Directors in their meeting dated 23 November 2015 resolved to close the Bank's branch operations domiciled in Beirut, Lebanon. The required regulatory approvals have been received and the legal formalities in respect of closure of branch are in progress.

The Board of Directors of NCB in its meeting dated 24 December 2018, resolved to enter into preliminary discussions with Riyad Bank, a Bank listed in Kingdom of Saudi Arabia stock market, to study the possibility of merging the two Banks. The entry into these discussions does not mean that the merger will happen between the two Banks. If the merger is agreed, it will be subject to various conditions including, without limitation, approval at the Extra Ordinary general assembly of each Bank and approval of the Saudi Arabian regulatory authorities.

The Bank's Head Office is located at the following address:

The National Commercial Bank
Head Office
King Abdul Aziz Street
P.O. Box 3555, Jeddah 21481,
Kingdom of Saudi Arabia
www.alahli.com

The objective of the Group is to provide a full range of banking and investment management services. The Group also provides non-special commission based banking products in compliance with *Shariah* rules, which are approved and supervised by an independent *Shariah* Board.

(1.2) Group's subsidiaries

The details of the Group's significant subsidiaries are as follows:

Name of subsidiaries	Ownership % 2018	Ownership % 2017	Description
NCB Capital Company (NCBC)	**96.70%**	97.34%	A Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia to manage the Bank's investment services and asset management activities.

1. GENERAL (continued)

(1.2) **Group's subsidiaries (continued)**

Name of subsidiaries	Ownership % 2018	Ownership % 2017	Description
NCB Capital Dubai Inc. (formerly Eastgate Capital Holdings Inc.)	**96.70%**	97.34%	An exempt company with limited liability incorporated in the Cayman Islands to source, structure and invest in private equity and real estate development opportunities across emerging markets.
NCBC Investment Management Umbrella Company Plc	**Nil**	97.34%	A company incorporated in Ireland under the provisions of the European Communities (Undertakings for Collective Investment in Transferable Securities “UCITS”) Regulation 2011. On 29 August 2016, the Company resolved to voluntarily liquidate the operations of Umbrella Company with immediate effect. As at 31 December 2018 the liquidation proceedings are completed and the company has been dissolved.
Türkiye Finans Katılım Bankası A.Ş. (TFKB)	**67.03%**	67.03%	A participation bank registered in Turkey that collects funds through current accounts, profit sharing accounts and lends funds to consumer and corporate customers, through finance leases and profit/loss sharing partnerships. As at 31 December 2018, TFKB fully owns the issued share capital of TF Varlık Kiralama AŞ, (TFVK) and TFKB Varlik Kiralama A.Ş., which are special purpose entities (SPEs) established in connection with issuance of sukuks by TFKB.
Real Estate Development Company (REDCO)	**100%**	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia. REDCO is engaged in keeping and managing title deeds and collateralised real estate properties on behalf of the Bank.
Alahli Insurance Service Marketing Company	**100%**	100%	A Limited Liability Company, engaged as an insurance agent for distribution and marketing of Islamic insurance products in Saudi Arabia.
Saudi NCB Markets Limited	**100%**	100%	A Limited Liability Company registered in the Cayman Islands, engaged in trading in derivatives and Repos/Reverse Repos on behalf of the Bank.
Eastgate MENA Direct Equity L.P.	**100%**	100%	A private equity fund domiciled in the Cayman Islands and managed by NCB Capital Dubai. The Fund’s investment objective is to generate returns via investments in Shari’ah compliant direct private equity opportunities in high growth businesses in countries within the Middle East and North Africa.
AlAhli Outsourcing Company	**100%**	100%	A Limited Liability Company registered in the Kingdom of Saudi Arabia, engaged in recruitment services within the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

(2.1) Statement of compliance

The consolidated financial statements of the Group have been prepared:

a) In accordance with 'International Financial Reporting Standards (IFRS) as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax', which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB"). As per the SAMA Circular no. 381000074519 dated April 11, 2017 instead of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" 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.

b) In compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the By-Laws of the Bank.

(2.2) Basis of measurement

The consolidated financial statements are prepared and presented under the historical cost convention except for the measurement at fair value of financial assets held at fair value [derivatives, financial assets held at fair value through income statement (FVIS), FVOCI - debt instruments and equity instruments (31 December 2017: also included financial assets held for trading and available for sale investments measured at fair value)]. In addition, financial assets or liabilities that are carried at amortized cost but are hedged in a fair value hedging the relationship are carried at fair value to the extent of the risk being hedged. The statement of financial position is broadly in order of liquidity.

(2.3) Functional and presentation currency

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

(2.4) Basis of consolidation

The consolidated financial statements comprise the financial statements of "The National Commercial Bank" and its subsidiaries (see note 1.2). The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

(2.5) Critical accounting judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS and SAMA guidance on accounting for Zakat and Tax requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgments, estimates and assumptions 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 any future period affected.

In preparing these consolidated financial statements, the critical accounting judgments, estimates and assumptions made by management are the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2017, except for changes in accounting policies due to adoption of IFRS 9 and IFRS 15 which have been disclosed in note 3.1. These changes have been accounted for prospectively commencing from 1 January 2018.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

2. BASIS OF PREPARATION (continued)

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

(a) Fair value of financial instruments that are not quoted in an active market

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

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

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

Financial instruments for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy (see note 40).

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

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

(b) Going concern

The Group’s management has made an assessment of the Group’s ability to continue as a going concern and is satisfied that the Group 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 Group’s ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(c) Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGUs. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

For the purpose of impairment testing (see note 11), goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

2. BASIS OF PREPARATION (continued)

(2.5) Critical accounting judgments and estimates and assumptions (continued)

(c) Impairment of non-financial assets (continued)

The subsidiaries are regarded as a cash-generating unit for the purpose of impairment testing of their respective goodwill. Impairment losses are recognised in the consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets including the intangible assets in the unit (group of units) on a pro rata basis on condition that the carrying amount of other assets should not be reduced below their fair values.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal off the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed off and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

The previously recognised impairment loss in respect of goodwill cannot be reversed through the consolidated statement of income.

Non-financial assets held under Murabaha arrangements are measured at their lower of cost and net realizable value. Net realizable value is the estimated selling price, less selling expenses. Any impairment loss arising as a result of carrying these assets at their net realizable values is recognised in the consolidated statement of income under other operating (expense), net.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(d) Determination of control over investment funds

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

The Group consolidates the structured entities that it controls. When making this judgement, the Group also considers voting and similar rights available to itself and other parties, that may limit the Group's ability to control, appoint, reassign or remove members of key management personnel who have the ability to direct the relevant activities of these structured entities.

(e) Provisions for liabilities and charges

The Group receives legal claims in the ordinary course of business. Management makes judgments in assigning the risk that might exists in such claims. It also sets appropriate provisions against probable losses. The claims are recorded or disclosed, as appropriate, in the consolidated financial statements based on the best estimate of the amount required to settle the claim.

2. BASIS OF PREPARATION (continued)

(2.5) Critical accounting judgments and estimates and assumptions (continued)

(f) Measurement of defined benefits obligation

The Group maintains an end of service benefit plan for its employees and to arrive at the estimated obligation as at the reporting date, the Group uses assumptions such as the discount rate, expected rate of salary increase and normal retirement age.

(g) Useful lives of property, equipment and other software

The management determines the estimated useful lives of its property, equipment and other software for calculating depreciation / amortisation. This estimate is determined after considering the expected usage of the asset or its physical wear and tear. The residual value, useful lives and future depreciation / amortisation charges are reviewed by the management where they believe the useful lives differ from previous estimates.

(h) Impairment charge for expected credit losses

The Group exercises judgement and applies the use of various assumptions in the determination of expected credit losses (refer note 3.1.8).

(i) Classification of financial instruments

The Group exercises judgement for the classification of financial instruments (refer note 3.1.1).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(3.1) Changes in accounting policies

The accounting policies, estimates and assumptions 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 policies explained below. Based on the adoption of new accounting standards as mentioned in note 3.1.20, the following accounting policies are applicable effective 1 January 2018 replacing / amending or adding to the corresponding accounting policies set out in the consolidated financial statements of the Group for the year ended 31 December 2017.

3.1.1) Classification of financial assets

On initial recognition, a financial asset is classified as held at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through income statement ("FVIS").

Financial asset at amortised cost

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.1) Classification of financial assets (continued)

Financial asset at FVOCI

Debt instruments

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

• the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (HTCS); and

• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Special commission income and foreign exchange gains and losses are recognised in profit or loss.

Equity instruments

On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in the statement of other comprehensive income. This election is made on an investment-by-investment basis.

Financial asset at FVIS

All financial assets, not classified as held at amortised cost or FVOCI are classified as FVIS.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVIS if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

3.1.2) Business model assessment

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.3) Assessments whether contractual cash flows are solely payments of principal and interest ("SPPI" criteria)

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 risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of interest rates.

3.1.4) Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

All money market deposits, customer deposits, term loans and other debt securities in issue are initially recognised at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through income statement or the Group has opted to measure a liability at fair value through income statement.

Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective special commission rate.

3.1.5) Embedded derivatives

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.6) Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in the consolidated statement of income.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the consolidated statement of income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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

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

3.1.7) Modifications of financial assets and financial liabilities

a) Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as special commission income.

b) Financial liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.8) Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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

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

The Group categorizes its financial assets into following three stages in accordance with the IFRS-9 methodology:

- Stage 1 – financial assets that are not significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on 12 months Probability of Default (PD).
- Stage 2 – financial assets that has significantly deteriorated in credit quality since origination. The impairment allowance is recorded based on lifetime ECL. The impairment allowance is recorded based on life time PD.
- Stage 3 – for Financial assets that are impaired, the Group recognizes the impairment allowance based on life time ECL.

The Group also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g., unemployment, GDP growth, inflation, profit rates and house prices) and economic forecasts obtained through internal and external sources.

3.1.9) Measurement of ECL

ECL represent probability-weighted estimates of credit losses. These are measured as follows:

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

Expected credit losses are discounted to the reporting date at the effective interest rate (EIR) determined at initial recognition or an approximation thereof and consistent with income recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.10) 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 derecognised and ECL are measured as follows:

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

3.1.11) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- 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 loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- the market's assessment of creditworthiness as reflected in the investment yields.
- the rating agencies' assessments of creditworthiness.
- the country's ability to access the capital markets for new debt issuance.
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.12) Presentation of allowance for ECL in the statement of financial position

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

Financial assets measured at amortised cost
- as a deduction from the gross carrying amount of the assets;

Loan commitments and financial guarantee contracts
- generally, as a provision;

Financial instrument includes both a drawn and an undrawn component
- where the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

Debt instruments measured at FVOCI
- The group recognizes a loss allowance for financial assets that are measured at fair value through other comprehensive income on the statement of other comprehensive income which will not reduce the carrying amount of the financial asset in the statement of financial position.

3.1.13) Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3.1.14) Collateral valuation

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

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

3.1.15) Collateral repossessed

The Group’s accounting policy under IFRS 9 remains the same as it was under IAS 39. The Group’s policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group’s policy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.16) Financial guarantees and loan commitments

Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

The Group has issued no loan commitments that are measured at FVIS. For other loan commitments, the Group recognises loss allowance.

3.1.17) Foreign Currencies

Foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI. are recognised in OCI

3.1.18) Special commission income and expenses

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.19) Impact of changes in accounting judgements policies due to adoption of new standards

Impairment losses on financial assets

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

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

• The Group's internal credit grading model, which assigns Probabilities of Default (PDs) to the individual grades.

• The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Loss (LTECL) 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 the effect on PDs.

• Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

3.1.20) Implication of new standards

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

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Group in relation to its contracts with customers. IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 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 was found currently across several Standards and Interpretations within IFRSs. It establishes 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.

The Group has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity. Based on a detailed impact assessment exercise carried out by management, it has been concluded that the adoption of IFRS 15 does not have any material impact on the Group's financial numbers.

IFRS 9 – Financial instruments

The Group 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 Group has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below and are also stated in note 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.20) Implication of new standards (continued)

Classification of financial assets and financial liabilities

Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through statement of income ("FVIS"). This classification is generally based on the business model in which a financial asset is managed and the nature/composition of its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see respective section of significant accounting policies (note 3).

Financial liabilities

Classification of financial liabilities under IFRS 9 remained the same as of IAS 39.

Impairment of financial assets

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

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9 (see note 3.8).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied as follows:

- 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 recognised in retained earnings and other 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 (1 January 2018):

  i) The determination of the business model within which a financial asset is held.
  ii) The designation and revocation of previous designated financial assets and financial liabilities as measured at FVIS.
  iii) The designation of certain investments in equity instruments not held for trading as FVOCI.

It was concluded that the credit risk has not increased significantly for those debt securities who carry low credit risk at the date of initial application of IFRS 9.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.20) Implication of new standards (continued)

Financial assets and indirect facilities

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

The classification for the Group's financial assets are effectively consistent between IAS 39 and IFRS 9, except for the changes in the classification for investments. The following table shows the original classification in accordance with IAS 39 and the new classification under IFRS 9 for the Group's investments as at 1 January 2018.

		SAR '000	
Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying value under IAS 39**	**New carrying value under IFRS 9**
Held as FVIS (Fair Value through Income Statement)	FVIS	**1,960,023**	**1,960,023**
	FVOCI - equity	**18,750**	**18,750**
Available for sale	FVOCI - debt instruments	**13,182,868**	**13,178,699**
	Amortized Cost	**800,640**	**772,316**
	FVIS	**3,374,596**	**3,374,596**
	FVOCI - equity	**14,531**	**14,531**
Held to maturity	Amortized Cost	**697,281**	**697,281**
Other investments held at amortised cost	FVIS	**941,857**	**921,607**
	Amortized Cost	**62,982,352**	**62,894,397**
	FVOCI - debt instruments	**30,604,927**	**30,987,527**
Total		**114,577,825**	**114,819,727**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.20) Implication of new standards (continued)

Financial assets and indirect facilities (continued)

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 of Group's financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 as at 1 January 2018:

	SAR '000			
	IAS 39 carrying amount as at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 January 2018
Amortised cost				
Cash and balances with SAMA	37,969,234	-	-	37,969,234
Due from banks and other financial institutions:				
Opening balance	21,966,218	-	-	21,966,218
Remeasurement	-	-	(15,898)	(15,898)
Closing balance	21,966,218	-	(15,898)	21,950,320
Financing and advances:				
Opening balance	249,234,246	-	-	249,234,246
Remeasurement	-	-	(1,434,618)	(1,434,618)
Closing balance	249,234,246	-	(1,434,618)	247,799,628
Other investments held at amortised cost:				
Opening balance	94,529,136	-	-	94,529,136
From available for sale	-	800,640	(28,324)	772,316
From held to maturity	-	697,281	-	697,281
Transferred to:				
FVOCI	-	(30,604,927)	-	(30,604,927)
FVIS	-	(941,857)	-	(941,857)
Remeasurement	-	-	(87,955)	(87,955)
Closing balance	94,529,136	(30,048,863)	(116,279)	64,363,994
Held to maturity				
Opening balance	697,281	-	-	697,281
Transferred to amortized cost	-	(697,281)	-	(697,281)
Closing balance	697,281	(697,281)	-	-
Available for sale financial assets:				
Opening balance	17,372,635	-	-	17,372,635
Transferred to:				
FVOCI - equity	-	(14,531)	-	(14,531)
FVOCI - debt	-	(13,182,868)	-	(13,182,868)
FVIS	-	(3,374,596)	-	(3,374,596)
Other investments held at amortised cost	-	(800,640)	-	(800,640)
Closing balance	17,372,635	(17,372,635)	-	-
FVOCI Investments:				
Opening balance	-	-	-	-
From FVIS	-	18,750	-	18,750
From available for sale	-	13,197,399	-	13,197,399
From other investments held at amortised cost	-	30,604,927	378,431	30,983,358
Closing balance	-	43,821,076	378,431	44,199,507
FVIS Investments:				
Opening balance	1,978,773	-	-	1,978,773
Transferred to FVOCI	-	(18,750)	-	(18,750)
From available for sale	-	3,374,596	-	3,374,596
From other investments held at amortised cost	-	941,857	(20,250)	921,607
Closing balance	1,978,773	4,297,703	(20,250)	6,256,226

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.20) Implication of new standards (continued)

Financial assets and indirect facilities (continued)

iii) Impact on retained earnings and other reserves

	SAR '000		
		Other reserves	
	Retained earnings	Available for sale financial assets reserve	FVOCI reserve
Balance as at 31 December 2017 - under IAS 39	18,158,718	132,096	-
Reclassifications due to IFRS 9 adoption	-	(132,096)	574,236
Recognition of expected credit losses under IFRS 9	(1,711,069)	-	-
Restated balance as at 1 January 2018	16,447,649	-	574,236

iv) Impact on impairment allowance for financial assets and indirect facilities

The following table reconciles the impairment allowance recorded as per the requirements of IAS 39 to that of IFRS 9 as at 1 January 2018:

	SAR '000			
	31 December 2017 (under IAS 39)	Reclassification	Remeasurement	1 January 2018 (under IFRS 9)
Due from banks and other financial institutions	-	-	15,898	15,898
Investments, net	54,290	(23,557)	198,513	229,246
Financing and advances, net	6,800,896	-	1,434,618	8,235,514
	6,855,186	(23,557)	1,649,029	8,480,658
Indirect facilities	308,793	-	100,399	409,192

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1.20) Implication of new standards (continued)

Financial assets and indirect facilities (continued)

iv) IFRS 7 (revised) financial instruments: disclosures (IFRS 7R)

IFRS 7 was updated to reflect the differences between IFRS 9 and IAS 39 and the Group has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures, detailed qualitative and quantitative information about the ECL calculations such as the assumptions, inputs used, reconciliations etc. are also disclosed in the other respective notes.

3.1.21) Amendments to existing Standards

The adoption of the following below amendments to the existing standards had no significant financial impact on the consolidated financial statements of the Group on the current period or prior period and is expected to have no significant effect in future periods:

- Amendments to IFRS 2 – "Share based payments", applicable for the annual periods beginning on or after 1 January 2018. The amendments address three main areas:

• The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments.

• The classification of a share-based payment transaction with net settlement features for withholding tax obligations.

• The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity- settled.

- The amendment clarifies that, if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. Any difference (whether a debit or a credit) between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in consolidated statement of income.

- IFRIC 22 – "Foreign Currency Transactions and Advance Consideration", the interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration.

Furthermore, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.2) Settlement date accounting

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

(3.3) 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, swaptions, currency and special commission rate options (both written and purchased) are measured at fair value. Fair values are obtained by reference to quoted market prices and/or valuation models as appropriate.

(3.3.1) 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 and are disclosed in trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting as described below.

(3.3.2) Hedge accounting

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

For the purpose of hedge accounting, hedges are classified into two categories:

(a) Fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

(b) Cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.3) Derivative financial instruments and hedge accounting (continued)

(3.3.2) Hedge accounting (continued)

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the consolidated statement of income in 'trading income, net'. For situations where the hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

(3.3.3) Fair value hedges

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. Any gain or loss on the hedged item attributable to fair value changes relating to the risks being hedged is adjusted against the carrying amount of the hedged item and recognised in the consolidated statement of income (in the same line item as the hedging instrument). 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.

(3.3.4) Cash flow hedges

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 initially in other reserves under equity and 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. However, if the Group expects that all or a portion of a loss recognised in consolidated statement of other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the consolidated statement of income as a reclassification adjustment the amount that is not to be recognised.

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other reserves from the period when the hedge was effective is transferred from equity to the consolidated statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affect the consolidated statement of income, the net cumulative gain or loss recognised in other reserves is transferred immediately to the consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.4) Foreign currencies

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of NCB, NCBC, Redco, Alahli Insurance Service Marketing Company, Saudi NCB Markets Limited and AlAhli Outsourcing Company is Saudi Riyals. The functional currency for the TFKB is Turkish Lira and the functional currency of NCB Capital Dubai Inc., NCBC Investment Management Umbrella Company Plc and Eastgate MENA Direct Equity L.P. U.S. Dollars.

(a) Transactions and balances of the Bank

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates prevailing at transaction dates. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are retranslated into the functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined.

(b) Foreign operations

As at the reporting date, the assets and liabilities of the foreign operations are translated into the Group's presentation currency (Saudi Riyals) at the rate of exchange ruling at the statement of financial position date, equity (pre-acquisition) is translated at historical exchange rate at the date of acquisition and income and expenses of the statement of income are translated at the spot exchange rates prevailing at transaction dates on daily basis. Exchange differences arising on translation are taken directly to a separate component of equity (foreign currency translation reserve) and are recognised in consolidated statement of comprehensive income. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the foreign exchange translation reserve is allocated to the non-controlling interest. The deferred cumulative amount of exchange differences recognised in equity will be reclassified in the consolidated statement of income in ‘Other operating expenses’ or ‘Other operating income’ at the time of any future disposal or partial disposal with loss of control.

Goodwill and intangible assets arising on the acquisition of the foreign operations and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

(3.5) Offsetting financial instruments

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

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

(3.6) Revenue / expenses recognition

Income from FVIS financial instruments relates to financial assets designated as FVIS and includes all realised and unrealised fair value changes.

Net trading income subsumes results arising from trading activities and includes all realised and unrealised gains and losses from changes in fair value and related special commission income or expense, dividends for financial assets held for trading and foreign exchange differences on open positions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.6) Revenue / expenses recognition (continued)

Exchange income from banking services are recognised when earned.

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

Fees income and expenses are recognised on an accrual basis as the service is provided. Financing commitment fees for financing arrangement that are likely to be drawn down are deferred and recognised as an adjustment to the effective yield on the financing arrangement, if material. Portfolio and other management advisory and service fee income are recognised based on the applicable service contracts, usually on a time-proportionate basis. Fee income received on other services that are provided over an extended period of time, are recognised rateably over the period when the service is being provided, if material.

Other fee expenses mainly relate to transaction and services fee, which are expensed as related services are provided.

(3.7) Sale and repurchase agreements (including securities lending and borrowings)

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets continue to be measured in accordance with related accounting policies for investments held for trading, available for sale, held to maturity and other investments held at amortised cost. The counterparty liability for amounts received under these agreements is included in "due to banks and other financial institutions", as appropriate. The difference between sale and repurchase price is treated as special commission expense which is accrued over the life of the repo agreement using the effective special commission rate.

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

Securities borrowing and lending transactions are typically secured; collateral takes the form of securities or cash advanced or received. Securities lent to counterparties are retained on the consolidated statement of financial position. Securities borrowed are not recognised on the consolidated statement of financial position, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability. Cash collateral given or received is treated as a loan and receivable or customer deposit.

(3.8) Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition, being total consideration of the acquisition, is measured as the fair value of the assets given and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition that occurred prior to 1 January 2010. For any subsequent acquisitions, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group 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 are included in administrative expenses.

Identifiable assets acquired (including previously unrecognised intangible assets) and liabilities (including contingent liabilities) in an acquisition are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.8) Business combinations (continued)

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

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising from the loss of control is recognised in the consolidated statement of income. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investment or other categories of investment in accordance with the Group's relevant accounting policy.

(a) Subsidiaries

Subsidiaries are entities which are controlled by the Group. To meet the definition of control, all three criteria must be

i) The Group has power over the entity;
ii) The Group has exposure, or rights, to variable returns from its involvement with the entity; and
iii) The Group has the ability to use its power over the entity to affect the amount of the entity's returns.

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

(b) Non-controlling interests

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

(c) Associates

Associates are enterprises over which the Group exercises significant influence. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted value or the recoverable amount.

Equity-accounted value represents the cost plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements) less impairment, if any.

The previously recognised impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before allowance for impairment) or the recoverable amount.

(d) Transactions eliminated on consolidation

Inter-group balances, income and expenses (except for foreign currency transaction gains or losses) arising from inter-group transactions are eliminated, as appropriate, in preparing the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.9) Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses; impairment loss of goodwill is charged to the consolidated statement of income. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

(3.10) Investments (policy applicable before 1 January 2018)

All investment securities are financial assets which are initially recognised at cost, being the fair value of the consideration given, including incremental direct transaction costs except for those transaction charges related to investments held as FVIS or for trading, which 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 basis and are taken to special commission income.

For securities that are traded in organised financial markets, the fair value is determined by reference to exchange quoted market bid prices at the close of business on the consolidated statement of financial position date. Fair values of managed assets and investments in mutual funds are determined by reference to declared net asset values which approximate the fair value.

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values with non-observable market data.

Following initial recognition, subsequent transfers between the various classes of investments are not ordinarily permissible.

The subsequent period-end accounting treatment for each class of investment is determined on the basis as set out in the following paragraphs:

(a) Held for trading

Investments classified as held for trading are acquired principally for the purpose of selling or repurchasing in the short term.

Securities which are held for trading are subsequently measured at fair value and any gains or losses arising from a change in fair value are included in the consolidated statement of income in the period in which it arises and are disclosed as trading income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.10) Investments (policy applicable before 1 January 2018) (continued)

(b) Held at fair value through income statement (FVIS)

Investments in this category are classified as FVIS on initial recognition. An investment may be designated as FVIS by the management if it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different basis; or a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel. These include all hedge fund and mutual fund investments that are managed by the Group, directly or indirectly, and whose performance is evaluated on a fair value basis. Equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are not classified under this category.

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 and are disclosed as income from FVIS investments.

(c) Available for sale (AFS)

Available for sale investments are non-derivative investments that are designated as AFS or not classified as another category of financial assets, and are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as available for sale are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Any unrealised gains or losses arising from changes in fair value are recognised through the consolidated statement of comprehensive income in "other reserves" under equity until the investments are derecognised or impaired whereupon any cumulative gains or losses previously recognised in equity are reclassified to consolidated statement of income for the period and are disclosed as gains/(losses) on non-trading financial instruments.

(d) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less allowance for impairment in their value. 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 Group's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the intention to hold them to maturity.

(e) Other investments held at amortised cost

Investments having fixed or determinable payments that are not quoted in an active market are classified as other investments held at amortised cost. Such investments whose fair values have not been hedged are stated at amortised cost using an effective yield basis, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using effective yield method. Any gain or loss is recognised in the consolidated statement of income when the investment is derecognised and are disclosed as gains/(losses) on non-trading financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.11) Financing and advances

Financing and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Financing and advances are recognised when cash is advanced to borrowers. They are derecognised when either the borrower repays their obligations, or the financing and advances are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Financing and advances are initially measured at fair value of the consideration given.

Following initial recognition, financing and advances for which fair value has not been hedged are stated at amortised cost less any amount written off and ECL allowances for impairment.

For presentation purposes, allowance for financing losses is deducted from financing and advances.

(3.12) 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 ECL allowance.

(3.13) Other real estate and repossessed assets

The Group, in the ordinary course of business, acquires certain real estate and other assets against settlement of due financing and advances. These are considered as assets held for sale and are initially stated at the lower of net realizable value of due financing and advances or the current fair value of such related assets, less any costs to sell (if material). No depreciation is charged on such assets.

Subsequent to the initial recognition, such assets are revalued on a periodic basis and adjusted for any subsequent provision for unrealised revaluation losses. Previously recognised unrealised revaluation losses of such assets can be reversed through the consolidated statement of income on an individual basis upon subsequent increase in fair value. Any unrealised losses on revaluation (or reversal), realised losses or gains on disposal and net rental income are recognised in the consolidated statement of income as other operating income expense, net.

The other real estate assets are disclosed in note 9 while other repossessed assets are included in other assets. Gain/loss on disposal of repossessed assets are included in other operating income, net.

(3.14) Property, equipment and software

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss, if any. Freehold land is not depreciated. Changes in the expected useful lives are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the group. Ongoing repairs and maintenance are expensed as incurred.

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

Buildings	40 years
Leasehold improvements	Over the lease period or useful economic life whichever is shorter
Furniture, equipment, vehicles and software	4-10 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.14) Property, equipment and software (continued)

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the date of each consolidated statement of financial position.

Software are recognised only when their cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to them will flow to the Group. Software are amortised over the useful economic life and assessed for impairment whenever there is an indication that the software may be impaired. The amortisation period and the amortisation method for software assets are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the assets are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on software is recognised in the consolidated statement of income.

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

(3.15) Financial liabilities

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

(3.16) Financial guarantees and financing commitments

In the ordinary course of business, the Group issues letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value on the date the guarantee was given; typically the premium received. Subsequent to the initial recognition, the Group's liability under such guarantees are measured at the higher of their amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses net of any cash margin. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income as impairment charge for financing and advances losses, net. The premium received is recognised in the consolidated statement of income as fee income from banking services on a straight line basis over the life of the guarantee, if material.

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

(3.17) Impairment loss and provisions

Provisions are recognised when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events where it is more likely that an outflow of resources will be required to settle the obligation. Provision balance are presented under other liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.18) Accounting for leases

(a) Where the Group is the lessee

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

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognised as an expense in the period in which termination takes place.

(b) Where the Group is the lessor

When assets are transferred under a finance lease, including assets under a lease arrangement in compliance with *Shariah* rules *(Ijara),* the present value of the lease payments is recognised as a receivable and disclosed under financing and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return and is disclosed as special commission income.

(3.19) Zakat and overseas income tax

Zakat is the liability of the shareholders. Zakat is computed on the higher of net adjusted income or adjusted shareholders' equity using the basis defined under the Saudi Zakat Regulations. In accordance with SAMA guidance on zakat and income tax, Zakat is paid by the Bank on the shareholders' behalf and is not charged to the consolidated statement of income but is deducted from the gross dividend paid to the shareholders or charged to retained earnings as an appropriation of net income if no dividend has been distributed. Zakat charge for the year ended 31 December 2018 has been computed on the basis set out in note 17.

Overseas branches and subsidiaries are subject to income tax as per rules and regulations of the country in which they are incorporated and such taxes are charged to retained earnings in accordance with the SAMA guidance on Zakat and income tax.

(3.20) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA, excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

(3.21) Investment management services

The financial statements of investment management funds are not included in the consolidated financial statements of the Group. Transactions with the funds are disclosed under related party transactions; the Group’s share of these funds is included in held for trading investments.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.22) Banking products that comply with Shariah rules

Beside conventional banking products, the Bank offers certain banking products that comply with Shariah rules. These products are approved and overseen by the Bank's Shariah Board and Shariah advisor. Shariah complaint products are treated under International Financial Reporting Standards (IFRS) and in accordance with the accounting policies used in the preparation of these consolidated financial statements.

Banking products that comply with Shariah rules are based on several Islamic types, including but not limited to:

(3.22.1) Murabaha

Murabaha is a financing agreement whereby the Bank purchases and owns commodities based on client's request and sells them to the client with a specified agreed price (including the cost of the bank plus a profit margin) and paid as agreed.

Examples of products in which the bank uses Murabaha are residential finance, commercial real estate, and trade finance, commercial finance, trade finance, deposit products for customers and inter-bank Murabaha.

(3.22.2) Tawarruq

Tawarruq is financing instrument for customers in need of cash financing. It involves the bank buying commodities from international or local markets and selling them to customers at agreed-upon deferred installment terms. Customers, on their own, or by appointing an agent, resell the commodities to third parties for cash.

Examples of products in which the bank uses Tawarruq are in residential finance for individuals (Self-Construction / Sale on the map), personal finance, credit cards, corporate finance, structured finance, syndications, as well as interbank transactions.

(3.22.3) Ijara

The bank has two types of Ijara forms based on the lease contract. Ijarah with the promise of transfer ownership, which is based on requests from customers, either purchases assets with agreed-upon specifications on a cash basis and leases them to customers for an agreed-upon rent to be settled in agreed-upon installments. The second type is forward Ijara, which assets are not in existence and not specified. In this case, it remains a liability on the bank to deliver the agreed upon usufruct.

In the Ijara contract, the bank promises to transfer ownership of the assets to its customers at the end of the lease period, either by sale at nominal prices or in the form of grants.

Examples of products in which the bank uses Ijara are auto lease with promises to transfer ownership, residential finance, commercial real estate finance, and structured finance. The main uses of forward Ijara are in structured finance.

(3.22.4) Mudarabah

Mudaraba is a form of participation in profit where the client provides the capital to the bank or vice versa depending on the product type. The capital owner is called the "Rab Almaal" and the worker is "Mudharib". The worker duty is to invest the capital in activities that comply with Shariah rules. The income is divided according to the agreement. In the case of loss, "Rab Almaal" has to bear all the losses from his capital and the "Mudharib" loses his efforts.

Examples of the products in which the bank uses the Mudaraba are Islamic Mudaraba Certificates, Mudaraba Call Accounts, and Tier 1 Sukuks.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.22) Banking products that comply with Shariah rules (continued)

(3.22.5) Promise
Promise is a mandatory commitment by the Bank to its client or vice versa to enter into a sale or purchase transaction for the purpose of hedge against fluctuations in index prices, commodity prices and currency prices.

Examples of products in which the bank uses the promise are structured hedging products and structured investment products.

All the above Shariah-compliant financing products are accounted for in conformity with the accounting policies described in these consolidated financial statements. They are included in financing and advances.

(3.23) Shariah-compliant deposit products

The Group offers its customers certain deposit products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board.

(3.23.1) AlKhairaat
AlKhairaat is a Shariah-compliant product based on commodity Murabaha. The Group acts as an agent for its customers in purchasing commodities on their behalf with their funds and then purchases these commodities for its own account from customers at agreed-upon price and deferred maturities (3,6,9 or 12 months). Being a retail product, customers are allowed to choose the investment amount, tenure, and currency. Since the Group purchases commodities from its customers, it is liable to them for the capital they invested plus a profit.

(3.23.2) Structured AlKhairaat
This product is an enhanced deposit product which provides a Shariah compliant alternative to structured deposits. It combines a AlKhairaat placement with a promise to enter into a secondary Murabaha transaction for the benefit of the customer where the profit will be linked to a predetermined index. These are capital protected up to a specified percentage (typically 95-100%).

These Shariah-compliant deposit products are accounted for in conformity with the accounting policies described in these consolidated financial statements. They are included in customers' deposit.

(3.24) Shariah-compliant treasury products

The Group offers its customers certain treasury products that comply with Shariah rules. These are approved and overseen by the Bank's Shariah Board and Shariah advisor.

(3.24.1) Structured Hedging Products
These products are offered to clients to hedge their existing exposure to foreign currencies. It is based on the concept of Waad (binding promise) where the Group promises to buy/sell a particular amount of foreign currency at an agreed upon price. It may include only one Waad or a combination of Waads.

(3.24.2) Structured Investment Products
These products are offered to clients to offer them a return that is typically higher than a standard AlKhairaat. There are based on the Structured AlKhairaat product and are designed to give the customers exposure to a number of indexes including foreign currencies, precious metals and Shariah compliant equity indexes.

(3.24.3) Rates Products
These products are offered to clients who have exposure to fixed/floating rates and need hedging solutions. The products are designed around the concept of Waad to enter into Murabaha where the profit is based on a rates index or formula. It may include only one Waad or a combination of Waads.

(3.24.4) Commodity Products
These products are offered to clients who have exposure to commodity prices and need hedging solutions. These products are designed around the concept of Waad to enter into Murabaha where the profit is based on a commodity price index. It may include only one Waad or a combination of Waads.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.25) Treasury shares

Treasury shares are recorded at acquisition cost and presented as a deduction from equity. Any gains or losses on disposal of such shares are reflected under equity and are not recognised in the consolidated statement of income.

(3.26) End of service benefits

The provision for end of service benefits is based on IAS 19 "Employee Benefits", the rules stated under the Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries. The provision for the Group is also in line with independent actuarial valuation.

Benefits payable to the employees of the Group at the end of their services are accrued based on actuarial valuation and are included in other liabilities in the consolidated statement of financial position.

(3.27) Staff compensation

The Bank's Board of Directors and its Nomination, Compensation and Governance Committee oversee the design and implementation of the Bank's Compensation System in accordance with SAMA's Compensation Rules and Financial Stability Board (FSB) Principles and Standards of Sound Compensation Practice.

The Nomination, Compensation and Governance Committee was established by the Board of Directors and is composed of three non-executive members including the Chairman of the Committee. The Committee's role and responsibilities are in line with SAMA's Compensation Rules.

The Committee is responsible for the development and implementation of the compensation system and oversight of its execution, with the objective of preventing excessive risk-taking and promoting corporate financial soundness. The Committee submits its recommendations, resolutions and reports to the Board of Directors for approval.

Key elements of compensation in the Bank:

(3.27.1) Fixed Compensation

The fixed compensation includes salaries, allowances and benefits. Salaries are set in relation to market rates to attract, retain and motivate talented individuals. Salary administration is based on key processes such as job evaluation, performance appraisal and pay scales structure. The competitiveness of pay scales is monitored and maintained through participation in regular market pay surveys.

(3.27.2) Variable Compensation

Variable compensation aims at driving performance and limiting excessive risk taking. The Group operates three plans under variable compensation:

(a) Short Term Incentive Plan (Annual Performance Bonus)

The annual performance bonus aims at supporting the achievement of a set of annual financial and non-financial objectives. The financial objectives relate to the economic performance of the Group's is business, while the non-financial objectives relate to some other critical objectives relating, for example, to complying with risk and control measures, employees development, teamwork, staff morale etc.

The Group has established a regular performance appraisal process aimed at assessing employees' performance and contribution. Annual performance bonus payments are based on employee contributions, business performance and the Group's overall results. The overall annual performance bonus pool is set as a percentage of the Group's net income, adjusted to reflect the core performance of the employees. The Group does not operate a guaranteed bonus plan.

The cost of this plan is recognised in the consolidated statement of income of the year to which it relates and is normally paid during the 1st quarter of the following year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(3.27) Staff compensation (continued)

(3.27.2) Variable Compensation (continued)

(b) Long Term Performance Plan

This plan aims at driving and rewarding achievements that lead to long term corporate success, measured on the basis of return on net income attributable to the equity holders of the Bank. The plan is rolled out in 3-year cycles. The Bank's actual performance is assessed at the end of each cycle for determining actual payout amounts.

Although all executives whose roles and accountabilities are likely to influence the Bank's long term success are eligible to participate in this plan, their actual selection to participate in the plan is made through a vetting process to ensure their meeting of some mission critical criteria.

The cost of the plan is estimated by reference to a set of expected net income forecasts at the beginning of each cycle and is reviewed annually.

The estimated plan cycle cost is apportioned and charged equally to the annual statements of income of the plan years. The estimate is revised annually and the difference between the latter and former estimate is apportioned and charged equally over the balance of the plan cycle.

(c) Share Based Payment Arrangements

The Bank maintain an equity-settled share based payment plan for its key management. The grant-date fair value of such share-based payment arrangement granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

If the employees are not entitled to dividends declared during the vesting period, then the fair value of these equity instruments is reduced by the present value of dividends expected to be paid compared with the fair value of equity instruments that are entitled to dividends. If the employees are entitled to dividends declared during the vesting period, then the accounting treatment depends on whether the dividends are forfeitable. Forfeitable dividends are treated as dividend entitlements during the vesting period. If the vesting conditions are not met, then any true-up of the share-based payment would recognise the profit or loss effect of the forfeiture of the dividend automatically because the dividend entitlements are reflected in the grant-date fair value of the award.

In cases, where an award is forfeited (i.e. when the vesting conditions relating to award are not satisfied), the Bank reverses the expense relating to such awards previously recognised in the consolidated statement of income. Where an equity-settled award is cancelled (other than forfeiture), it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The Group acquires its own shares in connection with the anticipated grant of shares to the key management in future. Until such time as the beneficial ownership of such shares in the Bank passes to the employees, the unallocated / non-vested shares are treated as treasury shares.

(3.28) Tier 1 sukuk

The Group classifies Sukuk issued with no fixed redemption/maturity dates (Perpetual Sukuk) and not obliging the Group for payment of profit as part of equity.

The related initial costs and distributions thereon are recognised directly in the consolidated statement of changes in equity under retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018 and 2017

4. CASH AND BALANCES WITH SAMA

	2018 **SAR '000**	2017 SAR '000
Cash in hand	**10,217,631**	10,529,175
Balances with SAMA:		
Statutory deposit	**19,237,015**	18,045,112
Money market placements and current accounts	**3,059,429**	9,394,947
Cash and balances with SAMA	**32,514,075**	37,969,234

In accordance with article (7) of the Banking Control Law and regulations issued by Saudi Arabian Monetary Authority (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits calculated at the end of each Gregorian month (see note 37). The statutory deposits with SAMA are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents (see note 32).

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

	2018 **SAR '000**	2017 SAR '000
Current accounts	**4,992,782**	4,711,135
Money market placements	**10,031,916**	16,206,414
Reverse repos (note 34(e))	**939,753**	1,048,669
Due from banks and other financial institutions, net	**15,964,451**	21,966,218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018 and 2017

6. INVESTMENTS, NET

(6.1) Investments are classified as follows:

	SAR '000		
	Domestic	**International**	**Total**
2018			
Fixed rate securities	-	91,735	91,735
Equity instruments	22,402	812,689	835,091
Mutual Funds, Hedge Funds and Others	1,214,389	2,813,658	4,028,047
Held at FVIS	1,236,791	3,718,082	4,954,873
Fixed rate securities	6,107,136	21,266,232	27,373,368
Floating rate securities	11,473,755	7,496,228	18,969,983
Equity instruments	1,335,196	155,108	1,490,304
Held at FVOCI, net	18,916,087	28,917,568	47,833,655
Fixed rate securities	25,565,398	9,586,573	35,151,971
Floating rate securities	27,321,361	2,933,247	30,254,608
ECL	(22,763)	(82,136)	(104,899)
Investments held at amortised cost, net	52,863,996	12,437,684	65,301,680
Investments, net	73,016,874	45,073,334	118,090,208
2017			
Mutual funds	646,652	-	646,652
Held for trading	646,652	-	646,652
Hedge funds	-	1,332,121	1,332,121
Held as FVIS	-	1,332,121	1,332,121
Fixed rate securities	-	12,072,914	12,072,914
Floating rate securities	-	2,776,746	2,776,746
Equity instruments, Mutual Funds, Hedge Funds and Others	22,402	2,500,573	2,522,975
Available for sale, net	22,402	17,350,233	17,372,635
Fixed rate securities	-	663,420	663,420
Floating rate securities	33,861	-	33,861
Held to maturity	33,861	663,420	697,281
Fixed rate securities	28,230,029	26,123,846	54,353,875
Floating rate securities	32,803,224	7,403,688	40,206,912
Impairment allowance	(6,542)	(25,109)	(31,651)
Other Investments held at amortised cost, net	61,026,711	33,502,425	94,529,136
Investments, net	61,729,626	52,848,199	114,577,825

6. INVESTMENTS, NET (continued)

(6.2) An analysis of changes in loss allowance for debt instruments carried at amortized cost and FVOCI, is as follows:

	SAR '000			
	Stage 1	Stage 2	Stage 3	
2018	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January 2018	**145,298**	**83,948**	**-**	**229,246**
Net ECL charge/(reversal)	**(38,638)**	**17,441**	**-**	**(21,197)**
Transfer to 12 months ECL	**-**	**-**	**-**	**-**
Transfer to lifetime ECL not credit-impaired	**(685)**	**685**	**-**	**-**
Transfer to lifetime ECL credit impairmed	**-**	**-**	**-**	**-**
Foreign currency translation and other adjustments	**(1,644)**	**3**	**-**	**(1,641)**
Balance as at 31 December 2018	**104,331**	**102,077**	**-**	**206,408**

Total ECL and other impairment charge for the year ended 31 December 2018 amounts to SAR 83 million. net of the reversal of SAR 21.2 million.

(6.3) The analysis of the composition of investments is as follows:

	2018 SAR '000		
	Quoted	**Unquoted**	**Total**
Fixed rate securities	**54,936,532**	**7,680,542**	**62,617,074**
Floating rate securities	**40,345,771**	**8,878,820**	**49,224,591**
Equity instruments, Mutual Funds, Hedge Funds and Others	**4,061,631**	**2,291,811**	**6,353,442**
ECL	**(83,355)**	**(21,544)**	**(104,899)**
Investments, net	**99,260,579**	**18,829,629**	**118,090,208**

	2017 SAR '000		
	Quoted	Unquoted	Total
Fixed rate securities	48,987,269	18,102,940	67,090,209
Floating rate securities	17,627,296	25,390,223	43,017,519
Equity instruments, Mutual Funds, Hedge Funds and Others	1,642,294	2,859,454	4,501,748
Impairment	(22,504)	(9,147)	(31,651)
Investments, net	68,234,355	46,343,470	114,577,825

6. INVESTMENTS, NET (continued)

(6.3) The analysis of the composition of investments is as follows (continued):

Unquoted instruments mainly comprise of fixed and floating rate Saudi Government Securities, Foreign Government and Foreign Quasi Government Bonds.

Investments held at amortised cost include investments amounting to SAR 7,962 million (2017: SAR 13,200 million) which are held under a fair value hedge relationship. As at 31 December 2018, the fair value of these investments amount to SAR 7,888 million (2017: SAR 13,031 million).

Investments, net, include securities that are issued by the Ministry of Finance of Saudi Arabia amounting to SAR 55,189 million, (2017: SAR 44,126 million) and also include investment in sukuks amounting to SAR 23,575 million, (2017: SAR 24,283 million).

FVOCI investments include equity instruments designated as FVOCI amounting to SAR 1,249 million, including local public equities of SAR 1,234 million.

Dividend income recognized during 2018 for FVOCI investments amount to SAR 23 million.

(6.4) Securities lending transactions

The Group pledges financial assets for the securities lending transactions which are generally conducted under terms that are usual and customary for standard securitised borrowing contracts. As at 31 December 2018, securities amounting to SAR 1,836 million (2017: SAR 2,278 million) have been lent to counterparties under securities lending transactions.

(6.5) The analysis of unrealised revaluation gains/(losses) and fair values of held to maturity investments and investments held at amortised cost are as follows:

(a) Investments held at amortised cost

	2018 SAR '000			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
Fixed rate securities	**35,151,971**	**29,413**	**(1,291,289)**	**33,890,095**
Floating rate securities	**30,254,608**	**252**	**(126,638)**	**30,128,222**
ECL	**(104,899)**	**-**	**-**	**(104,899)**
Total other investments held at amortised cost, net	**65,301,680**	**29,665**	**(1,417,927)**	**63,913,418**

6. INVESTMENTS, NET (continued)

(6.5) The analysis of unrealised revaluation gains/(losses) and fair values of held to maturity investments and investments held at amortised cost are as follows (continued)

(a) Investments held at amortised cost (continued)

	2017 SAR '000			
	Carrying value	Gross unrealised gain	Gross unrealised loss	Fair value
i) Held to maturity				
Fixed rate securities	663,420	-	(11,017)	652,403
Floating rate securities	33,861	-	-	33,861
Total held to maturity	697,281	-	(11,017)	686,264
ii) Other investments held at amortised cost				
Fixed rate securities	54,353,875	403,749	(629,113)	54,128,511
Floating rate securities	40,206,912	573,180	(286,542)	40,493,550
Impairment	(31,651)	-	-	(31,651)
Total other investments held at amortised cost, net	94,529,136	976,929	(915,655)	94,590,410

(6.6) Counterparty analysis of the Group's investments, net of impairment

	2018 SAR '000	2017 SAR '000
Government and Quasi Government	**102,201,805**	100,441,301
Corporate	**10,623,618**	8,471,232
Banks and other financial institutions	**5,264,785**	5,665,292
Total	**118,090,208**	114,577,825

7. FINANCING AND ADVANCES, NET

(7.1) Financing and advances

	SAR '000				
2018	**Consumer & Credit card**	**Corporate**	**International**	**Others**	**Total**
Performing financing and advances	**100,189,656**	**132,148,891**	**21,093,653**	**14,063,831**	**267,496,031**
Non-performing financing and advances	**561,579**	**3,402,684**	**1,226,392**	**56,722**	**5,247,377**
Total financing and advances	**100,751,235**	**135,551,575**	**22,320,045**	**14,120,553**	**272,743,408**
Allowance for financing losses (ECL allowances) (note 7.2)	**(1,549,269)**	**(4,628,707)**	**(1,108,952)**	**(139,089)**	**(7,426,017)**
Financing and advances, net	**99,201,966**	**130,922,868**	**21,211,093**	**13,981,464**	**265,317,391**

	SAR '000				
2017	Consumer & Credit card	Corporate	International	Others	Total
Performing financing and advances	93,646,577	121,721,397	25,977,050	9,921,126	251,266,150
Non-performing financing and advances	566,868	2,800,304	1,399,993	1,827	4,768,992
Total financing and advances	94,213,445	124,521,701	27,377,043	9,922,953	256,035,142
Allowance for financing losses (specific and collective) (note 7.2)	(1,335,508)	(4,145,982)	(1,261,039)	(58,367)	(6,800,896)
Financing and advances, net	92,877,937	120,375,719	26,116,004	9,864,586	249,234,246

Others include private banking customers and bank loans.

Financing and advances, net, include financing products in compliance with Shariah rules mainly Murabaha, Tayseer and Ijara amounting to SAR 221,998 million (2017: SAR 210,751 million).

Allowance for financing losses related to financing products in compliance with Shariah rules is SAR 6,405 million (2017: SAR 5,601 million).

Special commission relating to non-performing financing and advances is SAR 182 million (2017: SAR 140 million).

7. FINANCING AND ADVANCES, NET (continued)

(7.2) Movement in loss allowance for financing and advances at amortised cost and finance lease receivables for the period is as follows:

	SAR '000			
	Stage 1	Stage 2	Stage 3	
2018	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at 1 January 2018	**2,713,436**	**1,700,263**	**3,821,815**	**8,235,514**
Net impairment charge	**(129,061)**	**159,191**	**2,133,569**	**2,163,699**
Transfer to 12 months ECL	**116,226**	**(64,695)**	**(51,531)**	**-**
Transfer to lifetime ECL not credit-impaired	**(56,312)**	**64,429**	**(8,117)**	**-**
Transfer to lifetime ECL credit impairmed	**(39,060)**	**(679,562)**	**718,622**	**-**
Bad debts written off	**-**	**-**	**(2,538,816)**	**(2,538,816)**
Foreign currency translation differences	**(39,184)**	**(81,842)**	**(313,354)**	**(434,380)**
Balance as at 31 December 2018	**2,566,045**	**1,097,784**	**3,762,188**	**7,426,017**

2017	SAR ’000 Total
Balance as at 1 January 2017	5,928,407
Net impairment charge	2,700,467
Bad debts (written off)	(1,722,278)
Foreign currency translation and other adjustments	(105,700)
Balance as at 31 December 2017	6,800,896

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018 and 2017

7. FINANCING AND ADVANCES, NET (continued)

(7.3) Impairment charge for financing and advances losses in the consolidated statement of income represents:

	SAR '000			
2018	**Stage 1** **12 month ECL**	**Stage 2** **Lifetime ECL not credit impaired**	**Stage 3** **Lifetime ECL credit impaired**	**Total**
Net impairment charge	**(129,061)**	**159,191**	**2,133,569**	**2,163,699**
Provision/(reversal) against indirect facilities (included in other liabilities)	**(49,122)**	**(1,740)**	**10,490**	**(40,372)**
Recoveries of debts previously written-off	**-**	**-**	**(794,583)**	**(794,583)**
Others	**(1,868)**	**(6,055)**	**-**	**(7,923)**
Direct write-off	**-**	**23,218**	**3,032**	**26,250**
Net charge for the year	**(180,051)**	**174,614**	**1,352,508**	**1,347,071**

	SAR '000				
2017	Consumer & Credit card	Corporate	International	Others	Total
Net impairment charge	1,155,183	1,188,013	339,297	17,974	2,700,467
Charge/(reversal) against indirect facilities (included in other liabilities)	-	(29,851)	3,299	(17,973)	(44,525)
(Recoveries) of debts previously written-off	(719,992)	(31,158)	(41,236)	-	(792,386)
Direct write-off	67	-	-	29,238	29,305
Net charge for the year	435,258	1,127,004	301,360	29,239	1,892,861

7. FINANCING AND ADVANCES, NET (continued)

(7.4) Collateral

The Group, in the ordinary course of its lending activities, holds collaterals as security to mitigate credit risk in the financing and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other long term assets. The collaterals are held mainly against corporate and consumer loans and are managed against relevant exposures at their net realizable values.

Fair value of collateral held by Group against financing and advances by each category are as follows:

	2018 **SAR '000**	2017 SAR '000
Neither past due nor impaired	**78,129,269**	77,135,269
Past due but not impaired	**5,918,898**	3,643,127
Impaired	**1,730,440**	1,803,307
Total	**85,778,607**	82,581,703

Those collaterals, which are not readily convertible into cash (i.e. real estate), are accepted by the Group with intent to dispose off in case of default by the customer.

(7.5) Economic sector risk concentrations for the financing and advances and allowances for financing losses are as follows:

2018	**Gross financing and advances SAR' 000**	**ECL allowance SAR' 000**	**Financing and advances, net SAR' 000**
Government and quasi Government	**3,357,785**	**(40)**	**3,357,745**
Banks and other financial institutions	**8,576,737**	**(61,171)**	**8,515,566**
Agriculture and fishing	**653,379**	**(21,784)**	**631,595**
Manufacturing	**32,555,268**	**(1,495,323)**	**31,059,945**
Mining and quarrying	**8,690,808**	**(31,465)**	**8,659,343**
Electricity, water, gas and health services	**19,049,710**	**(174,068)**	**18,875,642**
Building and construction	**17,440,539**	**(1,433,455)**	**16,007,084**
Commerce	**35,227,625**	**(2,112,085)**	**33,115,540**
Transportation and communication	**13,845,257**	**(149,025)**	**13,696,232**
Services	**27,278,774**	**(269,061)**	**27,009,713**
Consumers	**100,751,234**	**(1,549,269)**	**99,201,965**
Others	**5,316,292**	**(129,271)**	**5,187,021**
Financing and advances, net	**272,743,408**	**(7,426,017)**	**265,317,391**

7. FINANCING AND ADVANCES, NET (continued)

(7.5) Economic sector risk concentrations for the financing and advances and allowances for financing losses are as follows (continued)

2017	**Gross financing and advances** SAR' 000	Specific allowance SAR' 000	Financing and advances, net SAR' 000
Government and quasi Government	1,306,565	-	1,306,565
Banks and other financial institutions	4,763,541	(75)	4,763,466
Agriculture and fishing	834,457	(20,337)	814,120
Manufacturing	32,446,219	(688,943)	31,757,276
Mining and quarrying	7,105,112	(6,261)	7,098,851
Electricity, water, gas and health services	18,923,033	(17,577)	18,905,456
Building and construction	12,585,950	(883,261)	11,702,689
Commerce	42,126,309	(1,303,163)	40,823,146
Transportation and communication	11,602,877	(97,351)	11,505,526
Services	22,340,454	(179,254)	22,161,200
Consumers	94,213,444	(307,612)	93,905,832
Others	7,787,181	(64,721)	7,722,460
	256,035,142	(3,568,555)	252,466,587
Portfolio (collective) allowance			(3,232,341)
Financing and advances, net			249,234,246

(7.6) Financing and advances include finance lease receivables (including Ijara in compliance with Shariah rules) which are analysed as follows:

	2018 **SAR '000**	2017 SAR '000
Gross receivables from finance leases:		
Less than 1 year	**1,453,535**	1,577,736
1 to 5 years	**16,611,382**	18,480,749
Over 5 years	**35,016,355**	29,928,942
Total	**53,081,272**	49,987,427
Unearned finance income on finance leases		
Less than 1 year	**(106,040)**	(149,587)
1 to 5 years	**(3,269,665)**	(3,712,737)
Over 5 years	**(9,587,458)**	(8,712,654)
Total	**(12,963,163)**	(12,574,978)
Net finance lease receivables:		
Less than 1 year	**1,347,495**	1,428,149
1 to 5 years	**13,341,717**	14,768,012
Over 5 years	**25,428,897**	21,216,288
Total	**40,118,109**	37,412,449

Allowance for uncollectable finance lease receivables included in the allowance for financing losses is SAR 538 million (2017: SAR 607 million).

8. INVESTMENTS IN ASSOCIATES, NET

	2018 SAR '000	2017 SAR '000
Cost:		
At the beginning of the year	**1,014,000**	1,014,000
At 31 December	**1,014,000**	1,014,000
Allowance for impairment and share of results:		
At beginning of the year	**(563,952)**	(582,844)
Share of results in associates	**1,070**	21,392
Dividends	**(3,747)**	(2,500)
At 31 December	**(566,629)**	(563,952)
Investment in associates, net	**447,371**	450,048

Investment in associates primarily consists of a 60% (2017: 60%) ownership interest in the Commercial Real Estate Markets Company and 29.9% (2017: 29.9%) ownership interest in Al-Ahli Takaful Company, which are both registered in the Kingdom of Saudi Arabia.

As of 31 December 2018, the quoted share price of Alahli Takaful Company was SAR 28.50 (31 December 2017: SAR 32.61). Commercial Real Estate Markets Company is not listed on any stock exchange.

9. OTHER REAL ESTATE, NET

	2018 SAR '000	2017 SAR '000
Cost:		
At beginning of the year	**976,678**	923,291
Additions	**350,967**	92,608
Disposals	**(45,377)**	(39,221)
At 31 December	**1,282,268**	976,678
Provision and foreign currency translation:		
Foreign currency translation adjustment	**(97,570)**	(61,511)
Provision for impairment	**(52,421)**	(53,644)
At 31 December	**(149,991)**	(115,155)
Other real estate, net	**1,132,277**	861,523

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018 and 2017

10. PROPERTY, EQUIPMENT AND SOFTWARE, NET

	2018					
	Land, buildings and leasehold improvements SAR '000	**Furniture, equipment and vehicles SAR '000**	**Software SAR '000**	**Capital work in progress SAR '000**	**Total SAR '000**	Land, buildings and leasehold improvements SAR '000
Cost:						
At beginning of the year	**5,240,086**	**2,860,793**	**1,951,548**	**465,455**	**10,517,882**	4,226,812
Foreign currency translation adjustment	**(193,498)**	**(74,459)**	**(63,071)**	**(2,950)**	**(333,978)**	(17,189)
Additions	**192,471**	**213,574**	**33,860**	**457,923**	**897,828**	310,884
Disposals and retirements	**(4,270)**	**(37,871)**	**(222)**	**-**	**(42,363)**	(1,237)
Transfer from capital work in progress	**245,606**	**91,929**	**198,605**	**(536,140)**	**-**	720,816
As at 31 December	**5,480,395**	**3,053,966**	**2,120,720**	**384,288**	**11,039,369**	5,240,086
Accumulated depreciation/amortisation:						
At beginning of the year	**2,036,325**	**1,989,018**	**1,211,867**	**-**	**5,237,210**	1,830,512
Foreign currency translation adjustment	**(21,132)**	**(49,333)**	**(48,800)**	**-**	**(119,265)**	(2,868)
Charge for the year	**230,933**	**226,402**	**149,990**	**-**	**607,325**	212,156
Disposals and retirements	**(2,892)**	**(30,606)**	**(14)**	**-**	**(33,512)**	(3,475)
As at 31 December	**2,243,234**	**2,135,481**	**1,313,043**	**-**	**5,691,758**	2,036,325
Net book value:						
As at 31 December	**3,237,161**	**918,485**	**807,677**	**384,288**	**5,347,611**	3,203,761

11. GOODWILL

(11.1) Net book value

	2018 SAR '000	2017 SAR '000
Cost:		
At beginning of the year	**745,672**	801,518
Foreign currency translation adjustment	**(241,322)**	(55,846)
As at 31 December	**504,350**	745,672
Amortisation, impairment and foreign currency translation:		
At beginning of the year	**442,635**	475,785
Impairment loss for the year	**204,965**	-
Foreign currency translation adjustment	**(143,250)**	(33,150)
At 31 December	**504,350**	442,635
Net book value:		
At 31 December	**-**	303,037

(11.2) Türkiye Finans Katılım Bankası A.Ş., (TFKB)

In accordance with the requirements of International Financial Reporting Standards (IFRS), the Group's management has carried out an impairment test in respect of the goodwill that arised on the acquisition of Türkiye Finans Katılım Bankası A.Ş (TFKB).

The recoverable amount for TFKB as a Cash Generating Unit (CGU) has been determined based on value in use calculation by using Dividend Discount Model, built on the five-year projections approved by the senior management of TFKB. In preparing the forecasts for the value in use calculation, management has made certain assumptions regarding the future cash flows and level of earnings. Further, the key assumptions used in the calculation of value in use are the discount rate and the perpetual growth rate; the discount rate being a function of the beta, risk free rate, equity risk premium, and expected inflation.

Discount rate of 23.29% (2017: 14.38%), computed using the Capital Asset Pricing Method (CAPM) was used to calculate the present value of future cashflows.

The management compared the value in use, calculated based on the above assumptions, with the carrying value of TFKB as at the date of the impairment test. As a result, the value in use of TFKB was lower than its carrying value; hence, an impairment loss on goodwill has been recognised in respect of TFKB for the year ended 31 December 2018.

If the discount rate used for the value in use calculation had been adjusted by +/-1% with all other factors remaining constant, the value in use of TFKB would not have been materially different.

12. OTHER ASSETS

	2018 **SAR '000**	2017 SAR '000
Assets purchased under Murabah arrangements	**2,237,670**	1,309,455
Prepayments and advances	**1,839,121**	958,052
Margin deposits against derivatives and repos (note 35.1)	**4,422,619**	6,306,944
Others	**2,164,054**	2,569,602
Total	**10,663,464**	11,144,053

13. DERIVATIVES

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

(a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For 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 and fixed and floating special commission payments are exchanged in different currencies.

(b) Forwards and futures

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

(c) Forward rate agreements

Forward rate agreements are individually 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.

(d) Options

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

13. DERIVATIVES (continued)

(e) Structured derivative products

Structured derivative products provide financial solutions to the customers of the Group to manage their risks in respect of foreign exchange, special commission rate and commodity exposures and enhance yields by allowing deployment of excess liquidity within specific risk and return profiles. The majority of the Group's structured derivative transactions are entered on a back-to-back basis with various counterparties.

(13.1) Derivatives held for trading purposes

Most of the Group’s derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves profiting from price differentials between markets or products.

(13.2) Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk (see note 35 - credit risk, note 36 - market risk and note 37 - liquidity risk). Part of the risk management process involves managing the Group'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 levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure that positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce special commission rate gaps to within the established limits.

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

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures. The Group 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 details of the hedged items and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

13. DERIVATIVES (continued)

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

				(SAR '000) Notional amounts by term to maturity				
2018	**Positive fair value**	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Special commission rate instruments	**2,678,597**	**(2,387,874)**	**212,624,498**	**4,060,000**	**10,464,021**	**125,363,499**	**72,736,978**	**189,975,176**
Forward foreign exchange contracts	**335,677**	**(73,316)**	**80,779,791**	**34,910,151**	**24,331,245**	**21,538,395**	**-**	**72,112,689**
Options	**35**	**(36)**	**22,560**	**22,560**	**-**	**-**	**-**	**253,477**
Structured derivatives	**8,371**	**(9,342)**	**2,600,149**	**341,499**	**2,218,500**	**40,150**	**-**	**8,749,758**
Held as fair value hedges:								
Special commission rate instruments	**687,692**	**(424,863)**	**23,938,733**	**-**	**157,221**	**4,435,263**	**19,346,249**	**19,647,292**
Held as cash flow hedges:								
Special commission rate instruments	**202,677**	**(383,699)**	**12,228,663**	**5,000,000**	**1,707,025**	**4,568,822**	**952,816**	**12,151,923**
Total	**3,913,049**	**(3,279,130)**	**332,194,394**	**44,334,210**	**38,878,012**	**155,946,129**	**93,036,043**	

				(SAR '000) Notional amounts by term to maturity				
2017	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate instruments	2,044,157	(1,729,135)	132,471,806	-	12,282,458	63,472,831	56,716,517	114,768,806
Forward foreign exchange contracts	318,781	(48,284)	77,702,130	35,274,902	20,898,697	21,528,531	-	82,752,411
Options	13,173	(9,482)	326,049	98,574	227,475	-	-	558,075
Structured derivatives	86,233	(90,513)	19,345,542	916,326	9,511,316	8,917,900	-	32,099,788
Held as fair value hedges:								
Special commission rate instruments	365,744	(276,401)	16,306,897	-	954,375	1,926,311	13,426,211	13,201,258
Held as cash flow hedges:								
Special commission rate instruments	176,758	(401,072)	12,487,217	-	300,000	10,837,498	1,349,719	11,954,204
Total	3,004,846	(2,554,887)	258,639,641	36,289,802	44,174,321	106,683,071	71,492,447	

13. DERIVATIVES (continued)

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

2018	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
				(SAR '000)		
Description of hedged items						
Fixed rate instruments	**23,072,793**	**23,566,418**	Fair value	Special commission rate instruments	**687,692**	**(424,863)**
Fixed rate and floating rate instruments	**11,037,417**	**10,907,294**	Cash flow	Special commission rate instruments	**202,677**	**(383,699)**
2017						
Description of hedged items						
Fixed rate instruments	15,872,613	15,940,996	Fair value	Special commission rate instruments	365,744	(276,401)
Fixed rate and floating rate instruments	11,249,498	11,306,777	Cash flow	Special commission rate instruments	176,758	(401,072)

Approximately 70% (2017: 50%) of the positive fair value of the Group's derivatives are entered into with financial institutions and 30% (2017: 50%) of the positive fair value contracts are with non-financial institutions at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Group's Treasury segment.

Cash flows hedges:

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Bank generally uses special commission rate swaps as hedging instruments to hedge against 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 profit or loss:

	SAR' 000			
	Within 1 year	**1-3 years**	**3-5 years**	**Over 5 years**
2018				
Cash inflows (assets)	**318,899**	**354,480**	**144,608**	**104,348**
Cash outflows (liabilities)	**(269,701)**	**(279,604)**	**(105,660)**	**(67,076)**
Net cash inflows (outflows)	**49,198**	**74,876**	**38,948**	**37,272**

	SAR' 000			
	Within 1 year	1-3 years	3-5 years	Over 5 years
2017				
Cash inflows (assets)	144,743	290,900	665,973	113,338
Cash outflows (liabilities)	(157,860)	(226,832)	(553,765)	(84,785)
Net cash inflows (outflows)	(13,117)	64,068	112,208	28,553

14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 **SAR '000**	2017 SAR '000
Current accounts	**10,938,366**	5,449,629
Money market deposits	**11,996,876**	15,421,144
Repos (note 34a)	**23,027,608**	27,687,168
Total	**45,962,850**	48,557,941

15. CUSTOMERS' DEPOSITS

	2018 **SAR '000**	2017 SAR '000
Current accounts	**254,744,356**	237,768,744
Savings	**125,938**	120,628
Time	**49,747,561**	57,974,382
Others	**14,080,936**	13,078,366
Total	**318,698,791**	308,942,120

Other customers’ deposits include SAR 3,096 million (2017: SAR 3,522 million) of margins held for irrevocable commitments and contingencies (note 21).

International segment deposits included in customers' deposits comprise of:

	2018 **SAR '000**	2017 SAR '000
Current accounts	**6,867,202**	6,831,719
Savings	-	-
Time	**12,113,741**	14,702,820
Others	**299,820**	451,496
Total	**19,280,763**	21,986,035

Details on foreign currency deposits included in customers' deposits as follows:

	2018 **SAR '000**	2017 SAR '000
Current accounts	**12,855,921**	13,780,018
Savings	**341**	460
Time	**25,282,179**	27,650,775
Others	**1,204,503**	1,098,722
Total	**39,342,944**	42,529,975

16. DEBT SECURITIES ISSUED

Issuer	Year of issue	Tenure	Particulars	2018 SR '000	2017 SR '000
National Commercial Bank	2014	10 years	Non-convertible unlisted sukuk, callable on the 5th anniversary of the issue date, carrying profit payable semi-annually. On 27 December 2018 the Bank announced its intention to exercise the callable option available under the terms of issuance of Sukuk. The option is expected to be exercised on 25 February 2019.	**5,069,111**	5,055,540
Türkiye Finans Katılım Bankası A.Ş.	2013	5 years	Non-convertible sukuk listed on the Irish Stock Exchange, carrying profit at a fixed rate payable semi-annually.	**-**	1,531,388
	2014	5 years	Non-convertible sukuk listed on the Irish Stock Exchange, carrying profit at a fixed rate payable semi-annually.	**1,848,509**	1,885,170
	2014	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	**718,509**	742,832
	2015	5 years	Non-convertible unlisted sukuk, carrying profit at a fixed rate payable semi-annually.	**327,524**	338,613
	2017	6 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate.	**-**	696,767
	2018	1 Year	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate.	**6,296**	-
	2018	4 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate.	**294,324**	-
	2018	3 months	Non-convertible sukuk listed on the Borsa Istanbul, carrying profit at a fixed rate.	**1,166,634**	-
Total				**9,430,907**	10,250,310

Movement of the debt securities issued during the year is as follows:

	2018 SAR '000	2017 SAR '000
Balance at beginning of the year	**10,250,310**	9,917,765
Debt securities issued	**3,028,039**	1,244,665
Debt securities payment	**(3,457,626)**	(991,044)
Foreign currency translation adjustment	**(389,816)**	78,924
Balance at the end of the year	**9,430,907**	10,250,310

17. OTHER LIABILITIES

	2018 **SAR '000**	2017 SAR '000
Zakat payable including subsidiaries (see note below)	**1,180,024**	1,588,056
Staff-related payables	**1,114,596**	1,140,330
Accrued expenses and accounts payable	**3,612,676**	2,839,607
Allowances for indirect facilities (note 7.3)	**349,146**	308,793
Employee benefit obligation (note 28)	**980,715**	1,069,819
Others	**3,112,353**	3,264,241
Total	**10,349,510**	10,210,846

During the year the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the Zakat Liability amounting to SAR 183 million for previous years and accordingly all assessment are finalised until 2017. The settlement agreement requires the Bank to settle the 20% of the agreed Zakat Liability in the current year and the remaining to be settled over a period of five years. Moreover, zakat charge for the year ended 31 December 2018 was SAR 934 million and has been computed in line with the basis of settlement agreement with GAZT.

18. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 3,000,000,000 shares of SAR 10 each (31 December 2017: 2,000,000,000 shares of SAR 10 each). The capital of the Bank excluding treasury shares (refer note 27) consists of 2,989,409,411 shares of SAR 10 each (31 December 2017: 1,994,798,024 shares of SAR 10 each).

On 28 December 2017 (corresponding to 10 Rabi-al-thani 1439H), the Board of Directors recommended an increase of 50% to the Bank's issued share capital through a 1 for 2 bonus issue to the Shareholders of the Bank, which was approved in the Extraordinary General Assembly meeting dated 15 May 2018. As of the reporting date, all required approvals in respect of the issue and corresponding increase in share capital have been obtained. Accordingly, the total shares in issue increased to 3,000,000,000 from 2,000,000,000 shares to reach total share capital of SAR 30,000,000,000.

19. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law, a minimum of 25% of the annual net income, inclusive of the overseas branches, is required to be transferred to a statutory reserve up to where the reserve equals a minium amount of the paid up capital of the Bank. Moreover, in accordance with the Regulation for Companies in Saudi Arabia, NCBC is also required to transfer a minimum of 10% of its annual net income (after Zakat) to statutory reserve.

TFKB transfers 5% of its previous year annual net income to statutory reserve.

The statutory reserves are not currently available for distribution.

20. OTHER RESERVES (CUMULATIVE CHANGES IN FAIR VALUES)

Other reserves represent the net unrealised revaluation gains (losses) of cash flow hedges (effective portion) and FVOCI investments. The movement of other reserves during the year is included under consolidated statement of other comprehensive income and the consolidated statement of changes in equity.

21. COMMITMENTS AND CONTINGENCIES

(21.1) Capital and other non-credit related commitments

As at 31 December 2018 the Bank had capital commitments of SAR 1,008 million (2017: SAR 679 million) in respect of building, equipment purchases and capital calls on private equity funds.

(21.2) Credit-related commitments and contingencies

Credit-related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and commitments to extend credit (irrevocable). The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees including standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as financing and

Cash requirements under guarantees are normally considerably less than the amount of the related commitment because the Group does not generally expect the third party to draw funds under the agreement.

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

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

Commitments to extend credit represent unused portions of authorisation to extended credit, principally in the form of financing, guarantees and letters of credit. With respect to credit risk relating to commitments to extend unused credit lines , the Group is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

(a) The contractual maturity structure of the Group's credit-related commitments and contingencies is as follows:

			(SAR '000)		
2018	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**8,503,542**	**2,012,922**	**195,970**	**88,060**	**10,800,494**
Guarantees	**7,620,613**	**15,670,270**	**7,588,067**	**2,682,584**	**33,561,534**
Acceptances	**1,310,801**	**817,456**	**52,439**	**4,466**	**2,185,162**
Irrevocable commitments to extend credit	**57,470**	**2,042,266**	**5,347,271**	**1,624,122**	**9,071,129**
Total	**17,492,426**	**20,542,914**	**13,183,747**	**4,399,232**	**55,618,319**

			(SAR '000)		
2017	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	6,596,625	2,903,560	508,285	8,724	10,017,194
Guarantees	10,093,357	18,790,443	8,097,296	3,877,209	40,858,305
Acceptances	1,623,408	844,515	43,088	4,098	2,515,109
Irrevocable commitments to extend credit	34,107	2,294,722	7,228,890	2,497,278	12,054,997
Total	18,347,497	24,833,240	15,877,559	6,387,309	65,445,605

21. COMMITMENTS AND CONTINGENCIES (continued)

(21.2) Credit-related commitments and contingencies (continued)

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

	2018 SAR '000	2017 SAR '000
Government and quasi	**9,782,819**	6,975,228
Corporate and establishment	**27,558,221**	41,826,553
Banks and other financial institutions	**15,318,416**	15,081,684
Others	**2,958,863**	1,562,140
Total	**55,618,319**	65,445,605

(21.3) Operating lease commitments

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

	2018 SAR '000	2017 SAR '000
Less than 1 year	**31,746**	27,675
1 to 5 years	**630,606**	476,951
Over 5 years	**904,955**	1,094,902
Total	**1,567,307**	1,599,528

22. NET SPECIAL COMMISSION INCOME

	2018 SAR '000	2017 SAR '000
Special commission income:		
Investments - FVOCI	**1,846,009**	-
Investments held at amortised cost	**1,820,913**	2,514,324
Investments - available for sale	**-**	695,403
Investments - held to maturity	**-**	7,061
Sub total - investments	**3,666,922**	3,216,788
Due from banks and other financial institutions	**680,687**	734,328
Financing and advances	**13,958,253**	13,029,785
Total	**18,305,862**	16,980,901
Special commission expense:		
Due to banks and other financial institutions	**914,061**	736,045
Customers' deposits	**2,426,783**	2,032,170
Debt securities issued	**594,811**	551,708
Total	**3,935,655**	3,319,923
Net special commission income	**14,370,207**	13,660,978

23. FEE INCOME FROM BANKING SERVICES, NET

	2018 SAR '000	2017 SAR '000
Fee income:		
Shares brokerage	**252,819**	282,332
Investment management services	**557,690**	439,789
Finance and lending	**1,482,863**	1,536,832
Credit cards	**665,803**	581,160
Trade finance	**446,735**	537,434
Others	**511,902**	396,705
Total	**3,917,812**	3,774,252
Fee expenses:		
Shares brokerage	**(92,034)**	(99,680)
Investment management services	**(8,714)**	(4,692)
Credit cards	**(527,149)**	(461,229)
Others	**(7,773)**	(3,400)
Total	**(635,670)**	(569,001)
Fee income from banking services, net	**3,282,142**	3,205,251

24. INCOME FROM FVIS INSTRUMENTS, NET

	2018 SAR '000	2017 SAR '000
Derivatives	**139,472**	202,864
Investments	**310,554**	101,176
Total	**450,026**	304,040

25. GAINS/INCOME ON NON-FVIS FINANCIAL INSTRUMENTS, NET

	2018 SAR '000	2017 SAR '000
Gains on disposal on non-FVIS financial instruments	**26,348**	482,048
Dividend income from non-FVIS financial instruments	**37,449**	15,837
Total	**63,797**	497,885

26. OTHER NON-OPERATING (EXPENSES) INCOME, NET

	2018 SAR '000	2017 SAR '000
Share of results of associates (note 8)	**1,070**	21,392
Gain on disposal of property and equipment	**18,014**	13,835
Other (expenses), net	**(34,686)**	(23,372)
Total	**(15,602)**	11,855

27. SHARE BASED PAYMENTS RESERVE

Employees' share based payment plan and Treasury

i) Employee share based payment plan:

The Bank established a share based compensation scheme for its key management that entitles the related personnel to be awarded shares in the Bank subject to successfully meeting certain service and performance conditions. Under the share based compensation scheme, the Bank launched various plans. Significant features of these plans are as follows:

Maturity dates	Between Dec. 2018 and Dec. 2020
Total number of shares granted on the grant date	7,060,393
Vesting period	3 years
Method of settlement	Equity
Fair value per share on grant date	Average SAR 44.54

ii) Treasury shares:

During the year ended 31 December 2018, the Bank acquired further treasury shares of SAR 112 million in connection with its employee share based payment plan (note 18), which has been duly approved by the concerned regulatory authorities. As a result of the foregoing and together with the bonus issue by the Bank, the aggregate balance of treasury shares amounts to SAR 373 million at the reporting date.

28. Employee benefit obligation

28.1 The characteristics of the end of service benefits scheme

The Group operates an unfunded end of service benefit plan (the plan) for its employees based on the prevailing Saudi Labor Laws. The liability in respect of the plan is estimated by a qualified external actuary in accordance with International Accounting Standard 19 – Employee Benefits, and using "Projected Unit Credit Method". The liability recognised in the consolidated statement of financial position in respect of the plan is the present value of the defined benefit obligation at the end of the reporting period. During the year, based on the actuarial assessment, a charge of SAR 175 million (2017: SAR 187 million) related to current service and interest cost was recorded in the consolidated statement of income. The end of service liability is disclosed in note 17.

28.2 The valuation of the defined benefit obligation

Liability under the plan is based on various assumptions ('actuarial assumptions") including the estimation of the discount rate, inflation rate, expected rate of salary increase and normal retirement ages. Based on the assumptions, also taking into consideration the future salary increases, cash outflows are estimated for the Group's employees as a whole giving the total payments expected over the future years, which are discounted to arrive at the closing obligation. Any changes in actuarial assumptions from one period to another may effect the determination of the estimated closing obligation, which is accounted for as an actuarial gain or loss for the period and the same are not material to the consolidated financial statements. In addition, changes, if any, in the assumptions, within a reasonable range, would have immaterial impact on future liability estimates.

29. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2018 and 31 December 2017 is calculated by dividing the net income attributable to common equity holders of the Bank (adjusted for Tier 1 sukuk costs) for the periods by the weighted average number of shares outstanding during the period.

Diluted earnings per share for the years ended 31 December 2018 and 31 December 2017 is calculated by dividing the fully diluted net income attributable to equity holders of the Bank for the year by the weighted average number of outstanding shares. The diluted earning per share are adjusted with the impact of the employees' share based payment plan.

Details of Basic and diluted earnings per share are as follows:

	Basic EPS		Diluted EPS	
	2018	2017	**2018**	2017
Weighted-Average number of shares outstanding (in thousands)	**2,989,719**	2,992,496	**2,994,432**	2,995,725
Earnings per share (in SAR)	**3.44**	3.16	**3.43**	3.16

30. TIER 1 SUKUK

During 2017, the Bank through a Shariah compliant arrangement ("the arrangement") issued further Tier 1 Sukuk (the "Sukuk"), amounting to SAR 1.3 billion. The initial issue amounting to SAR 5.7 billion took place during the year ended 31 December 2015 under similar arrangement. These arrangements were approved by the regulatory authorities and the shareholders of the Bank.

These Sukuks are perpetual securities in respect of which there is no fixed redemption dates and represents an undivided ownership interest of the Sukukholders in the Sukuk assets, with each Sakk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. However, the Bank shall have the exclusive right to redeem or call the Sukuks in a specific period of time, subject to the terms and conditions stipulated in the Sukuk Agreement.

The applicable profit rate on the Sukuks is payable quarterly in arrears on each periodic distribution date, except upon the occurrence of a non payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

31. DIVIDEND

During the year, the Board of Directors recommended dividends, net of zakat, for the year as follows:

	Amount SAR '000		Dividend per share SAR	
	2018	2017	**2018**	2017
Interim dividend paid	**2,989,409**	2,196,594	**1.00**	1.10
Proposed final dividend	**3,288,350**	1,196,879	**1.10**	0.60
Total net dividend	**6,277,759**	3,393,473	**2.10**	1.70
Zakat provision for the year attributable to the Bank's shareholders	**958,214**	1,361,446		
Total gross dividend	**7,235,973**	4,754,919		

32. 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 statutory deposits (note 4)	**13,277,060**	19,924,122
Due from banks and other financial institutions with original maturity of three months or less	**6,514,484**	8,878,037
Total	**19,791,544**	28,802,159

33. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's management.

The Group has five reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure.

Retail	Provides banking services, including lending and current accounts in addition to products in compliance with *Shariah* rules which are supervised by the independent Shariah Board, to individuals and private banking customers.
Corporate	Provides banking services including all conventional credit-related products and financing products in compliance with *Shariah* rules to small sized businesses, medium and large establishments and companies.
Treasury	Provides a full range of treasury and correspondent banking products and services, including money market and foreign exchange, to the Group’s clients, in addition to carrying out investment and trading activities (local and international) and managing liquidity risk, market risk and credit risk (related to investments).
Capital Market	Provides wealth management, asset management, investment banking and shares brokerage services (local, regional and international).
International	Comprises banking services provided outside Saudi Arabia including TFK.

Transactions between the operating segments are recorded as per the Bank and its subsidiaries' transfer pricing system.

The supports and Head Office expenses are allocated to segments using activity-based costing.

33. OPERATING SEGMENTS (continued)

(33.1) The Group's total assets and liabilities at year end, its operating income and expenses (total and main items) and net income for the year, by business segments, are as follows:

	(SAR '000)					
2018	**Retail**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Total assets	**125,907,701**	**138,202,813**	**154,762,527**	**1,601,693**	**32,915,163**	**453,389,897**
Total liabilities	**254,935,278**	**49,752,276**	**54,114,776**	**317,546**	**28,601,312**	**387,721,188**
- Customers' deposits	**242,543,480**	**48,051,642**	**8,819,013**	**3,893**	**19,280,763**	**318,698,791**
Total operating income from external customers	**6,770,095**	**6,475,285**	**3,336,638**	**720,166**	**1,625,039**	**18,927,223**
-Intersegment operating income (expense)	**2,148,043**	**(2,586,196)**	**536,394**	**-**	**(98,241)**	**-**
Total operating income	**8,918,138**	**3,889,089**	**3,873,032**	**720,166**	**1,526,798**	**18,927,223**
of which:						
Net special commission income	**7,466,920**	**2,972,437**	**2,663,211**	**9,884**	**1,257,755**	**14,370,207**
Fee income from banking services, net	**1,347,525**	**918,183**	**109,193**	**694,962**	**212,279**	**3,282,142**
Total operating expenses	**4,288,652**	**1,635,447**	**509,088**	**343,567**	**1,304,748**	**8,081,502**
of which:						
- Depreciation/amortisation of property, equipment and software	**396,110**	**76,629**	**47,892**	**15,955**	**70,739**	**607,325**
- Impairment charge for financing and advances losses, net	**274,077**	**723,552**	**(12,914)**	**-**	**362,356**	**1,347,071**
- Impairment charge on investments, net	**-**	**-**	**82,442**	**-**	**579**	**83,021**
- Impairment charge for goodwill	**-**	**-**	**-**	**-**	**204,965**	**204,965**
Other non-operating (expenses)/income, net	**(18,412)**	**(17,031)**	**(19,009)**	**(890)**	**39,740**	**(15,602)**
Net income for the period attributable to:	**4,611,074**	**2,236,611**	**3,344,935**	**375,709**	**261,790**	**10,830,119**
- Equity holders of the Bank	**4,611,074**	**2,236,611**	**3,344,935**	**363,198**	**111,498**	**10,667,316**
- Non-controlling interests	**-**	**-**	**-**	**12,511**	**150,292**	**162,803**

	(SAR '000)					
2017	Retail	Corporate	Treasury	Capital Market	International	Total
Total assets	116,530,257	126,184,239	162,509,658	1,387,858	38,179,690	444,791,702
Total liabilities	242,116,000	44,549,279	61,269,698	274,984	32,306,143	380,516,104
- Customers' deposits	236,576,396	42,459,630	7,916,332	3,727	21,986,035	308,942,120
Total operating income from external customers	6,070,337	6,527,870	3,424,550	635,803	1,686,668	18,345,228
-Intersegment operating income (expense)	2,070,676	(2,433,408)	471,661	-	(108,929)	-
Total operating income	8,141,013	4,094,462	3,896,211	635,803	1,577,739	18,345,228
of which:						
Net special commission income	6,944,877	3,039,577	2,401,609	3,626	1,271,289	13,660,978
Fee income from banking services, net	1,164,553	1,043,613	97,467	618,934	280,684	3,205,251
Total operating expenses	4,226,918	2,107,061	546,248	343,663	1,168,536	8,392,426
of which:						
- Depreciation/amortisation of property, equipment and software	408,958	89,341	48,667	19,894	87,421	654,281
- Impairment charge for financing and advances losses, net	447,262	1,115,001	29,238	-	301,360	1,892,861
- Impairment charge on investments, net	-	-	75,846	-	-	75,846
- Impairment charge for goodwill	-	-	-	-	-	-
Other non-operating (expenses)/income, net	(15,637)	(15,282)	(8,148)	10,526	40,396	11,855
Net income for the period attributable to:	3,898,458	1,972,119	3,341,815	302,666	449,599	9,964,657
- Equity holders of the Bank	3,898,458	1,972,119	3,341,815	294,629	294,961	9,801,982
- Non-controlling interests	-	-	-	8,037	154,638	162,675

33. OPERATING SEGMENTS (continued)

(33.2) The Group's credit risk exposure, by business segments, is as follows:

	(SAR '000)					
2018	**Retail**	**Corporate**	**Treasury**	**Capital Market**	**International**	**Total**
Statement of financial position assets	**104,617,838**	**130,922,868**	**138,220,999**	**324,728**	**27,281,007**	**401,367,440**
Commitments and contingencies (credit equivalent)	**2,094,256**	**20,883,751**	**8,436,432**	-	**3,300,008**	**34,714,447**
Derivatives (credit equivalent)	-	-	**8,340,843**	-	**299,584**	**8,640,427**

	(SAR '000)					
2017	Retail	Corporate	Treasury	Capital Market	International	Total
Statement of financial position assets	97,826,237	120,344,250	140,641,450	180,833	31,572,918	390,565,688
Commitments and contingencies (credit equivalent)	786,546	23,961,571	9,409,124	-	5,831,735	39,988,976
Derivatives (credit equivalent)	-	-	6,860,015	-	224,252	7,084,267

The credit exposure of assets as per the consolidated statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, financing and advances, positive fair value of derivatives, other receivables and refundable deposits.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

34. COLLATERAL AND OFFSETTING

Following are the details of collaterals held/received by the Group and offsetting carried out as at 31 December 2018:

a) The Bank conducts Repo transactions under the terms that are usually based on the applicable GMRA (Global Master Repurchase Agreement) collateral guidelines. Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. These assets continue to be measured in accordance with related accounting policies for investments held at FVIS, held at FVOCI and investments held at amortised cost. The carrying amount and fair value of securities pledged under agreement to repurchase (repo) are as follows:

	2018		2017	
	SAR '000		SAR '000	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Held at FVOCI	**12,732,271**	**12,732,271**	-	-
Available for sale	-	-	8,401,915	8,401,915
Investments held at amortised cost	**13,245,936**	**13,013,197**	19,517,027	19,446,659
Total	**25,978,207**	**25,745,468**	27,918,942	27,848,574

The Bank has placed a margin deposit of SAR 245 million (2017: SAR 160 million) as an additional security for these repo transactions.

b) For details of collateral held in respect of financing and advances, please refer note 7.4.

c) Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2018 and 31 December 2017.

d) For details of margin deposits held for the irrevocable commitments and contingencies, please refer note 15 and for details of margin deposits against derivatives and repos, (refer note 12).

e) Securities pledged with the Group in respect of reverse repo transactions comprise of SAR 940 million (2017: SAR 1,049 million). The Group is allowed to sell or repledge these securities in the event of default by the counterparty.

f) No significant financial assets or liabilities were required to be offset during the year ended 31 December 2018.

35. CREDIT RISK

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument or transaction will fail to discharge an obligation and will cause the other party to incur a financial loss. Credit exposures arise principally in credit-related risk that is embedded in financing and advances and investments. There is also credit risk in off-statement of financial position financial instruments, such as trade-finance related products, derivatives and financing commitments.

For financing and advances and off-statement of financial position financing to borrowers, the Group assesses the probability of default of counterparties using internal rating models. For investments, due from banks and off-statement of financial position financial instruments held with international counterparties, the Group uses external ratings of the major rating agencies.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify risks and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored on a daily basis.

The Group manages the credit exposure relating to its trading activities by monitoring credit limits, entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation and the Group assesses counterparties using the same techniques as for its financing activities in order to control the level of credit risk taken.

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

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

The debt securities included in investments are mainly sovereign risk and high-grade securities. Analysis of investments by counterparty is provided in note (6.5). For details of the composition of the financing and advances refer to note (7.5). Information on credit risk relating to derivative instruments is provided in note (13) and for commitments and contingencies in note (21). The information on the Group's total maximum credit exposure is given in note (35.1).

Each individual corporate borrower is rated based on an internally developed debt rating model that evaluates risk based on financial, qualitative and industry specific inputs. The associated loss estimate norms for each grade have been developed based on the Group's experience. These risk ratings are reviewed on a regular basis.

Performing credit cards and consumer financing are classified as standard as they are performing and have timely repayment with no past dues.

The Group in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the financing and advances. These collaterals mostly include time and other cash deposits, financial guarantees from other banks, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and individual loans and are managed against relevant exposures at their net realisable values. The Group holds real estate collateral against registered mortgage as a collateral Financial instruments such as financing and advances and customers' deposits are shown gross on the consolidated statement of financial position and no offsetting has been done. Please refer to note 34 for details of other collaterals held.

35. CREDIT RISK (continued)

The Group also manages its credit risk exposure through the diversification of financing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant financing and advances. The Group monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement and Group's policy.

(35.1) Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2018	2017
	SAR '000	SAR '000
Assets		
Due from banks and other financial institutions (note 5)	**15,964,451**	21,966,218
Investments (note 35.2a)	**111,749,930**	110,053,434
Financing and advances, net (note 7.1)	**265,317,391**	249,234,246
Other assets - margin deposits against derivatives and repos (note 12)	**4,422,619**	6,306,944
Total assets	**397,454,391**	387,560,842
Contingent liabilities and commitments, net (notes 17 and 21.2)	**52,173,028**	61,614,342
Derivatives - positive fair value, net (note 13)	**3,913,049**	3,004,846
Total maximum credit exposure	**453,540,468**	452,180,030

35. CREDIT RISK (continued)

35.2 FINANCIAL RISK MANAGEMENT

a. Credit quality analysis

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

• Investment Grade is composed of Very Strong Credit Quality (AAA to BBB-)

• Non-Investment Grade is composed of: Good and satisfactory Credit Quality (BB+ to C)

	SAR'000			
	Gross carrying amount			
2018	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Due from Bank and Other financial institutions				
Investment grade	9,468,992	-	-	9,468,992
Non-investment grade	5,521,122	-	-	5,521,122
Unrated	980,971	-	-	980,971
Individually impaired	-	-	-	-
Gross carrying amount	15,971,085	-	-	15,971,085
Financing and advances				
Investment Grade	54,555,406	16,907	-	54,572,313
Non-investment Grade	95,392,532	10,331,807	1,226,392	106,950,731
Unrated	105,626,547	1,572,832	-	107,199,379
Individually impaired	-	-	4,020,985	4,020,985
Gross carrying amount	255,574,485	11,921,546	5,247,377	272,743,408
Debt investment securities at amortised cost				
Saudi Government Bonds, Sukuk and Treasury Bills	38,095,771	-	-	38,095,771
Investment Grade	23,691,100	415,532	-	24,106,632
Non-investment Grade	1,742,849	1,461,327	-	3,204,176
Gross carrying amount	63,529,720	1,876,859	-	65,406,579
Debt investment securities at FVOCI				
Saudi Government Bonds, Sukuk and Treasury Bills	17,109,030	-	-	17,109,030
Investment Grade	28,047,935	91,731	-	28,139,666
Non-investment Grade	352,672	741,983	-	1,094,655
Gross carrying amount	45,509,637	833,714	-	46,343,351
Commitment and contingencies				
Investment Grade	19,332,617	30,252	-	19,362,869
Non-investment Grade	31,007,380	1,306,766	427,812	32,741,958
Unrated	3,341,729	15,192	156,571	3,513,492
Total	53,681,726	1,352,210	584,383	55,618,319

35. CREDIT RISK (continued)

35.2 FINANCIAL RISK MANAGEMENT (continued)

a. Credit quality analysis (continued)

ii) The table below details the aging of the performing financing and advances:

	SAR '000 Loans and advances				
2018	**Consumer & Credit card**	**Corporate**	**International**	**Others**	**Total**
Neither past due nor impaired	**95,779,696**	**129,538,847**	**18,336,957**	**14,045,332**	**257,700,832**
Past due but not impaired					
Less than 30 days	**2,950,157**	**1,435,529**	**240,379**	**10,500**	**4,636,565**
30-59 days	**1,011,156**	**846,876**	**257,350**	**-**	**2,115,382**
60-89 days	**448,646**	**327,640**	**2,258,966**	**7,999**	**3,043,251**
Total past due not impaired	**4,409,959**	**2,610,045**	**2,756,695**	**18,499**	**9,795,198**
Total performing financing and advances	**100,189,655**	**132,148,892**	**21,093,652**	**14,063,831**	**267,496,030**

Credit quality analysis of financing and advances

i) The table below details the credit quality of financing and advances, net by asset class.

	SAR '000 Loans and advances				
	Consumer & Credit card	Corporate	International	Others	Total
2017					
Performing:					
Investment Grade	-	52,400,428	1,675,437	1,450,264	55,526,129
Non-Investment Grade	-	69,170,085	20,936,068	4,379,809	94,485,962
Unrated	93,646,577	150,884	3,365,545	4,091,053	101,254,059
Sub total	93,646,577	121,721,397	25,977,050	9,921,126	251,266,150
Less: portfolio (collective) allowance	(1,028,177)	(1,843,676)	(302,121)	(58,367)	(3,232,341)
Net performing	92,618,400	119,877,721	25,674,929	9,862,759	248,033,809
Non-performing:					
Total non-performing	566,868	2,800,304	1,399,993	1,827	4,768,992
Less: specific allowance	(307,331)	(2,302,306)	(958,918)	-	(3,568,555)
Net non-performing	259,537	497,998	441,075	1,827	1,200,437
Total financing and advances, net	92,877,937	120,375,719	26,116,004	9,864,586	249,234,246

Unrated loans mainly comprise of consumer, credit cards, small businesses and private banking financing and advances.

35. CREDIT RISK (continued)

35.2 FINANCIAL RISK MANAGEMENT (continued)

a. Credit quality analysis (continued)

ii) The table below details the aging of the performing financing and advances:

	SAR '000 Loans and advances				
2017	Consumer & Credit card	Corporate	International	Others	Total
Neither past due nor impaired	90,454,422	120,270,945	24,702,496	9,918,115	245,345,978
Past due but not impaired (performing)					
Less than 30 days	2,149,990	958,033	495,242	-	3,603,265
30-59 days	658,704	399,994	374,271	3,011	1,435,980
60-89 days	383,461	92,425	405,041	-	880,927
Total past due not impaired	3,192,155	1,450,452	1,274,554	3,011	5,920,172
Total performing financing and advances	93,646,577	121,721,397	25,977,050	9,921,126	251,266,150

The credit quality of investments (excluding investments in equities, hedge funds and mutual funds) is monitored using reputable external credit rating agencies.

The table below shows the credit quality by class of asset.

	SAR '000			
2017	Available for sale	Held to maturity	Other investments held at amortised cost	Total
Performing:				
Saudi Government Bonds, Sukuk and Treasury Bills	-	3,774	44,126,495	44,130,269
Investment grade	12,891,980	693,507	46,620,822	60,206,309
Non-investment grade	1,935,176	-	3,813,470	5,748,646
Unrated	-	-	-	-
Total performing	14,827,156	697,281	94,560,787	110,085,224
Less: Impairment (collective)	(139)	-	(31,651)	(31,790)
Net performing	14,827,017	697,281	94,529,136	110,053,434

Investments classified under investment grade above comprise of credit exposures equivalent to Aaa to Baa3 ratings determined by reputable rating agencies.

35. CREDIT RISK (continued)

35.2 FINANCIAL RISK MANAGEMENT (continued)

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

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure based on approved stages of criteria.

Credit risk grades

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

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each 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. • 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.	• 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. The Group collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information obtained from external credit reference agencies is also used.

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors include GDP growth, benchmark interest rates, unemployment etc. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

35. CREDIT RISK (continued)

35.2 FINANCIAL RISK MANAGEMENT (continued)

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

i) Generating the term structure of PD (continued)

Based on advice from Group economics department and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

ii) Determining whether credit risk has increased significantly

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

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition, which is determined under basis of Group's staging criteria.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

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

The Group monitors the effectiveness of the criteria used to identify significant 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;
- 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 Financing and advances 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 Financing and advances whose terms have been modified may be derecognised and the renegotiated Financing and advances recognised as a new Financing and advances at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly is completed on the basis of the approved staging criteria.

The Group renegotiates Financing and advances to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Group's forbearance policy, Financing and advances 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 special commission payments and amending the terms of Financing and advances covenants . Both retail and corporate Financing and advances are subject to the forbearance policy. The Bank Audit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect special commission income and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

35. CREDIT RISK (continued)

35.2 FINANCIAL RISK MANAGEMENT (continued)

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

iv) Definition of 'Default'

A default is considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place:

- The obligor is past due for 90 days or more on any material credit obligations to the Group including principal instalments, interest payments and fees. The materiality threshold for recognition of default is 5% of the total outstanding credit obligations of the client.
- The Group considers that the obligor 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).

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

v) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Group economics department experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private sector and academic forecasters.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 years. During 2018, no changes have occurred in underlying assumptions and the defined economic variables. Moreover, a sensitivity analysis has been conducted on the macro-economic impact such as GDP, interest rate, etc. in order to assess the change in ECL. A shift of 10% would result in a shift of 6 basis point in ECL.

vi) Measurement of ECL

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

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

a) probability of default (PD);

b) loss given default (LGD);

c) exposure at default (EAD).

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For Financing and advances secured by retail property, LTV (Lending to Value) ratios are a key parameter in determining LGD.

35. CREDIT RISK (continued)

35.2 FINANCIAL RISK MANAGEMENT (continued)

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

vi) Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

The Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a Financing and advances commitment or guarantee.

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

c. Collateral

The Group uses a wide variety of techniques to reduce credit risk on its lending; one important credit risk mitigation technique is accepting guarantees and collaterals with appropriate coverage. The Group ensures that the collateral held is sufficiently liquid, legally effective and regularly valued. The method and frequency of revaluation depends on the nature of the collateral involved. Types of acceptable collateral to the Group include time and other cash deposits, financial guarantees, equities, real estate, other fixed assets and salary assignment in case of individuals. The collateral is held mainly against commercial and individual financings and is managed against relevant exposures at its net realizable values. The Group monitors the market value of collaterals, requests additional collaterals in accordance with the underlying agreements. Whenever possible, finances are secured by acceptable forms of collateral in order to mitigate credit risk. Group’s policy is to lend against the cash flow of an operating commercial entity as a first way and primary source of repayment. Collaterals provided by the customer shall be considered only as a secondary source for repayment.

36. MARKET RISK

Market risk is the risk that changes in market prices, such as special commission rate, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group separates its exposure to market risk between trading and banking books. Trading book is mainly held by the Treasury division and includes positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested to the Board of Directors. The Risk Group is responsible for the development of detailed risk management policies (subject to review and approval by the Board of Directors) and for the day-to-day review of their implementation.

(36.1) Market risk - Trading book

The principal tool used to measure and control market risk exposure within the Group's trading book is Value at Risk (VaR). The VaR of a trading position is the estimated loss that will arise on the position over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period, to facilitate the comparison with the trading income (loss) which is also computed and reported on a daily basis. The model computes volatility and correlations using relevant historical market data.

The Group uses VaR limits for total market risk embedded in its trading activities including derivatives related to foreign exchange and special commission rate. The overall structure of VaR limits is subject to review and approval by the Board of Directors. VaR limits are allocated to the trading book. The daily reports of utilisation of VaR limits are submitted to the senior management of the Group. In addition, regular summaries about various risk measures including the Economic Capital are submitted to the Risk Committee of the Board.

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

(i) A 1-day holding period assumes that it is possible to hedge or dispose of positions within one day horizon. This is considered to be a realistic assumption in most of the cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.

(ii) A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a 1% probability that losses could exceed the VaR.

(iii) VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

(iv) The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

(v) The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading book. In addition, the Group uses stress tests to model the financial impact of exceptional market scenarios on individual trading book and the Group's overall trading position.

36. MARKET RISK (continued)

(36.1) Market risk - Trading book (continued)

The table below shows the VaR related information for the year ended 31 December 2018 and 31 December 2017 for Held at FVIS and Held for Trading portfolio:

	(SAR '000) Held at FVIS		
2018	**Foreign exchange risk**	**Special commission risk**	**Overall risk**
VaR as at 31 December 2018	**324**	**2,657**	**2,981**
Average VaR for 2018	**580**	**3,529**	**4,109**

	(SAR '000) Held for Trading		
2017	Foreign exchange risk	Special commission risk	Overall risk
VaR as at 31 December 2017	619	479	1,098
Average VaR for 2017	607	831	1,438

(36.2) Market risk - Banking book

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

(36.2.1) Special commission rate risk

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Assets-Liabilities Committee (ALCO) has established limits on the special commission rate gap. Positions are regularly monitored and reported on a monthly basis to ALCO and hedging strategies are used to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be monitored more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group’s consolidated statement of income or equity. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at 31 December 2018, including the effect of hedging instruments. The sensitivity of the equity is calculated by revaluing the fixed rate fair value through income statement, including the effect of any associated hedges, as at 31 December 2018 for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the assets or cash flow hedge swaps. All significant banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

36. MARKET RISK (continued)

(36.2) Market risk - Banking book (continued)

(36.2.1) Special commission rate risk (continued)

2018	**Increase / decrease in basis points**		**Sensitivity of special commission income**		**SAR '000 Sensitivity of equity (other reserves) Within 3 months**		**3-12 months**		**1-5 years**		**Over 5 years**		**Total**
Currency													
SAR	**± 10**	**±**	**118,747**	**±**	**-**	**±**	**-**	**±**	**4,990**	**±**	**6,246**	**±**	**11,236**
USD	**± 10**	**±**	**998**	**±**	**284**	**±**	**324**	**±**	**34,818**	**±**	**57,693**	**±**	**93,119**

2017	Increase / decrease in basis points		Sensitivity of special commission income		SAR '000 Sensitivity of equity (other reserves) Within 3 months		3-12 months		1-5 years		Over 5 years		Total
Currency													
SAR	± 10	±	118,400	±	-	±	120	±	15,772	±	2,998	±	18,890
USD	± 10	±	8,241	±	39	±	341	±	8,540	±	50,879	±	59,799

36. MARKET RISK (continued)

(36.2) Market risk - Banking book (continued)

(36.2.1) Special commission rate risk (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-statement of financial position items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its consolidated financial position and cash flows. The table below summarizes the Group's exposure to special commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group manages exposure to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The table below summarizes the Group's exposure to special commission rate risks.

	SAR '000					
2018	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-special commission bearing**	**Total**
Assets						
Cash and balances with SAMA	2,565,000	-	-	-	29,949,075	32,514,075
Due from banks and other financial institutions	3,702,100	1,224,811	3,506,425	-	7,531,115	15,964,451
Investments, net	29,374,401	23,423,451	37,657,621	21,281,290	6,353,445	118,090,208
- Held at FVIS	-	-	91,731	-	4,863,142	4,954,873
- Held at FVOCI	7,209,482	14,433,750	16,644,331	8,055,789	1,490,303	47,833,655
- Investments held at amortised cost	22,164,919	8,989,701	20,921,559	13,225,501	-	65,301,680
Financing and advances, net	92,932,792	60,312,275	107,941,538	3,949,441	181,345	265,317,391
- Consumer & Credit Card	2,709,882	4,293,392	92,198,692	-	-	99,201,966
- Corporate	76,496,678	44,759,691	8,002,317	1,600,836	63,346	130,922,868
- International	6,277,141	7,216,612	7,281,386	434,826	1,128	21,211,093
- Others	7,449,091	4,042,580	459,143	1,913,779	116,871	13,981,464
Positive fair value of derivatives, net	1,869,911	1,092,336	450,329	104,420	396,053	3,913,049
Total financial assets	130,444,204	86,052,873	149,555,913	25,335,151	44,411,033	435,799,174
Liabilities						
Due to banks and other financial institutions	36,583,363	3,700,775	872,733	-	4,805,979	45,962,850
Customers' deposits	42,420,471	22,620,730	6,820,695	1,592	246,835,303	318,698,791
- Current accounts	8,728,190	8,725,200	4,362,600	-	232,928,366	254,744,356
- Savings	-	-	-	-	125,938	125,938
- Time	33,392,344	13,895,530	2,458,095	1,592	-	49,747,561
- Others	299,937	-	-	-	13,780,999	14,080,936
Debt securities issued	6,478,456	2,637,322	315,129	-	-	9,430,907
Negative fair value of derivatives, net	1,737,120	1,124,673	232,394	78,126	106,817	3,279,130
Total financial liabilities	87,219,410	30,083,500	8,240,951	79,718	251,748,099	377,371,678
On-statement of financial position gap	43,224,794	55,969,373	141,314,962	25,255,433	(207,337,066)	
Off-statement of financial position gap	-	-	-	-	-	
Total special commission rate sensitivity gap	43,224,794	55,969,373	141,314,962	25,255,433	(207,337,066)	
Cumulative special commission rate sensitivity gap	43,224,794	99,194,167	240,509,129	265,764,562	58,427,496	

36. MARKET RISK (continued)

(36.2) Market risk - Banking book (continued)

(36.2.1) Special commission rate risk (continued)

(a) Special commission rate sensitivity of assets, liabilities and off-statement of financial position items (continued)

2017	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-special commission bearing	Total
	SAR '000					
Assets						
Cash and balances with SAMA	9,224,001	-	-	-	28,745,233	37,969,234
Due from banks and other financial institutions	9,997,723	1,227,607	3,431,996	-	7,308,892	21,966,218
Investments, net	28,149,042	19,739,343	33,733,775	28,453,918	4,501,747	114,577,825
- Held for trading	-	-	-	-	646,652	646,652
- Held as FVIS	-	-	-	-	1,332,121	1,332,121
- Available for sale	2,590,105	2,755,241	5,350,090	4,154,225	2,522,974	17,372,635
- Held to maturity	265,493	200,048	231,740	-	-	697,281
- Other investments held at amortised cost	25,293,444	16,784,054	28,151,945	24,299,693	-	94,529,136
Financing and advances, net	76,490,462	59,284,372	104,476,677	8,879,740	102,995	249,234,246
- Consumer & Credit Card	2,788,090	4,990,651	85,099,196	-	-	92,877,937
- Corporate	65,012,796	39,151,246	9,287,343	6,921,000	3,334	120,375,719
- International	6,765,346	9,061,263	9,526,414	758,354	4,627	26,116,004
- Others	1,924,230	6,081,212	563,724	1,200,386	95,034	9,864,586
Positive fair value of derivatives, net	1,486,715	829,504	249,741	8,260	430,626	3,004,846
Total assets	125,347,943	81,080,826	141,892,189	37,341,918	41,089,493	426,752,369
Liabilities						
Due to banks and other financial institutions	37,682,187	5,245,211	756,790	-	4,873,753	48,557,941
Customers' deposits	50,496,932	24,086,371	6,228,326	1,602	228,128,889	308,942,120
- Current accounts	9,504,561	8,502,633	4,251,316	-	215,510,234	237,768,744
- Savings	119	-	-	-	120,509	120,628
- Time	40,412,032	15,583,738	1,977,010	1,602	-	57,974,382
- Others	580,220	-	-	-	12,498,146	13,078,366
Debt securities issued	321,986	1,938,564	7,989,760	-	-	10,250,310
Negative fair value of derivatives, net	1,383,425	692,789	279,748	50,491	148,434	2,554,887
Total liabilities	89,884,530	31,962,935	15,254,624	52,093	233,151,076	370,305,258
On-statement of financial position gap	35,463,413	49,117,891	126,637,565	37,289,825	(192,061,583)	
Off-statement of financial position gap	4,129,163	12,734,638	(3,326,121)	(13,549,359)	636,499	
Total special commission rate sensitivity gap	39,592,576	61,852,529	123,311,444	23,740,466	(191,425,084)	
Cumulative special commission rate sensitivity gap	39,592,576	101,445,105	224,756,549	248,497,015	57,071,931	

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

36. MARKET RISK (continued)

(36.2) Market risk - Banking book (continued)

(36.2.2) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its consolidated financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

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

Currency	**2018 SAR '000 Long (short)**	2017 SAR '000 Long (short)
US Dollar	**(813,393)**	(576,212)
TRY	**4,669,532**	4,672,914

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

The table below indicates the extent to which the Group was exposed to currency risk at 31 December 2018 on its significant foreign currency positions. The analysis is performed for reasonably possible movements of the currency rate against the Saudi Riyal with all other variables held constant, including the effect of hedging instruments, on the consolidated statement of income; the effect on equity of foreign currencies other than Turkish Lira (TRY) is not significant. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Group that might be taken to mitigate the effect of such changes.

	2018 SAR '000			2017 SAR '000		
Currency	**Increase/ decrease in currency rate in %**	**Effect on profit**	**Effect on equity**	Increase/ decrease in currency rate in %	Effect on profit	Effect on equity
TRY	**± 10%**	**± 16,816**	**± 466,953**	± 10%	± 31,439	± 467,291

(36.2.3) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity index and the value of individual stocks.

The effect on equity (other reserves) as a result of a change in the fair value of equity instruments quoted on Saudi Stock Exchange (Tadawul) and held as FVOCI / available for sale at 31 December 2018 and 31 December 2017, due to reasonably possible changes in the prices of these quoted shares held by the Group, with all other variables held constant, is as follows:

	2018 SAR '000		2017 SAR '000	
Market index - (Tadawul)	**Increase / decrease in market prices %**	**Effect on equity (other reserves)**	Increase / decrease in market prices %	Effect on equity (other reserves)
Impact of change in market prices	**± 10%**	**± 123,423**	± 10%	± 9,742

37. LIQUIDITY RISK

Liquidity risk is the risk that the Group 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 Group has lines of credit in place 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 Bonds up to 75% of the nominal value of bonds held.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale and Saudi Government Bonds excluding repos. Deposits liabilities include both customers and Banks, excluding non-resident Bank deposits in foreign currency.

(37.1) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 and 31 December 2017 based on contractual undiscounted repayment obligations; as special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities as shown on note (37.2) below (Maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

37. LIQUIDITY RISK (continued)

(37.1.1) Analysis of undiscounted financial liabilities by remaining contractual maturities

SAR '000

Financial liabilities	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
As at 31 December 2018						
Due to banks and other financial institutions	**11,203,594**	**30,649,448**	**3,132,819**	**1,393,723**	**1,181,329**	**47,560,913**
Customers' deposits	**270,844,542**	**32,962,637**	**14,044,143**	**3,100,678**	**130,426**	**321,082,426**
- Current accounts	**255,566,769**	**-**	**-**	**-**	**-**	**255,566,769**
- Savings	**125,938**	**-**	**-**	**-**	**-**	**125,938**
- Time	**1,070,899**	**32,962,637**	**14,044,143**	**3,100,678**	**130,426**	**51,308,783**
- Others	**14,080,936**	**-**	**-**	**-**	**-**	**14,080,936**
Debt securities issued	**-**	**6,568,208**	**2,761,888**	**618,345**	**100,983**	**10,049,424**
Derivative financial instruments (gross contractual amounts payable)	**-**	**38,872,897**	**26,370,835**	**40,080,017**	**3,617,491**	**108,941,240**
Total undiscounted financial liabilities	**282,048,136**	**109,053,190**	**46,309,685**	**45,192,763**	**5,030,229**	**487,634,003**

SAR '000

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2017						
Due to banks and other financial institutions	6,144,580	36,840,588	5,317,823	1,137,821	-	49,440,812
Customers' deposits	249,970,230	41,980,012	15,334,560	2,353,036	1,946	309,639,784
- Current accounts	236,771,238	1,045,928	-	-	-	237,817,166
- Savings	120,628	-	-	-	-	120,628
- Time	-	40,805,497	15,334,560	2,353,036	1,946	58,495,039
- Others	13,078,364	128,587	-	-	-	13,206,951
Debt securities issued	-	413,197	2,283,422	4,041,581	5,450,521	12,188,721
Derivative financial instruments (gross contractual amounts payable)	-	5,508,531	447,167	26,972,963	16,020,627	48,949,288
Total undiscounted financial liabilities	256,114,810	84,742,328	23,382,972	34,505,401	21,473,094	420,218,605

The contractual maturity structure of the credit-related and commitments and contingencies are shown under note (21.2(a)).

37. LIQUIDITY RISK (continued)

(37.2) 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. See note (37.1) above for the contractual undiscounted financial liabilities.

2018	**Below 1 year**	**Over 1 year**	**No-fixed maturity**	**Total**
Assets				
Cash and balances with SAMA	9,996,082	11,805,934	10,712,059	32,514,075
Due from banks and other financial institutions	6,449,464	3,785,470	5,729,517	15,964,451
Investments, net	4,134,333	107,455,461	6,500,414	118,090,208
- Held at FVIS	-	-	4,954,873	4,954,873
- Held at FVOCI	2,684,561	43,658,422	1,490,672	47,833,655
- Held at amortized cost	1,449,772	63,797,039	54,869	65,301,680
Financing and advances, net	3,012,480	262,304,911	-	265,317,391
- Consumer & Credit Card	225,989	98,975,977	-	99,201,966
- Corporate	880,404	130,042,464	-	130,922,868
- International	-	21,211,093	-	21,211,093
- Others	1,906,087	12,075,377	-	13,981,464
Positive fair value of derivatives, net	84,086	3,828,963	-	3,913,049
Investments in associates, net	-	-	447,371	447,371
Other real estate, net	-	-	1,132,277	1,132,277
Property, equipment and software, net	-	-	5,347,611	5,347,611
Goodwill	-	-	-	-
Other assets	-	-	10,663,464	10,663,464
Total assets	23,676,445	389,180,739	40,532,713	453,389,897
Liabilities				
Due to banks and other financial institutions	43,108,724	2,854,081	45	45,962,850
Customers' deposits	128,073,801	188,564,893	2,060,097	318,698,791
- Current accounts	64,247,489	188,436,770	2,060,097	254,744,356
- Savings	-	125,938	-	125,938
- Time	49,745,376	2,185	-	49,747,561
- Others	14,080,936	-	-	14,080,936
Debt securities issued	8,176,869	1,254,038	-	9,430,907
Negative fair value of derivatives, net	253,357	3,025,773	-	3,279,130
Other liabilities	264,101	-	10,085,409	10,349,510
Total liabilities	179,876,852	195,698,785	12,145,551	387,721,188

37. LIQUIDITY RISK (continued)

(37.2) Maturity analysis of assets and liabilities (continued)

2017	Below 1 year	Over 1 year	No-fixed maturity	Total
Assets				
Cash and balances with SAMA	13,003,970	14,436,090	10,529,174	37,969,234
Due from banks and other financial institutions	12,979,038	8,987,180	-	21,966,218
Investments, net	265,673	113,660,585	651,567	114,577,825
- Held for trading	-	-	646,652	646,652
- Held as FVIS	265,673	1,066,448	-	1,332,121
- Available for sale	-	17,367,720	4,915	17,372,635
- Held to maturity	-	697,281	-	697,281
- Held at amortized cost	-	94,529,136	-	94,529,136
Financing and advances, net	2,099,806	247,134,440	-	249,234,246
- Consumer & Credit Card	170,459	92,707,478	-	92,877,937
- Corporate	660,010	119,715,709	-	120,375,719
- International	22,020	26,093,984	-	26,116,004
- Others	1,247,317	8,617,269	-	9,864,586
Positive fair value of derivatives, net	-	3,004,846	-	3,004,846
Investments in associates, net	-	-	450,048	450,048
Other real estate, net	-	-	861,523	861,523
Property, equipment and software, net	-	-	5,280,672	5,280,672
Goodwill	-	-	303,037	303,037
Other assets	-	-	11,144,053	11,144,053
Total assets	28,348,487	387,223,141	29,220,074	444,791,702
Liabilities				
Due to banks and other financial institutions	30,813,390	17,467,676	276,875	48,557,941
Customers' deposits	69,547,617	239,394,503	-	308,942,120
- Current accounts	47,553,749	190,214,995	-	237,768,744
- Savings	24,125	96,503	-	120,628
- Time	17,392,314	40,582,068	-	57,974,382
- Others	4,577,429	8,500,937	-	13,078,366
Debt securities issued	-	10,250,310	-	10,250,310
Negative fair value of derivatives, net	-	2,554,887	-	2,554,887
Other liabilities	-	-	10,210,846	10,210,846
Total liabilities	100,361,007	269,667,376	10,487,721	380,516,104

38. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE

(38.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows:

	(SAR '000)					
2018	**The Kingdom of Saudi Arabia**	**GCC and Middle East**	**Europe**	**Turkey**	**Other countries**	**Total**
Assets						
Cash and balances with SAMA	30,394,859	25,953	230,513	1,394,146	468,604	32,514,075
Due from banks and other financial institutions	4,499,343	3,258,217	1,184,381	5,861,143	1,161,367	15,964,451
Investments, net	73,016,875	19,007,394	577,234	1,840,390	23,648,315	118,090,208
- Held at FVIS	1,236,792	119,322	63,744	-	3,535,015	4,954,873
- Held at FVOCI	18,916,086	11,236,692	97,282	1,692,995	15,890,600	47,833,655
- Investments held at amortised cost	52,863,997	7,651,380	416,208	147,395	4,222,700	65,301,680
Financing and advances, net	226,957,165	6,361,642	-	26,451,458	5,547,126	265,317,391
- Consumer & Credit Card	99,201,966	-	-	-	-	99,201,966
- Corporate	120,151,011	5,389,593	-	1,354,279	4,027,985	130,922,868
- International	-	-	-	21,211,093	-	21,211,093
- Others	7,604,188	972,049	-	3,886,086	1,519,141	13,981,464
Positive fair value of derivatives, net	1,286,807	250,236	2,165,957	210,049	-	3,913,049
Investments in associates, net	433,750	-	-	-	13,621	447,371
Goodwill	-	-	-	-	-	-
Total	336,588,799	28,903,442	4,158,085	35,757,186	30,839,033	436,246,545
Liabilities						
Due to banks and other financial institutions	3,216,656	13,805,669	21,259,000	4,180,412	3,501,113	45,962,850
Customers' deposits	297,811,553	1,542,128	26,008	19,280,762	38,340	318,698,791
- Current accounts	247,861,265	1,975	-	6,867,202	13,914	254,744,356
- Savings	125,938	-	-	-	-	125,938
- Time	36,067,659	1,540,153	26,008	12,113,741	-	49,747,561
- Others	13,756,691	-	-	299,819	24,426	14,080,936
Debt securities issued	5,069,110	-	-	4,361,797	-	9,430,907
Negative fair value of derivatives, net	740,764	91,592	2,144,533	302,241	-	3,279,130
Total	306,838,083	15,439,389	23,429,541	28,125,212	3,539,453	377,371,678
Commitments and contingencies (note 21.2)	33,732,379	4,279,640	1,596,665	5,350,266	10,659,369	55,618,319
- Letters of credit	4,341,068	1,153,881	482,822	307,196	4,515,527	10,800,494
- Guarantees	19,689,893	1,738,074	1,049,193	4,950,437	6,133,937	33,561,534
- Acceptances	2,092,529	-	-	92,633	-	2,185,162
- Irrevocable commitments to extend credit	7,608,889	1,387,685	64,650	-	9,905	9,071,129
Credit exposure (credit equivalent) (note 33.2):						
Commitments and contingencies	22,304,622	2,786,053	968,370	3,300,008	5,355,394	34,714,447
Derivatives	2,036,784	1,416,691	4,669,332	299,584	218,036	8,640,427

38. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(38.1) The distribution by geographical region for major categories of assets, liabilities and commitments and contingencies and credit exposure at year end is as follows (continued):

(SAR '000)

2017	The Kingdom of Saudi Arabia	GCC and Middle East	Europe	Turkey	Other countries	Total
Assets						
Cash and balances with SAMA	36,223,471	40,944	195,268	1,257,202	252,349	37,969,234
Due from banks and other financial institutions	6,645,017	5,071,551	2,264,253	6,052,735	1,932,662	21,966,218
Investments, net	61,729,626	20,748,827	733,290	3,994,504	27,371,578	114,577,825
- Held for trading	646,652	-	-	-	-	646,652
- Held as FVIS	-	-	100,474	-	1,231,647	1,332,121
- Available for sale	24,758	1,817,547	203,495	3,331,007	11,995,828	17,372,635
- Held to maturity	33,861	-	-	663,420	-	697,281
- Other investments held at amortised cost	61,024,355	18,931,280	429,321	77	14,144,103	94,529,136
Financing and advances, net	212,458,334	3,761,381	359,781	30,003,586	2,651,164	249,234,246
- Consumer & Credit Card	92,875,924	2,013	-	-	-	92,877,937
- Corporate	111,403,878	3,212,528	-	3,887,582	1,871,731	120,375,719
- International	-	-	-	26,116,004	-	26,116,004
- Others	8,178,532	546,840	359,781	-	779,433	9,864,586
Positive fair value of derivatives, net	1,399,303	206,504	1,236,740	162,299	-	3,004,846
Investments in associates, net	435,538	-	-	-	14,510	450,048
Goodwill	-	-	-	303,037	-	303,037
Total	318,891,289	29,829,207	4,789,332	41,773,363	32,222,263	427,505,454
Liabilities						
Due to banks and other financial institutions	7,407,982	6,002,962	26,844,264	4,039,743	4,262,990	48,557,941
Customers' deposits	285,398,340	1,517,461	25,512	21,986,035	14,772	308,942,120
- Current accounts	230,905,447	28,957	-	6,831,719	2,621	237,768,744
- Savings	120,628	-	-	-	-	120,628
- Time	41,775,198	1,470,852	25,512	14,702,820	-	57,974,382
- Others	12,597,067	17,652	-	451,496	12,151	13,078,366
Debt securities issued	5,055,540	-	-	5,194,770	-	10,250,310
Negative fair value of derivatives, net	493,976	14,981	1,763,221	282,709	-	2,554,887
Total	298,355,838	7,535,404	28,632,997	31,503,257	4,277,762	370,305,258
Commitments and contingencies (note 21.2)	38,869,006	5,199,952	940,494	10,997,994	9,438,159	65,445,605
- Letters of credit	5,582,642	610,321	212,439	1,395,409	2,216,383	10,017,194
- Guarantees	21,331,149	2,115,891	728,055	9,461,434	7,221,776	40,858,305
- Acceptances	2,373,958	-	-	141,151	-	2,515,109
- Irrevocable commitments to extend credit	9,581,257	2,473,740	-	-	-	12,054,997
Credit exposure (credit equivalent) (note 33.2):						
Commitments and contingencies	23,783,929	2,672,979	1,440,477	5,831,735	6,259,856	39,988,976
Derivatives	1,677,448	1,281,157	3,901,410	224,252	-	7,084,267

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

38. GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, COMMITMENTS AND CONTINGENCIES AND CREDIT EXPOSURE (continued)

(38.2) The distribution by geographical concentration of non-performing financing and advances and corresponding ECL allowances are as follows:

	(SAR '000)		
2018	**The Kingdom of Saudi Arabia**	**Turkey**	**Total**
Non performing financing and advances	**4,020,985**	**1,226,392**	**5,247,377**
ECL allowances	**(2,898,646)**	**(863,542)**	**(3,762,188)**
Net	**1,122,339**	**362,850**	**1,485,189**
2017			
Non performing financing and advances	3,368,998	1,399,994	4,768,992
Specific allowance	(2,609,636)	(958,919)	(3,568,555)
Net	759,362	441,075	1,200,437

39. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The fair values of on-statement of financial position financial instruments, except for other investments held at amortised cost and held-to-maturity investments which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements. The fair values of commission bearing customers' deposits, due from/to banks and other financial institutions which are carried at amortised cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of due from/to banks and other financial institutions. The estimated fair values of investments held at amortised cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively.

The fair values of derivatives and other off-statement of financial position financial instruments are based on the quoted market prices when available and/or by using the appropriate valuation techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018 and 2017

40. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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 takes place either:

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

Fair value information of the Group's financial instruments is analysed below.

a. Fair value information for financial instruments at fair value

The Group 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.

Level 2: Quoted prices in active markets for similar assets and liabilities or 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.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

		(SAR '000)		
2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments	-	**3,913,049**	-	**3,913,049**
Financial assets held at FVIS	**640,321**	**3,545,093**	**769,460**	**4,954,874**
Financial assets held at FVOCI	**38,922,362**	**8,760,059**	**151,235**	**47,833,656**
Investments held at amortized cost, net - fair value hedged (note 6.3)	-	**7,888,270**	-	**7,888,270**
Total	**39,562,683**	**24,106,471**	**920,695**	**64,589,849**
Financial liabilites				
Derivative financial instruments	-	**3,279,130**	-	**3,279,130**
Total	-	**3,279,130**	-	**3,279,130**

		(SAR '000)		
2017	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	2,688,458	-	2,688,458
Financial assets held as FVIS	-	1,291,844	40,277	1,332,121
Financial investments available for sale	11,597,666	5,338,726	436,243	17,372,635
Held for trading	646,652	-	-	646,652
Other investments held at amortized cost, net - fair value hedged (note 6.3)	-	13,031,739	-	13,031,739
Total	12,244,318	22,350,767	476,520	35,071,605
Financial liabilites				
Derivative financial instruments	-	1,945,440	-	1,945,440
Total	-	1,945,440	-	1,945,440

40. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

b. Fair value information for financial instruments not measured at fair value

The fair value of financing and advances, net amounts to SAR 273,757 million (2017: SAR 249,850 million).

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

c. Valuation technique and significant unobservable inputs for financial instruments at fair value

The Group uses various valuation techniques for determination of fair values for financial instruments classified under levels 2 and 3 of the fair value hierarchy. These techniques and the significant unobservable inputs used therein are analysed below.

The Group utilises fund manager reports (and appropriate discounts or haircuts where required) for the determination of fair values of private equity funds and hedge funds. The fund manager deploys various techniques (such as discounted cashflow models and multiples method) for the valuation of underlying financial instruments classified under level 2 and 3 of the respective fund's fair value hierarchy. Significant unobservable inputs embedded in the models used by the fund manager include risk adjusted discount rates, marketability and liquidity discounts and control premiums.

For the valuation of unquoted debt securities and derivative financial instruments, the Group obtains fair value estimates from reputable third party valuers, who use techniques such as discounted cash flows, option pricing models and other sophisticated models.

d. Transfer between Level 1 and Level 2

There were no transfers between level 1 and level 2 during 31 December 2018 (31 December 2017: Nil).

e. Reconciliation of Level 3 fair values

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

Movement of level 3 is as follows:

	2018	2017
	SAR '000	SAR '000
Balance at beginning of the year	**476,520**	519,596
Total gains/(losses) (realised and unrealised) in consolidated statement of income	**(4,094)**	(143,833)
Total (losses)/gains in consolidated statement of comprehensive income	**(9,518)**	-
Purchases	**499,087**	220,610
(Sales) and other adjustments	**(41,300)**	(119,853)
Balance at end of the year	**920,695**	476,520

f. Sensitivity analysis for significant unobservable inputs in valuation of financial instruments at fair value

Significant unobservable inputs were applied in the valuation of hedge funds and private equities for the year ended 31 December 2018 and the impact of the sensitivity is not material.

41. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group 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 the limits set by the Banking Control Law and the regulations issued by SAMA. Related party balances include the balances resulting from transactions with Governmental shareholders. All other Government transactions are entered/ conducted also at market rates.

Major shareholders represent shareholdings of more than 5% of the Bank's issued share capital. Related parties are the persons or close members of those persons' families and their affiliate entities where they have control, joint control or significant influence over these entities.

(41.1) The balances as at 31 December included in the consolidated financial statements are as follows:

	2018 SAR '000	2017 SAR '000
Bank's Board of Directors and Senior Executives:		
Financing and advances	**37,995**	133,751
Customers' deposits	**80,021**	117,801
Commitments and contingencies	**16,129**	33,557
Investments (Assets under Management)	**9,014**	7,504
Other liabilities - end of service benefits	**33,016**	36,789
Balances of companies and institutions owned by 5% or more by related parties:		
Financing and advances	**6,234,605**	2,753,873
Customers' deposits	**1,362,031**	795,338
Commitment and contingencies	**1,181,630**	288,894
Investments	**112,856**	-
Major shareholders:		
Customers' deposits	**7,924,609**	6,922,855
Investments (Assets under Management)	**1,780,496**	2,726,782
Group's investment funds:		
Investments	**502,174**	654,988
Customers' deposits	**11,579**	82,093
Subsidiaries:		
Financing and advances	**1,312,500**	1,687,500
Customers' deposits	**106,523**	11,968
Investments	**1,088,342**	363,750
Commitment and contingencies	**7,995**	-

41. RELATED PARTY TRANSACTIONS (continued)

(41.2) Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2018 SAR '000	2017 SAR '000
Special commission income	**384,070**	62,228
Special commission expense	**441,265**	212,594
Fees and commission income and expense, net	**296,887**	261,457

(41.3) The total amount of compensation paid to the Group's Board of Directors and key management personnel during the year is as follows:

	2018 SAR '000	2017 SAR '000
Directors' remuneration	**13,182**	8,586
Short-term employee benefits	**87,013**	106,066
End of service benefits	**7,991**	2,392

The Bank's Board of Directors includes the Board and Board related committees (Executive Committee, Risk Management Committee, Compensation and Nomination Committee and Audit Committee). For Group's senior executives compensation (note 42).

42. GROUP'S STAFF COMPENSATION

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

	2018			2017		
Categories of employees	**Number of employees**	**Fixed compensation (on accrual basis) SAR '000**	**Variable compensation (on cash basis) SAR '000**	Number of employees	Fixed compensation (on accrual basis) SAR '000	Variable compensation (on cash basis) SAR '000
Senior Executives	**21**	**37,823**	**85,577**	23	39,178	70,360
Employees engaged in risk taking activities	**245**	**133,938**	**60,449**	333	127,457	49,444
Employees engaged in control functions	**442**	**155,760**	**50,831**	462	160,291	52,266
Other employees	**6,888**	**1,393,764**	**279,742**	7,173	1,298,813	271,859
Other employee related benefits	**-**	**403,059**	**-**	-	399,825	-
Subsidiaries	**5,462**	**467,771**	**154,383**	5,445	494,901	132,172
Group total	**13,058**	**2,592,115**	**630,982**	13,436	2,520,465	576,101

All forms of payment for fixed and variable compensation are in cash.

The Bank's Senior Executives are those persons, including an executive director, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Employees engaged in risk taking activities comprise those officers of the business sectors of Consumer Banking, Corporate and Treasury, who are the key drivers in undertaking business transactions, and managing related business risks.

Employees engaged in control functions include employees in Risk Management, Internal Audit, Compliance, Finance and Legal divisions.

The Group's variable compensation and other employees related benefits recognized as staff expenses in the consolidated statement of income for 2018 is SAR 899 million (2017: SAR 888 million).

43. CAPITAL ADEQUACY

(43.1) Capital adequacy ratio

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

The Group monitors the adequacy of its capital using the ratios and weights established by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its consolidated statement of financial position assets, commitments and contingencies and notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. SAMA requires banks to hold the minimum level of the regulatory capital and maintain a ratio of total eligible capital to the risk-weighted asset at or above the agreed minimum of 8%. Regulatory Capital is computed for Credit, Market and Operational risks which comprise the Pillar 1 minimum capital requirements.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from 1 January 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

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

	Risk Weighted Assets	
	2018	2017
	SAR '000	SAR '000
Credit risk	**311,702,968**	317,684,135
Operational risk	**35,113,912**	33,970,252
Market risk	**13,372,313**	9,452,340
Total Pillar-1 - risk weighted assets	**360,189,193**	361,106,727
Core capital (Tier 1)	**66,613,049**	63,825,327
Supplementary capital (Tier 2)	**7,702,233**	8,232,300
Core and supplementary capital (Tier 1 and Tier 2)	**74,315,282**	72,057,627
Capital Adequacy Ratio (Pillar 1):-		
Core capital (Tier 1 ratio)	**18.5%**	17.7%
Core and supplementary capital (Tier 1 and Tier 2 ratios)	**20.6%**	20.0%

Tier 1 capital of the Group comprises share capital, statutory reserve, other reserves, proposed dividend, retained earnings, tier 1 eligible debt securities and non-controlling interests less treasury shares, goodwill, intangible assets, foreign currency translation reserve and other prescribed deductions. Tier 2 capital comprises of eligible debt securities issued and prescribed amounts of eligible portfolio (collective) provisions less prescribed deductions.

The Group uses the Standardized approach of Basel III to calculate the Risk Weighted Assets and required regulatory capital for Pillar -1 (including Credit Risk, Market Risk and Operational Risk). The Group's Risk Management is responsible for ensuring that minimum required Regulatory Capital calculated is compliant with Basel III requirements. Quarterly prudential returns are submitted to SAMA showing the Capital Adequacy Ratio.

44. GROUP'S INTEREST IN OTHER ENTITES

(44.1) Material partly-owned subsidiaries

a) Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which TFKB operates. The supervisory frameworks require TFKB to keep certain levels of regulatory capital and liquid assets, limits its exposure to other parts of the Group and comply with other ratios. The carrying amounts of TFKB's assets and liabilities are SR32,628 million and SR 29,922 million respectively (2017: SR 33,979 million and SR 34,319 million respectively).

b) Non-controlling interests in subsidiaries

The following table summarises the information relating to the Group's subsidiary (TFKB) that has material non-controlling interests (NCI).

	2018	2017
	SAR '000	SAR '000
Summarised statement of financial position		
Financing and advances, net	**21,211,095**	26,116,005
Other assets	**11,416,927**	11,863,117
Liabilities	**29,922,390**	34,319,468
Net assets	**2,705,632**	3,659,654
Carrying amount of NCI	**892,047**	1,206,588
Summarised statement of income		
Total operating income	**1,514,561**	1,591,613
Net income	**455,845**	469,026
Total comprehensive income (loss)	**(732,778)**	214,959
Total comprehensive income (loss) allocated to NCI	**(241,597)**	70,872
Summarised cash flow statement		
Net cash from operating activities	**1,651,410**	69,347
Net cash (used in) investing activities	**1,415,758**	(415,601)
Net cash from financing activities	**(485,243)**	253,621
Net increase (decrease) in cash and cash equivalents	**2,581,925**	(92,633)

44. GROUP'S INTEREST IN OTHER ENTITES (continued)

(44.2) Involvement with unconsolidated structured entities

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an

Type of structured entity	Nature and purpose	Interest held by the Group
Hedge funds	To generate returns from trading in the units/shares of the fund and/or via distributions made by the fund. These funds are financed through the issue of units/shares to investors.	• Investments in units issued by the funds.
Private equity funds	To generate returns from long-term capital appreciation in the net worth of the fund, reaslised via periodic distributions and eventual exit at the end of the life of the fund. These funds are financed through the issue of units/ shares to investors.	• Investments in units/ shares issued by the funds.

The table below sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

	2018	2017
	SAR '000	SAR '000
Hedge funds	**288,471**	289,059
Private equity funds	**297,873**	97,366
Total	**586,344**	386,425

The Group considers itself a sponsor of a structured entity when it facilitates the establishment of the structured entity. At 31 December 2018, the Group holds an interest in all structured entities it has sponsored.

45. INVESTMENT SERVICES

The Bank offers investment management services to its customers through its subsidiary NCB Capital Company. Assets under management outstanding at 31 December 2018 amounted to SAR 144,692 million (2017: SAR 119,546 million) (note 3.21).

46. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to current year presentation, which are not material in nature.

47. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

The Group has chosen not to early adopt the following new standards which have been issued but not yet effective for the Group's accounting years beginning on or after 1 January 2018 and is currently assessing their impact.

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

Effective for annual periods	Standard, amendment or interpretation	Summary of requirements
1 January 2019	(2015-2017 annual improvements cycle) IFRS 3, IAS 12 and IAS 23	The standards affected under the 2015-2017 annual improvements cycle, and the subjects of the amendments are: - IFRS 3 business combinations and IFRS 11 Joint arrangements - previously held interest in a joint operation. - IAS 12 Income Taxes - income tax consequences of payments on financial instruments classified as equity. - IAS 23 Borrowing Costs - borrowing costs eligble for capitalisation.
1 January 2019	Amendments to IAS 28	The amendments clarify that the Group applies IFRS 9 (Financial Instruments to long-term interests) in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.
1 January 2019	Amendments to IFRS 9	Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.
1 January 2019	IFRS 16	IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as financing and operating leases.

47. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

Transition to IFRS 16

The Group plans to adopt IFRS 16 with a modified retrospective approach and will not restate previous periods while adjusting the difference between right of use assets and lease liability in the beginning balance of 2019 retained earnings as allowed by IFRS 16. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17.

The Group plans 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, or lease contracts for which the underlying asset is of low value.

The Group has performed an impact assessment of IFRS 16 based on which, the impact of adoption is expected to be less than 1.5% of net equity of the Group.

48. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved by the Board of Directors on 22 January 2019, corresponding to 16 Jumada al-awwal 1440H.

Lama A. Ghazzaoui	Faisal O. AlSaggaf	Mohammed A. Al-Hokal
Chief Financial Officer	Chief Executive Officer	Board of Directors' Member