SAMBA FINANCIAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITORS' REPORT FOR THE
YEAR ENDED DECEMBER 31, 2018

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

Report on the audit of the consolidated financial statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 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 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 as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics, as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, a description of how our audit addressed the matter is provided in that context:

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

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances	
At 31 December 2018, gross loans and advances of the Group were SR 116.3 billion against which a credit impairment provision of SR 2.6 billion was maintained. During the year, the Group has adopted IFRS 9 which introduced forward looking expected credit loss (ECL) impairment model. On adoption, the Group has applied the requirement of IFRS 9 retrospectively without restating the comparatives. The adoption of IFRS 9 resulted in transition adjustment of SR 2.5 billion to the Group's equity as at 1 January 2018 and the impact of transition are explained in note 2.4 (a) (ii) to the consolidated financial statements. We considered impairment of loans and advances as a key audit matter as the determination of ECL involves signficant management judgement and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include: ➢ Categorisation of loans in Stages 1, 2 or 3 based on identification of (a) exposures with a significant increase in credit risk since their origination (b) individually impaired / default exposures ➢ Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc. ➢ The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.	We have obtained an understanding of management's assessment of impairment of loans and advances including the IFRS 9 implementation process, the Group's internal rating model, the Group's credit impairment provision policy and the ECL modelling methodology. We compared the Group's impairment provision policy and ECL methodology with the requirements of IFRS 9. We assessed the design and implementation, and tested the operating effectiveness of controls over: ➢ the modelling process including governance over monitoring of the model and approval of key assumptions; ➢ the classification of borrowers in various stages and timely identification of significant increase in credit risk ("SICR"); and ➢ integrity of data input into the ECL system. We assessed the Group's criteria for determination of significant increase in credit risk and identification of impaired / default exposures and their classification into various stages. For a sample of customers, we assessed: ➢ the internal ratings determined by the management based on Group's internal rating model; ➢ the staging as identified by management; and ➢ management's computations for ECL. We assessed the underlying assumptions including forward looking assumptions used by the Group in ECL calculations.

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

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

Key Audit Matters (continued)

Impairment of loans and advances (continued)	
Refer to the significant accounting policies note 2.4 and 2.15 to the consolidated financial statements for the adoption of IFRS 9 – Financial Instruments and significant accounting policy relating to impairment of financial assets and note 2.6 (a) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group and note 6 which contains the disclosure of impairment against loans and advances and note 28 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.	Where management overlays were used, we assessed those overlays and the governance process around such overlays. We tested the completeness of exposures used by the management for the ECL calculation as of 31 December 2018. Where relevant, we involved specialists to assist us in reviewing model calculations and data integrity. As the Goup has used the modified restrospective approach for adoption of IFRS 9, we performed all the above mentioned tasks to evaluate management's computation of adjustment to the Group's equity as at 1 January 2018 (as a result of adoption of IFRS 9). We assessed the disclosures included by management in the consolidated financial statements..

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

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

Key Audit Matters (continued)

Valuation of derivatives	
The Group has entered into various derivatives including commission rate swaps ("swaps"), forward foreign exchange contracts ("forwards"), currency, commission rate equity and commodity options ("options") and other derivative contracts. Swaps, forwards, options and other derivative contracts include over the counter (OTC) derivatives and hence, the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations. The majority of these derivatives are held for trading. However, the Group utilises certain derivatives for hedge accounting purposes in the consolidated financial statements for hedging cash flow or fair value risks. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and in case of hedge ineffectiveness impact the hedge accounting as well. We considered this as a key audit matter as there is complexity and subjectivity involved in determining the valuation in general and in certain cases due to use of complex modelling techniques and the valuation inputs that are not market observable. *Refer to the significant accounting policies notes 2.6 (b) for significant accounting estimates in connection with fair value of unquoted financial instruments, 2.8 to the consolidated financial statements for accounting policy relating to derivatives and hedge accounting and note 9 which discloses the derivative positions as at the reporting date.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuation of derivatives and hedge accounting including the testing of relevant automated controls covering the fair valuation process of derivatives. We selected a sample of derivatives and: • Tested derivatives by comparing the terms and conditions with relevant agreements and deal confirmations. • Tested the key inputs to the valuation model. • Performed independent valuations of the derivatives and compared the results with management's valuation. • Checked hedge effectiveness performed by the Group and the related hedge accounting. • Considered the adequacy of the Group's disclosures about the valuation basis and inputs used in the fair value measurement.

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

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

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

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

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

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

Responsibilities of the Directors and Those Charged with Governance for the Consolidated Financial Statements
The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as modified by SAMA for the accounting of zakat and income tax, the applicable requirements of the Companies' Law, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank is not in compliance, in all material respects, with the applicable requirements of the Companies' Law, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements.

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25 Jumada Al Awal 1440H
(January 31, 2019)

STATEMENTS OF CONSOLIDATED FINANCIAL POSITION
As at December 31, 2018 and 2017

	Notes	2018 SAR'000	2017 SAR'000
ASSETS			
Cash and balances with Central Banks	3	25,419,604	25,195,066
Due from banks and other financial institutions	4	17,622,026	11,031,480
Investments, net	5	66,350,254	63,912,410
Derivatives	9	3,445,772	6,514,708
Loans and advances, net	6, 33	113,708,562	117,684,729
Property and equipment, net	7	2,693,443	2,638,884
Other assets	8	698,639	568,885
Total Assets		**229,938,300**	**227,546,162**
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	7,871,574	6,551,464
Customer deposits	11, 33	170,170,046	167,922,654
Derivatives	9	2,355,100	3,976,298
Other liabilities	12	7,233,049	4,413,594
Total Liabilities		**187,629,769**	**182,864,010**
EQUITY			
Equity attributable to equity holders of the Bank			
Share capital	14	20,000,000	20,000,000
Statutory reserve	15	17,193,239	15,811,044
General reserve	15	130,000	130,000
Other reserves		217,992	98,514
Retained earnings		3,672,591	9,564,853
Proposed dividend	25	1,998,000	-
Treasury stocks		(996,093)	(1,021,743)
Total equity attributable to equity holders of the Bank		**42,215,729**	**44,582,668**
Non-controlling interest		92,802	99,484
Total Equity		**42,308,531**	**44,682,152**
Total Liabilities and Equity		**229,938,300**	**227,546,162**

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements

Abdul Haleem Sheikh	**Fahd Al-Mufarrij**	**Rania Nashar**
Chief Financial Officer	**Director**	**Chief Executive Officer**

STATEMENTS OF CONSOLIDATED INCOME
For the years ended December 31, 2018 and 2017

	Notes	2018 SAR'000	2017 SAR'000
Special commission income	18	7,538,190	6,927,740
Special commission expense	18	1,386,298	1,195,515
Special commission income, net		**6,151,892**	**5,732,225**
Fees and commission income, net	19	1,363,351	1,422,735
Exchange income, net		288,508	298,702
Income from investments held at FVIS, net		102,035	150,073
Trading income net	20	60,932	94,377
Gains on FVOCI debt /non-trading investments, net	21	9,601	29,037
Other operating income, net	22	180,201	164,417
Total operating income		**8,156,520**	**7,891,566**
Salaries and employee related expenses	23	1,245,347	1,310,354
Rent and premises related expenses		357,667	353,941
Depreciation	7	112,426	123,565
Other general and administrative expenses		756,783	792,250
Provision for credit impairment, net of recoveries / reversals	6	155,518	287,166
Total operating expenses		**2,627,741**	**2,867,276**
Net income for the years		**5,528,779**	**5,024,290**
Attributable to:			
Equity holders of the Bank		5,520,149	5,021,065
Non-controlling interest		8,630	3,225
		5,528,779	**5,024,290**
Basic and diluted earnings per share for the year (SAR)	24	**2.76**	**2.51**

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements

Abdul Haleem Sheikh	**Fahd Al-Mufarrij**	**Rania Nashar**
Chief Financial Officer	**Director**	**Chief Executive Officer**

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
For the years ended December 31, 2018 and 2017

	2018 SAR'000	2017 SAR'000
Net income for the years	5,528,779	5,024,290
Other comprehensive income for the year – items that cannot be reclassified subsequently to the statements of consolidated income:		
FVOCI financial assets - equities:		
- Change in fair values	454,287	-
Other comprehensive income for the years - items that may be reclassified subsequently to the statements of consolidated income:		
Exchange differences on translation of foreign operations	(79,153)	(27,399)
FVOCI debt / AFS financial assets:		
- Change in fair values	(190,102)	130,481
- Transfers to statements of consolidated income	(9,601)	(29,037)
Cash flow hedges:		
- Change in fair values	(18,997)	153,826
- Transfers to statements of consolidated income	(51,974)	(56,159)
Other comprehensive income for the years	**104,460**	**171,712**
Total comprehensive income for the years	**5,633,239**	**5,196,002**
Attributable to:		
Equity holders of the Bank	5,639,921	5,198,007
Non-controlling interest	(6,682)	(2,005)
Total	**5,633,239**	**5,196,002**

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements

STATEMENTS OF CONSOLIDATED CHANGES IN EQUITY
For the years ended December 31, 2018 and 2017

		Attributable to equity holders of the Bank											
					Other reserves								
(SR '000)	Note	Share capital	Statutory reserve	General reserve	Exchange translation reserve	FVOCI/ AFS financial assets	Cash flow hedges	Retained earnings	Proposed dividends	Treasury stocks	Total	Non-controlling interest	Total equity
Balance at the beginning of the year as originally reported		**20,000,000**	**15,811,044**	**130,000**	**(191,160)**	**318,500**	**(28,826)**	**9,564,853**	**-**	**(1,021,743)**	**44,582,668**	**99,484**	**44,682,152**
Effect of change in accounting policy	2.4	-	-	-	-	(294)	-	(2,521,531)	-	-	**(2,521,825)**	**-**	**(2,521,825)**
Balance at the beginning of the year as restated		**20,000,000**	**15,811,044**	**130,000**	**(191,160)**	**318,206**	**(28,826)**	**7,043,322**	**-**	**(1,021,743)**	**42,060,843**	**99,484**	**42,160,327**
Transfer to statutory reserve	15	-	1,382,195	-	-	-	-	(1,382,195)	-	-	-	-	-
Net changes in treasury stocks		-	-	-	-	-	-	46,722	-	25,650	**72,372**	**-**	**72,372**
Dividend paid for 2018 (interim) and 2017 (final)	25	-	-	-	-	-	-	(3,088,348)	-	-	**(3,088,348)**	**-**	**(3,088,348)**
Proposed dividend 2018 (final)		-	-	-	-	-	-	(1,998,000)	1,998,000	-	**-**	**-**	**-**
Subtotal		**20,000,000**	**17,193,239**	**130,000**	**(191,160)**	**318,206**	**(28,826)**	**621,501**	**1,998,000**	**(996,093)**	**39,044,867**	**99,484**	**39,144,351**
Net income for the year		-	-	-	-	-	-	5,520,149	-	-	**5,520,149**	**8,630**	**5,528,779**
Other comprehensive (loss)/income for the year	16	-	-	-	(83,942)	274,685	(70,971)	-	-	-	**119,772**	**(15,312)**	**104,460**
Total comprehensive income for the year		-	-	-	**(83,942)**	**274,685**	**(70,971)**	**5,520,149**	-	-	**5,639,921**	**(6,682)**	**5,633,239**
Provision for zakat & income tax – current year	25	-	-	-	-	-	-	(653,000)	-	-	**(653,000)**	**-**	**(653,000)**
Provision for zakat – prior years	25	-	-	-	-	-	-	(1,816,059)	-	-	**(1,816,059)**	**-**	**(1,816,059)**
Balance at end of the year		**20,000,000**	**17,193,239**	**130,000**	**(275,102)**	**592,891**	**(99,797)**	**3,672,591**	**1,998,000**	**(996,093)**	**42,215,729**	**92,802**	**42,308,531**
Balance at the beginning of the year		**20,000,000**	**14,554,971**	**130,000**	**(168,991)**	**217,056**	**(126,493)**	**7,884,606**	**997,753**	**(1,045,623)**	**42,443,279**	**101,489**	**42,544,768**
Transfer to statutory reserve	15	-	1,256,073	-	-	-	-	(1,256,073)	-	-	-	-	-
Net changes in treasury stocks		-	-	-	-	-	-	34,855	-	23,880	**58,735**	-	**58,735**
Dividend paid for 2017 (interim) and 2016 (final)	25	-	-	-	-	-	-	(1,494,400)	(997,753)	-	**(2,492,153)**	**-**	**(2,492,153)**
Subtotal		**20,000,000**	**15,811,044**	**130,000**	**(168,991)**	**217,056**	**(126,493)**	**5,168,988**	**-**	**(1,021,743)**	**40,009,861**	**101,489**	**40,111,350**
Net income for the year		-	-	-	-	-	-	5,021,065	-	-	**5,021,065**	3,225	**5,024,290**
Other comprehensive (loss)/income for the year	16	-	-	-	(22,169)	101,444	97,667	-	-	-	**176,942**	(5,230)	**171,712**
Total comprehensive income for the year		-	-	-	**(22,169)**	**101,444**	**97,667**	**5,021,065**	-	-	**5,198,007**	**(2,005)**	**5,196,002**
Provision for zakat & income tax	25	-	-	-	-	-	-	(625,200)	-	-	**(625,200)**	-	**(625,200)**
Balance at end of the year		**20,000,000**	**15,811,044**	**130,000**	**(191,160)**	**318,500**	**(28,826)**	**9,564,853**	**-**	**(1,021,743)**	**44,582,668**	**99,484**	**44,682,152**

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements

STATEMENTS OF CONSOLIDATED CASH FLOWS
For the years ended December 31, 2018 and 2017

	Notes	2018 SAR'000	2017 SAR'000
OPERATING ACTIVITIES			
Net income for the years		**5,528,779**	**5,024,290**
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of premium and accretion of discount on non-trading investments,net		(28,792)	30,036
Income from investments held at FVIS, net		(102,035)	(150,073)
Gain on FVOCI debt / non-trading investments, net	21	(9,601)	(29,037)
Depreciation	7	112,426	123,565
Gain on disposal of property and equipment, net	22	(300)	(7,792)
Provision for credit impairment, net of recoveries / reversals	6	155,518	287,166
Net (increase) / decrease in operating assets:			
Statutory deposits with Central Banks		414,937	318,040
Due from banks and other financial institutions maturing after ninety days		(4,303,299)	(5,289,215)
Investments held for trading		2,296,234	674,255
Derivatives		3,068,936	(2,072,649)
Loans and advances		2,986,177	7,262,435
Other assets		(129,754)	266,319
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,320,110	(4,329,314)
Customer deposits		2,247,392	(4,023,228)
Derivatives		(1,621,198)	2,490,669
Other liabilities		(1,418,039)	(559,954)
Net cash from operating activities		**10,517,491**	**15,513**
INVESTING ACTIVITIES			
Proceeds from sale of and matured non-trading investments		14,058,883	6,794,354
Purchase of non-trading investments		(18,412,750)	(19,737,691)
Purchase of property and equipment, net of exchange adjustments		(167,897)	(252,521)
Proceeds from sale of property and equipment		1,212	8,044
Net cash used in investing activities		**(4,520,552)**	**(13,187,814)**
FINANCING ACTIVITIES			
Dividends paid		(3,126,090)	(2,575,233)
Treasury stocks, net		72,372	58,735
Net cash used in financing activities		**(3,053,718)**	**(2,516,498)**
Increase / (decrease) in cash and cash equivalents		**2,943,221**	**(15,688,799)**
Cash and cash equivalents at the beginning of the year	26	20,973,248	36,662,047
Cash and cash equivalents at the end of the year	26	**23,916,469**	**20,973,248**
Special commission received during the year		7,460,463	6,793,429
Special commission paid during the year		(1,488,901)	(1,526,606)
Supplemental non-cash information:			
Net changes in fair value and transfers to Statements of Consolidated Income		183,613	199,111

The accompanying notes 1 to 39 form an integral part of these consolidated financial statements

Abdul Haleem Sheikh	Fahd Al-Mufarrij	Rania Nashar
Chief Financial Officer	Director	Chief Executive Officer

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

1. General

Samba Financial Group (the Bank), a joint stock company incorporated in the Kingdom of Saudi Arabia, was formed pursuant to Royal Decree No. M/3 dated 26 Rabie Al-Awal 1400H (February 12, 1980). The Bank commenced business on 29 Shaa'ban 1400H (July 12, 1980) when it took over the operations of Citibank in the Kingdom of Saudi Arabia. The Bank operates under commercial registration no. 1010035319 dated 6 Safar 1401H (December 13, 1980) through its 72 branches (2017: 73 branches) in the Kingdom of Saudi Arabia and three overseas branches (2017: three branches). The Bank including its overseas branches employed 3,290 full time direct staff at the year-end (2017: 3,360). The Bank is listed on the Saudi Arabian stock exchange and its head office is located at King Abdul Aziz Road, P.O. Box 833, Riyadh 11421, Kingdom of Saudi Arabia.

The objective of the Bank is to provide a full range of banking and related services. The Bank also provides Shariah approved Islamic banking products to its customers.

The consolidated financial statements include financial statements of the Bank and its following subsidiaries, hereinafter collectively referred to as "the Group"

Samba Capital and Investment Management Company (Samba Capital)

In accordance with the securities business regulations issued by the Capital Market Authority (CMA), the Bank has established a wholly owned subsidiary, Samba Capital and Investment Management Company under commercial registration number 1010237159 issued in Riyadh dated 6 Shaa'ban 1428H (August 19, 2007), to manage the Bank's investment services and asset management activities related to dealing, arranging, managing, advising and custody businesses. The company is licensed by the CMA and has commenced its business effective January 19, 2008. Samba Capital was converted from a limited liability company to a closed joint stock company on 28 Rajab 1438H (April 25, 2017), which is the date of commercial registration of the closed joint stock company.

During 2017, Samba Capital has formed a wholly owned subsidiary "Samba Investment Real Estate Company" which is incorporated in the Kingdom of Saudi Arabia under commercial registration number 1010715022 issued in Riyadh dated 23 Shawaal 1438H (July 17, 2017). The company has been formed as a limited liability company (sole ownership) and is engaged in managing real estate projects for and on behalf of a mutual fund managed by Samba Capital.

Samba Bank Limited, Pakistan (SBL)

An 84.51% owned subsidiary incorporated as a banking company in Pakistan and engaged in commercial banking and related services, and listed on Pakistan Stock Exchange.

Co-Invest Offshore Capital Limited (COCL)

A wholly owned company incorporated under the laws of Cayman Islands for the purpose of managing certain overseas investments through an entity; Investment Capital (Cayman) Limited (ICCL) which is fully owned by COCL. ICCL has invested in approximately 41.2% of the share capital of Access Co-Invest Limited, also a Cayman Island limited liability company, which manages these overseas investments.

Samba Real Estate Company

A wholly owned subsidiary incorporated in Saudi Arabia under commercial registration no. 1010234757 issued in Riyadh dated 9 Jumada II, 1428H (June 24, 2007). The company has been formed as a limited liability company with the approval of Saudi Arabian Monetary Authority (SAMA) and is engaged in managing real estate projects on behalf of the Bank.

Samba Global Markets Limited

A wholly owned company incorporated as a limited liability company under the laws of Cayman Islands on February 1, 2016, with the objective of managing certain treasury related transactions. The company started its commercial operations during the fourth quarter of 2016.

2. Summary of significant accounting policies

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

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of zakat and income tax (See note 2.2 below).The Group prepares its consolidated financial statements also to comply with the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and Articles of Association of the Bank.

2.2 Basis of preparation and presentation

The consolidated financial statements of the Group have been prepared:

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

- in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Articles of Association of the Bank.

Further, the above SAMA Circular has also repealed the existing Accounting Standards for Commercial Banks, as promulgated by SAMA, and are no longer applicable from January 1, 2017. Refer note 2.27 for the accounting policy of zakat and income tax.

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, FVOCI, FVIS financial assets and liabilities and employee benefits which are stated at present value of their obligation. In addition, as explained fully in the related notes, financial assets and liabilities that are hedged under a fair value hedging relationship are adjusted to record changes in fair value attributable to the risks that are being hedged.

Under article 37 of the Bank's Articles of Association, the Gregorian calendar is observed for reporting the consolidated financial statements.

These consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousands.

2.3 Consolidation

These consolidated financial statements include the financial position and results of Samba Financial Group and its subsidiary companies. The financial statements of subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies except for Co-Invest Offshore Capital Limited (COCL) whose financial statements are made up to the previous quarter end for consolidation purposes to meet the group reporting timetable. However any material changes during the interim period are adjusted for the purposes of consolidation. In addition, wherever necessary, adjustments have been made to the financial statements of the subsidiaries to align with the Bank's consolidated financial statements.

Significant intragroup balances and transactions are eliminated upon consolidation.

Subsidiaries are the entities that are controlled by the Group. The Group controls an entity when it is exposed, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity. Subsidiaries are consolidated from the date on which control is transferred to the 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-off during the year are included in the statement of consolidated income from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interest represents the portion of net income or loss and net assets not owned, directly or indirectly, by the Group in subsidiaries and are presented in the statements of consolidated income and within equity in the statements of consolidated financial position separately from the equity holders of the Bank.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair value at the date of acquisition. The excess of the cost of acquisition over the fair value of the Bank's share of identifiable net assets acquired is recorded as intangible asset – goodwill.

In addition to the subsidiaries stated above under note 1, the Bank is also party to certain special purpose entities which are formed with the approval of SAMA solely to facilitate certain Shariah complaint financing arrangements. The Bank has concluded that these entities cannot be consolidated as it does not control these entities. However, the exposures to these entities are included in the Bank's loans and advances portfolio.

2.4 Impact of changes in accounting policies due to adoption of new standards

The accounting policies adopted are consistent with those of the previous financial year except for the below:-

Effective January 1, 2018, the Group has adopted two new accounting standards issued by the International Accounting Standards Board (IASB) and 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' issued in May 2014 and effective for mandatory compliance for annual periods commencing on or after January 1, 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. The Group has carried out an internal assessment based on which it has concluded that adoption of IFRS 15 will not have a material impact on the revenue recognition policy of the Group which is already compliant with applicable IFRS.

IFRS 9 – Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a mandatory application date of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement applied earlier by the Group. 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.

Classification of financial assets and financial liabilities

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

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in statement of consolidated income, under IFRS 9 fair value changes are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the issuer is presented in other comprehensive income; and
- The remaining amount of change in the fair value is presented in statement of consolidated income.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at 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, the allowance is based on the change in the ECLs over the life of the asset.

Transitional arrangements

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied using the modified retrospective approach which requires the recognition of the cumulative impact of adoption in equity.

- A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

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

For financial liabilities designated as at FVIS, the determination of whether presenting the effects of changes in the issuer's credit risk in OCI would create or enlarge an accounting mismatch in the statements of consolidated income.

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

a) **Financial Assets and Financial Liabilities**

i) **Re-classification of financial assets and financial liabilities on the date of initial application of IFRS 9**

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
			SAR '000	
Financial Assets				
Cash and balances with Central Banks	AC	AC	25,195,066	25,195,066
Due from banks and other financial institutions	AC	AC	11,031,480	11,007,946
Investments, net:				
- Fixed rate securities	FVIS	FVIS	315,346	315,346
- Structured credits	FVIS	FVIS	62,784	62,784
- Hedge funds	FVIS	FVIS	1,898,941	1,898,941
- Fixed & floating rate securities	AFS	FVOCI	20,766,434	20,752,938
- Equities & private equities	AFS	FVIS	821,459	821,459
- Equities & private equities	AFS	FVOCI	2,798,693	2,798,693
- Fixed & floating rate securities	AC	FVOCI	25,916,221	25,898,145
- Fixed rate securities & Mudaraba	AC	AC	11,332,532	11,318,846
Derivatives	FVIS	FVIS	6,514,708	6,514,708
Loans and advances, net	L & R	AC	117,684,729	116,803,537
Other assets	AC	AC	568,885	568,885
			224,907,278	**223,957,294**
Financial Liabilities				
Due to banks and other financial institutions	AC	AC	6,551,464	6,551,464
Customer deposits	AC	AC	167,363,111	167,363,111
Customer deposits	FVIS	FVIS	559,543	559,543
Derivatives	FVIS	FVIS	3,976,298	3,976,298
Other liabilities	AC	AC	4,413,594	5,985,435
			182,864,010	**184,435,851**

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

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

	IAS 39 carrying amount as at December 31, 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at January 1, 2018
	SAR '000			
Financial Assets:				
Amortized Cost				
Cash and balances with Central Banks	25,195,066	-	-	**25,195,066**
Due from bank and other financial institutions	11,031,480	-	(23,534)	**11,007,946**
Investments, net	37,248,753	(25,916,221)	(13,686)	**11,318,846**
Loans and advances, net	117,684,729	-	(881,192)	**116,803,537**
Other assets	568,885	-	-	**568,885**
Total amortized cost	**191,728,913**	**(25,916,221)**	**(918,412)**	**164,894,280**
Available for sale				
Investments, net	**24,386,586**	**(24,386,586)**	**-**	**-**
Fair value through other comprehensive income				
Investments (Debt)	-	46,682,655	(31,572)	**46,651,083**
Investment (Equity)	-	2,798,693	-	**2,798,693**
Total FVOCI	-	**49,481,348**	**(31,572)**	**49,449,776**
Fair value through income statement				
Investments, net	2,277,071	821,459	-	**3,098,530**
Derivatives	6,514,708	-	-	**6,514,708**
Total FVIS	**8,791,779**	**821,459**	**-**	**9,613,238**
Financial Liabilities:				
Amortized cost:				
Due to banks and other financial institutions	6,551,464	-	-	**6,551,464**
Customer deposits	167,363,111	-	-	**167,363,111**
Other liabilities	4,413,594	-	1,571,841	**5,985,435**
Total amortized cost	**178,328,169**	**-**	**1,571,841**	**179,900,010**
Fair value through income statement :				
Customer deposits	559,543	-	-	**559,543**
Derivatives	3,976,298	-	-	**3,976,298**
Total FVIS	**4,535,841**	**-**	**-**	**4,535,841**

iii) Impact on retained earnings and other reserves

	Retained earnings	Other reserves
	SAR '000	
Closing balance under IAS 39 (December 31, 2017)	9,564,853	98,514
Reclassifications / re-measurement under IFRS 9	(2,363)	(294)
Recognition of expected credit impairment provisions under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts including those measured at FVOCI)	(2,519,168)	-
Opening balance under IFRS 9 (January 1, 2018)	**7,043,322**	**98,220**

b) The following table reconciles the credit impairment provisions recorded as per the requirements of IAS 39 and to that of IFRS 9:

	December 31, 2017 (IAS 39)	Re-classification	Re-measurement	January 1, 2018 (IFRS 9)
	SAR '000			
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9):				
Due from banks and other financial institutions	-	-	23,534	23,534
Investments, net	-	-	13,686	13,686
Loans and advances, net	1,974,621	-	881,192	2,855,813
Total	**1,974,621**	**-**	**918,412**	**2,893,033**
AFS & Held to maturity (IAS 39)/Financial assets at amortised cost (IFRS 9):				
Investment, net	-	-	**28,915**	**28,915**
Loan commitments and financial guarantee contracts	-	-	**1,571,841**	**1,571,841**
Total	**1,974,621**	**-**	**2,519,168**	**4,493,789**

c) Classification of financial assets and financial liabilities:

The following tables provide carrying value of financial assets and financial liabilities in the statement of consolidated financial position.

	December 31, 2018 (IFRS 9)					
	Mandatorily at FVIS	Designated as at FVIS	FVOCI – debt instruments	FVOCI – equity investments	Amortized cost	Total carrying amount
	SAR '000					
Financial Assets						
Cash and balances with Central Banks	-	-	-	-	25,419,604	25,419,604
Due from banks and other financial institutions	-	-	-	-	17,622,026	17,622,026
Investments, net	3,096,791	2,221,845	47,107,352	3,193,448	10,730,818	66,350,254
Derivatives	3,445,772	-	-	-	-	3,445,772
Loans and advances, net	-	-	-	-	113,708,562	113,708,562
Other assets	-	-	-	-	698,639	698,639
Total financial assets	**6,542,563**	**2,221,845**	**47,107,352**	**3,193,448**	**168,179,649**	**227,244,857**
Financial Liabilities						
Due to banks and other financial institutions	-	-	-	-	7,871,574	7,871,574
Customer deposits	950,707	-	-	-	169,219,339	170,170,046
Derivatives	2,355,100	-	-	-	-	2,355,100
Other liabilities	-	-	-	-	7,233,049	7,233,049
Total financial liabilities	**3,305,807**	**-**	**-**	**-**	**184,323,962**	**187,629,769**

	December 31, 2017 (IAS 39)						
	Trading / FVIS	Designated as FVIS	Held to maturity	Loans and receivables	Available for sale	Amortized cost	Total carrying amount
	SAR '000						
Financial Assets							
Cash and balances with Central Banks	-	-	-	-	-	25,195,066	**25,195,066**
Due from banks and other financial institutions	-	-	-	-	-	11,031,480	**11,031,480**
Investments, net	315,346	1,961,725	3,178,930	-	24,386,586	34,069,823	**63,912,410**
Derivatives	6,514,708	-	-	-	-	-	**6,514,708**
Loans and advances, net	-	-	-	117,684,729	-	-	**117,684,729**
Other assets	-	-	-	-	-	568,885	**568,885**
Total financial assets	**6,830,054**	**1,961,725**	**3,178,930**	**117,684,729**	**24,386,586**	**70,865,254**	**224,907,278**
Financial Liabilities							
Due to banks and other financial institutions	-	-	-	-	-	6,551,464	**6,551,464**
Customer deposits	-	559,543	-	-	-	167,363,111	**167,922,654**
Derivatives	3,976,298	-	-	-	-	-	**3,976,298**
Other liabilities	-	-	-	-	-	4,413,594	**4,413,594**
Total financial liabilities	**3,976,298**	**559,543**	**-**	**-**	**-**	**178,328,169**	**182,864,010**

Classification of financial assets
On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVIS.

Financial Assets at amortised cost
A financial asset is measured at amortized cost 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 to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Assets at FVOCI
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; 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. Interest income and foreign exchange gains or losses are recognised in statement of consolidated income.

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 OCI. This election is made on an investment-by-investment basis.

Financial Assets at FVIS
All other financial assets are classified as measured at FVIS. This may include equity held for trading and debt securities not classified neither as AC or FVOCI.

In addition, on initial recognition, the Group may also irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized 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.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated. For example, 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.

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

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with a 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. periodic reset of interest rates).

Designation at fair value through income statement

At initial recognition, the Group has designated certain financial assets at FVIS. Before January 1, 2018, the Group also designated certain financial assets as at FVIS because the assets were managed, evaluated and reported internally on a fair value basis.

Policy applicable before January 1, 2018

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

Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through income statement or the Group has opted to measure a liability at FVIS as per the requirements of IFRS 9.

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

Financial guarantees and loan commitments that the Group chose to measure at FVIS will have all fair value movements recognized in the income statement.

2.5 Fair value measurement

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 the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or dealer price quotations. For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e. using recent arm's length market transactions adjusted as necessary and with reference to the current market value of another instrument that is substantially the same) and the income approach (i.e. discounted cash flow analysis and option pricing models making as much use of available and supportable market data in a reasonably possible manner). 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.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between the 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 the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

2.6 Critical accounting judgments and estimates

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

(a) Credit Impairment losses on financial instruments held at amortised cost and FVOCI debt

The Group reviews its financial assets portfolios to assess impairment on a quarterly basis. 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. Refer to Note 28 (b) for additional information.

(b) Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques including models are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2.7 Settlement date accounting

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

2.8 Derivative financial instruments and hedge accounting

Derivative financial instruments are measured at fair value. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and other pricing models, as appropriate.

Derivative financial instruments are designated as held for trading unless they are part of an effective hedging relationship. Any changes in the fair values of derivatives that are held for trading purposes are taken directly to the statements of consolidated income.

Policy applicable from January 1, 2018

Derivatives may be embedded in another contractual arrangement (a host contract). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset within the scope of the standard are never separated. Instead the hybrid financial instrument as a whole is assessed for classification.

Policy applicable before January 1, 2018

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

Hedge accounting

Hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability.

In order to qualify for hedge accounting, the hedge is required to be highly effective at inception i.e. the changes in the fair value or the cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of the 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. Hedge accounting is discontinued when the designation is revoked, the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting.

In relation to fair value hedges that meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to change in fair value is recognized immediately in the statements of consolidated income. The corresponding change in fair value of the hedged item is adjusted against the carrying amount and is recognized in the statements of consolidated income. Where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting, the adjustment to the carrying value resulting from fair value changes is amortized to the statements of consolidated income over the remaining life of the hedged item.

In relation to cash flow hedges that meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under equity and the ineffective portion, if any, is recognized in the statements of consolidated income. 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 the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the statements of consolidated income in Net trading income. Gains or losses recognized initially in other reserves are transferred to the statements of consolidated income in the period in which the hedged item impacts the statements of consolidated income.

2.9 Foreign currencies

The consolidated financial statements are denominated and presented in Saudi Arabian Riyals, which is also the functional currency of the Bank. Transactions in foreign currencies are translated into Saudi Arabian Riyals at exchange rates prevailing at transaction dates. Monetary assets and liabilities denominated in foreign currencies at the end of the year (other than monetary items that form part of the net investments in a foreign operation) are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value is determined. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity, depending on the underlying financial asset. Non-monetary assets and liabilities denominated in a foreign currency that are measured in terms of historical cost are translated using the spot exchange rates as at the date of the initial transaction.

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

The assets and liabilities of overseas branches and subsidiaries are translated at the rate of exchange prevailing at the reporting date. The statements of income of overseas branches and subsidiaries are translated at the average exchange rates for the year. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity through the statement of consolidated comprehensive income.

2.10 Offsetting

Financial assets and liabilities are offset and reported net in the statements of consolidated financial position when there is a legally enforceable right to offset the recognized amounts and the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.11 Revenue recognition

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' issued in May 2014 and is effective for mandatory compliance for annual periods commencing on or after January 1, 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS.

Special commission income and expense including the fees which are considered an integral part of the effective yield of a financial instrument, are recognized in the statements of consolidated income using the effective yield method, and include premiums amortized and discounts accreted during the year. Special commission income on loans and advances which is received but not earned is netted off against the related assets.

Fee from banking services are recognized on an accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct cost, are recognized as an adjustment to the effective yield on the loan when it is drawn down. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized rateably over the period when the service is being provided. Dividend income is recognized when declared and right to receive is established. Any fee income received but not earned is classified as "other liability".

The calculation of the effective commission rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition or the issue of financial asset or liability.

Exchange income is recognized as and when it arises. For presentation purposes, "Exchange income, net" includes exchange related gains and losses from derivative financial instruments and translated foreign currency assets and liabilities.

2.12 Sale and repurchase agreements

Securities sold with a commitment to repurchase at a specified future date (repos), continue to be recognized in the statements of consolidated financial position and are measured in accordance with related accounting policies for trading, FVIS, FVOCI and amortized cost. The counterparty liability for amounts received under these agreements is included in due to banks and other financial institutions or customer deposits, as appropriate. The difference between the sale and the repurchase price is treated as special commission expense and is recognized over the life of the repo agreement on an effective yield basis.

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

2.13 Investments

Policy applicable from January 1, 2018

The Investments caption in the statement of consolidated financial position include:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective yield method;
- debt and equity investment securities mandatorily measured at FVIS or designated as at FVIS; these are at fair value with changes recognised immediately in statement of consolidated income;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in statement of consolidated income in the same manner as for financial assets measured at amortised cost:

- special commission income using the effective yield method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from statement of consolidated changes in equity to statement of consolidated income.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to statement of consolidated income and no impairment is recognised in statement of consolidated income. Dividends are recognised in statement of consolidated income unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of such investment.

Policy applicable before January 1, 2018

All investment securities are initially recognized at fair value and except for investments held at FVIS, include the acquisition costs associated with the investment. Transaction costs if any are not added to fair value measurement at initial recognition of investments held at FVIS and are included in the statement of consolidated income. Premiums are amortized and discounts are accreted using the effective yield method and are taken to statements of consolidated income.

For securities that are traded in organized financial markets, fair value is determined by reference to the prevailing quoted market bid prices at the close of business on the reporting date. Fair value of managed assets and investments in mutual funds are determined by reference to declared net asset values.

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 future cash flows or the underlying net asset base of the security.

Following initial recognition of investment securities, subsequent transfers between the various classes of investment are not ordinarily permissible. Subsequent measurement for each class of investments are determined as follows:

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

Investments in this category are classified as either held for trading or those designated as FVIS upon initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term. An instrument which is part of a portfolio classified as held for trading, may include items held for a longer period of time due to market conditions or position management. 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 bases; 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.

After initial recognition, investments are measured at fair value and gains and losses arising from any change in the fair value are recognized in the statements of consolidated income for the period in which it arises.

b) Available for sale

Investments that are classified as available for sale are subsequently measured at fair value. For available for sale investments where fair value has not been hedged, any gain or loss arising from a change in the fair value is recognized directly through the statements of consolidated comprehensive income in fair value reserve under equity until the investment is derecognized or considered impaired, at which time the cumulative gain or loss previously recognized in equity is included in the statements of consolidated income for the period.

Any gain or loss arising from a change in the fair value of available for sale investments that are part of an effective hedging relationship is recognized directly in the statements of consolidated income to the extent of the changes in fair value being hedged.

c) Other Investments held at amortized cost

Investments with fixed or determinable payments that are not quoted in an active market, other than those purchased with the intent to be sold immediately or in the short term and are not classified as available for sale, are classified as other investments held at amortized cost. Such investments where fair value has not been hedged are stated at amortized cost, less provision for any impairment. Any gain or loss is recognized in the statements of consolidated income when the investment is derecognized or impaired.

d) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than those that the Group designates as FVIS, available for sale and those that meet the definition of other investments held at amortized cost are classified as held to maturity. Held to maturity investments are subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition on an effective yield method.

Any gain or loss on such investments is recognized in the statements of consolidated income when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification and cannot be designated as a hedged item with respect to special commission rate or prepayment risk, reflecting the longer-term nature of these investments.

2.14 Loans and advances

Policy applicable from January 1, 2018

Loans and advances are measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective yield method.

Policy applicable before January 1, 2018

Loans and advances are non-derivative financial assets having fixed or determinable payments that are not quoted in an active market.

All loans and advances are initially measured at fair value including acquisition charges associated with the loans and advances, if any. Following initial recognition, subsequent transfers between the various classes of loans and advances is not ordinarily permissible.

Loans and advances that are not quoted in an active market and for which fair value has not been hedged are stated at amortized cost. For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

For presentation purposes, provision for credit losses is netted from loans and advances.

2.15 Impairment of financial assets

Policy applicable from January 1, 2018

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

- financial assets that are debt instruments;
- credit related commitments and contingencies;
- loans and advances; and
- due from banks and other financial institutions.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which 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 (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Measurement of ECL

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

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

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

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

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

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

Loss allowance for ECL are presented in the statement of consolidated 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, classified under "other liabilities";
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of consolidated financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. 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.

Policy applicable before January 1, 2018

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. Objective evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in special commission or principal payments, the probability that it will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, the estimated recoverable amount of that asset is determined and an impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts.

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted. Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statements of consolidated income.

Renegotiation activity is designed to manage customer relationships, maximise collection opportunities and, if possible, avoid foreclosure or repossession. Such activity may involve extending the payment arrangements and/or the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

(a) Impairment of financial assets held at amortized cost

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

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

In addition to specific provision for credit losses, a provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions.

For financial assets at amortised cost, the carrying amount of the asset is adjusted either directly or through the use of an allowance account and the amount of the adjustment is included in the statements of consolidated income.

(b) Impairment of financial assets held as available for sale

For financial assets held as available for sale at fair value, where a loss has been recognised directly under equity, the cumulative net loss recognised in equity is transferred to the statements of consolidated income when the asset is considered to be impaired. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

However, for equity investments held as available for sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss against available for sale equity instruments cannot be reversed through the statements of consolidated income as long as the asset continues to be recognised i.e. any increase in fair value after impairment can only be recognised in equity. On de-recognition, any cumulative gain or loss previously recognised in equity is included in the statements of consolidated income for the period.

2.16 Other real estate owned

The Group, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate are considered as assets held for sale and are initially recorded at the lower of the net realizable value of related loans and advances or the current fair value of the related real estate, less any cost to sell.

Subsequent to the initial recognition, these other real estate owned are periodically revalued and are carried at lower of their carrying values or the related net realizable value. Rental income, realized gains or losses on disposal and unrealized losses on revaluation are credited or charged to the statements of consolidated income.

2.17 Property and equipment

Property and equipment are stated at historical cost net of accumulated depreciation. Freehold land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the lease period or economic life (10 years), whichever is shorter
Furniture, equipment and vehicles	Up to 7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals of property and equipment are included in the statements of consolidated income.

2.18 Intangible assets - goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Bank's share of identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is stated at cost less any accumulated impairment losses, which are charged to the statements of consolidated income. An impairment test for goodwill is carried out annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment loss recorded against goodwill cannot be reversed.

2.19 Financial liabilities

Policy applicable from January 1, 2018

The Group initially recognises financial liabilities on the date on which they are originated. All other financial instruments including regular-way purchases and sales of financial assets are recognised on the trade date which is the date on which the Group becomes party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVIS, transaction costs that are directly attributable to its acquisition or issue. The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVIS. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Policy applicable before January 1, 2018

All financial liabilities including customer and money market deposits and debt securities issued are initially recognized at fair value less transaction costs except for financial liabilities measured at FVIS where transactions cost, if any, are not deducted from the fair value measurement at initial recognition, and are included in the statements of consolidated income.

Subsequently, all special commission bearing financial liabilities other than those held at FVIS are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Special commission bearing deposits for which there is an associated fair value hedging relationship are adjusted for fair value to the extent hedged.

Financial liabilities held at FVIS comprise market linked financial liabilities which are customer deposits where the rate of return is benchmarked to the performance of underlying instruments such as currencies, equities or commodities. At maturity, the repayment of principal amount to the customers is in accordance with the contractual terms. After initial recognition these deposits are measured at fair value and any gains or losses arising from the change in fair value are included in the statements of consolidated income for the year.

2.20 Loan commitments and financial guarantee contracts

In the ordinary course of business, the Group extends credit related commitments consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of guarantees. The premium received is recognized in the statements of consolidated income over the life of the guarantee.

2.21 Provisions

Provisions are recognized when a reliable estimate can be made for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

2.22 Cash and cash equivalents

For the purpose of the statements of consolidated cash flows, cash and cash equivalents comprise cash, balances with Central Banks and reverse repos (excluding statutory deposit) and due from banks and other financial institutions having an original maturity of three months or less.

2.23 De-recognition of financial instruments

A financial asset is derecognized, when the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

On derecognition of a financial asset, the difference between the carrying amount of the asset 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 statement of consolidated income.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in statement of consolidated 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.

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

2.24 Equity-based payments

The Bank offers its eligible employees an equity-settled share-based payment plan (the “Plan”) as approved by SAMA.

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

The cost of these plans is measured by reference to the fair value at the date on which the shares are granted. The fair value of the plan is determined with reference to the market value of the shares at the inception of the plan using the discounted cash flow model.

The cost of the plans is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled the shares (‘the vesting date’). The cumulative expense recognized for these plans at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statements of consolidated income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

The Bank, with the approval from SAMA, has entered into an agreement with an independent third-party to acquire a beneficial interest in the underlying shares solely to manage the price risks associated with the above plans. Under the provisions of such agreement, the Bank, at no point, becomes the legal owner of the underlying shares.

2.25 Employee benefit obligations

The Bank operates an end of service benefit plan for its employees. The provision under this plan is made based on an actuarial valuation of the Bank’s liability under the Saudi Arabian Labour Law and in accordance with the local statutory requirements of the foreign branches and subsidiaries.

The present value of the employee benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Net special commission expense and other expenses related to defined benefit obligation are recognised in statement of consolidated income.

2.26 Treasury stock

Treasury stocks are recorded at cost and presented as a deduction from the equity as adjusted for any transaction costs, dividends and gains or losses on sale of such stocks. Subsequent to their acquisition, these stocks are carried at the amount equal to the consideration paid.

These stocks are acquired by the Bank with the approval of SAMA, primarily for discharging its obligation under its equity-based payment plans and also include stocks acquired in settlement of customer debt.

2.27 Zakat and income taxes

Under Saudi Arabian Zakat and Income tax laws, Zakat and income taxes are the liabilities of the Saudi and foreign shareholders, respectively.

Zakat is computed on the Saudi shareholders’ share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders’ share of net income for the year. The Bank accrues liabilities for Zakat and income tax on a quarterly basis. Previously, Zakat and income tax were deducted from dividends upon payment of dividend to the shareholders and were recognized as liabilities at that time.

Zakat and income taxes are not charged to the Bank’s statements of consolidated income. They are paid on behalf of and are deducted from the dividends paid to the shareholders. Overseas branches and subsidiaries are subject to income tax as per rules and regulations of the country in which they reside.

2.28 Investment management services

The Bank offers certain investment management and advisory services to its customers through its subsidiary. These services include portfolio management on discretionary and non-discretionary basis and management of investment funds in consultation with professional investment advisors. The Bank’s investment in these funds is included in the FVIS or FVOCI investments and fees earned are disclosed under related party transactions.

Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the fund and the investors’ right to remove the fund manager. Based on the assessment carried out by the Bank, it has concluded that it acts as an agent for the investors in all the cases and therefore it has not consolidated these funds in these financial statements.

In addition, the assets held in a trust or fiduciary capacity are not treated as assets of the Bank or that of its subsidiary and accordingly are not included in the Group's statements of consolidated financial position.

2.29 Shariah approved banking products

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

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

3. Cash and balances with Central Banks

	2018 SAR '000	2017 SAR '000
Cash in hand	1,269,215	1,214,448
Statutory deposit	8,827,242	9,242,179
Current account	158,200	665,026
Money market placements	15,164,947	14,073,413
Total	**25,419,604**	**25,195,066**

In accordance with the Banking Control Law and regulations issued by SAMA, the Group is required to maintain a statutory deposit with SAMA and other Central Banks at stipulated percentages of its demand, savings, time and other deposits, as calculated at the end of each month. Money market placements represent securities purchased under an agreement to re-sell (reverse repos) with SAMA.

4. Due from banks and other financial institutions

	2018 SAR '000	2017 SAR '000
Current accounts	3,304,568	3,230,367
Money market placements	14,317,458	7,801,113
Total	**17,622,026**	**11,031,480**

5. Investments, net

a) Investment securities are classified as follows:

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

	Domestic		International		Total	
	2018 SAR '000	2017 SAR '000	2018 SAR '000	2017 SAR '000	2018 SAR '000	2017 SAR '000
Fixed rate securities	1,905,609	262,159	316,236	53,187	**2,221,845**	**315,346**
Structured credits	-	-	194,167	62,784	**194,167**	**62,784**
Hedge funds	-	-	1,655,271	1,898,941	**1,655,271**	**1,898,941**
Private equities	-	-	794,716	-	**794,716**	-
Equities	450,190	-	2,447	-	**452,637**	-
Total Held at FVIS	**2,355,799**	**262,159**	**2,962,837**	**2,014,912**	**5,318,636**	**2,277,071**

ii) Held at fair value through other comprehensive income (FVOCI) / Available for sale

	Domestic		International		Total	
	2018 SAR '000	2017 SAR '000	2018 SAR '000	2017 SAR '000	2018 SAR '000	2017 SAR '000
Fixed rate securities	14,075,219	2,378,119	4,307,320	7,369,155	**18,382,539**	**9,747,274**
Floating rate notes	19,273,818	4,227,774	9,450,995	6,791,386	**28,724,813**	**11,019,160**
Private equity	-	-	-	620,956	**-**	**620,956**
Equities	3,176,732	2,918,704	16,716	80,492	**3,193,448**	**2,999,196**
Total Held at FVOCI / AFS	**36,525,769**	**9,524,597**	**13,775,031**	**14,861,989**	**50,300,800**	**24,386,586**

At January 1, 2018 the Group designated certain equity investments shown in the above table as FVOCI. In 2017, these investments were classified as available for sale. The FVOCI designation was made because the investments are expected to be held for strategic purposes and the dividend recognised during the year under these investments amounted to SR 139.7 million. None of these strategic investments were disposed of during 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

iii) Held to maturity

	International		Total	
	2018 SAR '000	2017 SAR '000	2018 SAR '000	2017 SAR '000
Fixed rate securities	-	3,178,930	**-**	**3,178,930**
Total Held to maturity	**-**	**3,178,930**	**-**	**3,178,930**

iv) Held at amortized cost, net

	Domestic		International		Total	
	2018 SAR '000	2017 SAR '000	2018 SAR '000	2017 SAR '000	2018 SAR '000	2017 SAR '000
Fixed rate securities	10,598,725	18,148,605	135,183	157,452	**10,733,908**	**18,306,057**
Floating rate notes	-	15,294,513	-	-	**-**	**15,294,513**
Mudaraba investments	-	-	-	469,253	**-**	**469,253**
Credit impairment provision	(3,090)	-	-	-	**(3,090)**	**-**
Total held at amortized cost	**10,595,635**	**33,443,118**	**135,183**	**626,705**	**10,730,818**	**34,069,823**
Total investments, net	**49,477,203**	**43,229,874**	**16,873,051**	**20,682,536**	**66,350,254**	**63,912,410**

b) The composition of investments is as follows:

	2018 (SAR'000)			2017 (SAR'000)		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate securities	8,087,104	23,248,098	**31,335,202**	12,584,217	18,963,390	**31,547,607**
Floating rate notes	13,112,595	15,612,218	**28,724,813**	10,852,760	15,460,913	**26,313,673**
Equities	3,643,370	797,431	**4,440,801**	3,003,504	616,648	**3,620,152**
Mudaraba investments	-	-	-	-	469,253	**469,253**
Others	-	1,849,438	**1,849,438**	62,784	1,898,941	**1,961,725**
Total	**24,843,069**	**41,507,185**	**66,350,254**	**26,503,265**	**37,409,145**	**63,912,410**

Unquoted securities principally comprise Saudi government development bonds, Saudi floating rate notes, sukuks, treasury bills, hedge funds and private equities. In view of the nature of the market for such securities, carrying values are determined either by using an appropriate pricing model or net asset values, as provided by independent third parties. Included in fixed rate securities above are securities pledged under repurchase agreements with other banks and customers whose carrying value at December 31, 2018 was SAR 1,197 million (2017: SAR 4,867 million). Also see note 17(d).

Mudaraba is an arrangement approved by the Shariah Board under which the Bank provides funds to customers for a specified business activity. The returns under such arrangements are shared between the Bank and customer on a predetermined basis. Mudaraba investments are included under 'investments held at amortized cost'. The fair values of these Mudaraba investments are not expected to be significantly different from their carrying values.

c) **The analysis of unrecognized gains and losses and fair values of held to maturity and investments held at amortized cost are as follows:**

	2018 (SAR'000)				2017 (SAR'000)			
	Carrying value	Gross unrecognized gain	Gross unrecognized loss	Fair value	Carrying value	Gross unrecognized gain	Gross unrecognized loss	Fair value
Held to maturity:								
Fixed rate securities	-	-	-	-	3,178,930	82,454	-	3,261,384
Total held to maturity	-	-	-	-	**3,178,930**	**82,454**	-	**3,261,384**
Held at amortized cost:								
Fixed rate securities	10,730,818	-	(361,880)	10,368,938	18,306,057	3,155	(434,785)	17,874,427
Floating rate notes	-	-	-	-	15,294,513	-	-	15,294,513
Mudaraba investments	-	-	-	-	469,253	-	-	469,253
Total investments held at amortized cost	**10,730,818**	-	**(361,880)**	**10,368,938**	**34,069,823**	**3,155**	**(434,785)**	**33,638,193**
Grand total	**10,730,818**	-	**(361,880)**	**10,368,938**	**37,248,753**	**85,609**	**(434,785)**	**36,899,577**

d) **The investments by counter-party are as follows:**

	2018 SAR '000	2017 SAR '000
Government and quasi government	45,670,022	46,416,280
Banks and other financial institutions	8,899,924	12,326,385
Corporate	9,919,142	2,197,525
Hedge funds	1,663,806	1,898,941
Others	197,360	1,073,279
Total	**66,350,254**	**63,912,410**

6. Loans and advances, net

a) **Loans and advances are classified as amortised cost and detailed as follows:**

2018 (SAR '000)	Credit cards	Consumer loans	Commercial loans and advances	Others	Total
Performing loans and advances	1,417,523	16,165,086	97,117,394	129,134	**114,829,137**
Non-performing loans and advances	-	10,617	1,472,649	6,141	**1,489,407**
Total	**1,417,523**	**16,175,703**	**98,590,043**	**135,275**	**116,318,544**
Credit impairment provision	(120,624)	(316,978)	(2,166,952)	(5,428)	**(2,609,982)**
Loans & advances, net	**1,296,899**	**15,858,725**	**96,423,091**	**129,847**	**113,708,562**

2017 (SAR '000)	Credit cards	Consumer loans	Commercial loans and advances	Others	Total
Performing loans and advances	1,549,623	17,021,699	99,786,440	174,273	**118,532,035**
Non-performing loans and advances	-	13,363	1,103,460	10,492	**1,127,315**
Total	**1,549,623**	**17,035,062**	**100,889,900**	**184,765**	**119,659,350**
Credit impairment provision	(52,442)	(226,693)	(1,688,678)	(6,808)	**(1,974,621)**
Loans & advances, net	**1,497,181**	**16,808,369**	**99,201,222**	**177,957**	**117,684,729**

Loans and advances, net includes Shariah-approved banking products in respect of Murabaha, Ijara and Tawarruq finance, which are stated at amortized cost less provision for credit impairment amounting to SAR 67,540 million (2017: SAR 71,079 million).

b) Movement in provision for credit impairment are as follows:

2018 (SAR '000)	Credit cards	Consumer loans	Commercial loans and advances	Others	Total
Balance at the beginning of the year, as reported	**52,442**	**226,693**	**1,688,678**	**6,808**	**1,974,621**
Effect of change in accounting policy (note 2.4b)	52,884	94,107	731,607	2,594	881,192
Balance at the beginning of the year, restated	**105,326**	**320,800**	**2,420,285**	**9,402**	**2,855,813**
Provided during the year, net	28,458	(750)	106,346	(1,965)	**132,089**
Bad debts written off	-	(125)	(249,939)	-	**(250,064)**
Recoveries of amounts previously provided	(19,855)	(1,037)	(101,052)	(7,457)	**(129,401)**
Exchange adjustment	6,695	(1,910)	(8,688)	5,448	**1,545**
Balance at the end of the year	**120,624**	**316,978**	**2,166,952**	**5,428**	**2,609,982**

2017 (SAR '000)	Credit cards	Consumer loans	Commercial loans and advances	Others	Total
Balance at the beginning of the year	41,028	227,337	1,586,270	17,040	**1,871,675**
Provided during the year, net	11,414	592	165,858	(9,418)	**168,446**
Bad debts written off	-	(115)	(43,816)	(30)	**(43,961)**
Recoveries of amounts previously provided	-	(325)	(16,535)	(274)	**(17,134)**
Exchange adjustment	-	(796)	(3,099)	(510)	**(4,405)**
Balance at the end of the year	**52,442**	**226,693**	**1,688,678**	**6,808**	**1,974,621**

During the year, the Group has charged an amount of SAR 155.5 million (2017: SAR 287.2 million) to the statements of consolidated income on account of provision for credit impairment which is net of recoveries of amounts previously provided and net direct write-offs.

c) Credit quality of loans and advances

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

2018 (SAR '000)	Credit cards	Consumer loans	Commercial loans and advances	Others	Total
Less than 90 days	102,463	814,249	2,643,278	-	**3,559,990**
90 days and more	31,429	75,123	135,954	-	**242,506**
Total	**133,892**	**889,372**	**2,779,232**	-	**3,802,496**

2017 (SAR '000)	Credit cards	Consumer loans	Commercial loans and advances	Others	Total
Less than 90 days	101,917	779,080	1,259,391	-	**2,140,388**
90 days and more	31,795	93,983	118,039	-	**243,817**
Total	**133,712**	**873,063**	**1,377,430**	**-**	**2,384,205**

ii) Economic sector risk concentration for the loans and advances and the related credit loss provision as follows:

2018 (SAR '000)	Performing	Non-performing	Credit loss provision	Loans & advances, net
Government and quasi government	653,482	-	136	**653,346**
Banks and other financial institutions	4,767,314	-	6,541	**4,760,773**
Agriculture and fishing	4,144,348	440	20,417	**4,124,371**
Manufacturing	17,913,187	162,616	282,664	**17,793,139**
Mining and quarrying	2,000,074	-	9,248	**1,990,826**
Electricity, water, gas and health services	13,371,104	15,849	45,232	**13,341,721**
Building and construction	15,101,316	969,997	1,135,186	**14,936,127**
Commerce	17,499,430	298,521	412,782	**17,385,169**
Transportation and communication	8,022,809	1,402	43,538	**7,980,673**
Services	2,656,436	941	37,282	**2,620,095**
Consumer loans and credit cards	18,106,874	23,054	447,159	**17,682,769**
Other	10,592,763	16,587	169,797	**10,439,553**
Total	**114,829,137**	**1,489,407**	**2,609,982**	**113,708,562**

2017 (SAR '000)	Performing	Non-performing	Credit loss provision	Loans & advances, net
Government and quasi government	681,854	-	242	**681,612**
Banks and other financial institutions	5,028,716	-	19,627	**5,009,089**
Agriculture and fishing	4,050,608	440	9,415	**4,041,633**
Manufacturing	18,761,309	192,262	251,697	**18,701,874**
Mining and quarrying	1,436,027	-	7,019	**1,429,008**
Electricity, water, gas and health services	12,059,269	20,048	46,908	**12,032,409**
Building and construction	16,648,939	710,701	1,001,986	**16,357,654**
Commerce	18,110,827	165,672	161,264	**18,115,235**
Transportation and communication	9,153,683	1,402	38,011	**9,117,074**
Services	2,775,771	941	26,165	**2,750,547**
Consumer loans and credit cards	18,571,322	13,363	279,135	**18,305,550**
Other	11,253,710	22,486	133,152	**11,143,044**
Total	**118,532,035**	**1,127,315**	**1,974,621**	**117,684,729**

d) Collateral

Fair value of collateral held by Bank against loans and advances by each category are as follows:

	2018 SAR '000	2017 SAR '000
Neither past due nor impaired	48,547,435	63,021,343
Past due but not impaired	3,698,194	1,952,858
Impaired	222,403	244,755
Total	**52,468,032**	**65,218,956**

The collateral consists of deposits, financial guarantees, marketable securities and real estate. Those collaterals which are not readily convertible into cash (i.e. real estate) are accepted by the Bank with the intent for them to be disposed of in case of default by the customer. The Group's policies regarding obtaining collaterals have not significantly changed during the year and there has been no significant change in the overall quality of the collaterals held by the Group since the prior year.

7. Property and equipment, net

	Land and buildings (SAR'000)	Leasehold improvements (SAR'000)	Furniture, equipment and vehicles (SAR'000)	2018 Total (SAR'000)	2017 Total (SAR'000)
Cost					
Balance at the beginning of the year	918,492	675,970	1,411,134	**3,005,596**	**2,917,004**
Additions	1,956	13,082	45,839	**60,877**	**96,426**
Disposals	-	(34)	(1,772)	**(1,806)**	**(6,786)**
Exchange adjustment	-	-	(5,127)	**(5,127)**	**(1,048)**
Balance at the end of the year	**920,448**	**689,018**	**1,450,074**	**3,059,540**	**3,005,596**
Accumulated depreciation					
Balance at the beginning of the year	585,923	569,618	1,282,245	**2,437,786**	**2,320,919**
Charge for the year	11,137	31,679	69,610	**112,426**	**123,565**
Disposals	-	-	(894)	**(894)**	**(6,534)**
Exchange adjustment	-	-	4,529	**4,529**	**(164)**
Balance at the end of the year	**597,060**	**601,297**	**1,355,490**	**2,553,847**	**2,437,786**
Net book value as at December 31, 2018	**323,388**	**87,721**	**94,584**	**505,693**	
Net book value as at December 31, 2017	**332,569**	**106,352**	**128,889**		**567,810**
Capital work in progress				2,187,750	2,071,074
Total				**2,693,443**	**2,638,884**

8. Other assets

	2018 SAR '000	2017 SAR '000
Accounts receivable	207,379	158,871
Other real estate, net	5,447	4,757
Goodwill	16,921	21,404
Other	468,892	383,853
Total	**698,639**	**568,885**

9. Derivatives

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

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

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

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

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 stipulated period, a specified amount of a currency, commodity, equity or financial instrument at a pre-determined price.

Swaptions are options on swaps and entail an option on the fixed rate component of a swap. An option on a swap provides the purchaser or holder of the option the right, but not the obligation to enter into a swap where it pays fixed rates against receipt of a floating rate index at a future date.

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

Derivatives held for hedging purposes

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 commission rate risks. This is generally achieved by hedging specific transactions as well as by strategic hedging against overall statements of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

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

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

All derivatives are reported at fair value on the statements of consolidated financial position. In addition, where applicable, all such contracts covered by master netting agreements are reported net. Gross positive or negative fair values are netted with the cash collateral received from or paid to a given counterparty pursuant to a valid master netting agreement.

The analysis of derivative financial instruments and the related fair values together with the notional amounts classified by the term to maturity is as follows:

				Notional amounts by term to maturity			
2018	**Positive Fair value SAR '000**	**Negative Fair value SAR '000**	**Notional amount SAR '000**	**Within 3 Months SAR'000**	**3-12 Months SAR'000**	**1-5 Years SAR'000**	**Over 5 Years SAR'000**
Held for trading							
Commission rate swaps	3,296,534	2,573,683	137,105,216	7,006,806	13,539,282	93,983,860	22,575,268
Commission rate futures and options	66,970	95,052	10,455,028	2,247,063	345,000	7,736,145	126,820
Forward foreign exchange contracts	57,572	65,825	14,389,936	5,736,950	2,174,922	6,478,064	-
Currency options	53,146	52,654	1,556,786	1,057,299	499,487	-	-
Swaptions	-	-	-	-	-	-	-
Equity and commodity options	159,529	178,622	2,704,346	15,000	2,689,346	-	-
Held as fair value hedges:							
Commission rate futures and options	-	17,731	1,842,375	1,842,375	-	-	-
Commission rate swaps	61,253	117,694	3,562,500	-	-	375,000	3,187,500
Held as cash flow hedges							
Commission rate swaps	19,943	59,898	4,532,500	170,000	120,000	662,500	3,580,000
Sub-total	3,714,947	3,161,159	**176,148,687**	**18,075,493**	**19,368,037**	**109,235,569**	**29,469,588**
Cash collateral received / paid	(269,175)	(806,059)					
Total	**3,445,772**	**2,355,100**					

2017	Positive Fair value SAR '000	Negative Fair value SAR '000	Notional amount SAR '000	Notional amounts by term to maturity Within 3 Months SAR'000	3-12 Months SAR'000	1-5 Years SAR'000	Over 5 Years SAR'000
Held for trading							
Commission rate swaps	6,231,314	4,970,558	141,672,493	9,823,864	15,498,684	91,988,025	24,361,920
Commission rate futures and options	35,455	40,300	12,404,532	5,933,629	840,500	4,972,220	658,183
Forward foreign exchange contracts	139,574	186,108	29,118,406	11,719,330	12,350,851	5,048,225	-
Currency options	120,316	121,395	8,000,585	3,838,029	3,890,739	271,817	-
Swaptions	16,537	233	4,498,310	-	4,498,310		-
Equity and commodity options	115,618	115,618	1,342,478	77,478	-	1,265,000	-
Held as fair value hedges:							
Commission rate futures and options	-	-	-	-	-	-	-
Held as cash flow hedges							
Commission rate swaps	43,218	14,261	4,747,500	-	770,000	952,500	3,025,000
Sub-total	6,702,032	5,448,473	**201,784,304**	**31,392,330**	**37,849,084**	**104,497,787**	**28,045,103**
Cash collateral received / paid	(187,324)	(1,472,175)					
Total	**6,514,708**	**3,976,298**					

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

Description of hedged items	Fair value	Nature of hedge	Hedging instrument	Positive fair value	Negative fair value
2018 (SR '000)					
Floating rate notes	4,541,222	Cash flow	Commission rate swaps	19,943	59,898
Fixed rate notes	998,573	Fair Value	Commission rate futures and options	-	42,883
Fixed rate futures	3,327,632	Fair Value	Commission rate swaps	61,253	117,694
2017 (SR '000)					
Floating rate notes	4,756,723	Cash flow	Commission rate swaps	43,218	14,261

Cash flow hedges

The Group is exposed to variability in future cash flows on non-trading assets and liabilities which bear special commission at a variable rate. The Group generally uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks. Also, as a result of firm commitments in foreign currencies, the Group is exposed to foreign exchange and special commission rate risks which are hedged with cross currency special commission rate swaps.

Below is the schedule indicating as at 31 December, the periods when the cash flows arising from the hedged item are expected to occur and when they are expected to affect statements of consolidated income:

2018 (SAR'000)	Within 3 months	3-12 months	1-5 Years	Over 5 years	Total
Cash inflows	57,931	165,954	581,620	283,301	**1,088,806**

2017 (SAR'000)	Within 3 months	3-12 months	1-5 Years	Over 5 years	Total
Cash inflows	17,828	86,830	489,780	422,518	**1,016,956**

Approximately 33% (2017: 25%) of the positive fair value of the Group's derivatives are entered into with financial institutions and less than 13% (2017: 13%) of the positive fair value contracts are with any single counter-party at the reporting date.

10. Due to banks and other financial institutions

	2018 SAR '000	2017 SAR '000
Current accounts	1,953,097	580,665
Money market deposits	5,918,477	5,970,799
Total	**7,871,574**	**6,551,464**

Money market deposits include deposits against the sale of fixed rate securities of SAR 545 million (2017: SAR 3,823 million) with an agreement to repurchase the same at fixed future dates.

11. Customer deposits

Customer deposits comprise of the following:

	2018 SAR '000	2017 SAR '000
Demand	93,880,192	99,546,112
Savings	7,699,602	7,224,513
Time	62,460,929	54,884,115
Other	6,129,323	6,267,914
Total	**170,170,046**	**167,922,654**

Time deposits include deposits accepted under Shariah approved banking product contracts of SAR 33,999 million (2017: SAR 30,428 million).

Time deposits include deposits against sale of fixed rate securities of SAR 393 million (2017: SAR 681) with agreements to repurchase the same at fixed future dates.

Included in time deposits are market linked customer deposits amounting to SAR 951 million (2017: SAR 560 million), which are designated FVIS liabilities. The deposits are so designated when they include one or more embedded derivatives or are being evaluated on a fair value basis in accordance with the documented risk management strategy of the Group. There were no significant gains or losses attributable to changes in the credit risk on these deposits in 2018 and 2017.

Other customer deposits include SAR 1,158 million (2017: SAR 1,322 million) of margins held against facilities extended to customers.

The above include foreign currency deposits as follows:

	2018 SAR '000	2017 SAR '000
Demand	4,344,981	10,346,387
Savings	1,082,667	1,079,852
Time	21,862,428	10,779,392
Other	240,242	338,124
Total	**27,530,318**	**22,543,755**

12. Other liabilities

	2018 SAR '000	2017 SAR '000
Accounts payable	828,336	976,380
Employee benefit obligations (note 13)	517,500	436,604
Unearned fee income	247,779	279,529
Customer initial public offering deposits	7,414	21,340
Payable to GAZT under Settlement Agreement (note 25 c)	1,852,850	-
Credit Impairment provision against loan commitments and financial guarantee contracts (note 28 c)	1,635,951	-
Other	2,143,219	2,699,741
Total	**7,233,049**	**4,413,594**

13. Employee benefit obligations

The Bank operates an End of Service benefit plan for its employees based on the Saudi Arabian Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due. The amounts recognized in the statement of consolidated financial position and movement in the obligation during the year based on its present value are as follows:

	2018 SAR'000	2017 SAR'000
Balance at the beginning of the year	428,526	373,257
Current service cost	102,985	78,343
Special commission expense	16,446	15,475
Benefits paid	(35,077)	(38,549)
Balance at the end of the year	**512,880**	**428,526**

An independent actuarial valuation is carried out during fourth quarter every year for evaluation of adequacy of provision held. Provision held against actuarial valuation as of the end of year is SR 517.5 million (2017: SR 436.6 million). There are various assumptions used in determination of present value of defined benefit obligation of which discount rate and salary increase level are principal which are assumed to be at 4.5% (2017: 4%) and 2% (2017: 2%) respectively.

The actuarial liability would be increased to SR 541.6 million (2017: SR 451.3 million) had the discount rate used in the assumption been lower by 1% and the liability would be decreased to SR 487.3 million (2017: SR 408.1 million) had the discount rate used in the assumption been higher by 1%. Similarly, the actuarial liability would be increased to SR 542.0 million (2017: SR 439.9 million) had the salary increase rate used in the assumption been higher by 1% and the liability would be decreased to SR 486.5 million (2017: SR 418.3 million) had the salary increase rate used in the assumption been lower by 1%. The weighted average duration of the defined benefit obligation is approximately 5 years.

14. Share capital

The authorized, issued and fully paid share capital of the Bank consists of 2,000 million shares (2017: 2,000 million shares) of SAR 10 each.

15. Statutory and general reserves

In accordance with the Banking Control Law of the Kingdom of Saudi Arabia and the Articles of Association of the Bank, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. The statutory reserve is currently not available for distribution. During the year, the bank transferred SAR 1,382 million (2017: 1,256 million) to the statutory reserve from the retained earnings.

In addition, as and when considered appropriate, the Bank makes an appropriation to general reserve for general banking risks.

16. Fair value reserves

The movement in fair value reserves during the year attributable to the equity shareholders of the Group is set out below:

2018 (SR'000)	**Cash flow hedges**	**FVOCI financial assets**	**Total**
Balance at beginning of the year as reported	**(28,826)**	**318,500**	**289,674**
Effect of change in accounting policy	-	(294)	**(294)**
Change in fair value during the year	(18,997)	284,286	**265,289**
Transfer to statements of consolidated income	(51,974)	(9,601)	**(61,575)**
Balance at end of the year	**(99,797)**	**592,891**	**493,094**

2017 (SR'000)	**Cash flow hedges**	**Available for sale financial assets**	**Total**
Balance at beginning of the year	(126,493)	217,056	**90,563**
Change in fair value during the year	153,826	130,481	**284,307**
Transfer to statements of consolidated income	(56,159)	(29,037)	**(85,196)**
Balance at end of the year	**(28,826)**	**318,500**	**289,674**

17. Commitments and contingencies

a) Legal proceedings

No provision has been made in relation to legal proceedings existing as at December 31, 2018 and 2017 as no material costs are expected to be incurred.

b) Capital commitments

The Group's capital commitments as at December 31, 2018 amounted to SAR 362 million (2017: SAR 242 million). These commitments represent contractual obligations in respect of building, construction and equipment purchases.

c) Credit related commitments and contingencies

Credit related commitments and contingencies mainly comprise letters of credit, guarantees, acceptances and irrevocable commitments to extend credit. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Documentary letters of credit which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate, and therefore have 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. Cash requirements under these instruments are considerably less than the amount of the related commitment because the Group generally expects the customers to fulfill their primary obligation.

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

i) The contractual maturity structure for the Group's credit related commitments and contingencies are as follows:

2018 (SAR '000)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,967,783	1,511,518	482,580	-	**4,961,881**
Letters of guarantee	8,166,435	13,849,475	9,352,013	1,517	**31,369,440**
Acceptances	1,179,731	324,544	1,088	9,322	**1,514,685**
Irrevocable commitments to extend credit	142,145	42,560	2,429,571	-	**2,614,276**
Other	-	8,020	59,893	762,205	**830,118**
Total	**12,456,094**	**15,736,117**	**12,325,145**	**773,044**	**41,290,400**

2017 (SAR '000)	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	2,882,614	2,617,101	305,504	-	**5,805,219**
Letters of guarantee	10,523,730	15,340,490	8,185,941	1,815	**34,051,976**
Acceptances	1,009,302	811,517	3,847	9,376	**1,834,042**
Irrevocable commitments to extend credit	1,383,172	694,508	896,147	100,000	**3,073,827**
Other	-	8,020	71,228	607,929	**687,177**
Total	**15,798,818**	**19,471,636**	**9,462,667**	**719,120**	**45,452,241**

The unused portion of commitments outstanding as at December 31, 2018 which can be revoked unilaterally at any time by the Group amounts to SAR 98,210 million (2017: SAR 88,057 million)

ii) The analysis of credit related commitments and contingencies by counter-party are as follows:

	2018 SAR '000	2017 SAR '000
Corporate	35,955,390	40,345,805
Banks and other financial institutions	5,013,370	4,804,294
Other	321,640	302,142
Total	**41,290,400**	**45,452,241**

d) Assets pledged

Assets pledged as collateral with other financial institutions and others as security against borrowings are as follows:

	2018 SAR'000		2017 SAR'000	
	Assets	Related liabilities	Assets	Related liabilities
Investments classified as FVOCI / available for sale and FVIS	1,196,612	1,165,521	4,867,283	4,854,533

e) Operating lease commitments

There are no non-cancelable operating lease commitments as of December 31, 2018 and 2017.

18. Special commission income and expense

	2018 SAR '000	2017 SAR '000
Special commission income on:		
Investments:		
FVOCI / AFS	617,339	658,803
Amortised Cost / Held to maturity and investments held at amortized cost	1,072,812	781,841
	1,690,151	**1,440,644**
Due from banks and other financial institutions	450,874	352,195
Loans and advances	5,397,165	5,134,901
Total	**7,538,190**	**6,927,740**
Special commission expense on:		
Due to banks and other financial institutions	188,420	210,298
Customer deposits	1,197,878	985,217
Total	**1,386,298**	**1,195,515**

19. Fee and commission income, net

	2018 SAR '000	2017 SAR '000
Fee and commission income on:		
Share trading and fund management	280,737	295,544
Trade finance	327,582	378,606
Corporate finance and advisory	107,812	116,492
Other banking services	848,611	803,532
Total	**1,564,742**	**1,594,174**
Fee and commission expense on:		
Cards	(130,078)	(115,462)
Other banking services	(71,313)	(55,977)
Total	**(201,391)**	**(171,439)**
Fee and commission income, net	**1,363,351**	**1,422,735**

20. Trading income, net

	2018 SAR '000	2017 SAR '000
Debt securities	71,239	15,653
Derivatives and others	(10,307)	78,724
Total	**60,932**	**94,377**

21. Gains on FVOCI debt / non-trading investments, net

	2018 SAR '000	2017 SAR '000
FVOCI / AFS	9,601	28,195
Amortised Cost / Other investments held at amortized cost	-	842
Total	**9,601**	**29,037**

22. Other operating income, net

	2018 SAR '000	2017 SAR '000
Gain on disposal of property and equipment	300	7,792
Gain on disposal of other real estate	-	2,341
Dividend income	171,215	152,772
Other income	8,686	1,512
Total	**180,201**	**164,417**

23. Salaries and employee related expenses

The Bank's compensation policy complies with the regulatory requirements of SAMA and international standards of Financial Stability Forum with respect to compensation. This policy is applicable to all businesses across the Group in the Kingdom of Saudi Arabia as well as its overseas branches and subsidiaries as far as it is consistent with the legal and regulatory requirements of respective host countries where the Group operates. SBL also has a compensation policy in place which is in line with the SAMA guidelines and the local rules and regulations

The policy defines the levels and categories of key employees whose goals setting, performance measurement and appraisal processes are based on a scorecard approach that links the financial performance evaluation with associated risks, at the overall Bank level. Key employees consist of senior executives (officers who are in senior and leadership roles whose appointment is subject to the no objection by SAMA), Key Risk Takers (officers who may or may not be in senior roles but are directly or indirectly engaged in risk taking roles on behalf of the Group) and Key Risk Controllers (officers who may or may not be in senior roles but are directly or indirectly engaged in risk controlling roles on behalf of the Group.)

Compensation structure at the Group consists of (a) fixed components viz., base salary, allowances and benefits; as well as (b) variable components viz., performance bonus and equity based scheme. These components are designed to reflect the level of responsibility and role of the employee, as well as the business area in which the employee works.

The Group's overall variable compensation pool is derived from the Risk Adjusted Net Income of the Group which takes into account significant existing and potential risks in order to protect Group's capital adequacy and to mitigate risk of potential future losses. A process of distributing variable compensation payments over three annual instalments is in place for key employees. The proportion of deferred payments is determined based on the level and seniority and/or responsibility of the key employee. A portion of deferred variable compensation is also awarded in the form of equity based "long term bonus scheme". Remuneration of employees working in control functions such as Risk Management, Credit, Compliance, Internal Audit, Financial Control, Legal etc. are determined independently from the business units monitored by them. Further, claw-back arrangements are included to address adverse future performance. No guaranteed bonuses are allowed. Through these mechanisms, the Group has successfully achieved the policy objectives of ensuring that the overall variable compensation takes into account risks associated with financial performance and adjustments to deferred compensation are considered pursuant to any negative future impact arising out of decisions made during the current period.

Variable compensation is awarded to eligible employees in the form of cash, equities or a combination of both. The proportion of variable compensation to be paid in either form is determined based on the level of responsibility and role of the individual employee, as well as the business area in which the employee works and commensurate to the performance delivery, risk taking or controlling ability of the employee.

In accordance with regulatory requirements on corporate governance, the Bank's Board of Directors has established a Nomination and Remuneration Committee (NRC) which comprises of three non-executive directors and chaired by an independent board member. The NRC is responsible for the overall architecture, oversight and monitoring of the compensation system. The committee reviews the compensation policy periodically to ensure its adequacy and effectiveness. Accordingly, the policy was last revised in September 2018 and reflects the amended organization structure and approval hierarchy. The NRC makes its recommendations to the Board on the level and composition of remuneration after taking into account the Risk Management Group's input. NRC also periodically reviews the progress of the compensation policy implementation and ensures that its stated objectives are achieved in line with the guidelines.

The following is a breakup of the compensation paid to the Group's employees for the years 2018 and 2017:

	Number of Employees		Fixed Compensation SAR'000		Variable Compensation Paid – SAR'000					
Category	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
					Cash		**Shares**		**Total**	
Senior executives*	20	19	29,733	28,766	31,945	29,882	6,263	3,619	38,208	33,501
Employees engaged in risk taking activities	880	927	317,064	328,602	68,575	65,429	8,193	5,182	76,768	70,611
Employees engaged in control functions	780	749	190,875	188,480	20,101	19,051	2,773	2,061	22,874	21,112
Other employees	1,610	1,665	193,131	205,755	5,067	5,075	125	115	5,192	5,190
Other outsourced employees	207	170	20,366	17,033	420	419	-	-	420	419
Total	**3,497**	**3,530**	751,169	768,636	**126,108**	**119,856**	**17,354**	**10,977**	**143,462**	**130,833**
Variable compensation and other employee related cost accrued or paid during the year**			494,178	541,718						
Total salaries & employee related expenses			**1,245,347**	**1,310,354**						

* Senior executives are employees whose appointment requires approval from SAMA.

** Other employee related costs include insurance premium paid, GOSI contribution, relocation charges, recruitment expenses, training and development cost, employee related costs for SBL and certain other non-recurring employee related costs.

24. Basic and Diluted Earnings per Share

Basic and diluted earnings per share is calculated by dividing the net income for the years 2018 and 2017 by 2,000 million shares.

25. Dividend, Zakat and income tax

a) Dividend

The Board of Directors has proposed a final gross dividend of SR 2,324 million for 2018 (2017: SR 1,807 million). After deducting the applicable Zakat, this will yield a net payment of SR 1.0 per share to the Saudi shareholders of the Bank (2017: SR 0.75). The total net dividend for the year to Saudi shareholders is SR 1.8 per share (2017: SR 0.75 per share) of which SR 0.8 (2017: SR 0.75) was paid as interim dividend earlier during the year. The total interim gross dividend during 2018 amounted to SR 1,911 million (2017: SR 1,807 million) making full year total gross dividends of SR 4,235 million (2017: SR 3,614 million).

The proposed final dividend is included within equity until approved by the shareholders' annual general assembly.

b) Zakat and Income Tax Liabilities

Zakat attributable to Saudi shareholders for the current year is estimated at SR 443.6 million (2017: SR 592 million) for the Bank on an approximate shareholding of 97.7% (2017: 96.44%) which will be deducted from their share of dividend. Zakat liability for the current year has been calculated based on the settlement framework agreed by the Bank with the General Authority for Zakat and Income (the "GAZT") as part of settlement of Zakat for the years 2006-17 detailed below and will be paid to the GAZT latest by 30 April 2019.

Income tax liability of the foreign shareholders on their current year's share of income is estimated at SR 33 million (2017: SR 33 million) on an approximate shareholding of 2.3% (2017: 3.56%). Unpaid income tax liability for the current year or earlier years, if any, will be deducted from their share of dividend for the year.

c) Status of Zakat and Income Tax Assessments

During the current year, the Bank has reached a Settlement Agreement (the "Agreement") with the GAZT to comply with the directives provided by Royal Decree No. M/26 dated 20/3/1440H (November 28, 2018) and the Ministerial Resolution No. 1260 dated 05/04/1440H (December 12, 2018), in order to settle outstanding Zakat liabilities for the years from 2006 to 2017 against a full and final payment of SR 2,316 million, payable in 6 instalments over a period of 5 years ending December 1, 2023. The Bank has already paid the first instalment of SR 463 million during December 2018. The amount payable to GAZT have been reclassified under "Other Liabilities" in the consolidated financial statements. Under the Agreement, the Bank and GAZT have also agreed to settle Zakat for the year 2018 in accordance with the settlement framework provided by the Royal Decree and the Ministerial Resolution. As a result of the Agreement, all Zakat related disputes between the Bank and the GAZT pertaining to the years 2006 to 2017 stand resolved.

The Bank will continue to contest its appeals before the Appellate Committee of Tax Disputes and Violations for the years 2004-2005 with respect to Zakat and for the income taxes for the years 2004-2009. The Bank is confident of a favourable outcome from the appeal process.

The Bank has filed its Zakat and Income Tax returns with the GAZT and paid Zakat and Income Taxes for the years up to and including the year 2017, except for the amounts agreed as a liability under the Agreement which will be paid to GAZT as and when they fall due.

26. Cash and cash equivalents

Cash and cash equivalents for the purpose of the statements of consolidated cash flows comprise the following:

	2018 SAR '000	2017 SAR '000
Cash and balances with Central Banks excluding statutory deposit (note 3)	16,592,362	15,952,887
Due from banks and other financial institutions	7,324,107	5,020,361
Total	**23,916,469**	**20,973,248**

27. Operating segments

The Group is organized into the following main operating segments:

Consumer banking – comprises individual customer time deposits, current, call and savings accounts, as well as credit cards, retail investment products, individual and consumer loans.

Corporate banking – comprises corporate time deposits, current and call accounts, overdrafts, loans and other credit facilities as well the Group's customer derivative portfolios and its corporate advisory business.

Treasury – principally manages money market, foreign exchange, commission rate trading and derivatives for corporate and institutional customers as well as for the Group's own account. It is also responsible for funding the Group's operations, maintaining liquidity and managing the Group's investment portfolio and statement of financial position.

Investment banking – engaged in investment management services and asset management activities related to dealing, managing, arranging, advising and custody businesses. The investment banking business is housed under a separate legal entity Samba Capital and Investment Management Company.

The Group's primary business is conducted in the Kingdom of Saudi Arabia with three overseas branches and three overseas subsidiaries. However, the results of the overseas operations are not material to the Group's overall consolidated financial statements.

On June 8, 2016, the Board of Directors of the Group has decided to close the operations of UK branch as its operations are no longer consistent with the business strategy of the Group. The management believes that the financial impact of this decision will not be material to the overall operations of the Group.

Transactions between the business segments are on normal commercial terms. Funds are ordinarily reallocated between segments, resulting in funding cost transfers. Special commission charged for these funds is based on market based inter-bank rates. There are no other material items of income or expense or other internal revenues between the operating segments.

a) The Group's total assets and liabilities as at December 31, 2018 and 2017, together with special commission income net, total operating income, total operating expenses, provision for credit impairment, net income, capital expenditure and depreciation expenses for the years then ended, by operating segment, are as follows:

2018 (SAR'000)	Consumer banking	Corporate banking	Treasury	Investment banking	Total
Total assets	32,315,651	96,225,480	101,236,772	160,397	**229,938,300**
Total liabilities	93,649,480	83,003,800	10,871,118	105,371	**187,629,769**
Special commission income, net	2,439,505	2,293,588	1,366,274	52,525	**6,151,892**
Total operating income	3,132,188	3,028,009	1,540,181	456,142	**8,156,520**
Total operating expenses, of which:	1,667,241	646,853	117,849	195,798	**2,627,741**
- Depreciation	44,159	61,850	909	5,508	**112,426**
- Credit impairment provision	87,362	65,066	3,090	-	**155,518**
Net income	1,464,947	2,381,156	1,422,332	260,344	**5,528,779**
Capital expenditure	82,737	75,626	9,198	336	**167,897**

2017 (SAR'000)	Consumer Banking	Corporate banking	Treasury	Investment banking	Total
Total assets	33,432,980	100,946,582	92,995,571	171,029	**227,546,162**
Total liabilities	92,146,810	81,241,106	9,356,841	119,253	**182,864,010**
Special commission income, net	2,128,091	2,258,283	1,317,860	27,991	**5,732,225**
Total operating income	2,772,732	2,998,261	1,667,113	453,460	**7,891,566**
Total operating expenses, of which:	1,763,693	785,330	131,131	187,122	**2,867,276**
- Depreciation	48,590	66,942	1,033	7,000	**123,565**
- Credit impairment provision	138,746	148,420	-	-	**287,166**
Net income	1,009,039	2,212,931	1,535,982	266,338	**5,024,290**
Capital expenditure	111,893	106,862	28,508	5,258	**252,521**

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

2018 (SAR'000)	Consumer	Corporate	Treasury	Investment Banking	Total
Balance sheet risk assets	25,667,349	88,199,401	79,514,400	66,270	**193,447,420**
Commitments and contingencies	275,818	24,584,511	965,803	-	**25,826,132**
Derivatives	608,934	1,156,489	4,973,678	-	**6,739,101**
2017 (SAR'000)					
Balance sheet risk assets	26,191,252	91,590,014	71,323,759	62,313	**189,167,338**
Commitments and contingencies	277,257	26,216,832	760,560	-	**27,254,649**
Derivatives	50,773	2,414,578	10,316,316	-	**12,781,667**

Balance sheet risk assets comprise of the carrying value of the assets at the reporting date, excluding cash and balances with central banks, derivatives, property and equipment and other assets. Credit exposures relating to commitments, contingencies and derivatives are stated at their credit equivalent amounts as prescribed by central banks.

28. Financial Risk Management

a) Credit Risk

Credit risk is the risk that a customer will fail to discharge its financial obligation to the Group and will cause the Group to incur a financial loss.

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Board Risk Committee which monitors the overall risk process within the bank and has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The Group seeks to manage its credit risk exposure by ensuring that its customers meet the minimum credit standards defined by the Group's management and through diversification of lending activities to ensure that there is no undue concentration of risks with individuals, or within groups of customers in specific locations or businesses. The Group continually assesses and monitors credit exposures to ensure timely identification of potential problem credits.

In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases the Group may also close out transactions and settle on a net present value basis.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. The Group limits the impact of concentration risk in exposure by setting progressively lower limits for longer tenors and taking security, where considered appropriate, to mitigate such risks.

The Group uses its internal ratings to rate the credit quality of its portfolio. The following categories provides guidance about the credit quality of financial assets measured at amortized cost and debt investments classified as FVOCI.

Low and fair risk: Performing assets which have none or negligible deterioration in credit quality since inception.

Watch list: Assets which have shown some initial signs of deterioration in credit quality in the recent past and are subject to increasing levels of credit risk.

Substandard: Assets which exhibit substantially higher level of credit risk and are considered to be vulnerable to default.

Doubtful: These assets are typically in default (impaired) but still show some prospect of partial recovery in principal in the future.

Loss: Impaired assets which are generally fully provided and have low expectations of further recovery.

The following table sets out information about the credit quality of financial assets measured at amortized cost and debt investments classified as FVOCI. Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts.

	December 31, 2018 (SAR'000)			
Due from banks and other financial institutions at amortised cost	**12 Months ECL**	**Life time ECL not credit impaired**	**Life time ECL credit impaired**	**Total**
Low to fair risk	17,638,525	-	-	**17,638,525**
Watch list	-	-	-	**-**
Substandard	-	–	–	**-**
Doubtful	-	–	–	**-**
Loss	-	–	–	**-**
	17,638,525	–	–	**17,638,525**
Less: Credit impairment provision	**16,499**	–	–	**16,499**
Total	**17,622,026**	**-**	**-**	**17,622,026**

Debt instruments at amortised cost	December 31, 2018 (SAR'000) 12 Months ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Low to fair risk	10,733,908	-	-	**10,733,908**
Watch list	-	-	-	-
Substandard	-	–	–	-
Doubtful	-	–	–	-
Loss	-	–	–	-
	10,733,908	–	–	**10,733,908**
Less: Credit impairment provision	**3,090**	–	–	**3,090**
Total	**10,730,818**	-	-	**10,730,818**

Debt instruments at FVOCI	December 31, 2018 (SAR'000) 12 Months ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Low to fair risk	47,107,352	-	-	**47,107,352**
Watch list	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	**47,107,352**	-	-	**47,107,352**

Loans and advances at amortised cost	December 31, 2018 (SAR'000) 12 Months ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Low to fair risk	109,598,111	-	-	**109,598,111**
Watch list	-	977,265	-	**977,265**
Substandard	-	3,835,987	417,595	**4,253,582**
Doubtful	-	-	1,130,948	**1,130,948**
Loss	-	-	358,638	**358,638**
	109,598,111	**4,813,252**	**1,907,181**	**116,318,544**
Less: Credit impairment provision	**684,569**	**483,960**	**1,441,453**	**2,609,982**
Total	**108,913,542**	**4,329,292**	**465,728**	**113,708,562**

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 criteria such as risk grading and delinquency, and qualitative information and analysis used in the assessment of the classification assigned to the obligor. These are based on the Group's historical experience and expert credit assessment and includes the forward-looking information.

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 while also applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being subsequently moved to a different credit risk grade. The monitoring typically 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 of management, and senior management changes/succession planning. • 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 behaviour e.g. utilization of credit card facilities. • Affordability metrics. • External data from credit reference agencies.	• 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.

Generating the term structure of probability of default

The 12 month Probabilities of Default (PD) derived from approved internal rating models are a primary input into the determination of the PD term structure for exposures. For some portfolios, information sourced from external credit reference agencies is also used.

The Group extrapolates these PDs into a term structure by using macro-economic factors and transition matrices to generate both 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 as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, the key macro-economic indicators include the estimation for GDP growth, inflation rates and oil price.

Based on advice from the Group's team of economists, and consideration of a variety of external actual and forecast information, the Group formulates 'base case, 'upside' and 'downside' views 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 Group then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include both quantitative factors expressed in the form of a classification as well as a qualitative assessment based on delinquency.

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. These typically include expectations of forbearance occurring, high risk events (such as breach of covenants etc.), cross obligor defaults and designation on risk watch-lists.

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

The performance of borrowers is monitored on a regular basis against the pre-defined classification/delinquency triggers to ensure the effectiveness and relevance thereof and to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria are no more liberal than the point in time when an asset becomes 30 days past due; and
- there is stability in the loss allowance arising from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Modified financial assets

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

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

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants and a detailed forbearance policy has implemented by the Group.

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired or in-default. Consequently all such exposures continue to be measured using the lifetime ECL and a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired or in-default, or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of 'Default'

"Default" is defined as either non-payment of a material financial obligation persisting for 90 days or the occurrence of events that would lead the Group to consider that the obligor is unlikely to service its credit obligations to the Group. In assessing whether a borrower is in default, the Group considers indicators that are:

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

The definition of default used by the Group for IFRS 9 purposes aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward-looking information

The Group incorporates forward-looking information into its measurement of ECL. Based on advice from the team of Economists 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 additional economic scenarios ('upside' and 'downside') and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit impairment 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 impairment. The economic scenarios used as at December 31, 2018 included the ranges of key indicators such as the GDP growth rate, oil price, rate of inflation and data on fiscal spending etc.

Predicted relationships between the key macro-economic indicators, default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 25 years.

Measurement of ECL

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

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. These models are validated on an annual basis to ensure the quality of the outputs generated.

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 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.

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 of the claim and recovery costs of any collateral that is integral to the financial asset.

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 loan 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 regulatory defined credit conversion factors for non-retail customers and historical observations for the retail portfolio.

As described above, and using a 12-month PD for financial assets for which credit risk has not significantly increased, 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 loan commitment or guarantee.

For retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period of 12 months. 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 loan with fixed repayment terms.

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

- instrument type;
- payment behaviour;
- external credit bureau characteristics;
- date of initial recognition;
- remaining term to maturity; and
- customer demographics.

The ranking is subject to regular review to ensure that exposures within a particular pool remain appropriately homogeneous.

c) The following tables shows reconciliations from the opening to the closing balance of the credit impairment provisions by class of financial instruments.

Due from Banks and Other Financial Institutions at Amortised Cost	December 31, 2018 (SAR'000)			
	12 Month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Balance as at January 1, 2018	**23,534**	-	-	**23,534**
Net measurement of loss allowance	(20,726)	-	-	**(20,726)**
New financial assets originated or purchased or renewed	48,344	-	-	**48,344**
Financial asset that have been derecognised	(34,653)	-	-	**(34,653)**
Balance as at December 31, 2018	**16,499**	-	-	**16,499**

Debt instruments at Amortised Cost	December 31, 2018 (SAR'000)			
	12 Month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Balance as at January 1, 2018	**13,686**	**-**	**-**	**13,686**
Net measurement of loss allowance	241	-	-	**241**
New financial assets originated or purchased or renewed	7,108	-	-	**7,108**
Financial asset that have been derecognised	(17,945)	-	-	**(17,945)**
Balance as at December 31, 2018	**3,090**	**-**	**-**	**3,090**

Debt instruments at Fair Value through Other Comprehensive Income	December 31, 2018 (SAR'000)			
	12 Month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Balance as at January 1, 2018	**21,833**	**7,082**	**-**	**28,915**
Transfer to 12 months ECL	6,385	(6,385)	-	-
Net measurement of loss allowance	(7,661)	(697)	-	**(8,358)**
New financial assets originated or purchased or renewed	10,704	-	-	**10,704**
Financial asset that have been derecognised	(5,737)	-	-	**(5,737)**
Balance as at December 31, 2018	**25,524**	**-**	**-**	**25,524**

Loans and advances at Amortised Cost	December 31, 2018 (SAR'000)			
	12 Month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Balance as at January 1, 2018 (Restated)	**737,363**	**491,806**	**1,626,644**	**2,855,813**
Transfer to 12 months ECL	130,540	(130,514)	(26)	-
Transfer to life time ECL not credit impaired	(51,268)	57,578	(6,310)	-
Transfer to life time ECL credit impaired	(2)	(27,151)	27,153	-
Net measurement of loss allowance	(93,628)	34,126	13,053	**(46,449)**
New financial assets originated or purchased or renewed	758,059	404,344	230,664	**1,393,067**
Financial asset that have been derecognised	(796,497)	(346,229)	(199,659)	**(1,342,385)**
Write offs	-	-	(250,064)	**(250,064)**
Balance as at December 31, 2018	**684,567**	**483,960**	**1,441,455**	**2,609,982**

Loan commitments and financial guarantee contracts	December 31, 2018 (SAR'000) 12 Month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
Balance as at January 1, 2018	**149,748**	**50,775**	**1,371,318**	**1,571,841**
Transfer to 12 months ECL	658	(558)	(100)	-
Transfer to life time ECL not credit impaired	(65,642)	79,132	(13,490)	-
Transfer to life time ECL credit impaired	-	(6,568)	6,568	-
Net measurement of loss allowance	(4,376)	15,086	84,754	**95,464**
New commitents and financial guarantees originated or renewed	67,912	8,644	6,804	**83,360**
Commitents and financial guarantees that have been derecognised	(73,541)	(26,594)	(14,579)	**(114,714)**
Balance as at December 31, 2018	**74,759**	**119,917**	**1,441,275**	**1,635,951**

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

	2018 SAR'000	2017 SAR'000
ASSETS		
Due from banks and other financial institutions	17,622,026	11,031,480
Investments, net	61,909,453	60,292,258
Loans and advances, net	113,708,562	117,684,729
Other assets exposed to credit risk	207,379	158,871
Total	**193,447,420**	**189,167,338**
Contingent liabilities and commitments	25,826,132	27,254,649
Derivatives	6,739,101	12,781,667
Total	**226,012,653**	**229,203,654**

29. Geographical concentration

a) The distribution by geographical region for major categories of assets, liabilities, credit exposures in relation to commitments and contingencies and derivatives are as follows:

2018 (SAR'000)	Kingdom of Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with central banks	25,060,588	220,117	991	-	-	137,908	-	**25,419,604**
Due from banks and other financial institutions	10,966,805	3,172,128	1,887,688	1,206,596	-	6,264	382,545	**17,622,026**
Investments, net	51,099,133	2,430,857	5,364,953	6,853,035	61,472	186,680	354,124	**66,350,254**
Derivatives	3,020,824	128,024	-	273,923	-	-	23,001	**3,445,772**
Loans and advances, net	103,444,604	8,151,882	344,344	-	-	-	1,767,732	**113,708,562**
Total	**193,591,954**	**14,103,008**	**7,597,976**	**8,333,554**	**61,472**	**330,852**	**2,527,402**	**226,546,218**
Liabilities								
Due to banks and other financial institutions	1,296,811	4,641,463	96,012	632,114	-	8,996	1,196,178	**7,871,574**
Customer deposits	167,510,224	617,013	24,629	325,881	804	6,781	1,684,714	**170,170,046**
Derivatives	2,352,104	2,996	-	-	-	-	-	**2,355,100**
Total	**171,159,139**	**5,261,472**	**120,641**	**957,995**	**804**	**15,777**	**2,880,892**	**180,396,720**
Credit exposure (stated at credit equivalents)								
Commitments and contingencies	19,193,261	3,139,471	1,088,103	649,396	31,564	1,015,163	709,174	**25,826,132**
Derivatives	2,609,921	157,573	3,459,549	502,456	-	-	9,603	**6,739,102**
Total	**21,803,182**	**3,297,044**	**4,547,652**	**1,151,852**	**31,564**	**1,015,163**	**718,777**	**32,565,234**

2017 (SAR'000)	Kingdom of Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with central banks	24,479,448	583,953	-	-	-	131,665	-	**25,195,066**
Due from banks and other financial institutions	3,847,983	3,490,562	776,759	2,585,031	-	5,573	325,572	**11,031,480**
Investments, net	44,131,875	3,236,622	6,323,621	7,367,469	63,025	152,326	2,637,472	**63,912,410**
Derivatives	5,988,334	151,970	-	350,702	-	-	23,702	**6,514,708**
Loans and advances, net	108,685,805	7,058,821	426,858	102	-	-	1,513,143	**117,684,729**
Total	**187,133,445**	**14,521,928**	**7,527,238**	**10,303,304**	**63,025**	**289,564**	**4,499,889**	**224,338,393**
Liabilities								
Due to banks and other financial institutions	1,095,599	535,856	3,076,489	144,488	-	4,630	1,694,402	**6,551,464**
Customer deposits	164,658,675	1,063,264	38,635	340,800	520	18,611	1,802,149	**167,922,654**
Derivatives	3,945,790	5,872	941	-	-	-	23,695	**3,976,298**
Total	**169,700,064**	**1,604,992**	**3,116,065**	**485,288**	**520**	**23,241**	**3,520,246**	**178,450,416**
Credit exposure (stated at credit equivalents)								
Commitments and contingencies	20,737,457	2,943,704	1,059,114	425,251	18,426	1,461,012	609,685	**27,254,649**
Derivatives	4,982,898	185,589	6,803,541	800,036	-	-	9,603	**12,781,667**
Total	**25,720,355**	**3,129,293**	**7,862,655**	**1,225,287**	**18,426**	**1,461,012**	**619,288**	**40,036,316**

Credit exposures are stated at their credit equivalent amounts as prescribed by SAMA.

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

(SAR '000)	Non-performing loans and advances		Credit impairment provision	
	2018	**2017**	**2018**	**2017**
Kingdom of Saudi Arabia	1,300,159	926,914	2,439,393	1,834,284
Other GCC and Middle East	125,135	121,219	108,961	61,662
Other countries	64,113	79,182	61,628	78,675
Total	**1,489,407**	**1,127,315**	**2,609,982**	**1,974,621**

30. Market Risk

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

a) Market Risk -Trading Book

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

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical normal distribution.

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

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To overcome the VAR limitations mentioned above, the Group also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Group's Asset and Liability Committee (ALCO) for its review.

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

2018 (SAR '000)	**Foreign exchange risk**	**Special commission risk**	**Total**
VAR as at December 31	13,931	20,067	**33,998**
Average VAR for the year	10,691	14,474	**25,165**
2017 (SAR '000)			
VAR as at December 31	9,756	2,499	**12,255**
Average VAR for the year	7,851	11,220	**19,071**

b) Market Risk – Non-Trading or Banking Book

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

i) Special Commission Rate Risk

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

The following table depicts the sensitivity to a reasonably possible change in special commission rates, with other variables held constant, on the Group's statements of consolidated 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 non-trading financial assets and financial liabilities held as at December 31, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate FVOCI/AFS financial assets, including the effect of any associated hedges as at December 31, for the effect of assumed changes in special commission rates. The sensitivity of equity is analyzed by maturity of the asset or swap.

All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are presented below:

			Sensitivity of equity				
Currency	**Increase/ decrease in basis point**	**Sensitivity of special commission income**	**6 months or less**	**6 to 12 months**	**1-5 years**	**Over 5 years**	**Total 2018 (SAR'000)**
SAR	+1 bps	(20,462)	(737)	(613)	(4,069)	(1,555)	**(6,974)**
	-1 bps	20,462	737	613	4,069	1,555	**6,974**
US Dollar	+1 bps	(29)	(304)	(218)	(1,519)	(1,049)	**(3,090)**
	-1 bps	29	304	218	1,519	1,049	**3,090**
Euro	+1 bps	(81)	7	14	(87)	(8)	**(74)**
	-1 bps	81	(7)	(14)	87	8	**74**

			Sensitivity of equity				
Currency	**Increase/ decrease in basis point**	**Sensitivity of special commission income**	**6 months or less**	**6 to 12 months**	**1-5 years**	**Over 5 years**	**Total 2017 (SAR'000)**
SAR	+1 bps	(21,455)	(1,461)	(1,012)	(6,486)	(3,123)	**(12,082)**
	-1 bps	21,455	1,461	1,012	6,486	3,123	**12,082**
US Dollar	+1 bps	(2,391)	(364)	(277)	(1,071)	(587)	**(2,299)**
	-1 bps	2,391	364	277	1,071	587	**2,299**
Euro	+1 bps	127	16	54	61	-	**131**
	-1 bps	(127)	(16)	(54)	(61)	-	**(131)**

The Group is exposed to various risks associated with the effect of fluctuations in the prevailing levels of market commission rates on its financial position and cash flows. The table below summarizes the Group's exposure to commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet 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.

2018 (SAR '000)	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with central banks	15,164,947	-	-	-	10,254,657	**25,419,604**
Due from banks and other financial institutions	3,821,499	10,495,959	-	-	3,304,568	**17,622,026**
Investments, net	27,560,201	3,251,457	9,685,485	19,757,039	6,096,072	**66,350,254**
Derivatives	3,445,772	-	-	-	-	**3,445,772**
Loans and advances, net	61,244,550	32,010,653	11,540,496	8,911,740	1,123	**113,708,562**
Property and equipment, net	-	-	-	-	2,693,443	**2,693,443**
Other assets	-	-	-	-	698,639	**698,639**
Total Assets	**111,236,969**	**45,758,069**	**21,225,981**	**28,668,779**	**23,048,502**	**229,938,300**
Liabilities and equity						
Due to banks and other financial institutions	5,293,118	595,565	3,161	26,633	1,953,097	**7,871,574**
Customer deposits	59,031,910	11,026,620	10,036	91,965	100,009,515	**170,170,046**
Derivatives	2,355,100	-	-	-	-	**2,355,100**
Other liabilities	-	-	-	-	7,233,049	**7,233,049**
Total equity	-	-	-	-	42,308,531	**42,308,531**
Total liabilities and equity	**66,680,128**	**11,622,185**	**13,197**	**118,598**	**151,504,192**	**229,938,300**
On balance sheet gap	44,556,841	34,135,884	21,212,784	28,550,181	(128,455,690)	
Off balance sheet gap	(8,033,479)	(1,483,894)	9,517,373	-	-	
Total commission rate sensitivity gap	**36,523,362**	**32,651,990**	**30,730,157**	**28,550,181**	**(128,455,690)**	
Cumulative commission rate sensitivity gap	**36,523,362**	**69,175,352**	**99,905,509**	**128,455,690**		

2017 (SAR '000)	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with central banks	14,073,413	-	-	-	11,121,653	**25,195,066**
Due from banks and other financial institutions	4,153,613	3,647,500	-	-	3,230,367	**11,031,480**
Investments, net	28,146,697	3,632,208	12,520,232	14,094,180	5,519,093	**63,912,410**
Derivatives	6,514,708	-	-	-	-	**6,514,708**
Loans and advances, net	66,507,562	30,755,528	12,918,171	7,501,855	1,613	**117,684,729**
Property and equipment, net	-	-	-	-	2,638,884	**2,638,884**
Other assets	-	-	-	-	568,885	**568,885**
Total Assets	**119,395,993**	**38,035,236**	**25,438,403**	**21,596,035**	**23,080,495**	**227,546,162**
Liabilities and equity						
Due to banks and other financial institutions	5,920,354	34,408	2,990	13,047	580,665	**6,551,464**
Customer deposits	34,711,767	18,560,516	705,726	8,130,619	105,814,026	**167,922,654**
Derivatives	3,976,298	-	-	-	-	**3,976,298**
Other liabilities	-	-	-	-	4,413,594	**4,413,594**
Total equity	-	-	-	-	44,682,152	**44,682,152**
Total liabilities and equity	**44,608,419**	**18,594,924**	**708,716**	**8,143,666**	**155,490,437**	**227,546,162**
On balance sheet gap	74,787,574	19,440,312	24,729,687	13,452,369	(132,409,942)	
Off balance sheet gap	(5,326,950)	(855,938)	6,182,888	-	-	
Total commission rate sensitivity gap	**69,460,624**	**18,584,374**	**30,912,575**	**13,452,369**	**(132,409,942)**	
Cumulative commission rate sensitivity gap	**69,460,624**	**88,044,998**	**118,957,573**	**132,409,942**		

The off balance sheet gap represents the net notional amounts of off-balance sheet financial instruments, which are used to manage the commission rate risk.

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions and hedging strategies, which are monitored daily. At the end of the year, the Group had the following significant net currency exposures:

	2018 (SAR'000) Long/(Short)	2017 (SAR'000) Long/(Short)
United States Dollar	4,936,895	3,591,871
United Arab Emirates Dirham	40,636	298,887
United Kingdom Pound Sterling	(18,704)	(64,337)
Pakistan Rupee	755,420	821,009
Euro	(97,530)	(120,562)

The table below shows the currencies to which the Group has a significant exposure as at December 31, 2018 and 2017 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the statements of consolidated income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in statements of consolidated income or equity; whereas a negative effect shows a potential net reduction in statements of consolidated income or equity.

	2018 (SAR'000)			2017 (SAR'000)		
Currency exposures	Change in currency rate	Effect on net income	Effect on equity	Change in currency rate	Effect on net income	Effect on equity
US Dollar	1%	16,883	(1,631)	1%	136,575	(700)
Euro	1%	3,424	(43)	1%	(2,744)	349

iii) Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks. Assuming all other variables are held constant, a 1% increase or decrease in the value of Group's FVOCI / available for sale quoted equity investments at December 31, 2018 would have a corresponding increase or decrease in equity by SR 31.9 million (2017: SR 36.2 million).

31. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources and manages its assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of savings and time deposits (2017: 7% and 4% respectively).

In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% (2017: 20%) of its deposit liabilities, in the form of cash, gold, Saudi Government securities or assets that can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government securities up to 100% (2017: 100%) of the nominal value of securities held.

i) Maturity profile of Group's assets, liabilities and equity

The management regularly monitors the maturity profile to ensure that adequate liquidity is maintained. The tables below summarize the maturity profile of the Group's assets, liabilities and equity based on the contractual maturities as at the reporting date. For presentation purposes, the demand, saving and other deposits amounting to SAR 107,709 million (2017: SAR 113,103 million) with no contractual maturity are included under "No fixed maturity" category to correctly depict the maturity profile of such deposit liabilities.

2018 (SAR '000)	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with central banks	15,164,947	-	-	-	10,254,657	**25,419,604**
Due from banks and other financial institutions	3,821,499	10,495,959	-	-	3,304,568	**17,622,026**
Investments, net	1,513,742	1,021,532	15,839,131	41,879,777	6,096,072	**66,350,254**
Derivatives	285,942	1,345,477	877,513	936,840	-	**3,445,772**
Loans and advances, net	26,387,198	29,028,200	33,226,058	24,549,753	517,353	**113,708,562**
Property and equipment, net	-	-	-	-	2,693,443	**2,693,443**
Other assets	-	-	-	-	698,639	**698,639**
Total Assets	**47,173,328**	**41,891,168**	**49,942,702**	**67,366,370**	**23,564,732**	**229,938,300**
Liabilities and Equity						
Due to banks and other financial institutions	5,088,583	790,355	4,195	35,344	1,953,097	**7,871,574**
Customer deposits	51,332,308	11,026,620	10,036	91,965	107,709,117	**170,170,046**
Derivatives	217,219	941,383	504,045	692,453	-	**2,355,100**
Other liabilities	-	370,570	1,482,280	-	5,380,199	**7,233,049**
Total equity	-	-	-	-	42,308,531	**42,308,531**
Total Liabilities and Equity	**56,638,110**	**13,128,928**	**2,000,556**	**819,762**	**157,350,944**	**229,938,300**

2017 (SAR '000)	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with central banks	14,073,413	-	-	-	11,121,653	**25,195,066**
Due from banks and other financial institutions	4,153,613	3,647,500	-	-	3,230,367	**11,031,480**
Investments, net	4,232,368	1,112,007	17,900,875	35,148,067	5,519,093	**63,912,410**
Derivatives	1,236,145	1,025,097	2,995,146	1,258,320	-	**6,514,708**
Loans and advances, net	26,422,726	33,878,917	36,709,257	20,174,207	499,622	**117,684,729**
Property and equipment, net	-	-	-	-	2,638,884	**2,638,884**
Other assets	-	-	-	-	568,885	**568,885**
Total Assets	**50,118,265**	**39,663,521**	**57,605,278**	**56,580,594**	**23,578,504**	**227,546,162**
Liabilities and Equity						
Due to banks and other financial institutions	5,920,354	34,408	2,990	13,047	580,665	**6,551,464**
Customer deposits	35,617,873	18,560,516	705,726	-	113,038,539	**167,922,654**
Derivatives	720,541	638,566	1,877,999	739,192	-	**3,976,298**
Other liabilities	-	-	-	-	4,413,594	**4,413,594**
Total equity	-	-	-	-	44,682,152	**44,682,152**
Total Liabilities and Equity	**42,258,768**	**19,233,490**	**2,586,715**	**752,239**	**162,714,950**	**227,546,162**

ii) Analysis of undiscounted financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of Group's financial liabilities at December 31 based on contractual undiscounted repayment obligations. The totals in this table do not match with the statements of consolidated financial position as special commission payments with contractual maturities are included in the table on an undiscounted basis. The contractual maturities of financial liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The table below does not reflect the expected cash flows indicated by the deposit retention history of the Group. Contractual maturity of the financial guarantees is shown under note 17(c).

2018 (SAR '000)	Within 3 months	3-12 months	1-5 Years	Over 5 years	On demand	Total
Due to banks and other financial institutions	3,839,226	595,575	3,161	26,633	3,411,759	**7,876,354**
Customer deposits	51,477,279	11,236,081	10,067	91,965	107,709,117	**170,524,509**
Derivatives	232,380	1,020,940	582,188	978,507	-	**2,814,015**
Other liabilities	-	370,570	1,852,850	-	5,009,629	**7,233,049**
Total	**55,548,885**	**13,223,166**	**2,448,266**	**1,097,105**	**116,130,505**	**188,447,927**

2017 (SAR '000)	Within 3 months	3-12 months	1-5 Years	Over 5 years	On demand	Total
Due to banks and other financial institutions	5,923,873	34,929	3,328	15,639	580,665	**6,558,434**
Customer deposits	35,692,035	18,767,371	724,188	-	113,038,539	**168,222,133**
Derivatives	771,689	693,508	2,049,825	1,018,427	-	**4,533,449**
Other liabilities	-	-	-	-	4,413,594	**4,413,594**
Total	**42,387,597**	**19,495,808**	**2,777,341**	**1,034,066**	**118,032,798**	**183,727,610**

32. Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 (i.e. without modification or repacking);
Level 2 - Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
Level 3 - Valuation techniques for which any significant input is not based on observable market data.

The fair values of the financial assets, financial liabilities and the derivative financial instruments classified under the appropriate valuation hierarchy, are given below:

2018 (SAR '000)	Level 1	Level 2	Level 3	Total
Financial Assets:				
Investments held at FVIS	680,971	3,842,648	795,017	**5,318,636**
Investments held at FVOCI	15,503,339	34,797,461	-	**50,300,800**
Investments held at amortized cost	-	10,368,938	-	**10,368,938**
Derivatives	8,752	3,437,020	-	**3,445,772**
Financial Liabilities:				
Financial liabilities designated at FVIS	-	950,707	-	**950,707**
Derivatives	37,274	2,317,826	-	**2,355,100**

2017 (SAR '000)	Level 1	Level 2	Level 3	Total
Financial Assets:				
Investments held at FVIS	271,273	2,005,798	-	**2,277,071**
Investments available for sale	12,435,528	11,314,953	636,105	**24,386,586**
Investments held to maturity	3,081,404	179,980	-	**3,261,384**
Other investments held at amortized cost	-	33,168,940	469,253	**33,638,193**
Derivatives	344	6,514,364	-	**6,514,708**
Financial Liabilities:				
Financial liabilities designated at FVIS	-	559,543	-	**559,543**
Derivatives	-	3,976,298	-	**3,976,298**

During the year, there has been no transfer within levels of the fair value hierarchy. The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy in respect of financial assets held at FVIS and FVOCI / available for sale:

	2018 SAR '000	2017 SAR '000
Balance at the beginning of the year	**636,105**	667,073
Total realized and unrealized losses in statement of consolidated income and statement of consolidated comprehensive income	(42,210)	(45,505)
Purchases	250,155	129,287
Settlements	(49,033)	(114,750)
Balance at the end of the year	**795,017**	**636,105**

The fair values of other on-balance sheet financial instruments, except for other investments held at amortized cost and loans & advances which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements. The Group's portfolio of loans and advances to customers is well diversified by industry. More than three quarters of the portfolio reprices within less than a year and accordingly the fair value of this portfolio approximates the carrying value, subject to any significant movement in credit spreads. The fair value of the remaining portfolio is not significantly different from its carrying values. The estimated fair values of the Group's loans and advances portfolio as at December 31, 2018 was SR 113.8 billion (2017: SR 118 billion). The fair values of special commission bearing customers' deposits, due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contracted rates, and for the short duration of these instruments.

The estimated fair values of investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds respectively. The fair values of these investments are also disclosed in note 5(c).

The value obtained from the relevant valuation model may differ, with the transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as 'day-one profit or loss'. It is either amortized over the life of the transaction, deferred until the instrument's fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the statements of consolidated income without reversal of deferred day-one profits or losses.

The valuation of each publicly traded investment is based upon the closing market price of that stock as of the valuation date, less a discount if the security is restricted.

Investments classified as Level 2 are fair valued using discounted cash flow techniques that generally use observable market data inputs for yield curves, credit spreads and reported net asset values of the funds. Derivatives classified as Level 2 are fair-valued using the Bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs to these models are based on observable market parameters in which they are traded and are sourced from independent brokers.

Fair values of private equity investments classified in Level 3 are determined based on the investees' latest reported net assets values as at the reporting date. The movement in Level 3 financial instruments during the year relates to fair value movement only.

33. Related party transactions

In the ordinary course of its activities, the Bank transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and regulations issued by Central Banks. The year-end balances resulting from such transactions included in the consolidated financial statements are as follows:

	2018 SAR '000	2017 SAR '000
Directors, other major shareholders, key management personnel and their affiliates:		
Loans and advances	685,478	113,503
Customer deposits	8,564,747	19,302,051
Commitments and contingencies	1,112,520	12,316
Mutual funds:		
Customer deposits	106,496	329,152

Other major shareholders represent shareholdings of more than 5% of the Bank's issued and paid up share capital, as listed on Tadawul. Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

	2018 SAR '000	2017 SAR '000
Special commission income	10,557	10,466
Special commission expense	301,222	297,377
Fee and commission income, net	131,099	155,674
Directors' remuneration	5,125	5,109

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

	2018 SAR '000	2017 SAR '000
Short-term employee benefits	63,368	59,111
Post-employment, termination and share-based payments	7,437	6,940

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

34. Capital Adequacy

The Group monitors the adequacy of its capital using the methodology and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA. These ratios measure capital adequacy by comparing the Group's eligible capital with its statements of financial position assets, commitments and contingencies, notional amount of derivatives at a weighted amount to reflect their relative credit risk, market risk and operational risk. During the year, the Group has fully complied with such regulatory capital requirements.

The management reviews on a periodical basis capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in it current business activities and future growth plans. In making such assessment, the management also considers the Group's business plan along with economic conditions which directly and indirectly affect the business environment. The overseas subsidiary manages its own capital as prescribed by local regulatory requirements.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III and the related disclosures which are effective from January 1, 2013. Accordingly, calculated under the Basel III framework, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis and on a standalone basis for its significant banking subsidiary calculated for the credit, operational and market risks, at December 31 are as follows:

	2018 SR'000	2017 SR'000
Samba Financial Group (consolidated)		
Credit risk RWA	174,970,249	187,944,475
Operational risk RWA	13,719,047	13,303,620
Market risk RWA	11,996,356	15,165,875
Total RWA	**200,685,652**	**216,413,970**
Tier I capital	44,271,381	44,622,638
Tier II capital	1,255,554	1,126,685
Total tier I & II capital	**45,526,935**	**45,749,323**
Capital adequacy ratio %		
Tier I ratio	**22.1%**	**20.6%**
Tier I + II ratio	**22.7%**	**21.1%**
Capital adequacy ratios for Samba Bank Limited, Pakistan are as follows:		
Tier I ratio	**18.6%**	**19.2%**
Tier I + II ratio	**18.7%**	**19.5%**

Tier I capital comprises the share capital, statutory, general and other reserves, qualifying non-controlling interest and retained earnings less any intangible assets of the Bank as at the year-end. Tier II capital comprises of a prescribed amount of eligible provisions.

SAMA through its circular number 391000029731 dated 15/03/1439AH, which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS 9, has directed banks that the initial impact on the capital adequacy ratio as a result of applying IFRS 9 can be transitioned over 5 years, which has been availed by the Bank.

35. Investment management services

The investment management services are provided by Samba Capital and Investment Management Company, a 100% owned subsidiary of the Bank. The assets under management outstanding at end of the year including mutual funds and discretionary portfolios amounted to SR 29,117 million (2017: SR 31,708 million). This includes funds managed under Shariah-approved portfolios amounting to SR 11,174 million (2017: SR 14,766 million).

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank or that of its subsidiary and, accordingly, are not included in the Group's consolidated financial statements.

36. Equity-based payments

The Bank has the following equity-based long term bonus plans outstanding at the end of the year. Significant features of these plans are as follows:

Number of outstanding plans	5
Grant date	Between April 2014 to March 2018
Maturity date	Between April 2019 to March 2023
Number of shares granted on the grant date, adjusted for bonus share issue	1,895,520
Benchmark price per share at grant date, adjusted for bonus share issue	Between SAR 25.7 to 20.9
Vesting period	5 years
Vesting conditions	Participating employees to remain in service
Method of settlement	Equity
Valuation model	Discounted Cash Flow
Fair value per share on grant date adjusted for bonus share issue	Between SAR 22.5 to 17.5

The fair value of shares granted during the year was SR 9.7 million (2017: SR 7.4 million). The inputs used to calculate fair value of the shares granted during the year were the market price at the grant date, life of the plan, expected dividends and annual risk free rate of return.

The shares are granted only under a service condition with no market condition associated with them. The total amount of expense recognized in these consolidated financial statements in respect of the above equity-based payment plans for the year 2018 is SR 5.7 million (2017: SR 4.7 million).

37. Accounting Standards issued but not yet effective

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Group's accounting year beginning January 1 ,2019 are listed below. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements.

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

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

38. Prior year reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation. The effect of these reclassifications was not material to the consolidated financial statements.

39. Board of Directors' approval

The consolidated financial statements were approved by the Board of Directors' on January 16, 2019 (10 Jumada I 1440H).