BANK ALJAZIRA

(A Saudi Joint Stock Company)

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2019

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Building a better working world

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License No. 46/11/323 issued 11/3/1992

Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders of Bank AlJazira
(A Saudi Arabian Joint Stock Company)

Introduction
We have reviewed the accompanying interim condensed consolidated statement of financial position of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 30 September 2019 and the related interim condensed consolidated statements of income and comprehensive income for the three month and nine month periods then ended and the interim condensed consolidated statements of changes in equity and cash flows for the nine month period then ended and the explanatory notes which form an integral part of these interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ('IAS 34') as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

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

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

Other regulatory matter
As required by SAMA, certain capital adequacy information has been disclosed in note 18 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 18 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

for Ernst & Young & Co.
(Public Accountants)

Ahmed I.Reda
Certified Public Accountant
License Number 356

for KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
Certified Public Accountant
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29 Safar 1441H
Corresponding to 28 October 2019

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Bank AlJazira
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 September 2019 (Unaudited) SR'000	31 December 2018 (Audited) SR'000	30 September 2018 (Unaudited) SR'000
ASSETS				
Cash and balances with SAMA	15	**4,600,916**	4,965,122	4,560,067
Due from banks and other financial institutions		**1,151,255**	1,297,749	464,384
Investments	6	**27,578,184**	24,052,275	24,645,392
Positive fair value of derivatives	10	**137,782**	54,434	92,637
Loans and advances, net	7	**44,529,825**	40,896,891	40,255,184
Investment in an associate	8	**145,217**	135,770	133,163
Other real estate		**462,571**	453,150	451,748
Property and equipment, net		**1,154,137**	761,247	768,061
Other assets		**854,605**	386,560	360,387
Total assets		**80,614,492**	73,003,198	71,731,023
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions		**6,124,392**	6,423,430	6,798,339
Customers' deposits	9	**59,052,291**	51,804,098	50,210,745
Negative fair value of derivatives	10	**260,590**	151,789	137,409
Subordinated Sukuk	11	**2,030,693**	2,008,202	2,030,175
Other liabilities		**1,831,856**	1,371,207	908,558
Total liabilities		**69,299,822**	61,758,726	60,085,226
SHAREHOLDERS' EQUITY				
Share capital	12	**8,200,000**	8,200,000	8,200,000
Statutory reserve		**2,531,266**	2,409,560	2,159,483
General reserve		**68,000**	68,000	68,000
Other reserves	13	**(114,321)**	(96,284)	(44,797)
Retained earnings		**629,725**	253,196	1,263,111
Proposed dividend		**-**	410,000	-
Total shareholders' equity		**11,314,670**	11,244,472	11,645,797
Total liabilities and shareholders' equity		**80,614,492**	73,003,198	71,731,023

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2019

	Notes	For the three month period ended 30 September 2019 SR'000	For the three month period ended 30 September 2018 SR'000 Restated	For the nine month period ended 30 September 2019 SR'000	For the nine month period ended 30 September 2018 SR'000 Restated
Special commission income		**796,386**	694,216	**2,315,663**	1,972,827
Special commission expense		**(278,725)**	(215,602)	**(806,636)**	(556,778)
Net special commission income		**517,661**	478,614	**1,509,027**	1,416,049
Fees and commission income		**231,987**	213,634	**683,478**	648,392
Fees and commission expense		**(84,441)**	(77,587)	**(232,021)**	(224,922)
Fees and commission income, net		**147,546**	136,047	**451,457**	423,470
Exchange income, net		**60,136**	53,656	**167,385**	141,365
Net gain / (loss) on financial instruments at fair value through income statement (FVIS)		**1,298**	(4,439)	**3,698**	(1,815)
Dividend income		**30**	-	**283**	-
Gain on non-trading investments, net		**18,265**	-	**20,244**	-
Other operating income		**4,685**	1,933	**7,760**	5,082
Total operating income		**749,621**	665,811	**2,159,854**	1,984,151
Salaries and employee-related expenses		**248,214**	225,928	**723,972**	667,925
Rent and premises-related expenses		**13,041**	34,526	**39,922**	103,625
Depreciation and amortisation		**50,386**	23,120	**149,658**	67,749
Other general and administrative expenses		**110,286**	101,629	**324,193**	305,066
Other operating expenses		**6,333**	5,200	**24,354**	14,768
Total operating expenses before impairment charge		**428,260**	390,403	**1,262,099**	1,159,133
Impairment charge for credit losses, net	7	**40,348**	22,600	**79,176**	78,923
Total operating expenses		**468,608**	413,003	**1,341,275**	1,238,056
Operating income		**281,013**	252,808	**818,579**	746,095
Share in net income of an associate		**3,528**	2,278	**9,682**	7,678
Net income for the period before Zakat and income tax		**284,541**	255,086	**828,261**	753,773
Zakat and income tax	4 (ii)	**(27,673)**	(7,724)	**(84,568)**	(25,659)
Net income for the period		**256,868**	247,362	**743,693**	728,114
Basic and diluted earnings per share for the period (expressed in SR per share)	12	**0.31**	0.30	**0.91**	0.99

Tarek Al-Kasabi	Nabil Al-Hoshan	Shahid Amin
Chairman	CEO and Managing Director	Chief Financial Officer

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2019

	Notes	For the three month period ended 30 September 2019 SR'000	For the three month period ended 30 September 2018 SR'000 Restated	For the nine month period ended 30 September 2019 SR'000	For the nine month period ended 30 September 2018 SR'000 Restated
Net income for the period		**256,868**	247,362	**743,693**	728,114
Other comprehensive income:					
Items that can be reclassified to consolidated statement of income in subsequent periods:					
Cash flow hedges:					
- Effective portion of change in the fair value	13	**(15,539)**	3,935	**(25,359)**	69,962
- Net amount transferred to consolidated statement of income	13	**(22)**	124	**83**	206
Net changes in fair value of investments classified as at Fair Value Through Other Comprehensive Income (FVOCI) – Debt	13	**7,239**	-	**7,239**	-
Items that cannot be reclassified to consolidated statement of income in subsequent periods:					
- Net changes in fair value of investments classified as at Fair Value Through Other Comprehensive Income (FVOCI) – equity	13	**-**	-	**-**	23
Other comprehensive (loss) / income for the period		**(8,322)**	4,059	**(18,037)**	70,191
Total comprehensive income for the period		**248,546**	251,421	**725,656**	798,305

Tarek Al-Kasabi	Nabil Al-Hoshan	Shahid Amin
Chairman	CEO and Managing Director	Chief Financial Officer

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED) FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019

	Notes	Share capital SR'000	Statutory reserve SR'000	General reserve SR'000	Other reserves SR'000	Retained earnings SR'000	Proposed dividend SR'000	Total shareholders' equity SR'000
Balance at 1 January 2019 (audited)		**8,200,000**	**2,409,560**	**68,000**	**(96,284)**	**253,196**	**410,000**	**11,244,472**
Net income for the period		-	-	-	-	743,693	-	743,693
Other comprehensive loss		-	-	-	(18,037)	-	-	(18,037)
Total comprehensive income for the period		-	-	-	(18,037)	743,693	-	725,656
Transfer to statutory reserve		-	121,706	-	-	(121,706)	-	-
Dividend paid	19	-	-	-	-	(246,000)	(409,458)	(655,458)
Adjustments in proposed dividend		-	-	-	-	542	(542)	-
Balance at 30 September 2019 (unaudited)		**8,200,000**	**2,531,266**	**68,000**	**(114,321)**	**629,725**	-	**11,314,670**
Balance at 1 January 2018 (audited)		5,200,000	2,159,483	68,000	(125,185)	1,526,541	-	8,828,839
Impact of adoption of IFRS 9 at 1 January 2018		-	-	-	-	(636,157)	-	(636,157)
Balance at 1 January 2018 - restated		5,200,000	2,159,483	68,000	(125,185)	890,384	-	8,192,682
Net income for the period		-	-	-	-	728,114	-	728,114
Other comprehensive income		-	-	-	70,191	-	-	70,191
Gain on sale of investment classified as at FVOCI		-	-	-	(10,951)	10,951	-	-
Total comprehensive income for the period		-	-	-	59,240	739,065	-	798,305
Issue of right shares	12	3,000,000	-	-	-	-	-	3,000,000
Proposed dividend	19	-	-	-	-	(262,400)	262,400	-
Dividend paid		-	-	-	-	-	(252,802)	(252,802)
Adjustments in proposed dividend		-	-	-	-	9,598	(9,598)	-
Transfer of gain on investment at FVOCI to other liabilities		-	-	-	-	(1,540)	-	(1,540)
Right issue cost	13	-	-	-	(90,848)	-	-	(90,848)
Transfer of right issue cost to retained earnings	13	-	-	-	111,996	(111,996)	-	-
Balance at 30 September 2018 (unaudited)		8,200,000	2,159,483	68,000	(44,797)	1,263,111	-	11,645,797

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2019

	Notes	For the nine month period ended 30 September 2019 SR'000	30 September 2018 SR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period before Zakat and income tax		828,261	753,773
Adjustments to reconcile net income to net cash from operating activities:			
Net (gain) / loss on financial instruments at fair value through income statement (FVIS)		(3,698)	6,153
Impairment charge for credit losses, net		79,176	78,923
Share in net income of an associate		(9,682)	(7,678)
Depreciation and amortization		149,658	67,749
Dividend income		-	(108)
Gain on non-trading investments, net		(20,244)	-
Gain on disposal of property and equipment		(171)	(132)
		1,023,300	898,680
Net changes in operating assets:			
Statutory deposit with SAMA		(316,548)	(41,548)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(405,539)	167,049
Investments held at FVIS		(164,119)	20,536
Positive fair value of derivatives		(83,348)	11,384
Loans and advances		(3,778,621)	(1,066,527)
Other real estate		(9,421)	(6,702)
Other assets		(511,979)	(35,305)
Net changes in operating liabilities:			
Due to banks and other financial institutions		(299,038)	625,794
Customers' deposits		7,248,193	(67,621)
Negative fair value of derivatives		108,801	(83,578)
Other liabilities		85,336	82,653
Net cash from operating activities		2,897,017	504,815
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity and sale of investments not held as FVIS		1,153,561	214,627
Acquisition of investments not held as FVIS		(4,491,409)	(4,526,161)
Investment in an associate		-	8,575
Acquisition of property and equipment		(43,946)	(51,304)
Proceeds from sale of property and equipment		348	152
Dividends received		-	108
Net cash used in investing activities		(3,381,446)	(4,354,003)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of right shares	12	-	3,000,000
Payment of right issue cost	13	-	(90,848)
Special commission on Subordinated Sukuk		22,491	23,793
Zakat and income tax paid		(66,243)	(28,372)
Dividends paid		(646,235)	(249,438)
Payment for principal portion of lease liabilities		(58,185)	-
Net cash (used in) / from financing activities		(748,172)	2,655,135
Net decrease in cash and cash equivalents held		(1,232,601)	(1,194,053)
Cash and cash equivalents at the beginning of the period		3,409,307	3,478,824
Cash and cash equivalents at the end of the period	15	2,176,706	2,284,771
Special commission income received during the period		2,251,562	1,893,496
Special commission expense paid during the period		716,742	507,774
Supplemental non-cash information			
Net changes in fair value and transfers of cash flow hedge derivatives to the interim condensed consolidated statement of income		(25,276)	70,168

Tarek Al-Kasabi Chairman	Nabil Al-Hoshan CEO and Managing Director	Shahid Amin Chief Financial Officer

The accompanying notes 1 to 21 form an integral part of these interim condensed consolidated financial statements.

1. GENERAL

These interim condensed consolidated financial statements comprise the financial statements of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank AlJazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated 12 Jumad Al-Thani 1395H (21 June 1975). The Bank commenced its business on 16 Shawwal 1396H (9 October 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated 29 Rajab 1396H (27 July 1976) issued in Jeddah. The Bank operates through its 79 branches (31 December 2018: 79 branches and 30 September 2018: 80 branches) and 60 Fawri Remittance Centers (31 December 2018: 57 and 30 September 2018: 53 Fawri Remittance Centers) in the Kingdom of Saudi Arabia. The Bank's Head Office is located at the following address:

Bank AlJazira
Nahda District, King Abdulaziz Road,
P.O. Box 6277, Jeddah 21442
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of Shari'ah compliant (non-interest based) banking products and services comprising of Murabaha, Istisna'a, Ijarah, Tawaraq, Musharaka, Wa'ad Fx and Sukuk which are approved and supervised by an independent Shari'ah Board established by the Bank. The Bank's shares are listed on Tadawul in the Kingdom of Saudi Arabia.

The details of the Bank's subsidiaries and associate are as follows:

	Country of incorporation	Nature of business	**Ownership (direct and indirect) 30 September 2019**	Ownership (direct and indirect) 31 December 2018	Ownership (direct and indirect) 30 September 2018
Subsidiary					
AlJazira Capital Company	Kingdom of Saudi Arabia	Brokerage, margin financing and asset management	**100%**	100%	100%
Aman Development and Real Estate Investment Company	Kingdom of Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	**100%**	100%	100%
Aman Insurance Agency Company	Kingdom of Saudi Arabia	Acting as an agent for bancassurance activities on behalf of the Bank	**100%**	100%	100%
AlJazira Securities Limited	Cayman Islands	Carryout Shari'ah compliant derivative and capital market transactions	**100%**	100%	100%
Associate					
AlJazira Takaful Ta'awuni Company	Kingdom of Saudi Arabia	Fully Shari'ah compliant protection and saving products	**35%**	35%	35%

2. BASIS OF PREPARATION

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

The consolidated financial statements of the Group as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of Zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to Zakat and income tax) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

On 17 July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the Zakat and income taxes in the statement of income. This aligns with the IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Group changed its accounting treatment for Zakat and income tax retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 5 and the effects of this change are disclosed in note 4 to the interim condensed consolidated financial statements).

The Group also prepares its consolidated financial statements to comply with the Banking Control Law and the Regulation for Companies in the Kingdom of Saudi Arabia and the Bank's By-laws. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation were the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2018. The Group has applied accounting policies retrospectively except as disclosed under Note 4.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SR) and are rounded off to the nearest thousands except where otherwise stated.

3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries as set out in Note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank.

The interim condensed consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

a) Subsidiaries

Subsidiaries are entities which are controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. To meet the definition of control, all of the following three criteria must be met:

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

The Group re-assesses whether or not it controls an investee in case facts and circumstances indicate that there are changes to one or more of the criteria of control.

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

b) Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Group in its subsidiaries and are presented separately in the interim condensed consolidated statement of income and within equity in the interim condensed consolidated statement of financial position, separately from the Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

c) Transactions eliminated on consolidation

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

3. BASIS OF CONSOLIDATION (continued)

d) Investment in an associate

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

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

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in 'share in net income / (loss) of an associate' in the interim condensed consolidated statement of income.

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

Unrealized gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for:

I. IFRS 16 Leases

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

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

I. IFRS 16 Leases (continued)

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognise the special commission expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees are also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group has decided to apply the modified retrospective approach in adopting IFRS 16. In the modified retrospective approach, the comparable figures for the previous periods are not adjusted and all adjustments effects as of 1 January 2019. Upon initial application, the Group has also decided to recognise right-of-use assets corresponding to the lease liabilities with adjustment of prepaid and accrued rent to right-of-use asset. This has therefore not resulted in any impact on equity as of 1 January 2019. The Group has elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group has therefore not applied the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain equipments (i.e., POS terminals and notes counting machines) that are considered of low value. Group has also elected to use the following practical expedients that are available under modified retrospective approach:

- Leases with a short remaining term
- Discount rates

The effect of adoption IFRS 16 is as follows:

Impact on the statement of financial position (increase / (decrease)) as at 1 January 2019:

Assets	**SR '000**
Property and equipment, net (right of use assets)	470,563
Other assets (prepaid rent)	(43,934)
	426,629
Liabilities	
Other liabilities (lease liability)	426,629

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

I. IFRS 16 Leases (continued)

Due to the adoption of IFRS 16, the Group's operating profit will deteriorate in initial years due to front loading of special commission expense however profit will improve in later years as the special commission expense reduces due to reduction in lease liability. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

IFRS 16 transition disclosures also requires the Group to present the reconciliation of the off-balance sheet lease obligations as of 31 December 2018 with the lease liability as per IFRS 16 on the date of initial application as of 1 January 2019 which is as follows:

Reconciliation of lease liabilities

	2019 (SR' 000)
Operating lease commitments disclosed as at 31 December 2018	**447,970**
Impact of termination options and related escalation not previously recognised	66,748
Operating lease commitments disclosed as at 31 December 2018 - adjusted	**514,718**
Discounted using the Bank's incremental borrowing rate of at the date of initial application	(68,720)
Short-term leases recognised on a straight-line basis as expense	(1,065)
Low-value leases recognised on a straight-line basis as expense	(18,304)
Lease liability recognised as at 1 January 2019	**426,629**

Amounts recognised in the statement of financial position and statement of income

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right of use assets				
	Branch and ATM locations	**Office Equipment**	**Vehicles**	**Total**	**Lease liabilities**
			(SR' 000)		
As at 1 January 2019	**462,825**	**6,573**	**1,165**	**470,563**	**426,629**
Additions during the period	27,619	531	67	28,217	28,217
Depreciation expense	(69,349)	(1,759)	(440)	(71,548)	-
Special commission expense	-	-	-	-	13,729
Payments	-	-	-	-	(71,914)
As at 30 September 2019	**421,095**	**5,345**	**792**	**427,232**	**396,661**

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

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

II. Zakat and income tax

The change in the accounting treatment for zakat and income tax (as explained in note 5) has the following impact on the line items of the statements of income, statement of comprehensive income and changes in shareholders' equity:

As at and for the nine month period ended 30 September 2018:

Account	Financial statement impacted	Before the restatement for the nine month period ended 30 September 2018	Effect of restatement	As restated as at and for the nine month period ended 30 September 2018
Zakat and income tax	Consolidated statement of income	-	(25,659)	(25,659)
Net income for the period	Consolidated statement of income	753,773	(25,659)	728,114
Earnings per share for the period (expressed in SR per share)	Consolidated statement of income	1.03	(0.04)	0.99
Zakat and income tax (retained earnings)	Consolidated statement of changes in equity	(25,648)	25,648	-
Share in Zakat of an associate (retained earnings)	Consolidated statement of changes in equity	(11)	11	-
Total comprehensive income for the period	Consolidated statement of comprehensive income and Consolidated statement of changes in equity	823,964	(25,659)	798,305

As at and for the three month period ended 30 September 2018:

Account	Financial statement impacted	Before the restatement for the three month period ended 30 September 2018	Effect of restatement	As restated as at and for the three month period ended 30 September 2018
Zakat and income tax	Consolidated statement of income	-	(7,724)	(7,724)
Net income for the period	Consolidated statement of income	255,086	(7,724)	247,362
Earnings per share for the period (expressed in SR per share)	Consolidated statement of income	0.31	(0.01)	0.30
Total comprehensive income for the period	Consolidated statement of comprehensive income	259,145	(7,724)	251,421

4. IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

III. Deferred tax

The financial impact of adoption of accounting policy for deferred tax is not material to the interim condensed consolidated financial statements, therefore prior period amounts have not been restated. As required under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the balances as of 1 January 2018 were not presented in the statement of financial position as change in the accounting policy has not resulted in restatement of the amounts relating to year ended 31 December 2017.

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018 except for the policies explained below. Based on the adoption of new standards and changes in accounting treatment of Zakat and income tax explained in note 4, the following accounting policies are applicable effective 1 January 2019 replacing / amending or adding to the corresponding accounting policies set out in 2018 financial statements. The accounting policies as disclosed in annual consolidated financial statements for the year ended 31 December 2018 will continue to apply for comparatives disclosed in these interim condensed consolidated financial statements except for presentation of Zakat and income tax.

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

Right of use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities for lease modifications. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liability
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease liability (continued)
In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of special commission expense and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(Policy applicable before 1 January 2019)
Before 1 January 2019, the Bank's accounting policy for accounting of leases where the Group was a lessees was as follows:

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

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

Change in the accounting for Zakat and income tax:
As mentioned in note 2, the basis of preparation has been changed for the period ended 30 September 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, Zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the Zakat and income tax shall be recognized in the statement of income. The Group has accounted for this change in the accounting for Zakat and income tax retrospectively (see note 2 and the effects of the above change are disclosed in note 4 to the interim condensed consolidated financial statements). The change has resulted in reduction of reported income of the Group for the period ended 30 September 2018 by SR 25.66 million. The change has had no impact on the statement of cash flows for the period ended 30 September 2018.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

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

The Group applies significant judgement in identifying uncertainties over income tax treatments.

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

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income tax

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

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

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

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

Zakat

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

6. INVESTMENTS

Investment securities are classified as follows:

	30 September 2019 (Unaudited) SR'000	31 December 2018 (Audited) SR'000	30 September 2018 (Unaudited) SR'000
Fair value through income statement (FVIS)	**209,110**	41,293	34,726
Fair value through other comprehensive income (FVOCI)	**94,379**	4,891	4,899
Held at amortised cost	**27,274,695**	24,006,091	24,605,767
Total	**27,578,184**	24,052,275	24,645,392

7. LOANS AND ADVANCES, NET

The loans and advances are classified as at amortized cost.

	30 September 2019 (Unaudited) SR'000	31 December 2018 (Audited) SR'000	30 September 2018 (Unaudited) SR'000
Credit cards	**716,142**	623,484	627,014
Consumer loans	**22,242,888**	18,973,268	18,583,805
Commercial loans and overdrafts	**21,473,882**	21,137,891	20,861,851
Others	**433,215**	431,133	430,052
Performing loans and advances	**44,866,127**	41,165,776	40,502,722
Non - performing loans and advances	**590,882**	664,620	802,812
Total loans and advances	**45,457,009**	41,830,396	41,305,534
Allowance for expected credit losses ("ECL")	**(927,184)**	(933,505)	(1,050,350)
Loans and advances, net	**44,529,825**	40,896,891	40,255,184

a) Movement in impairment allowance for expected credit losses is as follows:

	30 September 2019 (Unaudited) SR'000	31 December 2018 (Audited) SR'000	30 September 2018 (Unaudited) SR'000
Balance at the beginning of the period	**933,505**	1,177,013	1,177,013
Impairment charge for credit losses	**269,518**	438,513	308,573
Bad debts written off	**(185,127)**	(489,014)	(316,626)
Reversal / recoveries of amounts previously impaired	**(90,712)**	(196,124)	(121,727)
Allowance written back upon restructuring of loan	**-**	3,117	3,117
Balance at the end of the period	**927,184**	933,505	1,050,350

b) Impairment charge for expected credit losses, net in the interim condensed consolidated statement of income comprised of:

	30 September 2019 (Unaudited) SR'000	30 September 2018 (Unaudited) SR'000
Impairment charge for expected credit losses in respect of loans and advances	**269,518**	308,573
Recoveries / reversal of amounts previously impaired	**(90,712)**	(121,727)
Recoveries from debts previously written off	**(33,119)**	(57,941)
Net impairment charge for credit losses in respect of due from banks and other financial institutions	**187**	6
Reversal of loss allowance in respect of credit related contingent liabilities	**(66,698)**	(49,988)
Impairment charge for expected credit losses, net	**79,176**	78,923

8. INVESTMENT IN AN ASSOCIATE

Investment in an associate represents the investment made by the Group in AlJazira Takaful Ta'awuni Company (ATT). The Group effectively holds 35% (31 December 2018: 35% and 30 September 2018: 35%) shareholding in ATT.

The share of total comprehensive income in an associate represents the Group's share in the total comprehensive income of ATT and was based on the latest available financial information of ATT. ATT is listed with Saudi Stock Exchange (Tadawul) and the market value of the investment in ATT as of 30 September 2019 was SR 196.74 million (31 December 2018: SR 214.62 million and 30 September 2018: SR 229.56 million) based on Tadawul market price.

9. CUSTOMERS' DEPOSITS

	30 September 2019 (Unaudited) SR'000	31 December 2018 (Audited) SR'000	30 September 2018 (Unaudited) SR'000
Demand	**29,127,568**	26,607,390	25,694,853
Time	**28,151,943**	23,907,276	23,512,833
Other	**1,772,780**	1,289,432	1,003,059
Total	**59,052,291**	51,804,098	50,210,745

Time deposits comprise deposits received on Shari'ah Compliant (non-commission based) Murabaha products.

10. DERIVATIVES

10.1 Nature/type of derivatives held

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

a) Swaps

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

10. DERIVATIVES (continued)

10.1 Nature/type of derivatives held (continued)

b) Options (Wa'ad Fx)

Foreign exchange options are transactions, whereby a client, in consideration for the payment of a fee agrees to enter into one or a series of trades in which one party (promisor) gives a commitment as a unilateral undertaking, to a second party (promisee).

An option can be a unilateral promise or combination of promises. The Group enters into the option depending on the client's risk profile, whereby the client may promise to buy, sell or buy and sell a currency with or without conditions for hedging its exposure.

10.2 Purpose of derivatives

a) 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 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.

b) Held for hedging purposes

The Group uses Shari'ah compliant derivatives for hedging purposes in order to reduce its exposure to commission rate risk and foreign exchange risk.

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

As part of its financial asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risk. This is generally achieved by hedging specific transactions.

10. DERIVATIVES (continued)

10.2 Purpose of derivatives (continued

b) Held for hedging purposes (continued)

Cash flow hedges

The Group is exposed to variability in future commission cash flows on non-trading assets and liabilities which bear commission at a variable rate. The Group uses commission rate swaps as cash flow hedges of these commission rate risks.

The losses on cash flow hedges reclassified to the interim condensed consolidated statement of income during the period are as follows:

	30 September 2019 SR'000	30 September 2018 SR'000
Special commission income	**1,348**	1,650
Special commission expense	**(1,431)**	(1,856)
Net losses on cash flow hedges reclassified to the interim condensed consolidated statement of income	**(83)**	(206)

The cash flow hedges of special commission rate swap were highly effective in offsetting the variability of special commission expenses.

During the prior periods, the Bank sold certain of its special commission rate swaps used for cash flows hedges. However, the gain / (loss) would continue to be classified in interim condensed consolidated statement of comprehensive income as the related hedge items are still outstanding. In accordance with the IFRS requirements, the gain / (loss) will be reclassified to interim condensed consolidated statement of income in the period when the cash flows pertaining to hedged items will affect the interim condensed consolidated statement of income.

10. DERIVATIVES (continued)

The table below summarize the positive and negative fair values of the Group's derivative financial instruments, together with their notional amounts. The notional amounts, which provide an indication of the volume of transactions outstanding at the end of the period, 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 market risk.

	30 September 2019 (Unaudited) SR'000			31 December 2018 (Audited) SR'000			30 September 2018 (Unaudited) SR'000		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading:									
Special commission rate swaps	**31,669**	**31,669**	**1,844,001**	29,215	29,215	2,649,073	34,449	34,449	3,167,536
Structured deposits	**2,000**	**2,000**	**800,000**	2,000	2,000	800,000	2,000	2,000	800,000
Currency swaps	**228**	**95**	**375,000**	138	37	225,000	99	-	112,500
Currency forwards	**1**	**120**	**255,928**	8	138	201,408	3	71	203,879
Total	**33,898**	**33,884**	**3,274,929**	31,361	31,390	3,875,481	36,551	36,520	4,283,915
Held as cash flow hedge:									
Special commission rate swaps	**103,884**	**226,706**	**3,550,625**	23,073	120,399	3,550,625	56,086	100,889	3,550,625
Total	**137,782**	**260,590**	**6,825,554**	54,434	151,789	7,426,106	92,637	137,409	7,834,540

The negative fair values of special commission rate swaps are mainly due to a downward shift in the yield curve. The fair values of these swaps are expected to be settled on or before April 2044 (31 December 2018: April 2044 and 30 September 2018: April 2044).

Held for trading special commission rate swaps include special commission income receivable and payable amounting to SR 4.85 million (31 December 2018: SR 11.04 million and 30 September 2018: SR 13.86 million). Held as cash flow hedge special commission rate swaps include special commission income receivable amounting to SR 23.37 million (31 December 2018: SR 19.28 million and 30 September 2018: SR 22.40 million) and special commission payable amounting to SR 24.52 million (31 December 2018: SR 20.29 million and 30 September 2018: SR 24.51 million).

10. DERIVATIVES (continued)

Pursuant to changes in certain international laws, the Bank has established a Special Purpose Vehicle (SPV) namely Al Jazira Securities Limited and intends to transfer all of its PRS derivatives, hedged or traded, to this SPV. In this connection, initially, a novation agreement has been signed among the Bank, the SPV and one of the counter party. Going forward, the SPV will execute all the derivatives with counterparties with a back to back transaction with the Bank. As the change was necessitated by laws, management believe that existing hedging relationships continue to be effective.

11. SUBORDINATED SUKUK

On 2 June 2016, the Bank issued 2,000 Subordinated Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 month Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 190 basis point per annum and payable semi-annually in arrears on 2 June and 2 December each year until 2 June 2026, on which date the Sukuk will expire. The Bank has a call option which can be exercised on or after 2 June 2021 on meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. These Sukuk are registered with Saudi Stock Exchange (Tadawul).

12. SHARE CAPITAL AND EARNINGS PER SHARE

The authorized, issued and fully paid share capital of the Bank consists of 820 million shares of SR 10 each (31 December 2018: 820 million shares of SR 10 each and 30 September 2018: 820 million shares of SR 10 each).

The shareholders of the Bank in their Extra Ordinary General Assembly meeting held on 19 March 2018 (corresponding to 2 Rajab 1439H), approved the increase in number of shares of the Bank from 520 million shares to 820 million shares through a rights issue of 300 million shares at an exercise price of SR 10 per share amounting to SR 3,000 million. During the second quarter of financial year 2018, the Bank, after completing all legal formalities issued the rights shares.

Basic earnings per share for the current and prior period is calculated by dividing the net income for the period attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding. The weighted average number of shares for comparative periods have been adjusted to reflect the increase in the Bank's capital due to right issue.

	For the three month period ended		**For the nine month period ended**	
	30 September 2019 SR'000	30 September 2018 SR'000 Restated	**30 September 2019 SR'000**	30 September 2018 SR'000 Restated
Profit attributable to ordinary shareholders				
For basic and diluted earnings per share	**256,868**	247,362	**743,693**	728,114

12. SHARE CAPITAL AND EARNINGS PER SHARE (continued)

	For the three month period ended		For the nine month period ended	
	30 September 2019 Shares	30 September 2018 Shares Restated	**30 September 2019 Shares**	30 September 2018 Shares Restated
Weighted-average number of ordinary shares				
Issued ordinary shares as at 1 January	**820,000,000**	520,000,000	**820,000,000**	520,000,000
Effect of rights issue of shares	**-**	300,000,000	**-**	212,420,228
For basic earnings per share	**820,000,000**	820,000,000	**820,000,000**	732,420,228
Basic earnings per share (in SR)	**0.31**	0.30	**0.91**	0.99

The calculations of basic and diluted earnings per share are same for the Bank.

13. OTHER RESERVES

30 September 2019	**Cash flow hedges SR' 000**	**Fair value reserve SR'000**	**Actuarial gains SR' 000**	**Total SR' 000**
Balance at beginning of the period	**(96,367)**	**-**	**83**	**(96,284)**
Net change in fair value	**(25,359)**	**7,239**	**-**	**(18,120)**
Transfer to interim condensed consolidated statement of income	**83**	**-**	**-**	**83**
Net movement during the period	**(25,276)**	**7,239**	**-**	**(18,037)**
Balance at end of the period	**(121,643)**	**7,239**	**83**	**(114,321)**

13. OTHER RESERVES (continued)

30 September 2018	Cash flow hedges SR' 000	Fair value reserve SR' 000	Actuarial losses SR' 000	Right issue costs (note below) SR' 000	Total SR' 000
Balance at beginning of the period	(113,034)	10,928	(1,931)	(21,148)	(125,185)
Net change in fair value	69,962	23	-	-	69,985
Transfer to interim condensed consolidated statement of income	206	-	-	-	206
Gain on sale of FVOCI investments transferred to retained earnings	-	(10,951)	-	-	(10,951)
Right issue cost	-	-	-	(90,848)	(90,848)
Transfer of right issue cost to retained earnings	-	-	-	111,996	111,996
Net movement during the period	70,168	(10,928)	-	21,148	80,388
Balance at end of the period	(42,866)	-	(1,931)	-	(44,797)

The rights issue costs represents expenses incurred in respect of the legal and professional services for the right issue. During 2018, the cumulative right issue costs incurred were charged directly in retained earnings on completion of right issue (refer note 12).

14. COMMITMENTS AND CONTINGENCIES

a) The Group is subject to legal proceedings in the ordinary course of business. There was no change in the status of legal proceedings as disclosed at 31 December 2018.

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

	30 September 2019 (Unaudited) SR'000	31 December 2018 (Audited) SR'000	30 September 2018 (Unaudited) SR'000
Letters of credit	**650,562**	799,219	780,493
Letters of guarantee	**3,878,309**	3,931,424	3,876,043
Acceptances	**335,195**	338,053	338,926
Irrevocable commitments to extend credit	**150,000**	150,000	150,000
Total	**5,014,066**	5,218,696	5,145,462
Loss allowance	**(87,431)**	(154,129)	(113,579)
Net exposure	**4,926,635**	5,064,567	5,031,883

14. COMMITMENTS AND CONTINGENCIES (continued)

c) During 2018, the Bank reached a Settlement Agreement (the "Agreement") with the GAZT to comply with the directives provided by Royal Decree No. (26/M) dated 20 Rabi Al-Awaal 1440 H (28 November 2018) and the Ministerial Resolution No. 1260 dated 5 Rabi Al-Thani 1440 H (12 December 2018), in order to settle outstanding Zakat liabilities for the years from 2006 to 2017 against a full and final payment of SR 551 million, payable in 6 instalments over a period of 5 years ending 1 December 2023. The Bank paid the first instalment of SR 110 million during the month of December 2018. Under the Agreement, the Bank and GAZT 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 for Resolution of Tax Disputes and Violations for the years 2006 through 2011. 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 tax for the years up to and including the year 2018, except for the amounts agreed as a liability under the Agreement which will be paid to GAZT as and when they fall due.

15. CASH AND CASH EQUIVALENTS

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

	30 September 2019 (Unaudited) SR'000	31 December 2018 (Audited) SR'000	30 September 2018 (Unaudited) SR'000
Cash and balances with SAMA, excluding statutory deposit	**1,530,732**	2,211,486	1,820,076
Due from banks and other financial institutions with an original maturity of 90 days or less from the date of acquisition	**645,974**	1,197,821	464,695
Total	**2,176,706**	3,409,307	2,284,771

15. CASH AND CASH EQUIVALENTS (continued)

The reconciliation of cash and cash equivalents to cash and balances with SAMA is as follows:

	30 September 2019 (Unaudited) SR'000	31 December 2018 (Audited) SR'000	30 September 2018 (Unaudited) SR'000
Cash and cash equivalents as per statement of cash flows	**2,176,706**	3,409,307	2,284,771
Statutory deposit	**3,070,184**	2,753,636	2,739,991
Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition	**(645,974)**	(1,197,821)	(464,695)
Cash and balances with SAMA	**4,600,916**	4,965,122	4,560,067

16. OPERATING SEGMENTS

The operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (Chief Executive Officer) in order to allocate resources to the segments and to assess their performance.

All of the Group's operations are based in the Kingdom of Saudi Arabia, except AlJazira Securities Limited (SPV).

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the interim condensed consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities.

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

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

Personal banking
Deposit, credit and investment products for individuals.

Corporate banking
Loans, deposits and other credit products for corporate, small to medium sized businesses and institutional customers.

Treasury
Treasury includes money market, foreign exchange, trading and treasury services.

Brokerage and asset management
Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company).

16. OPERATING SEGMENTS (continued)

Takaful Ta'awuni
Provides protection and saving products services. As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity named AlJazira Takaful Ta'awuni Company (ATT) formed under the new Insurance Law of Saudi Arabia. The current division represents the insurance portfolio which will be transferred to ATT at an agreed value and date duly approved by SAMA.

The Group's total assets and liabilities at 30 September 2019 and 30 September 2018, its total operating income and expenses, and its net income for the three month and nine month periods then ended, by operating segment, are as follows:

16. OPERATING SEGMENTS (continued)

30 September 2019 (SR'000)

	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	**25,639,361**	**19,291,105**	**34,041,463**	**1,405,695**	**91,651**	**145,217**	**80,614,492**
Total liabilities	**36,409,824**	**22,873,436**	**9,450,760**	**474,151**	**91,651**	**-**	**69,299,822**
Total operating income	**1,037,580**	**366,842**	**836,205**	**117,878**	**13,293**	**(211,944)**	**2,159,854**
Net special commission income	**550,874**	**279,918**	**645,586**	**39,556**	**320**	**(7,227)**	**1,509,027**
Fee and commission income, net	**303,037**	**75,591**	**602**	**75,424**	**12,973**	**(16,170)**	**451,457**
Net gain on financial instruments at FVIS	**-**	**-**	**-**	**3,698**	**-**	**-**	**3,698**
Share in net income of an associate	**-**	**-**	**-**	**1,383**	**-**	**8,299**	**9,682**
Impairment reversal/(charge) for credit losses, net	**23,401**	**(102,577)**	**-**	**-**	**-**	**-**	**(79,176)**
Depreciation and amortisation	**(93,006)**	**(11,718)**	**(27,185)**	**(11,018)**	**(660)**	**(6,071)**	**(149,658)**
Total operating expenses	**(686,645)**	**(265,899)**	**(239,622)**	**(102,059)**	**(19,403)**	**(27,647)**	**(1,341,275)**
Net income / (loss) before Zakat and income tax	**350,935**	**100,943**	**596,583**	**17,202**	**(6,110)**	**(231,292)**	**828,261**

16. OPERATING SEGMENTS (continued)

	Personal Banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
31 December 2018							
Total assets	21,658,836	18,738,072	30,956,832	1,455,777	57,911	135,770	73,003,198
Total liabilities	33,317,306	18,666,181	9,124,052	593,276	57,911	-	61,758,726
30 September 2018							
Total assets	21,634,101	18,695,594	29,835,097	1,357,871	75,197	133,163	71,731,023
Total liabilities	34,149,083	16,358,968	8,979,908	522,070	75,197	-	60,085,226
Total operating income	872,771	332,569	812,896	127,785	14,535	(176,405)	1,984,151
Net special commission income	483,362	228,271	663,276	41,989	831	(1,680)	1,416,049
Fee and commission income, net	248,595	93,235	2,800	87,178	13,704	(22,042)	423,470
Net (loss) / gain on financial instruments at FVIS	(1,238)	(1,358)	3,733	(2,952)	-	-	(1,815)
Share in net income of an associate	-	-	-	1,097	-	6,581	7,678
Impairment reversal/(charge) for credit losses, net	22,382	(101,299)	(6)	-	-	-	(78,923)
Depreciation and amortisation	(37,480)	(8,279)	(14,141)	(7,314)	(535)	-	(67,749)
Total operating expenses	(609,860)	(283,955)	(217,784)	(107,274)	(21,728)	2,545	(1,238,056)
Net income / (loss) before Zakat and income tax	262,911	48,614	595,112	21,608	(7,193)	(167,279)	753,773

17. 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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Determination of fair value and fair value hierarchy

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 or identical instrument that an entity can access at the measurement date,
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.

a) The following table presents the Group's financial assets and liabilities that are measured at fair values:

		30 September 2019 (SR'000)		
		Fair Value		
	Carrying Value	**Level 1**	**Level 2**	**Total**
Financial assets measured at fair value:				
FVIS - Mutual funds	**209,110**	**-**	**209,110**	**209,110**
FVOCI – Debt	**89,514**	**-**	**89,514**	**89,514**
Derivatives	**137,782**	**-**	**137,782**	**137,782**
Total	**436,406**	**-**	**436,406**	**436,406**
Financial liabilities measured at fair value:				
Derivatives	**260,590**	**-**	**260,590**	**260,590**

		31 December 2018 (SR'000)		
		Fair Value		
	Carrying Value	Level 1	Level 2	Total
Financial assets measured at fair value:				
FVIS - Mutual funds	33,456	-	33,456	33,456
FVIS – Equities	7,837	7,837	-	7,837
Derivatives	54,434	-	54,434	54,434
Total	95,727	7,837	87,890	95,727
Financial liabilities measured at fair value:				
Derivatives	151,789	-	151,789	151,789

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	30 September 2018 (SR'000)			
		Fair Value		
	Carrying Value	Level 1	Level 2	Total
Financial assets measured at fair value:				
FVIS - Mutual funds	25,464	-	25,464	25,464
FVIS - Equities	9,262	9,262	-	9,262
Derivatives	92,637	-	92,637	92,637
Total	127,363	9,262	118,101	127,363
Financial liabilities measured at fair value:				
Derivatives	137,409	-	137,409	137,409

Fair value of quoted investments is based on price quoted on the reporting date. Level 2 trading and hedging derivatives comprise foreign exchange, options, profit rate swaps and structured deposits. These foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Profit rate swaps, options and structured deposits are fair valued using forward profit rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

There were no transfers between Levels 1 and 2 during the year. New investments acquired during the year are classified under the relevant levels. There were no financial assets or financial liabilities classified under level 3.

There were no changes in valuation techniques during the period.

Investments amounting to SR 4.86 million (31 December 2018: SR 4.89 million and 30 September 2018: SR 4.90 million) are carried at cost and, accordingly, are not fair valued.

17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

b) Following table represent fair values of financial assets and liabilities which are carried at amortised cost. There are no financial assets and liabilities where fair value is measurable as level 1 fair value.

	30 September 2019 (SR'000)		
	Amortised cost	**Fair value Level 2**	**Fair value Level 3**
Financial assets:			
Due from banks and other financial institutions	**1,151,255**	**-**	**1,159,028**
Investment held at amortised cost	**27,274,695**	**27,145,624**	**-**
Loans and advances, net	**44,529,825**	**-**	**45,976,276**
Total	**72,955,775**	**27,145,624**	**47,135,304**
Financial liabilities:			
Due to banks and other financial institutions	**6,124,392**	**-**	**6,182,868**
Customers' deposits	**59,052,291**	**-**	**59,306,242**
Total	**65,176,683**	**-**	**65,489,110**

	31 December 2018 (SR'000)		
	Amortised cost	Fair value Level 2	Fair value Level 3
Financial assets:			
Due from banks and other financial institutions	1,297,749	-	1,297,307
Investment held at amortised cost	24,006,091	24,047,109	-
Loans and advances, net	40,896,891	-	42,208,458
Total	66,200,731	24,047,109	43,505,765
Financial liabilities:			
Due to banks and other financial institutions	6,423,430	-	6,419,789
Customers' deposits	51,804,098	-	51,805,378
Total	58,227,528	-	58,225,167

The fair value of the cash and balances with SAMA, other assets and other liabilities and subordinated Sukuks approximate to their carrying amount. The fair values of level 2 and level 3 financial instruments are estimated as at 30 September 2019 at the current applicable yield curve taking into account the counterparty risks and applicable market rate.

18. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored on a periodic basis by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets at or above the agreed minimum of 8%.

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

The following table summarizes the Group's Pillar-I Risk Weighted Assets ("RWA"), Tier I and Tier II Capital and Capital Adequacy Ratios:

	30 September 2019 (Unaudited) SR'000	31 December 2018 (Audited) (Restated – note 20) SR'000	30 September 2018 (Unaudited) (Restated – note 20) SR'000
Credit Risk RWA	**47,939,504**	46,061,300	45,726,325
Operational Risk RWA	**4,949,404**	4,816,379	4,753,679
Market Risk RWA	**1,557,665**	799,342	1,208,754
Total Pillar-I RWA	**54,446,573**	51,677,021	51,688,758
Tier I Capital	**11,818,007**	11,849,764	12,197,589
Tier II Capital	**2,350,901**	2,348,955	2,305,269
Total Tier I and II Capital	**14,168,908**	14,198,719	14,502,858
Capital Adequacy Ratio (%)			
Tier I ratio	**21.71%**	22.93%	23.60%
Total Tier I and II Capital	**26.02%**	27.48%	28.06%

19. DIVIDEND

On 01 August 2019, the Board of Directors have approved the distribution of interim cash dividend of SR 246 million equal to SR 0.3 per share, net of Zakat, (30 September 2018: Nil) and accordingly, the interim dividend was paid during the third quarter of 2019.

In addition, during the current period, the Bank paid final cash dividend of SR 410 million equal to SR 0.5 per share (30 September 2018: SR 262.4 million equal to SR 0.32 per share), net of Zakat after approval of the shareholders' in their Extra Ordinary General Assembly meeting held on 16 April 2019. This dividend was calculated based on 820 million shares. The share of dividend of non-Saudi shareholders was paid after deducting the related income taxes due.

20. COMPARATIVE FIGURES

During the current period following reclassifications have been made for better presentation:

- Staff incentives that are directly attributable to new loans disbursements or collection of defaulted loans have been reclassified from salaries and employee related expenses to fee and commission income, net and impairment charge for credit losses respectively.
- Property evaluation fee expenses that are directly attributable to real estate loans have been reclassified from general and administrative expenses to fee and commission income, net.
- Insurance costs incurred to cover the credit risk in respect of personal & housing loans have been reclassified to special commission income from other general and administrative expenses as this cost essentially represents part of the loan yield.

The impact of these reclassifications on the interim condensed consolidated statement of income is disclosed below.

	As originally reported	**Reclassification**	**Amounts reported after reclassification**
For the nine month period ended 30 September 2018			
Special commission income	1,998,319	(25,492)	**1,972,827**
Fee and commission income, net	437,359	(13,889)	**423,470**
Salaries and employee-related expenses	682,756	(14,831)	**667,925**
Other general and administrative expenses	333,072	(28,006)	**305,066**
Impairment charge for credit losses, net	75,467	3,456	**78,923**
For the three month period ended 30 September 2018			
Special commission income	702,799	(8,583)	**694,216**
Fee and commission income, net	140,859	(4,812)	**136,047**
Salaries and employee-related expenses	231,213	(5,285)	**225,928**
Other general and administrative expenses	110,891	(9,262)	**101,629**
Impairment charge for credit losses, net	21,448	1,152	**22,600**

Capital adequacy disclosure has been revised to account for the impact of above reclassifications on total operating income. Further Operating Segment disclosure has been revised to account for the impact of above reclassifications.

21. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on 21 Safar, 1441H, corresponding to 20 October 2019.