THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended June 30, 2018

(Unaudited)

KPMG Al Fozan & Partners
Certified Public Accountants

Deloitte.
Deloitte and Touche & Co.
Chartered Accountants

Independent Auditors' Review Report on Interim Condensed Consolidated Financial Statements

To: The Shareholders of The Saudi Investment Bank
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of **The Saudi Investment Bank** ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at June 30, 2018 and the related interim consolidated income statement and the related interim consolidated statement of comprehensive income for the three-month and six-month periods then ended and the related interim consolidated statements of changes in equity and cash flows for the six-month period then ended, and other explanatory notes (the "interim condensed consolidated financial statements"). The management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" ("IAS 34") as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. 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 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 as 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 modified by SAMA for the accounting of zakat and income tax.

KPMG Al Fozan & Partners
Certified Public Accountants

Deloitte.
Deloitte and Touche & Co.
Chartered Accountants

Independent Auditors' Review Report on Interim Condensed Consolidated Financial Statements (continued)

Other Regulatory Matters

As required by SAMA, certain capital adequacy information has been disclosed in note (22) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (22) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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Dhul Qa'adah 17, 1439H
July 30, 2018

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Amounts in SAR'000

	Notes	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
ASSETS				
Cash and balances with SAMA	7	9,689,389	5,263,438	8,169,090
Due from banks and other financial institutions, net	8,19	5,865,624	3,513,073	1,707,537
Investments	9,19	23,006,649	21,713,976	21,623,372
Positive fair values of derivatives	16,19	1,088,063	669,170	926,917
Loans and advances, net	10,19	59,330,509	59,588,284	61,625,781
Investments in associates	11	941,510	1,019,961	1,028,076
Property, equipment, and intangibles, net		1,066,021	1,002,910	959,410
Other real estate		718,724	718,724	418,724
Other assets, net	12	246,540	306,683	417,211
Total assets		101,953,029	93,796,219	96,876,118
LIABILITIES AND TOTAL EQUITY				
Liabilities				
Due to banks and other financial institutions	19	10,793,140	7,609,686	11,218,511
Customers' deposits	13,19	71,300,751	66,942,620	66,556,560
Negative fair values of derivatives	16,19	395,192	116,655	439,729
Term loans	14,19	2,009,436	2,014,823	2,005,502
Subordinated debt	15,19	2,004,261	2,003,068	2,002,379
Other liabilities	12	938,396	830,300	827,333
Total liabilities		87,441,176	79,517,152	83,050,014
Equity				
Share capital	21,26,28	7,500,000	7,500,000	7,500,000
Statutory reserve		4,563,000	4,563,000	4,210,000
Other reserves	9	25,566	204,478	420,634
Retained earnings		685,951	1,284,858	976,370
Shares held for employee options, net	25	(47,664)	(58,269)	(65,900)
Shareholders' equity		12,726,853	13,494,067	13,041,104
Tier I Sukuk	24	1,785,000	785,000	785,000
Total equity		14,511,853	14,279,067	13,826,104
Total liabilities and equity		101,953,029	93,796,219	96,876,118

The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED INCOME STATEMENT (Unaudited)
Amounts in SAR'000

		Three-month period ended		Six-month period ended	
	Notes	Jun. 30, 2018	Jun. 30, 2017	Jun. 30, 2018	Jun. 30, 2017
Special commission income		936,767	845,855	1,826,297	1,722,419
Special commission expense		391,183	359,416	753,923	772,963
Net special commission income		545,584	486,439	1,072,374	949,456
Fee income from banking services, net		105,382	109,184	228,663	219,477
Exchange income, net		37,101	32,492	68,700	64,928
Dividend income		5,254	8,895	5,254	8,895
Fair Value through profit and loss (FVTPL)		(22,237)	-	(17,623)	-
Gains on FVOCI debt securities		-	-	40	-
Gains on investments, net		-	18,814	-	38,030
Other income		-	15	-	15
Total operating income		671,084	655,839	1,357,408	1,280,801
Salaries and employee-related expenses		147,603	142,722	295,783	290,343
Rent and premises-related expenses		40,615	38,001	83,889	76,836
Depreciation and amortization		25,618	23,126	49,743	46,153
Other general and administrative expenses		59,430	50,939	109,462	104,224
Provisions for credit losses	8,9,10,12	64,208	74,000	152,753	119,000
Impairment charge for equity investments		-	4,000	-	4,000
Total operating expenses		337,474	332,788	691,630	640,556
Income from operating activities		333,610	323,051	665,778	640,245
Share in earnings of associates	11	27,944	32,597	57,009	60,345
Net income		361,554	355,648	722,787	700,590
Basic and diluted earnings per share (expressed in SAR per share)	20	0.48	0.47	0.96	0.93

The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
Amounts in SAR'000

	Notes	Three-month period ended Jun. 30, 2018	Three-month period ended Jun. 30, 2017	Six-month period ended Jun. 30, 2018	Six-month period ended Jun. 30, 2017
Net income		361,554	355,648	722,787	700,590
Other comprehensive income(loss)					
Items that cannot be reclassified to the interim consolidated income statement in subsequent periods:					
Movement in equity investments fair value		57,714	-	3,772	-
Items that can be reclassified to the interim consolidated income statement in subsequent periods:					
Net change in fair value of debt instruments at fair value through other comprehensive income		(50,243)	-	(159,278)	-
Fair value gains transferred to interim consolidated income statement on disposal of debt securities		-	-	(40)	-
Subtotal		(50,243)	-	(159,318)	-
Items that are or may be reclassified to the interim consolidated income statement in subsequent periods:					
Net change in fair value of available for sale investments		-	(85,661)	-	(69,581)
Fair value gains transferred to interim consolidated income statement on disposal		-	(10,814)	-	(19,030)
Subtotal		-	(96,475)	-	(88,611)
Share in other comprehensive loss of associates	11	-	(406)	(567)	(406)
Total other comprehensive income (loss)		7,471	(96,881)	(156,113)	(89,017)
Total comprehensive income		369,025	258,767	566,674	611,573

The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

For the six-month period ended June 30

		2018 (SAR'000)							
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Shares held for employee options, net	Shareholders' equity	Tier 1 Sukuk	Total equity
Balances at the beginning of the period (Audited)		7,500,000	4,563,000	204,478	1,284,858	(58,269)	13,494,067	785,000	14,279,067
Effect of the adoption of IFRS 9 on January 1, 2018	4	-	-	50,603	(873,159)	-	(822,556)	-	(822,556)
Balances at the beginning of the period as adjusted		7,500,000	4,563,000	255,081	411,699	(58,269)	12,671,511	785,000	13,456,511
Net income		-	-	-	722,787	-	722,787	-	722,787
Total other comprehensive loss		-	-	(156,113)	-	-	(156,113)	-	(156,113)
Total comprehensive income		-	-	(156,113)	722,787	-	566,674	-	566,674
Gains on sales of FVOCI equity investments		-	-	(73,402)	73,402	-	-	-	-
Foreign shareholder Income Tax Reimbursement		-	-	-	6,683	-	6,683	-	6,683
Zakat for current period		-	-	-	(24,684)	-	(24,684)	-	(24,684)
Income Tax for current period		-	-	-	(15,316)	-	(15,316)	-	(15,316)
Dividends paid	21	-	-	-	(450,000)	-	(450,000)	-	(450,000)
Net movement in shares held for employee options	25	-	-	-	-	10,605	10,605	-	10,605
Tier 1 Sukuk proceeds	24	-	-	-	-	-	-	1,000,000	1,000,000
Tier I Sukuk Costs		-	-	-	(38,620)	-	(38,620)	-	(38,620)
Balances at the end of the period (Unaudited)		7,500,000	4,563,000	25,566	685,951	(47,664)	12,726,853	1,785,000	14,511,853

The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.

THE SAUDI INVESTMENT BANK

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Continued (Unaudited)

For the six-month period ended June 30

		2017 (SAR'000)								
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Shares held for employee options, net	Shareholders' equity	Tier 1 Sukuk	Total equity
Balances at the beginning of the period (Audited)		7,000,000	4,210,000	509,651	826,775	350,000	(62,884)	12,833,542	500,000	13,333,542
Net income		-	-	-	700,590	-	-	700,590	-	700,590
Total other comprehensive loss		-	-	(89,017)	-	-	-	(89,017)	-	(89,017)
Total comprehensive income		-	-	(89,017)	700,590	-	-	611,573	-	611,573
Foreign shareholder Income Tax Reimbursement		-	-	-	5,206	-	-	5,206	-	5,206
Zakat for current period		-	-	-	(25,544)	-	-	(25,544)	-	(25,544)
Income Tax for current period		-	-	-	(13,207)	-	-	(13,207)	-	(13,207)
Income Tax for prior periods, net		-	-	-	(2,091)	-	-	(2,091)	-	(2,091)
Dividends paid	21	-	-	-	-	(350,000)	-	(350,000)	-	(350,000)
Bonus shares issued	21	500,000	-	-	(500,000)	-	-	-	-	-
Tier 1 Sukuk proceeds	24	-	-	-	-	-	-	-	285,000	285,000
Tier I Sukuk Costs		-	-	-	(15,359)	-	-	(15,359)	-	(15,359)
Net movement in shares held for employee options	25	-	-	-	-	-	(3,016)	(3,016)	-	(3,016)
Balances at the end of the period (Unaudited)		7,500,000	4,210,000	420,634	976,370	-	(65,900)	13,041,104	785,000	13,826,104

The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

Amounts in SAR'000
For the six-month periods ended June 30

	Notes	2018	2017
OPERATING ACTIVITIES			
Net income		722,787	700,590
Adjustments to reconcile net income to net cash from (used in) operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		24,024	28,948
Net change in accrued special commission income		(13,802)	(41,982)
Net change in accrued special commission expense		(24,073)	(92,164)
Net change in deferred loan fees		(7,245)	21,105
Gains on FVOCI debt securities		(40)	-
Gains on investments, net		-	(38,030)
Gain on sale of property, equipment and intangibles		-	(15)
FVTPL unrealized losses		22,200	-
FVTPL realized gains		(4,577)	-
Depreciation and amortization	18	49,743	46,153
Provisions for credit losses	8,9,10,12	152,753	119,000
Impairment charge for equity investments		-	4,000
Share in earnings of associates	11	(57,009)	(60,345)
Share based provisions	25	3,600	8,166
		868,361	695,426
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		32,685	236,438
Due from banks and other financial institutions maturing after ninety days from acquisition date		(255,412)	(63,737)
Loans and advances		(485,587)	(1,430,876)
Positive fair values of derivatives		(413,509)	994,451
Other assets		59,556	(173,378)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		3,182,277	2,188,406
Customer deposits		4,381,172	965,268
Negative fair values of derivatives		276,552	(935,357)
Other liabilities		(83,743)	(58,879)
Net cash provided from operating activities		7,562,352	2,417,762
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments		990,521	2,079,074
Purchases of investments		(2,465,019)	(2,336,865)
Dividends received from associates		108,272	32,200
Acquisitions of property, equipment, and intangibles	18	(112,854)	(17,963)
Proceeds from sale of property, equipment, and intangibles		-	15
Net cash used in investing activities		(1,479,080)	(243,539)
FINANCING ACTIVITIES			
Zakat and Income Tax payments, net of shareholder reimbursements		(43,526)	(17,141)
Purchases of shares for employee options, net	25	3,058	(17,574)
Dividends paid		(450,000)	(350,000)
Vesting of employee share options, net		3,947	6,392
Proceeds from Tier I Sukuk	24	1,000,000	285,000
Tier 1 Sukuk costs		(38,621)	(15,359)
Net cash provided from (used in) financing activities		474,858	(108,682)
Net increase in cash and cash equivalents		6,558,130	2,065,541

The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS - Continued (Unaudited)
Amounts in SAR'000
For the six-month periods ended June 30

	Notes	2018	2017
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		5,444,306	4,382,652
Net (decrease) increase in cash and cash equivalents		6,558,130	2,065,541
Cash and cash equivalents at the end of the period	7	12,002,436	6,448,193
Supplemental special commission information			
Special commission received		1,812,495	1,680,437
Special commission paid		779,570	866,200
Supplemental non-cash information			
Total other comprehensive loss		(156,113)	(89,017)
Bonus shares issued		-	500,000
Adoption of IFRS 9 on January 1, 2018		822,556	-

The accompanying notes 1 to 29 form an integral part of these interim condensed consolidated financial statements.

1. General

The Saudi Investment Bank (the "Bank"), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 51 branches (December 31, 2017: 49 branches; and June 30, 2017: 49 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P.O. Box 3533
Riyadh 11481, Kingdom of Saudi Arabia

The Bank offers a full range of commercial and retail banking services. The Bank also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board.

2. Basis of preparation

On April 11, 2017, the Saudi Arabian Monetary Authority (SAMA) issued Circular no. 381000074519 with amendments regarding certain clarifications relating to the accounting for Zakat and Income tax. The impact of the Circular and amendments are as follows:

- The Accounting Standards for Commercial Banks promulgated by SAMA are no longer applicable from January 1, 2017; and
- Zakat and Income Tax are to be accrued on a quarterly basis and recognized in the consolidated statement of equity with a corresponding liability recognized in the consolidated statement of financial position.

Applying the above SAMA circular and amendments to the Framework, these interim condensed consolidated financial statements have been prepared using International Accounting Standards (IAS) 34 - "Interim Financial Reporting", as modified by SAMA for the accounting for Zakat and Income Tax.

These interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2017.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SAR) and are rounded off to the nearest thousand, except where indicated herein.

The preparation of these 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, liabilities and income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, the Bank has adopted IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers from January 1, 2018. As such, accounting policies for these new standards are disclosed in notes 4 and 5. Significant judgments and estimates relating to financial risk management and credit losses are disclosed in note 6 considering IFRS 9 first time adoption. All other significant judgments made by management in applying the accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the annual consolidated financial statements as of and for the year ended December 31, 2017.

2. Basis of preparation – (continued)

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on July 29, 2018.

3. Basis of consolidation

These interim condensed consolidated financial statements are comprised of the financial statements of the Bank and the financial statements of the following subsidiaries (collectively referred to as the "Group"):

a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a Saudi closed joint stock company, which is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory, and custody services relating to financial securities.

b) "Saudi Investment Real Estate Company", a limited liability company, which is registered in the Kingdom of Saudi Arabia under commercial registration No.1010268297 issued on 29 Jumada Awwal 1430H (corresponding to May 25, 2009), and is owned 100% by the Bank. The Company has not commenced any significant operations.

c) "Saudi Investment First Company", a limited liability company, which is registered in the Kingdom of Saudi Arabia under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014), and is owned 100% by the Bank. The Company has not commenced any significant operations.

d) "SAIB Markets Limited Company", a Cayman Islands limited liability company, registered in the Cayman Islands on July 18, 2017, and is 100% owned by the Bank. The objective of the Company is to conduct derivatives and repurchase activities on behalf of the Bank. The Company has not commenced significant operations.

References to the "Bank" hereafter in these interim condensed consolidated financial statements refer to disclosures that are relevant only to the Bank and not collectively to the "Group".

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Bank.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the interim condensed consolidated financial statements from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee. The financial statements of any such structured entities are consolidated from the date the Group obtains control and until the date when the Group ceases to control the investee.

These interim condensed consolidated financial statements have been prepared using uniform accounting policies and valuation methods for similar transactions and other events in similar circumstances.

3. Basis of consolidation – (continued)

The Group manages assets held in investment entities on behalf of investors. The financial statements of these entities are not included in these interim condensed consolidated financial statements except when the Group controls the entity.

Balances between the Bank and its subsidiaries, 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.

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

The accounting policies used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements as of and for the year ended December 31, 2017, except for the adoption of the following new standards.

IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 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. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

There was no significant impact as of January 1, 2018 resulting from the application of IFRS 15 on the Group's interim condensed consolidated financial statements.

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of January 1, 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard results in changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 on January 1, 2018 are summarized below.

IFRS 9 contains three principal classification categories for financial assets including

- Measured at amortized cost ("AC");
- Fair value through other comprehensive income ("FVOCI"); and
- Fair value through profit or loss ("FVTPL").

These classification categories are generally based, except for equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows.

IFRS 9 eliminates the existing IAS 39 categories of held-to-maturity, held for trading, 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.

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

For an explanation of how the Group classifies financial assets under IFRS 9, see the respective sections of significant accounting policies included in note 5.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. Under IAS 39 any fair value changes of liabilities designated under the fair value option were recognized in profit or loss, while 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 liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under IFRS 9, refer to the respective section of significant accounting policies included in note 5.

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

Under IFRS 9, credit losses are recognized earlier than previously recognized under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see the respective section of significant accounting policies included in note 5.

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

- Comparative periods have not been restated. The 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 of January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore are 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 financial assets and financial liabilities previously measured at FVTPL.
  iii. The designation of certain investments in equity instruments not held for trading as FVOCI.
  iv. The determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss for any financial liabilities designated at FVTPL.

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.

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

The following table shows the measurement categories in accordance with IAS 39 as of December 31, 2017 and the measurement categories under IFRS 9 for the Group's financial and other assets and financial and other liabilities as of January 1, 2018.

	IAS 39 Measurement category	IFRS 9 Measurement category	IAS 39 Carrying value	IFRS 9 Carrying value
Financial and other assets				
Cash and balances with SAMA	Amortized cost	Amortized cost	5,263,438	5,263,438
Due from banks and other financial institutions	Amortized cost	Amortized cost	3,513,073	3,499,509
Investments, net	Available for sale	FVTPL/FVOCI	21,713,976	21,713,976
Positive fair values of derivatives	FVTPL	FVTPL	669,170	669,170
Loans and advances	Amortized cost	Amortized cost	59,588,284	58,944,983
Other assets	Amortized cost	Amortized cost	306,683	306,406
Total			91,054,624	90,397,482
Financial and other liabilities				
Due to banks and other financial institutions	Amortized cost	Amortized cost	7,609,686	7,609,686
Customers' deposits	Amortized cost	Amortized cost	66,942,620	66,942,620
Negative fair values of derivatives	FVTPL	FVTPL	116,655	116,655
Term loans	Amortized cost	Amortized cost	2,014,823	2,014,823
Subordinated debt	Amortized cost	Amortized cost	2,003,068	2,003,068
Other liabilities	Amortized cost	Amortized cost	830,300	969,094
Total			79,517,152	79,655,946

The following table reconciles the carrying amounts of financial and other assets, financial and other liabilities, and investments in associates under IAS 39 to the adjusted carrying amounts under IFRS 9 on transition to IFRS 9 on January 1, 2018 due to re-measurement.

	IAS 39 carrying amount as of December 31, 2017	IFRS 9 Re-measurement	IFRS 9 carrying amounts as of January 1, 2018
Financial and other assets			
Due from banks and other financial institutions	3,513,073	(13,564)	3,499,509
Investments	21,713,976	-	21,713,976
Loans and advances	59,588,284	(643,301)	58,944,983
Investments in associates	1,019,961	(26,621)	993,340
Other assets	306,683	(277)	306,406
Total financial and other assets	86,141,977	(683,763)	85,458,214
Financial and other liabilities			
Other liabilities	830,300	138,794	969,094
Total financial and other liabilities	830,300	138,794	969,094

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

The following table reconciles the carrying amounts of investments before allowance for credit losses under IAS 39 as of December 31, 2017 to the carrying amounts of investments before allowance for credit losses on transition to IFRS 9 on January 1, 2018 due to reclassifications:

	Available for sale investments	FVOCI Equities	FVOCI Debt securities	FVTPL All other securities	Total Investments
Carrying amounts under IAS 39 as of December 31, 2017	21,713,976	-	-	-	21,713,976
Reclassifications	(21,713,976)	461,003	21,103,295	149,678	-
Carrying amounts under IFRS 9 as of January 1, 2018	-	461,003	21,103,295	149,678	21,713,976

The following summarizes the impact on retained earnings and other reserves from the adoption of IFRS 9 on January 1, 2018:

	Retained earnings	Other reserves
Balances under IAS 39 as of December 31, 2017	1,284,858	204,478
Reclassifications of available for sale investments to FVTPL	10,374	(10,374)
Recognition of expected credit losses:		
Due from banks	(13,564)	-
Investments	(60,977)	60,977
Loans and advances	(643,301)	-
Other assets	(276)	-
Loan commitments and financial guarantee contracts	(138,794)	-
Total recognition of expected credit losses	(856,912)	60,977
Recognition of the effect of IFRS 9 on associate companies	(26,621)	-
Adjusted balances under IFRS 9 as of January 1, 2018	411,699	255,081

The following table reconciles the closing allowances for credit losses for financial and other assets, loan commitments, and financial guarantee contracts as of December 31, 2017, to the opening allowances for credit losses as of January 1, 2018:

	Due from banks and other financial institutions	Investments	Loans and advances	Other assets	Commitments and financial guarantee contracts	Total
Balances as of December 31, 2017	-	4,000	1,074,781	-	-	1,078,781
Recognition of expected credit losses	13,564	60,977	643,301	276	138,794	856,912
Adjusted balances as of January 1, 2018	13,564	64,977	1,718,082	276	138,794	1,935,693

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the six-month periods ended June 30, 2018 and 2017

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

The following table summarizes the balances of financial and other assets and financial and other liabilities by measurement category in the interim consolidated statement of financial position as of June 30, 2018:

	Amortized cost	Mandatorily at FVTPL	FVOCI – equity securities	FVOCI – debt securities	FVTPL – other securities	Total carrying amount
Financial and other assets						
Cash and balances with SAMA	9,689,389	-	-	-	-	9,689,389
Due from banks and other financial institutions, net	5,865,624	-	-	-	-	5,865,624
Investments, net	-	-	181,773	22,573,483	251,393	23,006,649
Positive fair values of derivatives	-	1,088,063	-	-	-	1,088,063
Loans and advances, net	59,330,509	-	-	-	-	59,330,509
Other assets	246,540	-	-	-	-	246,540
Total financial and other assets	75,132,062	1,088,063	181,773	22,573,483	251,393	99,226,774
Financial and other liabilities						
Due to banks and other financial institutions	10,793,140	-	-	-	-	10,793,140
Customers' deposits	71,300,751	-	-	-	-	71,300,751
Negative fair values of derivatives	-	395,192	-	-	-	395,192
Term loans	2,009,436	-	-	-	-	2,009,436
Subordinated debt	2,004,261	-	-	-	-	2,004,261
Other liabilities	938,396	-	-	-	-	938,396
Total financial and other liabilities	87,045,984	395,192	-	-	-	87,441,176

5. Summary of Significant Accounting Policies

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2017 except for the policies explained below. Based on the adoption of the new standards disclosed in note 4, the following accounting policies are applicable effective January 1, 2018 replacing / amending or adding to the corresponding accounting policies set out in the December 31, 2017 consolidated financial statements.

a. Classification of financial assets

On initial recognition, a financial asset is classified and measured at either amortized cost, FVOCI or FVTPL.

i) 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 at FVTPL:

- 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.

5. Summary of Significant Accounting Policies – (continued)

ii) Financial Assets at FVOCI

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

- 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 recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss.

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.

iii) Financial Assets at FVTPL

All other financial assets are classified as measured at FVTPL. 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 at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

iv) Business model assessment

The Group assesses the objective of a business model in which an asset may be 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 commission revenue, maintaining a particular commission 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 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, including 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 the expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how stated objectives for managing the financial assets are achieved and how cash flows are realized.

5. Summary of Significant Accounting Policies – (continued)

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 realized 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 may be held for trading and for which performance may be evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

For the purpose of this assessment, principal is the fair value of the financial asset on initial recognition. Commission is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period, and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

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

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

vi) Designation at fair value through profit or loss

At initial recognition, the Group may designate certain financial assets at FVTPL. Before January 1, 2018, the Group could have designated certain financial assets at FVTPL if the assets were managed, evaluated, and reported internally on a fair value basis.

5. Summary of Significant Accounting Policies – (continued)

b. Classification of financial liabilities

The Group's accounting policy for the classification of financial liabilities applicable before January 1, 2018 was as follows.

- Derivatives embedded in other financial instruments were treated as separate derivatives and recorded at fair value if their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of income.
- Due to banks and other financial institutions, customer deposits, term loans, and subordinated debt were initially recognized at fair value less transaction costs.
- Financial liabilities were subsequently measured at amortized cost, unless they were required to be measured at fair value through profit or loss.
- For financial liabilities that may have been classified at FVTPL using the fair value option, after initial recognition for such liabilities, changes in fair value related to changes in own credit risk were presented separately in OCI and all other fair value changes were presented in income.
- Amounts in OCI relating to credit were not recycled to income even when the liability was derecognized and the amounts were realized.
- Loan and financial guarantee commitments that the Group may have chosen to measure at FVTPL had all fair value movements recognized in income.

The Group's accounting policy for the classification of financial liabilities applicable on January 1, 2018 is as follows.

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issued debt, and costs that are an integral part of the effective rate.

c. Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when the separated embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss, unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are then presented in the interim consolidated statement of financial position together with the host contract.

d. Derecognition

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

5. Summary of Significant Accounting Policies – (continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) 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 recognized in OCI is recognized in income.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated at FVOCI is not recognized in profit or loss on derecognition of such securities. Realized gains and losses are transferred to retained earnings from other reserves. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

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

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

In certain transactions, the Group may retain the obligation to service the transferred financial asset for a fee. The transferred asset is then derecognized if it meets the derecognition criteria. An asset or liability is recognized for a servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

e. Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value.

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

f. Derecognition of financial liabilities

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

5. Summary of Significant Accounting Policies – (continued)

g. Expected credit loss (ECL)

The Group recognizes provisions for ECL on the following financial instruments that are not measured at FVTPL:

- Due from banks and other financial institutions;
- Debt securities;
- Loans and advances;
- Other financial assets; and
- Commitments and financial guarantee contracts.

No impairment losses are recognized on equity investments.

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

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

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The Group considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of investment grade. The 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date.

ECL is a probability-weighted estimate of credit losses. ECL's are measured as follows:

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

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and the ECL is then measured as follows:

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

5. Summary of Significant Accounting Policies – (continued)

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

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

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and
- 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 fulfill the required criteria.

Allowances for credit losses are presented in the interim consolidated statement of financial position as follows:

- For financial assets measured at amortized cost, as a deduction from the gross carrying amount of the assets;
- For loan commitments and financial guarantee contracts, included in other liabilities.
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is then presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is included in other liabilities.
- For debt instruments measured at FVOCI, no loss allowance is recognized in the interim consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in other reserves. Any impairment losses are recognised in income and changes between the amortized cost of the assets and their fair value are recognised in OCI.

5. Summary of Significant Accounting Policies – (continued)

h. Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated credit loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to provisions for credit losses.

i. Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets, and credit enhancements such as netting agreements.

The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group's interim consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

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

j. Collateral repossessed

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

In its normal course of business, the Group does not physically repossess properties or other assets in its consumer portfolio, but exercizes other available options to recover funds.

k. Commitments and financial guarantees contracts

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured from January 1, 2018 as follows:

- At the higher of this amortized amount and the amount of the credit loss allowance; and
- At the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

5. Summary of Significant Accounting Policies – (continued)

The Group has no loan commitments that are measured at FVTPL. For other loan commitments:

- Before January 1, 2018: the Bank recognized a provision in accordance with IAS 37 if the contract was considered to be onerous; and
- From January 1, 2018: the Group recognizes a credit loss allowance.

l. Foreign currencies

The interim consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the Group's functional currency. Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into SAR at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the date of the interim consolidated statement of financial position.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective profits rate and payments during the year and the amortized cost in foreign currency translated at exchange rate at the end of the year.

Realized and unrealized gains or losses on exchange are credited or charged to the interim condensed consolidated statement of comprehensive income as follows:

- Foreign currency differences arising from the translation of the following items are recognized in OCI; and

- Available-for-sale equity instruments (before January 1, 2018) or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (from January 1, 2018).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

m. Revenue and expense recognition

Special commission income and expense is recognized in income using the effective commission method. The effective commission rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the amortized cost of the financial instrument.

5. Summary of Significant Accounting Policies – (continued)

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

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

n. Measurement of amortized cost and special commission income

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

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

In calculating commission income and expense, the effective commission rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. For financial assets that have become credit-impaired subsequent to initial recognition, commission income is calculated by applying the effective commission rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of commission income reverts to the gross basis.

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

o. Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions, and exercized judgments are as follows:

- Classification of assets and liabilities;
- Estimation of expected credit losses and impairment;
- Fair value measurement;
- Provisions for liabilities and charges;
- Employee benefit plans;
- Depreciation and amortization; and
- Determination of control over investees.

6. Financial risk management

Credit risk

The Bank's Board of Directors (the Board) is responsible for the overall risk management approach and for approving the Bank's risk management strategies and principles. The Board of Directors, through the Board Risk Committee, has the responsibility to monitor the overall risk processes within the Bank which includes the development, review, and approval of risk strategies, and implementing principles, frameworks, policies ,and limits.

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

The Bank assesses the probability of default of counterparties using internal rating tools. The Bank also uses international recognized ratings agencies where possible.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and monitor risks, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to any trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken. The Bank assesses counterparties using similar techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

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

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

Credit analysis of investments held at FVTPL

The Bank's investments held at FVTPL are comprised of Mutual fund investments and other securities which are unquoted and unrated.

6. Financial risk management – (continued)

Credit risk grades

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

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

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

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

6. Financial risk management – (continued)

Generating the term structure of the Probability of Default (PD)

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information sourced from external credit reference agencies is also used.

The Bank employs models to analyze the data collected and generates 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. For most exposures, key macro-economic indicators include GDP growth and oil prices.

Based on consideration of a variety of external actual and forecasted information, the Bank formulates a base case view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Bank then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

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

The criteria for determining whether credit risk has increased significantly varies by portfolio and includes quantitative as well as qualitative factors, including a backstop based on delinquency. One of the key quantitative indicators used by the Bank is the relative downgrade of the internal rating of a borrower and thereby the consequent change in the PD.

Using credit judgment and, where possible, relevant historical experience, the Bank 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 which effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. The qualitative indicators include cross facility defaults and forbearance.

As a backstop, the Bank 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 Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in the credit loss allowance resulting from transfers between 12-month PD (Stage 1) and lifetime PD (Stages 2 or 3).

6. Financial risk management – (continued)

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 credit of the customer. An existing loan for which the terms have been modified may be derecognized and the renegotiated loan is recognized as a new loan at fair value in accordance with the Bank's policies.

The Bank may renegotiate loans to customers in financial difficulties (referred to as forbearance activities) to maximize collection opportunities and minimize the risk of default. Loan forbearance is granted on a selective basis 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 can include extending the maturity, changing the timing of commission and/or principal payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk. A customer needs to demonstrate consistently good payment behavior over a period of time before 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

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative, e.g. breaches of covenants;
- quantitative, e.g. overdue status; and
- based on data developed internally and obtained from external sources.

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

6. Financial risk management – (continued)

Incorporation of forward looking information

Based on a consideration of a variety of external actual and forecasted information, the Bank formulates a base case view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities and selected private sector forecasters.

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

The Bank identifies key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and other credit losses. The economic scenarios used as of June 30, 2018 included GDP growth and oil prices.

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

Collateral

The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk for its portfolio of loans and advances. Collateral can include time, demand, and other cash deposits, financial guarantees, local and international shares, real estate, and other assets. The collateral is held primarily against commercial and non-consumer retail loans and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk

Measurement of ECL

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

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

These parameters are generally derived from internally developed models and external benchmarks. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on internal rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this can lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated repayment rates.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties as well as external benchmarks. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry, and the net recovery amount of any collateral that is integral to the financial asset.

6. Financial risk management – (continued)

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

As described above and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank 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 Bank considers a longer period. The maximum contractual period extends to the date at which the Bank 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 Bank measures ECL over a period which may be longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect. This contractual right may not enforced in the normal day-to-day management but only when the Bank 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 Bank expects to take and that serve to mitigate ECL. These can include a reduction in limits, or cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include the instrument type, credit risk rating, time to maturity, collateral type, industry; and geographic location of the borrower. Regular reviews are also conducted to ensure that exposures within a particular portfolio remain appropriately homogeneous.

For portfolios where the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

	PD	LGD
Due from Banks	Moody's default study	SAMA LGD Estimates
Investments	Moody's default study	SAMA LGD Estimates

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime PD at the reporting date with the remaining lifetime PD for the point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

7. Cash and balances with SAMA and cash and cash equivalents

Cash and balances with SAMA are summarized as follows:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Cash on hand	928,477	725,972	848,872
Reverse repurchase agreements with SAMA	5,673,000	1,282,000	3,910,000
Other balances with SAMA	(211,608)	(76,739)	70,893
Cash and balances with SAMA before statutory deposit	6,389,869	1,931,233	4,829,765
Statutory deposit with SAMA	3,299,520	3,332,205	3,339,325
Cash and balances with SAMA	9,689,389	5,263,438	8,169,090

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

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

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	6,389,869	1,931,233	4,829,765
Due from banks and other financial institutions maturing within ninety days from the date of placement	5,612,567	3,513,073	1,618,428
Cash and cash equivalents	12,002,436	5,444,306	6,448,193

8. Due from banks and other financial institutions, net

Due from banks and other financial institutions, net are summarized as follows:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Current accounts	830,028	913,181	627,018
Money market placements	5,040,247	2,599,892	1,080,519
Total due from banks and other financial institutions	5,870,275	3,513,073	1,707,537
Allowance for credit losses	(4,651)	-	-
Due from banks and other financial institutions, net	5,865,624	3,513,073	1,707,537

The movement of the allowance for credit losses is summarized as follows:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Balances at the beginning of the year/period	-	-	-
Effect of the adoption of IFRS 9 on January 1, 2018	13,564	-	-
Provision for credit losses	(8,913)	-	-
Balances at the end of the year/period	4,651	-	-

8. Due from banks and other financial institutions, net – (continued)

The following table sets out information about the credit quality of due from banks and other financial institutions measured at amortized cost of June 30, 2018.

	Stage 1 12 month ECL	Stage 2 Life time ECL not credit impaired	Stage 3 Life time ECL credit impaired	Total
Investment grade	5,357,671	-	-	5,357,671
Non-investment grade	510,344	2,260	-	512,604
Total due from banks and other financial institutions	5,868,015	2,260	-	5,870,275

The following table provides a reconciliation from the opening to the closing balances of the allowance for credit losses for due from banks and other financial institutions for the six month period ended June 30, 2018.

	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	12,667	897	-	13,564
Changes in exposures and re-measurement	(8,285)	(628)	-	(8,913)
Balances as of June 30, 2018	4,382	269	-	4,651

9. Investments

Investments are summarized as follows:

	June. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	June. 30, 2017 (Unaudited)
Fixed rate debt securities	18,461,269	16,957,476	15,922,534
Floating rate debt securities	4,112,214	4,039,257	4,687,438
Total debt securities	22,573,483	20,996,733	20,609,972
Allowance for credit losses	-	(4,000)	(4,000)
Debt securities, net	22,573,483	20,992,733	20,605,972
Equities	181,773	462,041	745,711
Mutual funds	206,681	212,530	219,574
Other securities	44,712	46,672	52,115
Investments	23,006,649	21,713,976	21,623,372

As of June 30 and December 31, 2017, all investments were classified as available for sale. As of June 30, 2018, fixed rate and floating rate debt securities and equities are classified at FVOCI, and mutual funds and other securities are classified at FVTPL.

9. Investments – (continued)

As of June 30, 2018, investments include SAR 5.1 billion (December 31, 2017: SAR 3.0 billion, and June 30, 2017: SAR 4.0 billion) which have been pledged under repurchase agreements with other financial institutions.

The Group's investments in equities include SAR 8.6 million as of June 30, 2018 which the Bank acquired in prior years in connection with the settlement of certain loans and advances. During the six month period ended June 30, 2018, the Bank sold a portion of these holdings. The fair value of the shares sold totaled SAR 284.3 million, resulting in a realized gain of approximately SAR 73.4 million. The SAR 73.4 million realized gain was subsequently transferred from other reserves to retained earnings during the six month period ended June 30, 2018.

The Bank also holds additional strategic investments in equities totaling SAR 171.8 million as of June 30, 2018 including the Mediterranean and Gulf Cooperative Insurance and Reinsurance Co., SIMAH (Saudi Credit Bureau), and the Saudi Company for Registration of Finance Lease Contracts.

The movement of the allowance for credit losses included in other reserves is as follows:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Balances at the beginning of the year/period	4,000	4,000	4,000
Effect of the adoption of IFRS 9 on January 1, 2018	60,977	-	-
Provision for credit losses	8,787	-	-
Balances at the end of the year/period	73,764	4,000	4,000

The following table sets out information about the credit quality of debt securities at FVOCI as of June 30, 2018.

	Stage 1 12 month ECL	Stage 2 Life time ECL not credit impaired	Stage3 Life time ECL credit impaired	Total
Grades 1-6 and unrated	22,572,796	-	-	22,572,796
Grades 7-9	-	687	-	687
Total debt securities	22,572,796	687	-	22,573,483

The following table provides a reconciliation from the opening to the closing balances of the allowance for credit losses for debt investments for the six month period ended June 30, 2018.

	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	64,977	-	-	64,977
Changes in exposures and re-measurement	8,111	(2,996)	-	5,115
Transfers from Stage 1 to Stage 2	(11)	3,683	-	3,672
Balances as of June 30, 2018	73,077	687	-	73,764

9. Investments – (continued)

Other reserves classified in shareholders' equity are comprised of the following:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Unrealized losses on revaluation of debt securities at FVOCI before allowance for credit losses	(6,705)	-	-
Allowance for credit losses on debt securities at FVOCI	73,764	-	-
Unrealized gains on revaluation of debt securities at FVOCI after allowance for credit losses	67,059	-	-
Unrealized losses on revaluation of equities held at FVOCI	(41,900)	-	-
Unrealized gains on available for sale investments	-	204,298	419,448
Share of other comprehensive income of associates	407	180	1,186
Other reserves	25,566	204,478	420,634

10. Loans and advances, net

Loans and advances, net are classified as held at amortized cost and comprised of the following:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Performing loans and advances:			
Consumer loans	15,816,434	16,599,693	16,758,331
Commercial loans and overdrafts	44,050,056	42,964,222	44,552,450
Others	335,569	326,002	302,137
Total performing loans and advances	60,202,059	59,889,917	61,612,918
Non performing loans and advances	809,272	773,148	1,099,681
Total loans and advances	61,011,331	60,663,065	62,712,599
Allowance for credit losses	(1,680,822)	(1,074,781)	(1,086,818)
Loans and advances, net	59,330,509	59,588,284	61,625,781

The movement of the allowance for credit losses for loans and advances is summarized as follows:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Balances at the beginning of the period/year	1,074,781	994,844	994,844
Effect of the adoption of IFRS 9 on January 1, 2018	643,301	-	-
Provision for credit losses	89,315	213,000	119,000
Write-offs, net	(126,575)	(133,063)	(27,026)
Balances at the end of the period/year	1,680,822	1,074,781	1,086,818

10. Loans and advances, net – (continued)

The following table sets out information about the credit quality of loans and advances measured at amortized cost as of June 30, 2018.

	Stage 1 12 month ECL	Stage 2 Life time ECL not credit impaired	Stage 3 Life time ECL credit impaired	Total
Commercial loans, overdrafts, and other loans	36,913,049	5,683,885	2,461,139	45,058,073
Consumer loans (Unrated)	15,669,952	117,219	166,087	15,953,258
Total loans and advances	52,583,001	5,801,104	2,627,226	61,011,331

The stage 3 exposures above include non-performing loans and other exposures exhibiting a significant increase in credit risk.

As of June 30, 2018, the Group holds collateral in the form of shares, real estate, and cash margins totaling SAR 10,522 million and SAR 8,375 million against the above stage 2 and stage 3 exposures, respectively.

The following table provides a reconciliation from the opening to the closing balance of the allowance for credit losses for the loans and advances for the six month period ended June 30, 2018.

	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	294,950	124,378	1,298,754	1,718,082
Changes in exposures and re-measurement	18,818	45,761	(205,719)	(141,140)
Transfers from Stage 1 to Stage 2,3	(787)	6,724	6,261	12,198
Transfers from Stage 2 to Stage 3	-	(55,591)	273,848	218,257
Write-offs	-	-	(126,575)	(126,575)
Balances as of June 30, 2018	312,981	121,272	1,246,569	1,680,822

11. Investments in associates

Investments in associates as of June 30, 2018, December 31, 2017 and June 30, 2017 include the Bank's ownership interest in American Express Saudi Arabia (AMEX) of 50%, in Saudi Orix Leasing Company (ORIX) of 38%, and in Amlak International for Finance and Real Estate Development Co. (AMLAK) of 32%. The movement of investments in associates for the six-month periods ended June 30, 2018 and 2017, and for the year ended December 31, 2017, is summarized as follows:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Balance at the beginning of the period / year	1,019,961	1,000,337	1,000,337
Effect of the adoption of IFRS 9 on January 1, 2018	(26,621)	-	-
Share in earnings	57,009	131,851	60,345
Dividends	(108,272)	(98,815)	(32,200)
Share of other comprehensive loss	(567)	(1,412)	(406)
Write off	-	(12,000)	-
Balance at the end of the period / year	941,510	1,019,961	1,028,076

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11. Investments in associates – (continued)

The Bank's share in the associates' assets, liabilities, and equity as of June 30, 2018 and 2017, and the income and expense for the six-month periods then ended, is summarized below:

	Jun. 30, 2018			Jun. 30, 2017		
	AMEX	ORIX	AMLAK	AMEX	ORIX	AMLAK
Total assets	397,639	478,450	1,009,372	474,368	546,016	1,083,599
Total liabilities	225,723	165,529	651,053	239,083	228,799	701,646
Total equity	171,916	312,921	358,319	235,285	317,217	381,953
Total income	93,585	22,367	27,560	95,729	30,768	24,864
Total expenses	60,850	15,640	12,091	57,080	23,381	10,708

The head office of each associate company is located in Riyadh in the Kingdom of Saudi Arabia, with all operations conducted entirely in the Kingdom of Saudi Arabia.

One of the associate companies above has a potential additional Zakat liability as of December 31, 2017. If the method of the Zakat assessment by the General Authority for Zakat and Tax is upheld through all levels of the appeal process, the Group has agreed with the associate company that it is unconditionally liable in case a liability materializes, for its share amounting to approximately SAR 97.6 million as of December 31, 2017 (2016: SAR 63.6 million).

12. Other assets, net and other liabilities

Other assets, net are summarized as follows:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Property, equipment, and intangibles costs pending completion	59,572	122,769	126,549
Customer and other receivables	27,043	67,442	130,908
Prepaid expenses	56,699	92,601	70,350
All other assets	103,813	23,871	89,404
Total other assets	247,127	306,683	417,211
Less allowance for credit losses	(587)	-	-
Other assets, net	246,540	306,683	417,211

The movement of the allowance for credit losses is summarized as follows:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Balances at the beginning of the year/period	-	-	-
Effect of the adoption of IFRS 9 on January 1, 2018	277	-	-
Provision for credit losses	310	-	-
Balances at the end of the year/period	587	-	-

12. Other assets, net and other liabilities – (continued)

Other liabilities are summarized as follows:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Accrued salaries and employee related benefits	309,134	362,188	309,551
Allowance for credit losses for commitments and financial guarantee contracts	202,048	-	-
Accrued expenses and other reserves	162,926	122,841	105,352
Deferred fee income	15,984	17,934	5,973
Customer related liabilities	150,565	210,155	227,671
Accrued Zakat and Income Tax	55,387	80,081	60,659
All other liabilities	42,352	37,101	118,127
Total	938,396	830,300	827,333

The movement of the allowance for credit losses for commitments and financial guarantee contracts is as follows (SAR'000):

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Balances at the beginning of the year/period	-	-	-
Effect of the adoption of IFRS 9 on January 1, 2018	138,794	-	-
Provided during the period	63,254	-	-
Balances at the end of the year/period	202,048	-	-

The following table provides a reconciliation from the opening to the closing balance of the allowance for credit losses for financial guarantee contracts for the six month period ended June 30, 2018.

	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	98,681	14,676	25,437	138,794
Changes in exposures and re-measurement	9,921	10,168	(5,726)	14,363
Transfers from Stage 1 to Stage 2,3	(3,417)	12,152	13,547	22,282
Transfers from Stage 2 to Stage 3	-	(12,864)	39,473	26,609
Balances as of June 30, 2018	105,185	24,132	72,731	202,048

13. Customers' deposits

Customers' deposits are comprised of the following:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Time deposits	39,195,832	39,308,674	38,062,101
Savings deposits	3,755,442	2,174,702	3,180,866
Total special commission bearing deposits	42,951,274	41,483,376	41,242,967
Demand deposits	27,295,009	24,585,587	24,324,605
Other deposits	1,054,468	873,657	988,988
Customers' deposits	71,300,751	66,942,620	66,556,560

14. Term loans

On June 24, 2012, the Bank entered into a five-year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was due and repaid on September 5, 2017.

On June 19, 2016, the Bank entered into a five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on June 19, 2021. On September 26, 2017, the Bank entered into another five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized on October 4, 2017 and is repayable on September 26, 2022.

The term loans bear commission at market based variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. The Bank also has not had any defaults of principal or commission on the term loans.

15. Subordinated debt

On June 5, 2014 the Bank concluded the issuance of a SAR 2.0 billion subordinated debt issue through a private placement of a Shariah compliant Tier II Sukuk in the Kingdom of Saudi Arabia.

The Sukuk carries a half yearly profit equal to six month SIBOR plus 1.45%. The Sukuk has a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five year period, subject to certain regulatory approvals. The Bank has not had any defaults of principal or commission on the subordinated debt.

16. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period/year, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are not indicative of market risk nor of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives.

	Jun. 30, 2018 (Unaudited)			Dec. 31, 2017 (Audited)			Jun. 30, 2017 (Unaudited)		
	Fair value		Notional amount	Fair value		Notional amount	Fair value		Notional amount
	Positive	Negative		Positive	Negative		Positive	Negative	
Held for trading:									
Forward foreign exchange contracts	45,284	27,243	4,371,296	36,689	25,403	6,114,481	67,218	42,556	6,905,808
Foreign exchange options	440	440	1,123,230	12,407	12,407	1,484,679	10,947	10,967	1,253,860
Commission rate swaps	343,310	153,526	9,778,338	154,306	56,431	12,270,252	206,037	212,121	12,433,329
Caps and Floors:									
Commission rate options	153,678	153,678	5,596,140	-	-	-	-	-	-
Held as fair value hedges:									
Commission rate swaps	134,930	60,305	9,829,536	30,347	22,414	7,617,063	188,294	174,085	6,881,617
Associated company put option	410,421	-	-	435,421	-	-	454,421	-	-
Totals	1,088,063	395,192	30,698,540	669,170	116,655	27,486,475	926,917	439,729	27,474,614

16. Derivatives – (continued)

The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivatives Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Bank are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Bank to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favor of the Bank or the counterparty.

For commission rate swaps entered into with European counterparties, the Bank and the European counterparty both comply with the European Market Infrastructure Regulation (EMIR). EMIR is a body of European legislation for the central clearing and regulation of Over the Counter (OTC) derivatives. The regulation includes requirements for reporting of derivatives contracts and implementation of risk management standards, and establishes common rules for central counterparties and trade repositories. Accordingly, all such standardized OTC derivatives contracts are traded on exchanges and cleared through a Central Counter Party (CCP) through netting arrangements and exchanges of cash to reduce counter party credit and liquidity risk.

As of June 30, 2018, the CSA and EMIR net cash collateral amounts held by the Bank totaled SAR 80.5 million (June 30, 2017: SAR 78.6 million held by counterparties). As of December 31, 2017, the CSA and EMIR net cash collateral held by counterparties totaled SAR 5.7 million.

The positive and negative fair values of derivatives including CSA and EMIR cash margins have been netted/offset when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the assets and settle the liability simultaneously.

The associated company put option included in the table above represents the estimated fair value of an option arising from an existing master agreement entered into by the Bank relating to an associated company. The terms of the agreement give the Bank a put option that is exercizable for the remaining term of the agreement. The put option grants the Bank the right to receive a payment in exchange for its shares one year after the option is exercized, based on pre-determined formulas included in the agreement.

17. Commitments, contingencies, and financial guarantee contracts

The Group's credit-related commitments and contingencies are as follows (SAR'000):

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Letters of credit	2,119,143	1,845,674	1,794,012
Letters of guarantee	8,233,141	8,395,752	8,275,890
Acceptances	697,918	732,318	470,501
Total financial guarantee contracts	11,050,202	10,973,744	10,540,403
Irrevocable commitments to extend credit	398,262	380,723	421,770
Credit-related commitments and contingencies	11,448,464	11,354,467	10,962,173

The movement of the allowance for credit losses for financial guarantee contracts is summarized in note 12.

17. Commitments, contingencies, and financial guarantee contracts – (continued)

The following table sets out information about the credit quality of financial guarantee contracts as of June 30, 2018.

	Stage1 12 month ECL	Stage2 Life time ECL not credit impaired	Stage3 Life time ECL credit impaired	Total
Grades 1-6	10,084,181	533,515	432,506	11,050,202

The Group is subject to legal proceedings in the ordinary course of business. No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome based on professional advice.

18. Operating segments

Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance. Performance is measured based on segment profit, as management believes that this indicator is the most relevant in evaluating the results of certain segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by management. The revenue from external parties reported to the Board is measured in a manner consistent with that in the interim consolidated income statement. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in the Kingdom of Saudi Arabia.

There has been no change to the measurement basis for the segment profit or loss. The segment assets, liabilities, and income and expense for June 30, 2017 has been reclassified to conform to changes in the basis of segmentation made during 2018. The Group's reportable segments are as follows:

Retail banking. Loans, deposits, and other credit products for individuals and small to medium-sized businesses.

Corporate banking. Loans, deposits and other credit products for corporate and institutional customers.

Treasury and Investments. Money market, investments and treasury services, and investments in associates and related activities.

Asset management and brokerage. Dealing, managing, advising and custody of securities services.

Other. Support functions, special credit, and other management and control units.

Commission is charged to operating segments based on Funds Transfer Price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits (FTP net transfers). All other segment income is from external customers.

18. Operating segments – (continued)

The segment information provided to the Bank's Board of Directors for the reportable segments for the Group's total assets and liabilities as of June 30, 2018 and 2017, and its total operating income, expenses, and net income for the six-month periods then ended, are as follows:

	June 30, 2018 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	23,617,373	35,916,856	36,472,436	428,080	5,518,284	101,953,029
Total liabilities	52,014,634	10,590,266	22,895,439	57,334	1,883,503	87,441,176
Net special commission income	168,272	764,464	129,912	10,874	(1,148)	1,072,374
FTP net transfers	329,790	(323,955)	-	-	(5,835)	-
Net FTP contribution	498,062	440,509	129,912	10,874	(6,983)	1,072,374
Fee income (loss) from banking services, net	84,119	155,582	98,217	35,067	(144,322)	228,663
Other operating income (loss)	32,357	24,465	54,291	2,081	(56,823)	56,371
Total operating income	614,538	620,556	282,420	48,022	(208,128)	1,357,408
Direct operating expenses	193,730	35,483	15,318	34,525	-	279,056
Indirect operating expenses	151,443	56,745	51,633	-	-	259,821
Provisions for credit losses	36,124	116,445	(126)	310	-	152,753
Total operating expenses	381,297	208,673	66,825	34,835	-	691,630
Income (loss) from operating activities	233,241	411,883	215,595	13,187	(208,128)	665,778
Share in earnings of associates	-	-	57,009	-	-	57,009
Net income for the period	233,241	411,883	272,604	13,187	(208,128)	722,787
Property, equipment, and intangibles additions	83,473	193	35	128	29,025	112,854
Depreciation and amortization	22,171	533	82	1,293	25,664	49,743

	Jun 30, 2017 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	29,060,920	36,231,035	29,718,341	374,306	1,491,516	96,876,118
Total liabilities	47,884,325	6,948,181	27,214,142	18,668	984,698	83,050,014
Net special commission income	189,168	770,780	(35,740)	7,520	17,728	949,456
FTP net transfers	265,071	(397,275)	142,718	-	(10,514)	-
Net FTP contribution	454,239	373,505	106,978	7,520	7,214	949,456
Fee income from banking services, net	52,277	155,720	47,832	37,485	(73,837)	219,477
Other operating income (loss)	31,114	20,248	102,483	(130)	(41,847)	111,868
Total operating income	537,630	549,473	257,293	44,875	(108,470)	1,280,801
Direct operating expenses	184,019	33,326	15,451	40,072	-	272,868
Indirect operating expenses	122,417	81,287	40,984	-	-	244,688
Provisions for credit losses	50,001	68,999	4,000	-	-	123,000
Total operating expenses	356,437	183,612	60,435	40,072	-	640,556
Income (loss) from operating activities	181,193	365,861	196,858	4,803	(108,470)	640,245
Share in earnings of associates	-	-	60,345	-	-	60,345
Net income for the period	181,193	365,861	257,203	4,803	(108,470)	700,590
Property, equipment, and intangibles additions	307	-	-	423	17,233	17,963
Depreciation and amortization	23,249	624	90	1,939	20,251	46,153

19. Fair values of financial instruments

The Group measures certain financial instruments at fair value at each interim consolidated statement of financial position date.

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

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

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

Level 1. Quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date (i.e., without modification or proxy);

Level 2. Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3. Valuation techniques for which any significant input is not based on observable market data.

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

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted available for sale financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External valuers are involved from time to time in the valuation of certain assets. Involvement of external valuers is decided upon annually. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained.

At each financial reporting date, the Group analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

19. Fair values of financial instruments – (continued)

The following table summarizes the fair values of financial assets and financial liabilities by level of fair value hierarchy for financial instruments carried at fair value. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

June 30, 2018 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	677,642	410,421	1,088,063
Investments at FVOCI	14,568,651	7,714,316	472,289	22,755,256
Investments at FVTPL	206,681	-	44,712	251,393
Total	14,775,332	8,391,958	927,422	24,094,712
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	395,192	-	395,192
Total	-	395,192	-	395,192

December 31, 2017 (Audited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments	-	233,749	435,421	669,170
Available for sale investments	13,821,026	7,379,684	513,266	21,713,976
Total	13,821,026	7,613,433	948,687	22,383,146
Financial liabilities carried at fair value:				
Derivative financial instruments	-	116,655	-	116,655
Total	-	116,655	-	116,655

June 30, 2017 (Unaudited)	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments	-	472,496	454,421	926,917
Available for sale financial investments	13,507,315	7,598,296	517,761	21,623,372
Total	13,507,315	8,070,792	972,182	22,550,289
Financial liabilities carried at fair value:				
Derivative financial instruments	-	439,729	-	439,729
Total	-	439,729	-	439,729

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

19. Fair values of financial instruments – (continued)

The total amount of the changes in fair value recognized in the June 30, 2018 interim consolidated income statement, which was estimated using valuation models, is a loss of SAR 24.9 million (2017: SAR 19.1 million gain).

Level 2 investments include debt securities which are comprised of Saudi corporate and bank securities, and Saudi Arabian Government securities. These securities are generally unquoted. In the absence of a quoted price in an active market, these securities are valued using observable inputs such as yield information for similar instruments or last executed transaction prices in securities of the same issuer or based on indicative market quotes. Adjustments are also considered as part of the valuations when necessary to account for the different features of the instruments including difference in tenors. Because the significant inputs for these investments are observable, the Bank categorizes these investments within Level 2.

Level 2 derivative financial instruments include various derivatives contracts including forward foreign exchange contracts, foreign exchange options, currency swaps, commission rate options, and commission rate swaps. These derivatives are valued using widely recognized valuation models. The most frequently applied valuation techniques include the use of forward pricing standard models using present value calculations and well-recognized Black - Scholes option pricing models. These models incorporate various market observable inputs including foreign exchange rates, forward rates, and yield curves, and are therefore included within Level 2.

Level 3 investments include Gulf Cooperation Council Government securities, and also investments in hedge funds, private equity funds, and asset backed securities. These securities are generally not quoted in an active market, and therefore are valued using indicative market quotes from an issuer / counter-party or valued at cost in the absence of any such alternative reliable indicative estimate.

Level 3 derivative financial instruments include the embedded derivative put option arising from an existing master agreement entered into by the Bank relating to its investment in an associated company (see note 11). For purposes of determining the fair value of the put option, the Bank uses a well-recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. These other inputs may require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

Should the net effect of significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 101.3 million as of June 30, 2018 (June 30, 2017: SAR 107.7 million and December 31, 2017: SAR 141.2 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 49.0 million as of June 30, 2018 (June 30, 2017: SAR 54.7 million and December 31, 2017: SAR 53.9 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercize of the option, and could increase or decrease by approximately SAR 30.5 million as of June 30, 2018 (June 30, 2017: SAR 27.5 million and December 31, 2017: SAR 30.5 million) due to estimating the fair value of the underlying investment.

In all respects, the Bank's significant estimates are based on experience and judgement relevant to each input, and in all cases, due care is taken to ensure that the inputs are conservative to ensure that the estimation of fair value is reasonable in the circumstances. However, any amounts which may be realized in the future may differ from the Bank's estimates of fair value.

19. Fair values of financial instruments – (continued)

The following table summarizes the movement of the Level 3 fair values for the six-month periods ended June 30, 2018 and 2017, and for the year ended December 31, 2017.

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Fair values at the beginning of the period/year	948,687	964,470	964,470
Net change in fair value	(19,688)	896	19,257
Investments purchased	-	920	-
Investments sold	(1,577)	(17,599)	(11,545)
Fair values at the end of the period/year	927,422	948,687	972,182

The following table summarizes the estimated fair values of financial assets and financial liabilities as of June 30, 2018, and 2017 and December 31, 2017 that are not carried at fair value in the interim condensed consolidated financial statements, along with the comparative carrying amounts for each.

June 30, 2018 (Unaudited)	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	5,865,624	5,865,624
Loans and advances, net	59,330,509	60,950,659
Total	65,196,133	66,816,283
Financial liabilities:		
Due to banks and other financial institutions	10,793,140	10,793,140
Customer deposits	71,300,751	69,836,501
Term loans, net	2,009,436	2,009,436
Subordinated debt, net	2,004,261	2,004,261
Total	86,107,588	84,643,338
December 31, 2017 (Audited)		
Financial assets:		
Due from banks and other financial institutions	3,513,073	3,513,073
Loans and advances, net	59,588,284	61,454,199
Total	63,101,357	64,967,272
Financial liabilities:		
Due to banks and other financial institutions	7,609,686	7,609,686
Customer deposits	66,942,620	65,964,590
Term loans, net	2,014,823	2,014,823
Subordinated debt, net	2,003,068	2,003,068
Total	78,570,197	77,592,167

19. Fair values of financial instruments – (continued)

	Carrying values	Estimated fair values
June 30, 2017 (Unaudited)		
Financial assets:		
Due from banks and other financial institutions	1,707,537	1,707,537
Loans and advances, net	61,625,781	63,934,519
Total	63,333,318	65,642,056
Financial liabilities:		
Due to banks and other financial institutions	11,218,511	11,218,511
Customer deposits	65,556,560	65,620,846
Term loans, net	2,005,502	2,005,502
Subordinated debt, net	2,002,379	2,002,379
Total	80,782,952	80,847,238

The estimated fair values of loans and advances, net are calculated using market based discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual loan portfolio. The estimated fair values of customer deposits are calculated using market based discounted cash flow models of individual deposit classes using the weighted average estimated maturities of each individual deposit class. These fair value estimates are considered as level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the interim condensed consolidated financial statements at fair value are not significantly different from the carrying values. The fair values of term loans, subordinated debt, due from banks and other financial institutions and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the interim condensed consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contractual rates, and because of the short duration of due from banks and other financial institutions, and due to banks and other financial institutions.

20. Basic and diluted earnings per share

Basic and diluted earnings per share for the six-month period ended June 30, 2018 and 2017 are calculated by dividing net income for the period by 750 million shares, after giving effect to the bonus shares issued on April 17, 2017.

21. Dividends

In 2018, the Board of Directors proposed a cash dividend of SAR 450 million equal to SAR 0.60 per share, net of Zakat to be withheld from the Saudi shareholders. The proposed cash dividend was approved by the Bank's shareholders in an extraordinary general assembly meeting held on 8 Shaban, 1439H (corresponding to April 24, 2018). The net dividends were paid to the Bank's shareholders thereafter.

In 2016, the Board of Directors proposed a cash dividend of SAR 350 million equal to SAR 0.50 per share, net of Zakat to be withheld from the Saudi shareholders. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each fourteen shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on 20 Rajab, 1438 H (corresponding to April 17, 2017). The net dividends were paid and the bonus shares were issued to the Bank's shareholders thereafter.

22. Capital adequacy

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

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

SAMA through its circular number 391000029731 which relates to the interim approach and transitional arrangements for the Bank's Tier 1 Capital calculations relating to IFRS 9, provides that the effect of adopting IFRS 9 on January 1, 2018 may be transitioned over five years.

The following table summarises the Bank's Pillar I Risk Weighted Assets (RWA), Tier I and Tier II Capital, and corresponding Capital Adequacy Ratio percentages.

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Credit Risk RWA	77,133,971	75,882,891	77,024,178
Operational Risk RWA	4,605,140	4,605,140	4,294,667
Market Risk RWA	1,176,187	1,897,923	447,433
Total Pillar- I RWA	82,915,298	82,385,954	81,766,278
Tier I Capital	15,151,603	14,260,772	13,807,809
Tier II Capital	2,514,366	2,526,993	2,608,579
Total Tier I plus Tier II Capital	17,665,969	16,787,765	16,416,388
Capital Adequacy Ratios:			
Tier I Ratio	18.27%	17.31%	16.89%
Tier I plus Tier II Ratio	21.31%	20.38%	20.08%

Capital adequacy and the use of Regulatory Capital are regularly monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of Regulatory Capital and maintain a ratio of total Regulatory Capital to Risk Weighted Assets at or above the requirement of 9.25%, which includes additional buffers as required by the Basel Committee on Banking Supervision.

The following additional disclosures are required under the Basel III framework.

- Pillar III, Qualitative disclosures (Annually);
- Pillar III, Quantitative disclosures (Semi-annually);
- Capital Structure (Quarterly);
- Liquidity Coverage Ratio (Quarterly); and
- Leverage Ratio (Quarterly).

These disclosures are made available to the public on the Bank's website within the prescribed time frames as required by SAMA.

23. Related party disclosures

In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia. This update specifies the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

23. Related party disclosures – (continued)

The Bank's related party identification and disclosure of transactions policy complies with the guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These guidelines include the following definitions of related parties:

- Management of the Bank and/or members of their immediate family;
- Principal shareholders of the Bank and/or members of their immediate family;
- Affiliates of the Bank and entities for which the investment is accounted for using the equity method of accounting;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, and members of the Bank management that require a no objection approval from SAMA.

Immediate family members include parents, spouses, and offspring and whom either a principal shareholder or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank. The balances as of June 30, 2018 and 2017 and December 31, 2017, resulting from such transactions included in the interim condensed consolidated financial statements are as follows:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Management of the Bank and/or members of their immediate family:			
Loans and advances	79,713	88,334	81,198
Customer deposits	201,819	227,848	209,195
Tier 1 Sukuk	2,000	2,000	2,000
Commitments and contingencies	3,568	1,880	1,862
Principal shareholders of the Bank and/or members of their immediate family:			
Due from banks and other financial institutions	23,557	12,241	32,025
Loans and advances	-	126,214	558,477
Customer deposits	5,956,289	10,416,049	9,684,411
Subordinated debt	700,000	700,000	700,000
Commitments and contingencies	40,121	372,991	2,701,505

23. Related party disclosures – (continued)

	Jun 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun 30, 2017 (Unaudited)
Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting:			
Loans and advances	493,923	596,117	646,556
Customer deposits	73,387	104,094	148,118
Commitments and contingencies	101,408	106,317	781,984
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:			
Customer deposits and other liabilities	147,629	152,572	107,753

Income and expense for the six-month periods ended June 30, 2018 and 2017, pertaining to transactions with related parties included in the interim condensed consolidated financial statements are as follows:

	Jun. 30, 2018 (Unaudited)	Jun. 30, 2017 (Unaudited)
Management of the Bank and/or members of their immediate family:		
Special commission income	48	1,645
Special commission expense	28	19
Fee income from banking services	2	5
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission income	-	1
Special commission expense	12,914	14,289
Rent and premises-related expenses (Building rental)	1,934	1,913
Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting:		
Special commission income	7,207	5,657
Special commission expense	58	1
Fee income from banking services	2,788	2,871
Board of Directors and other Board Committee member remuneration	3,455	2,978

24. Tier I Sukuk

The Bank completed the establishment of a Shari'a compliant Tier 1 Sukuk Program (the Program) in 2016. The Program was approved by the Bank's regulatory authorities and shareholders. The Bank has issued the following Tier 1 Sukuk securities under the program on the dates indicated:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
November 16, 2016	500,000	500,000	500,000
June 6, 2017	285,000	285,000	285,000
March 21, 2018	1,000,000	-	-
Total	1,785,000	785,000	785,000

The Tier 1 Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Bank classified under equity. However, the Bank has the exclusive right to redeem or call the Tier 1 Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Program.

The applicable profit rate on the Tier 1 Sukuk is payable semi-annually in arrears on each periodic distribution date, except upon the occurrence of a non-payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such a non-payment event or non-payment election are not considered to be an event of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

25. Shares held for employee options, net

A summary of the movement in shares held for employee options, net for the six-month periods ended June 30, 2018 and 2017, and for the year ended December 31, 2017 is as follows:

	Jun. 30, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Jun. 30, 2017 (Unaudited)
Balances at the beginning of the period/year	(58,269)	(62,884)	(62,884)
Shares acquired, net	3,058	(17,574)	(17,574)
Share based provisions	3,600	9,948	8,166
Share vesting and granting, net of employee contributions	3,947	12,241	6,392
Net movement in shares held for employee options	10,605	4,615	(3,016)
Balances at the end of the period/year	(47,664)	(58,269)	(65,900)

26. Zakat and Income Tax

A summary of the Bank's share capital and percentages of ownership follows.

	Jun. 30, 2018		Dec. 31, 2017		Jun. 30, 2017	
	SAR'000	%	SAR'000	%	SAR'000	%
Saudi shareholders	6,750,000	90.0	6,750,000	90.0	6,750,000	90.0
Foreign shareholders:						
J.P. Morgan International Finance Limited	562,500	7.5	562,500	7.5	562,500	7.5
Mizuho Corporate Bank Limited	187,500	2.5	187,500	2.5	187,500	2.5
Total	7,500,000	100.0	7,500,000	100.0	7,500,000	100.0

As of June 30, 2018, the authorized, issued and fully paid-in share capital of the Bank consists of 750 million shares of SAR 10 each. On April 17, 2017, 50 million bonus shares were issued by the Bank increasing the issued number of shares outstanding from 700 million shares to the current 750 million shares.

The Bank's Zakat and Income Tax calculations and corresponding accruals and payments of Zakat and Income Tax are based on the above ownership percentages in accordance with the relevant provisions of the Saudi Arabian Zakat and Income Tax regulations.

The Bank has received final assessments for additional Zakat, Income tax, and withholding tax totalling approximately SAR 277 million relating to the Bank's 2003 to 2009 Zakat, Income tax, and withholding tax filings. Also refer to note 11 to these consolidated financial statements for pending Zakat assessments related to an associate company. The Bank has also received partial assessments for additional Zakat totalling approximately SAR 383 million relating to its 2010, 2011 and 2013 Zakat filings.

These final and partial assessments include approximately SAR 573 million in Zakat assessments which are primarily due to the disallowance of deductions for certain long-term investments from the Zakat base of the Bank.

The Bank, in consultation with its professional Tax and Zakat advisors, has filed appeals for the above final and partial assessments with the General Authority for Zakat and Tax, and while management is confident of a favorable outcome on the basis of the appeals filed, it is awaiting responses and final decisions from the appeal and other available processes. Accordingly, no provisions for these amounts have been made in the Bank's consolidated financial statements as of December 31, 2017.

Further assessments, if any, for the years 2012, 2014, 2015, 2016, and 2017 are yet to be raised by the General Authority for Zakat and Tax. However, if the deductions for certain long-term investments from the Zakat base of the Bank are disallowed for these years, in line with the assessments already made, it would result in a significant additional Zakat exposure. This remains an industry wide issue and disclosure of such amounts might affect the Bank's position in this matter.

27. Prospective changes in the International Financial Reporting Framework

IFRS 16 – "Leases" has been issued but not yet adopted by the Group, as the effective date of adoption is January 1, 2019. IFRS 16 sets out new lease accounting requirements for lessees and lessors. The Group is currently assessing the impact of adopting IFRS 16.

28. Share Purchase Agreement

On June 14, 2018, The Bank entered into a Share Purchase Agreement (the Agreement) with J.P. Morgan International Finance Limited (JP Morgan), to purchase 56,245,350 shares of the Bank owned by JP Morgan for SAR 13.50 per share equal to SAR 759.3 million. The share capital of the Bank will not be reduced as a result of this Agreement. The shares acquired by the Bank will be held as treasury shares reducing total shareholders' equity.

The Agreement is conditional on the finalization of certain conditions included in the Agreement particularly relating to obtaining all required regulatory approvals. The Agreement provides that the closing of the transaction shall take place by September 30, 2018 or by such other date to which the Bank and JP Morgan agree.

29. Comparative figures

Certain prior period figures have been reclassified/adjusted to conform to the current period presentation. These reclassifications/adjustments do not affect the Bank's net income.