BANK ALBILAD
(A Saudi Joint Stock Company)

Consolidated Financial Statements
For the year ended December 31, 2018

KPMG Al Fozan & Partners
Certified Public Accountants

Independent auditors' report on the audit of the consolidated financial statements to the shareholders of Bank Albilad (A Saudi Joint Stock Company)

Opinion

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

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

Basis for opinion

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

Key audit matters

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

Independent auditors' report on the audit of the consolidated financial statements to the shareholders of Bank Albilad (A Saudi Joint Stock Company)

Key audit matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Impairment of financing
As at 31 December 2018, the gross financing of the Group amounuted to SAR 52.3 billion against which an impairment allowance of SAR 1.7 billion was maintained.

During the year the Group has adopted IFRS 9 – "Financial Instruments" which introduced a forward looking, expected credit loss ("ECL") impairment model. On adoption, the Group has applied the requirement of IFRS 9 retrospectively without restating the comparatives. The adoption of IFRS 9 resulted in transition adjustment to the retained earnings as at 1 January 2018 of SAR 62.8 million. The impact of transition is explained in note 3(A) to the consolidated financial statements.

We considered this as a key audit matter as the determination of the ECL involves signficant management judgment and this has a material impact on the consolidated financial statements of the Group. The key areas of judgment include:

1. Categorisation of financing in Stage 1, 2 and 3 based on the identification of:
(a) exposures with significant deterioration in credit quality since their origination; and
(b) individually impaired / defaulted exposures.

2. Assumptions used in the ECL model such as financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors.

3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the ECL model.

Refer to the significant accounting policies note [3(a)] to the consolidated financial statements for the adopiton of IFRS 9 and significant accounting policy relating to the impairment of financial assets, note [2(d)(i)] which contains the disclosure of critical accounting judgment, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note [7] which contains the disclosure of impairment against financing and note [28(i)(b)] for details of credit quality analysis and key assumptions and factors considered in determination of ECL.

</td><td>

We have obtained an understanding of management's assessment of impairment of financing including the IFRS 9 implementation process, the Group's internal rating model, the Group's impairment allowance policy and the ECL modelling methodology.

We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9.

We assessed the design and implementation, and tested the operating effectiveness of controls over:
- the modelling process, including governance over monitoring of the models and approval of key assumptions;
- the classification of borrowers in various stages and timely identification of significant increase in credit risk ("SICR") and defaulted or individually impaired exposures; and
- integrity of data input into the ECL model.

We assessed the Group's criteria for determination of significant increase in credit risk and identification of impaired / default exposures and their classification into various stages.

For a sample of customers, we assessed:
- the internal ratings determined by the management based on the Group's internal rating model and ensured that these ratings were in line with the ratings used in the ECL model;
- the staging as identified by management; and
- managements' computations for ECL.

We assessed the underlying assumptions including the forward looking assumptions used by the Group in ECL calculations.

Where management overlays were used, we assessed those overlays and the governance process around such overlays.

We checked the completeness of data underlying the ECL calculation as of 31 December 2018.

Where relevant, we involved specialists to assist us in review of model calculations and data integrity.

As the Group has used the modified restrospective approach for the adoption of IFRS 9, we performed all the above mentioned procedures to evaluate management's computation of ECL adjustment to the Group's equity as at 1 January 2018 (as a result of adoption of IFRS 9).

We assessed the disclosures included by management in the consolidated financial statements.

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Independent auditors' report on the audit of the consolidated financial statements to the shareholders of Bank Albilad (A Saudi Joint Stock Company)

Key audit matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Fees from banking services

The Group charges administrative fees upfront to borrowers on financing.

All Such fees are an integral part of generating an involvement with the resulting financial instrument, and therefore, all such fees should be considered in making an adjustment to the effective yield and such adjustment should be recognised within income from financing assets.

However, due to the large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and thresholds for recognition of such fees and classified them within "Fee and Commission Income, net".

We considered this as a key audit matter since the use of management assumptions and judgments could result in material misstaement to the consolidated financial statements due to affecting the timing and recognition of fees.

Refer to the significant accounting policies note [3(F)] to the consolidated financial statements.</td><td>We performed the following audit procedures:

- We assessed the design and implementation and tested the operating effectiveness of key controls over the consistent application of managements' assumptions and thresholds for recognition of fee income.

- We assessed the reasonableness of the assumptions and thresholds used by management for making adjustments to the effective yield of financing and recording such adjustment.

- We obtained management's assessment of the impact of the use of assumptions and thresholds and performed the following:

  - on a sample basis, traced the historical and current year data used by management to the underlying accounting records; and
  - assessed management's estimation of the impact of non-amortisation of fees on 'Fee and commission income, net' and 'income from investing and financing assets'.</td></tr>
</table>

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Independent auditors' report on the audit of the consolidated financial statements to the shareholders of Bank Albilad (A Saudi Joint Stock Company)

Other information included in the Group's 2018 annual report

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

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

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

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

Responsibilities of the Directors and those charged with governance for the consolidated financial statements

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

Independent auditors' report on the audit of the consolidated financial statements to the shareholders of Bank Albilad (A Saudi Joint Stock Company)

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

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

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

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

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

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Independent auditors' report on the audit of the consolidated financial statements to the shareholders of Bank Albilad (A Saudi Joint Stock Company)

Report on other legal and regulatory requirements

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

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1 Jumada Al-Akhirah 1440H
(6 February 2019)

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CERTIFIED PUBLIC ACCOUNTANTS
Lic No. 323/11/25/1
C.R. 4030289002

C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

BANK ALBILAD
(A Saudi Joint Stock Company)

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

	Notes	**2018 SAR' 000**	2017 SAR' 000
ASSETS			
Cash and balances with SAMA	4	**6,438,201**	5,688,931
Due from banks and other financial institutions, net	5	**8,334,284**	7,706,382
Investments, net	6	**6,465,710**	5,140,017
Financing, net	7	**50,593,033**	43,447,429
Property and equipment, net	8	**1,146,848**	875,424
Other assets	9	**658,050**	349,493
Total assets		**73,636,126**	63,207,676
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to SAMA		**-**	2,012,518
Due to banks and other financial institutions	10	**3,100,791**	1,748,937
Customers' deposits	11	**57,175,594**	47,782,959
Sukuk	12	**2,008,587**	2,006,575
Other liabilities	13	**3,518,205**	2,067,894
Total liabilities		**65,803,177**	55,618,883
Equity			
Share capital	14	**6,000,000**	6,000,000
Statutory reserve	15	**-**	866,508
Other reserves	17	**(69,832)**	47,420
Retained earnings		**483,441**	530,805
Proposed cash dividend	16	**-**	240,000
Proposed issuance of bonus shares	14	**1,500,000**	-
Treasury shares		**(90,780)**	(104,575)
Employees' share plan reserve	23	**10,120**	8,635
Total equity		**7,832,949**	7,588,793
Total liabilities and equity		**73,636,126**	63,207,676

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

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

	Notes	**2018 SAR' 000**	2017 SAR' 000
INCOME:			
Income from investing and financing assets	19	**2,704,984**	2,117,189
Return on deposits and financial liabilities	20	**(559,515)**	(378,194)
Income from investing and financing assets, net		**2,145,469**	1,738,995
Fee and commission, net	21	**842,900**	833,901
Exchange income, net		**315,693**	309,909
Dividend income		**22,611**	7,539
Gains on fair value through profit or loss investments, net		**43,838**	-
Gains on available for sale investments, net		**-**	7,820
Other operating income	22	**45,509**	61,414
Total operating income		**3,416,020**	2,959,578
EXPENSES:			
Salaries and employee related expenses	23	**1,052,360**	953,585
Rent and premises related expenses		**248,106**	252,012
Depreciation and amortisation	8	**108,092**	96,519
Other general and administrative expenses		**406,499**	342,670
Impairment charge for credit and other financial assets, net		**490,453**	378,625
Total operating expenses		**2,305,510**	2,023,411
Net income for the year		**1,110,510**	936,167
Attributable to:			
Equity holders of the Bank		**1,110,510**	942,047
Non-controlling interest		**-**	(5,880)
Net income for the year		**1,110,510**	936,167
Basic and diluted earnings per share (attributable to ordinary equity holders of the Bank) (Saudi Riyals)	24	**1.85**	1.56

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

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

	Note	**2018 SAR' 000**	2017 SAR' 000
Net income for the year		**1,110,510**	936,167
Other comprehensive income:			
Items that cannot be reclassified to consolidated statement of income in subsequent periods			
- Net movement in fair value reserve (equity instruments)		**(20,121)**	-
Items that can be reclassified to consolidated statement of income in subsequent periods			
-Debt instrument at fair value through other comprehensive income:			
• Net changes in fair value		**(42,848)**	-
Items that can be reclassified to consolidated statement of income or have been reclassified in the year 2017			
- Available for sale financial assets			
Net changes in fair value		**-**	29,716
Net amount transferred to consolidated statement of income		**-**	(7,820)
Impairment charge on available for sale investments		**-**	244
Total other comprehensive income		**(62,969)**	22,140
Total comprehensive income for the year		**1,047,541**	958,307
Attributable to:			
Equity holders of the Bank		**1,047,541**	964,187
Non-controlling interest		**-**	(5,880)
Total comprehensive income for the year		**1,047,541**	958,307

The accompanying notes 1 to 37 form integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

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

		Attributable to the equity holders of the Bank									
2018 **SAR' 000**	**Notes**	**Share capital**	**Statutory reserve**	**Other reserves**	**Retained earnings**	**Proposed cash dividend**	**Proposal issuance of bonus shares**	**Treasury shares**	**Employees' share plan**	**Total**	**Total equity**
Balance at the beginning of the year - as previously reported		**6,000,000**	**866,508**	**47,420**	**530,805**	**240,000**	**-**	**(104,575)**	**8,635**	**7,588,793**	**7,588,793**
Impact of adoption of new standards at 1 January 2018	3(a)			**(54,283)**	**(26,345)**		**-**			**(80,628)**	**(80,628)**
Restated balance at 1 January 2018		**6,000,000**	**866,508**	**(6,863)**	**504,460**	**240,000**		**(104,575)**	**8,635**	**7,508,165**	**7,508,165**
Changes in the equity for the year											
Net movement in fair value reserve (equity instruments) / realized losses				**(20,121)**	**(220)**					**(20,341)**	**(20,341)**
Net movement in FVOCI reserve for investments				**(42,848)**						**(42,848)**	**(42,848)**
Other comprehensive income				**(62,969)**	**(220)**					**(63,189)**	**(63,189)**
Net income for the year					**1,110,510**					**1,110,510**	**1,110,510**
Total comprehensive income for the year				**(62,969)**	**1,110,290**	**-**	**-**	**-**	**-**	**1,047,321**	**1,047,321**
Treasury shares								**13,795**		**13,795**	**13,795**
Employees' share plan reserve	23								**1,485**	**1,485**	**1,485**
Cash dividend	16				**-**	**(240,000)**				**(240,000)**	**(240,000)**
Proposal issuance of bonus shares	14	**-**	**(1,144,135)**	**-**	**(355,865)**		**1,500,000**			**-**	**-**
Zakat settlement for prior years					**(392,817)**					**(392,817)**	**(392,817)**
Zakat for current period					**(105,000)**					**(105,000)**	**(105,000)**
Transfer to statutory reserve	15		**277,627**		**(277,627)**					**-**	**-**
Balance at end of the year		**6,000,000**	**-**	**(69,832)**	**483,441**	**-**	**1,500,000**	**(90,780)**	**10,120**	**7,832,949**	**7,832,949**

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

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

2017 SAR' 000	Notes	Attributable to the equity holders of the Bank: Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed cash dividend	Treasury shares	Employees' share plan	Total	Non-controlling interest	Total equity
Balance at the beginning of the year - as previously reported		6,000,000	630,997	169,201	285,188	300,000	(113,207)	8,720	7,280,899	39,906	7,320,805
Effect of change in accounting policy	3(a)			(143,921)	(25,000)				(168,921)		(168,921)
Balance at the beginning of the year - as restated		6,000,000	630,997	25,280	260,188	300,000	(113,207)	8,720	7,111,978	39,906	7,151,884
Changes in the equity for the year											
Net changes in fair values of available for sale investments				29,716					29,716		29,716
Net amount transferred to consolidated statement of income on disposal				(7,820)					(7,820)		(7,820)
Impairment charge on available for sale investments				244					244		244
Other comprehensive income				22,140					22,140		22,140
Net income for the year					942,047				942,047	(5,880)	936,167
Total comprehensive income for the year				22,140	942,047			-	964,187	(5,880)	958,307
2016 final cash dividend paid					-	(300,000)			(300,000)		(300,000)
2017 interim cash dividend paid					(180,000)	-			(180,000)		(180,000)
2017 proposed final cash dividend	16				(240,000)	240,000			-		-
Treasury shares							8,632		8,632		8,632
Employees' share plan reserve	23							(85)	(85)		(85)
Zakat for the transferred to other liabilities					(15,919)				(15,919)		(15,919)
Transfer to statutory reserve	15		235,511		(235,511)				-		-
Non-controlling interest removed on de-consolidation		-	-	-	-	-	-	-	-	(34,026)	(34,026)
Balance at end of the year		6,000,000	866,508	47,420	530,805	240,000	(104,575)	8,635	7,588,793	-	7,588,793

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

BANK ALBILAD
(A Saudi Joint Stock Company)

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

	Notes	2018 SAR' 000	2017 SAR' 000
OPERATING ACTIVITIES			
Net income for the year		**1,110,510**	936,167
Adjustments to reconcile net income to net cash from / (used in) operating activities:			
Gains on FVTPL investments, net		**(43,838)**	-
Gains on disposal of non-trading investments, net		**-**	(7,820)
Gains from disposal of property and equipment, net		**(214)**	(1,359)
Depreciation		**108,092**	105,218
Impairment charge for credit and other financial assets, net		**490,453**	378,625
Profit on sukuk		**86,780**	77,662
Employees' share plan		**15,280**	8,547
Operating profit before changes in operating assets and liabilities		**1,767,063**	1,497,040
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**(416,044)**	(323,044)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**(452,790)**	(314,249)
Commodity murabaha with SAMA maturing after ninety days from the date of acquisition		**298,314**	(148,228)
Financing		**(7,694,591)**	(7,647,423)
Other assets		**(308,557)**	(142,248)
Net increase / (decrease) in operating liabilities:			
Due to SAMA		**(2,012,518)**	6,304
Due to banks and other financial institutions		**1,351,854**	752,546
Customers' deposits		**9,392,635**	7,548,244
Other liabilities		**1,253,112**	699,556
Net cash generated from operating activities		**3,178,478**	1,928,498
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments held as FVOCI		**60,193**	-
Purchase of investments held as FVOCI		**(2,364,314)**	-
Proceeds from sales and maturities of investments held as FVTPL		**614,934**	-
Purchase of investments held as FVTPL		**(274,881)**	-
Purchase of non-trading investments		**-**	(2,400,147)
Proceeds from sale of non-trading investments		**-**	519,014
Disposal of a subsidiary		**-**	991,301
Purchase of property and equipment		**(379,582)**	(170,157)
Proceeds from sale of property and equipment		**280**	1,997
Net cash used in investing activities		**(2,343,370)**	(1,057,992)
FINANCING ACTIVITIES			
Distributed Sukuk profit		**(84,768)**	(78,134)
Dividend paid	16	**(240,000)**	(480,000)
Non-controlling interest		**-**	(34,026)
Net cash used in financing activities		**(324,768)**	(592,160)
Net change in cash and cash equivalents		**510,340**	278,346
Cash and cash equivalents at the beginning of the year		**9,064,626**	8,786,280
Cash and cash equivalents at the end of the year	25	**9,574,966**	9,064,626
Supplemental information			
Income received from investing and financing assets		**1,638,432**	1,463,295
Return paid on deposits and financial liabilities		**399,082**	278,027
Total other comprehensive income		**(62,969)**	22,140

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

1. GENERAL

a) Incorporation and operation

Bank AlBilad (the "Bank"), a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, was formed and licensed pursuant to Royal Decree No. M/48 dated 21 Ramadan 1425H (corresponding to November 4, 2004), in accordance with the Counsel of Ministers' resolution No. 258 dated 18 Ramadan 1425H (corresponding to November 1, 2004). The Bank is listed on Tadawul (Saudi Stock Exchange).

The Bank operates under Commercial Registration No. 1010208295 dated 10 Rabi Al Awal 1426H (corresponding to April 19, 2005) and its Head Office is located at the following address:

Bank AlBilad
P.O. Box 140
Riyadh 11411
Kingdom of Saudi Arabia

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, 'Albilad Investment Company' and 'Albilad Real Estate Company' (collectively referred to as "the Group"). Albilad Investment Company and AlBilad Real Estate Company are 100% owned by the Bank. All subsidiaries are incorporated in the Kingdom of Saudi Arabia.

The Group's objective is to provide full range of banking services and conduct, financing and investing activities through various Islamic instruments. The activities of the Bank are conducted in compliance with Islamic Shariah and within the provisions of the Articles of Association and the Banking Control Law. The Bank provides these services through 111 banking branches (2017: 112) and 180 exchange and remittance centers (2017: 179) in the Kingdom of Saudi Arabia.

b) Shariah Authority

The Bank has established a Shariah Authority ("the Authority"). It ascertains that all the Bank's activities are subject to its approval and control.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements for the twelve months ended December 31, 2018 have been prepared;

- in accordance with 'International Financial Reporting Standards (IFRS) as modified by Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax' (relating to the application of International Accounting Standard (IAS) 12 "Income Taxes" and IFRIC 21 - "Levies" in so far as these relate to accounting for Saudi Arabian zakat and income tax); and

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

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement of investments which are classified as fair value through other comprehensive income (FVOCI) and Fair Value through Income Statement (FVTPL).

c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SAR) which is the Bank's functional currency and are rounded off to the nearest thousands.

d) Critical Accounting Judgements, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. Significant areas where management uses estimates, assumptions or exercised judgments and that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities in the next financial year are as follows:

i) Impairment losses on financial assets

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

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

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs

Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs

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

ii) Fair value measurement
iii) Impairment of FVOCI equity and debt investments
iv) Classification of investments at amortised cost
v) Determination of control over investees
vi) Depreciation
vii) Defined benefit plan

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2017 except for the adoption of the following new standards and other amendments to existing standards and a new interpretation mentioned below. Except for adoption of IFRS 9 these amendments and adoption has had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods. The impact and disclosures pertaining to adoption of IFRS 9 has been illustrated in the later part of these financial statements.

a. Adoption of new standards

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

IFRS 15 Revenue from contracts with customers

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

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 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 recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Bank has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at January 1, 2018 in equity. The Bank has carried out the impact assessment as at 1 January 2018 and has made adjustments to opening retained earnings (refer to note 3-a-a iii).

IFRS 9 – Financial instruments

The Bank 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 brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Bank does not have any hedging instruments as at December 31, 2018.

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

- **Classification of financial assets and financial liabilities**

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

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities and the group has no change in the existing policy for financial liabilities.

– **Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model (“ECL”). IFRS 9 requires the Bank to record an allowance for ECLs for all Financing and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. For an explanation of how the Bank applies the impairment requirements of IFRS 9, please refer note to 28.

– **Transition**

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

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

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

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

A. Financial assets and financial liabilities

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

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

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
				SAR in '000'	
Financial assets					
Cash and balances with SAMA		Amortised cost	Amortised cost	5,688,931	5,688,931
Due from banks and other financial institutions		Amortised cost	Amortised cost	7,706,382	7,703,786
Investments, net (Sukuk and Equity)		Available for sale	FVOCI	2,541,158	2,537,328
Investment, net (Commodity Murabaha with SAMA)		Amortised cost	Amortised cost	1,892,801	1,890,704
Investment, net (Mutual fund)		Available for sale	FVTPL	706,058	706,058
Financing, net		Amortised cost	Amortised cost	43,447,429	43,384,623
Other assets		Amortised cost	Amortised cost	349,493	349,493
Total financial assets				**62,332,252**	**62,260,923**
Financial liabilities					
Due to SAMA		Amortised cost	Amortised cost	2,012,518	2,012,518
Due to banks and other financial institutions		Amortised cost	Amortised cost	1,748,937	1,748,937
Customers' deposits		Amortised cost	Amortised cost	47,782,959	47,782,959
Sukuk		Amortised cost	Amortised cost	2,006,575	2,006,575
Other liabilities		Amortised cost	Amortised cost	2,067,894	2,067,894
Total financial liabilities				**55,618,883**	**55,618,883**

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

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

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 January 2018
	SAR in '000'			
Financial assets				
<u>Amortized cost</u>				
Cash and balances with SAMA:				
Opening balance	5,688,931	-	-	5,688,931
Remeasurement	-	-	-	-
Closing balance	**5,688,931**	**-**	**-**	**5,688,931**
Due from banks and other financial institutions:				
Opening balance	7,706,382	-	-	7,706,382
Remeasurement	-	-	(2,596)	(2,596)
Closing balance	**7,706,382**	**-**	**(2,596)**	**7,703,786**

Financing:				
Opening balance	43,447,429	-	-	43,447,429
Remeasurement	-	-	(62,806)	(62,806)
Closing balance	**43,447,429**	**-**	**(62,806)**	**43,384,623**
Investments:				
Opening balance	1,892,801	-	-	1,892,801
Remeasurement	-		(2,097)	(2,097)
Closing balance	**1,892,801**	**-**	**(2,097)**	**1,890,704**
Other assets:				
Opening balance	349,493	-	-	349,493
Remeasurement	-	-	-	-
Closing balance	**349,493**	**-**	**-**	**349,493**
Total amortized cost	**59,085,036**	**-**	**(67,499)**	**59,017,537**
<u>FVOCI</u>				
Investment:				
Opening balance	3,247,216	-	-	-
Transferred to:	-	-	-	-
FVOCI – equity	-	(290,647)	-	-
FVOCI – debt	-	(2,250,511)	-	-
FVTPL	-	(706,058)	-	-
Amortized cost	-	-	-	-
Closing balance	**3,247,216**	**(3,247,216)**	**-**	**-**
Investment:				
Opening balance	**-**	**-**	**-**	**-**
From available for sale	-	2,541,158	(3,830)	2,537,328
Total FVOCI	-	**2,541,158**	**(3,830)**	**2,537,328**
<u>FVTPL</u>				
Investment:				
Opening balance	-			
From available for sale	-	706,058	-	706,058
Total FVTPL	**-**	**706,058**	**-**	**706,058**
	62,332,252	**-**	**(71,329)**	**62,260,923**

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 January 2018
	SAR in '000'			
Financial liabilities				
At amortized cost				
Due to SAMA	2,012,518	-	-	2,012,518
Due to banks and other financial institutions	1,748,937	-	-	1,748,937
Customers' deposits	47,782,959	-	-	47,782,959
Sukuk	2,006,575	-	-	2,006,575
Other liabilities	2,067,894	-	-	2,067,894
Total amortized cost	**55,618,883**	**-**	**-**	**55,618,883**

iii) Impact on retained earnings and other reserves

	Retained earnings	Other reserves
	SAR in '000'	
Closing balance under IAS 39 (December 31, 2017)	530,805	47,420
Reclassifications under IFRS 9	54,283	(54,283)
Recognition of expected credit losses under IFRS 9 (including lease receivables, financing commitments and financial guarantee contracts. including those measured at FVOCI)	(71,329)	-
Fee impact under IFRS 15	(9,299)	-
Opening balance (January 1, 2018)	**504,460**	**(6,863)**

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

- The closing impairment allowance for financial assets in accordance with IAS 39 and provisions for financing commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at December 31, 2017;

- The opening ECL allowance determined in accordance with IFRS 9 as at January 1, 2018.

	31 December 2017 (IAS 39 / IAS 37)	Reclassification	Remeasurement	1 January 2018 (IFRS 9)
	SAR in '000'			
Financing and receivables (IAS 39)/Financial assets at amortised cost (IFRS-9)				
Due from banks and other financial institutions	90,923	-	2,596	93,519
Financing, net	1,248,951	-	62,806	1,311,757
Total	**1,339,874**	**-**	**65,402**	**1,405,276**

AFS (IAS 39)/Financial assets at amortised cost (IFRS-9)				
Investment, net	-	-	2,097	2,097
Held to maturity (IAS 39)/Financial assets at FVOCI (IFRS-9)				
Investment, net	-	-	3,830	3,830
Total	**1,339,874**	**-**	**71,329**	**1,411,203**

iv) The following table provides carrying value of financial assets and financial liabilities in the statement of financial position.

SAR in '000'	Notes	**31st December 2018**				
		FVTPL	**FVOCI – debt instruments**	**FVOCI – equity investments**	**Amortized cost**	**Total carrying amount**
Financial assets						
Cash and balances with SAMA		-	-	-	6,438,201	**6,438,201**
Due from banks and other financial institutions, net		-	-	-	8,334,284	**8,334,284**
Investments, net		400,083	4,390,851	381,512	1,293,264	**6,465,710**
Financing, net		-	-	-	50,593,033	**50,593,033**
Other assets		-	-	-	658,050	**658,050**
Total financial assets		**400,083**	**4,390,851**	**381,512**	**67,316,832**	**72,489,278**
Financial liabilities						
Due to banks and other financial institutions		-	-	-	3,100,791	**3,100,791**
Customers' deposits		-	-	-	57,175,594	**57,175,594**
Sukuk		-	-	-	2,008,587	**2,008,587**
Other liabilities		-	-	-	3,518,205	**3,518,205**
Total financial liabilities		-	-	-	65,803,177	**65,803,177**

SAR in '000'	Note	**31st December 2017**			
		Held to maturity	**Available for sale**	**Other amortized cost**	**Total carrying amount**
Financial assets					
Cash and balances with SAMA		-	-	5,688,931	**5,688,931**
Due from banks and other financial institutions, net		-	-	7,706,382	**7,706,382**
Investments, net		1,892,801	3,247,216	-	**5,140,017**
Financing, net		-	-	43,447,429	**43,447,429**
Other assets		-	-	349,493	**349,493**
Total financial assets		**1,892,801**	**3,247,216**	**57,192,235**	**62,332,252**
Financial liabilities					
Due to SAMA		-	-	2,012,518	**2,012,518**
Due to banks and other financia institutions		-	-	1,748,937	**1,748,937**
Customers' deposits		-	-	47,782,959	**47,782,959**
Sukuk		-	-	2,006,575	**2,006,575**
Other liabilities		-	-	2,067,894	**2,067,894**
Total financial liabilities		-	-	55,618,883	**55,618,883**

B. Policies applicable from January 1, 2018

1. Classification of financial assets

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

- Fair value through other comprehensive income (FVOCI);
- Amortised cost,or
- Fair value through profit or loss (FVTPL);

Financial Asset at amortised cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as 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 profit on the principal amount outstanding.

Financial Asset at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as 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 profit on the principal amount outstanding.

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

Equity Instruments on initial recognition, for an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument-by-instrument (i.e. share-by-share) basis.

Financial Asset at FVTPL

All other financial assets are classified as measured at FVTPL.

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

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

The classification requirements for financing, debt instruments and equity investment are described as per the following:

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

Assessments whether contractual cash flows are SPPI

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' 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 profit, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

Designation at fair value through profit or loss

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

2. Classification of financial liabilities

(Policy applicable before January 1, 2018)

All customer deposits, due to SAMA, due to banks and other financial institutions, sukuk and other financial liabilities are initially recognized at fair value less transaction costs and subsequently measured at amortized cost.

(Policy applicable after January 1, 2018)

3. Derecognition

a. Financial assets

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

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

On derecognition, any cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is included in the consolidated statement of income for the period.
From January 1, 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities.

b. Financial liabilities

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

4. Modifications of financial assets and financial liabilities

a. Financial assets

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

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

b. Financial liabilities

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

5. Impairment

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

- Financial assets that are measured at amortised cost;
- Debt instruments assets measured at FVOCI;
- Financial guarantee contracts issued; and
- Financing commitments issued.

No impairment loss is recognized on equity investments.

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

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

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

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

Measurement of ECL

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

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

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

- When the obligor is unlikely to pay for its credit obligations in full, without recourse by the bank to the actions such as realizing security (if held) and is also known as unlikeliness to pay events;
- A breach of contract such as a default or past due event;
- The restructuring of financing by the Bank on terms that the Bank would not consider otherwise.

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

- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- Financing commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the financing commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve. Impairment losses are recognised in profit and loss and changes between the amortised cost of the assets and their fair value are recognised in OCI.

Write-off

Financing 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 loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

6. Financial guarantees and financing commitments

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

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

Subsequent to the initial recognition

- From January 1, 2018: the Bank's liability under each guarantee is measured at higher of the amortized amount and the loss allowance.

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

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

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

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

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

7. Rendering of services

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

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

8. Customer Loyalty Program

The Bank offers customer loyalty program (reward points / air miles herein referred to as "reward points"), which allows card members to earn points that can be redeemed for certain Partner outlets. The Bank allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative stand-alone selling price.

The amount of revenue allocated to reward points is deferred and released to the income statement when reward points are redeemed.

The cumulative amount of contract liability related unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

C. Policies Applicable before adoption of IFRS 9

a) Investments

All investments in securities are initially recognized at fair value and except for investments classified at fair value through statement of income (FVSI), include the acquisition costs associated with the investment. Transaction costs if any are not added to fair value measurement at initial recognition of investments classified at FVSI.

Premiums are amortized and discounts are accreted using the effective yield method and are taken to consolidated statement of income.

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

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are recognized at cost.

Following initial recognition, subsequent transfers between the various classes of investments are permissible only if certain conditions are met. The subsequent period-end reporting values for each class of investment are determined on the basis as set out in the following paragraphs.

(i) Held as FVSI

Investments in this category are classified if they are held for trading or designated by management as FVSI on initial recognition. The Group does not have any FVSI financial instruments.

(ii) Available for sale

Available-for-sale investments are those equity, sukuk and mutual funds investments which are neither classified as held to maturity investments, financing nor designated as FVSI, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in profit rates, exchange rates or equity prices.

Investments which are classified as "available-for-sale" are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured and are carried at cost. Unrealized gains or losses arising from changes in fair value are recognized in other comprehensive income until the investment is de-recognized or impaired whereupon any cumulative gain or loss previously recognized in other comprehensive income are reclassified to consolidated statement of income.

Financing and investing income is recognized in the consolidated statement of income on effective yield basis. Dividend income is recognized in the consolidated statement of income when the Group becomes entitled to the dividend. Foreign exchange gains or loss on available for sale debt security investments are recognized in consolidated statement of income.

A security held as available for sale may be reclassified to "other investments held at amortized cost" if it otherwise would have met the definition of "other investments held at amortized cost" and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(iii) Held to maturity

Investments having fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognized at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is derecognized or impaired.

Investments classified as held to maturity cannot ordinarily be sold or reclassified without impacting the Group's ability to use this classification.

However, sales and reclassifications in any of the following circumstances would not impact the Group's ability to use this classification.

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value.
- Sales or reclassifications after the Group has collected substantially all the assets' original principal.
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

(iv) Other investments held at amortized cost

Investment securities with fixed or determinable payments that are not quoted in an active market are classified as "other investments held at amortized cost". Such investments are stated at amortized cost using effective yield basis, less provision for impairment. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized or when it is impaired.

(v) Impairment of financial assets

a) <u>Financing and investments held at amortized cost</u>

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired at the reporting date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future expected cash flows, is recognized for changes in its carrying amounts.

The Group considers evidence of impairment for financing and advances and investments held at amortized cost at both specific asset and collective level.

When a financial asset is uncollectible, it is either written off against the related provision for impairment or directly by a charge to the consolidated statement of income. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the impairment allowance account. The amount of the reversal is recognized in the consolidated statement of income in impairment charge account.

Financing whose terms have been renegotiated are no longer considered to be past due but are treated as new financing. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The financing continue to be subject to an individual or collective impairment assessment, calculated using the financing's original effective yield rate.

Financing are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a revised rate of commission to genuinely distressed borrowers. This results in the asset continuing to be overdue and individually impaired as the renegotiated payments of commission and principal do not recover the original carrying amount of the financing. In other cases, renegotiation lead to a new agreement, this is treated as a new financing.

The Group also considers evidence of impairment at a collective financing assets level. The collective provision is based on following criteria i.e. deterioration in internal grading, external credit ratings allocated to the group of borrowers, the current economic climate in which the borrowers operate and the experience and historical default patterns that are embedded in the components of the credit portfolio.

b) <u>Available for sale investments</u>

In the case of sukuk investment classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

If, in a subsequent period, the fair value of a sukuk investments increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

For equity and mutual funds investments held as available-for-sale, a significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The impairment loss cannot be reversed through consolidated statement of income as long as the asset continues to be recognized i.e. any increase in fair value after impairment can only be recognized in equity. On derecognition, any cumulative gain or loss previously recognized in equity is included in the consolidated statement of income.

(vi) De-recognition of financial instruments

a) Financial Assets

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to receive the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for derecognition.

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

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

b) Financial liabilities

All customer deposits, due to SAMA, due to banks and other financial institutions, sukuks and other financial liabilities are initially recognized at fair value less transaction costs. Subsequently, financial liabilities are measured at amortized cost.

D. Basis of consolidation

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as set forth in note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which the control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank.

Inter-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these 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.

E. Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Bank's and group companies' functional currency.

Transactions in foreign currencies are translated into Saudi Riyals ('SAR') at exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the reporting date.

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

F. Revenue / expenses recognition

- **Income on investing and financing assets, and return on financial liabilities**

  Income on investing and financing assets, and return on financing liabilities is recognized in the consolidated statement of income using the effective yield method on the outstanding balance over the term of the contract.

  The calculation of effective yield takes into account all contractual terms of the financial instruments including all fees (above certain threshold), transaction costs, discounts that are integral part of the effective yield method but does not include the future financing loss. Transactional costs are incremental costs that are directly attributable to acquisition of financing assets and financial liabilities.

- **Fees and commission income**

  Fees and commission income (above certain threshold for fee related to financing) that are integral to the effective yield rate are included in the measurement of the relevant assets.

  Fees and commission income that are not integral part of the effective yield calculation on a financial asset or liability are recognized when the related service is provided as follows:

  - Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.

  - Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.

  - Performance linked fees or fee components are recognized when the performance criteria are fulfilled.

- Financing commitment fees for financing that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective yield on the financing. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognized on a straight-line basis over the commitment period.

- Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the transaction is completed or the service, is received.

- **Exchange income / (loss)**

  Exchange income/ (loss) is recognized as detailed in foreign currencies policy above.

- **Dividend income**

  Dividend income from investment in equities is recognized when the Group's right to receive the dividend is established which is generally when the shareholders approve the dividend.

Fair value measurement

The Group measures financial instruments at fair value at each 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 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 best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Collateral valuation

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

The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, audited financial statements, and other independent sources.

Collateral repossessed

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

In its normal course of business, the Bank does not physically repossess properties or other assets in its consumer portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

G. Zakat and withholding tax

Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations.

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

Withholding tax is withheld from payments made to non-resident vendors for services rendered and goods purchased according to the tax law applicable in Saudi Arabia and are directly paid to the General Authority for Zakat and Tax (GAZT) on a monthly basis.

H. Accounting for leases

Where the Group is the lessee

Leases that do not transfer to the Group substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Group are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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

The Group evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

Where the Group is the lessor

When assets are transferred under Ijara Muntahia Bittamleek, the present value of the lease payments is recognized as a receivable and disclosed under "Financing". The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

I. Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash in hand, balances and murabaha with SAMA excluding statutory deposit, and due from banks and other financial institutions with original maturities of three months or less from the date of acquisition which is subject to insignificant changes in their fair value.

J. Property and equipment

Property and equipment is stated at cost less accumulated depreciation, and impairment, if any. The cost of property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Building	33 years
Leasehold improvements	Over lease period or economic life (10 years), whichever is shorter
Equipment and furniture and motor vehicles	4 to 6 years
Computer hardware and software	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

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

K. Provisions for liabilities and charges

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

L. Defined benefit plans

Bank operates an end of service benefit plan for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit method in accordance with the periodic actuarial valuation.

M. Going concern

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

N. Employees' share plan

The Bank offers its eligible employees an equity-settled share-based payment plan as approved by SAMA. As per the plan, eligible employees of the Bank are offered stocks to be withheld out of their annual bonus payments.

The cost of the plan is measured by reference to the fair value at the date on which the stocks are granted.

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

The Bank, with the approval from SAMA, has entered into an agreement with an independent third-party for custody of the shares under the plan, plus any benefits accrued there-on.

O. Treasury shares

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

These shares are acquired by the Bank with the approval of SAMA, primarily for discharging its obligation under its share-based payment plans.

4. CASH AND BALANCES WITH SAMA

	Notes	**2018 SAR' 000**	2017 SAR' 000
Statutory deposit	**4.1**	**3,151,301**	2,735,257
Cash in hand		**1,702,065**	1,724,325
Other balances	**4.2**	**1,584,835**	1,229,349
Total		**6,438,201**	5,688,931

4.1 In accordance with the Banking Control Law and Regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, saving, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day to day operations and therefore is not part of cash and cash equivalents.

4.2 This includes cash management account with SAMA of SAR 1,510 million (2017: SAR 1,075 million).

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

	2018 SAR' 000	2017 SAR' 000
Demand	**188,592**	157,645
Commodity murabaha - performing	**8,147,578**	7,548,737
Commodity murabaha - non performing	**90,923**	90,923
	8,238,501	7,639,660
less : impairment	**(92,809)**	(90,923)
Total	**8,334,284**	7,706,382

An analysis of changes is loss allowance for Due from banks and other financial institutions is, as follows:

	31st December 2018			
SAR in '000'	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss allowance as at 1 January 2018	**2,590**	**6**	**90,923**	**93,519**
Transfers to 12 month ECL	-	-	-	**-**
Transfers to Life time ECL not credit impaired	-	-	-	**-**
Transfers to Life time ECL credit impaired	-	-	-	**-**
Net charge for the period	(704)	(6)	-	**(710)**
Write-offs	-	-	-	**-**
Loss allowance as at 31 December 2018	**1,886**	**-**	**90,923**	**92,809**

6. INVESTMENTS, NET

a) Investments as at December 31 comprise the following:

		2018				
		Domestic		International		Total
	Note	Quoted SAR' 000	Unquoted SAR' 000	Quoted SAR' 000	Unquoted SAR' 000	SAR' 000
Fair Value Through Other Comprehensive Income (FVOCI)						
Equities		**215,619**	**165,893**	**-**	**-**	**381,512**
Sukuk		**3,874,772**	**253,062**	**14,685**	**248,332**	**4,390,851**
		4,090,391	**418,955**	**14,685**	**248,332**	**4,772,363**
Fair value through profit or loss (FVTPL)						
Mutual funds		**54,497**	**327,501**	**-**	**18,085**	**400,083**
Amortized Cost						
Commodity Murabaha with SAMA		**-**	**1,293,264**	**-**	**-**	**1,293,264**
Total		**4,144,888**	**2,039,720**	**14,685**	**266,417**	**6,465,710**

		2017				
		Domestic		International		Total
	Note	Quoted SAR' 000	Unquoted SAR' 000	Quoted SAR' 000	Unquoted SAR' 000	SAR' 000
Available-for-sale investments						
Equities, net of impairment		132,254	158,393	-	-	290,647
Mutual fund		374,539	319,317	8,333	3,869	706,058
Sukuk		630,698	1,308,036	311,777	-	2,250,511
		1,137,491	1,785,746	320,110	3,869	3,247,216
Held at amortized cost						
Commodity murabaha with SAMA		-	1,892,801	-	-	1,892,801
Total		1,137,491	3,678,547	320,110	3,869	5,140,017

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

	2018 SAR' 000	2017 SAR' 000
Government and quasi government	**4,611,162**	3,015,391
Corporate	**1,854,548**	2,124,626
Total	**6,465,710**	5,140,017

c) Equities include unquoted shares of SAR 165.9 million (2017: SAR 158.4 million) carried at cost as management believes that cost of such investments approximate their fair value. Management also believes cost of commodity murabaha with SAMA and unquoted sukuk approximates its fair value.

An analysis of changes is loss allowance for Debt instruments carried at amortized cost, is as follows:

	31st December 2018			
SAR in '000'	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss allowance as at 1 January 2018	5,927	-	-	**5,927**
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge/ (reversal) for the period	4,982	-	-	**4,982**
Write-offs	-	-	-	-
Loss allowance as at 31 December 2018	**10,909**	**-**	**-**	**10,909**

7. FINANCING, NET

a) Held at amortized cost

SAR' 000	**2018**		
	Commercial	**Consumer**	**Total**
Performing	**30,235,333**	**21,344,690**	**51,580,023**
Non-performing	**563,618**	**165,008**	**728,626**
Total	**30,798,951**	**21,509,698**	**52,308,649**
Allowance for impairment	**(1,352,102)**	**(363,514)**	**(1,715,616)**
Financing, net	**29,446,849**	**21,146,184**	**50,593,033**

SAR' 000	2017		
Performing	28,628,698	15,535,506	44,164,204
Non-performing	392,158	140,018	532,176
Total	29,020,856	15,675,524	44,696,380
Allowance for impairment	(1,015,799)	(233,152)	(1,248,951)
Financing, net	28,005,057	15,442,372	43,447,429

An analysis of changes in loss allowance for Financing is, as follows:

	31st December 2018			
SAR in '000'	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loss allowance as at 1 January 2018	**467,969**	**314,648**	**529,140**	**1,311,757**
Transfers to 12 month ECL	6,665	(6,665)	-	-
Transfers to Life time ECL not credit impaired	(302,568)	304,778	(2,210)	-
Transfers to Life time ECL credit impaired	(111,428)	(116,073)	227,501	-
Net charge for the period	298,675	52,738	134,768	**486,181**
Write-offs	-	-	(82,322)	**(82,322)**
Loss allowance as at 31 December 2018	**359,313**	**549,426**	**806,877**	**1,715,616**

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2018 and that are still subject to enforcement activity is SAR 82 million.

The movement in the allowance for impairment of financing to customers for the year ending 2018 is as follows:

2018	**Total SAR'000**
Closing loss allowance as at 31 December 2017 (calculated under IAS 39)	**1,248,951**
Amounts restated through opening retained earnings	**62,806**
Opening loss allowance as at 1 January 2018 (calculated under IFRS 9)	**1,311,757**
Charge for the year, net	**486,181**
Bad debts written off against provision	**(82,322)**
Balance at the end of the period	**1,715,616**

b) Financing include finance lease receivables, which are as follows:

	2018 SAR'000		2017 SAR'000	
	Consumer	**Commercial**	Consumer	Commercial
Gross receivables from ijarah financing :				
Less than 1 year	**409,036**	**-**	218,929	-
1 to 5 years	**904,861**	**209,917**	810,472	142,494
Over 5 years	**108,032**	**-**	129,675	-
	1,421,929	**209,917**	1,159,076	142,494
Unearned finance income on ijarah financing	**(319,521)**	**(3,540)**	(274,342)	(1,678)
Net receivables from ijarah financing	**1,102,408**	**206,377**	884,734	140,816

	2018 SAR'000		2017 SAR'000	
	Consumer	**Commercial**	Consumer	Commercial
Net receivables from ijarah receivables:				
Less than 1 year	**332,911**	**-**	241,604	-
1 to 5 years	**704,798**	**206,377**	578,796	140,816
Over 5 years	**64,699**	**-**	64,334	-
	1,102,408	**206,377**	884,734	140,816

8. PROPERTY AND EQUIPMENT, NET

SAR' 000	**Land and building**	**Leasehold improvements**	**Equipment, furniture and motor vehicles**	**Computer hardware and software**	**Total 2018**	Total 2017
Cost:						
As at the beginning of the year	**457,231**	**700,800**	**328,613**	**395,902**	**1,882,546**	1,772,763
Additions during the year	**234,305**	**11,674**	**88,478**	**45,125**	**379,582**	170,157
Disposals	**-**	**-**	**(981)**	**-**	**(981)**	(60,374)
As at December 31	**691,536**	**712,474**	**416,110**	**441,027**	**2,261,147**	1,882,546
Accumulated depreciation:						
At the beginning of the year	**4,424**	**422,929**	**257,553**	**322,216**	**1,007,122**	970,339
Charge for the year	**7,386**	**28,411**	**35,450**	**36,845**	**108,092**	96,519
Disposals	**-**	**-**	**(915)**	**-**	**(915)**	(59,736)
As at December 31	**11,810**	**451,340**	**292,088**	**359,061**	**1,114,299**	1,007,122
Net book value:						
As at December 31, 2018	**679,726**	**261,134**	**124,022**	**81,966**	**1,146,848**	
As at December 31, 2017	**452,807**	**277,871**	**71,060**	**73,686**		875,424

Fixed assets include work in progress as at December 31, 2018 amounting to SAR 18.1 million (2017: SAR 141.4 million).

9. OTHER ASSETS

	2018 SAR' 000	2017 SAR' 000
Prepaid expenses	**104,065**	113,090
Advances to suppliers	**16,168**	18,408
Management fee receivable	**63,379**	40,159
Others	**474,438**	177,836
Total	**658,050**	349,493

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 SAR' 000	2017 SAR' 000
Demand	**278,675**	346,546
Direct investment	**2,822,116**	1,402,391
Total	**3,100,791**	1,748,937

11. CUSTOMERS' DEPOSITS

	Note	**2018 SAR' 000**	2017 SAR' 000
Demand	11-1	**29,290,547**	27,442,213
Direct investment		**11,023,615**	6,623,054
Albilad account (Mudarabah)		**15,781,512**	12,811,178
Others	11-2	**1,079,920**	906,514
Total		**57,175,594**	47,782,959

11-1 Demand includes foreign currency deposits of SAR 443 million (2017: SAR 537 million).

11-2 Other includes Margins held for irrevocable commitments of SAR 1,080 million (2017: SAR 906 million). Margins includes foreign currency margin of SAR 33 million (2017: SAR 51 million).

11-3 The above include foreign currency deposits as follows:

The above include foreign currency deposits as follows:

	2018	2017
	SAR' 000	SAR' 000
Demand	**469,169**	537,050
Direct investment	**401,896**	890,352
Others	**48,533**	51,037
Total	**919,598**	1,478,439

12. SUKUK

On August 30, 2016, the Bank issued 2,000 Sukuk Certificates (Sukuk) of SR 1 million each, and payable quarterly in arrears on February 29, May 30, August 30, November 30 each year until August 30, 2026, on which Sukuk will be redeemed. The Bank has a call option which can be exercised on or after August 30 2021 upon meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. The Bank has not defaulted on any of payments (profit / principal) due during the year. The expected profit distribution on the sukuk is the base rate for three months in addition to the profit margin of 2%.

13. OTHER LIABILITIES

	2018	2017
	SAR' 000	SAR’ 000
Accounts payable	**999,615**	955,842
Accrued expenses	**619,270**	450,698
Others	**1,899,320**	661,354
Total	**3,518,205**	2,067,894

During the year, the bank has reached an agreement with the General Authority of Zakat and Tax on the settlement of Zakat claims for the prior years from 2006 up to the end of the fiscal year of 2017, the settlement amount is SR 392.8 million. This settlement will result in the decrease in shareholders' equity by SR 392.8 million and increase in other liabilities.

14. SHARE CAPITAL

The authorized issued and fully paid-up capital of the Bank consists of 600 million shares of SAR 10 each (2017: 600 million shares of SAR 10 each).

The Board of Directors recommended in its meeting held on December 17, 2018 to the Extra-ordinary General Assembly an issuance of bonus shares of one share for every four shares held, thus increasing the Bank's capital from SAR 6,000 million to SAR 7,500 million . The increasing will be done through capitalization of SAR 1,500 million from the statutory reserve and the retained earnings after obtaining the regulatory approval. The number of shares outstanding after the bonus issuance will increase from 600 million shares to 750 million shares.

15. STATUTORY RESERVE

In accordance with Article 13 of the Banking Control Law, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 278 million (2017: SAR 236 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

The statutory reserve has been utilized for the proposed issuance of bonus shares as detailed in note 14).

16. DIVIDENDS

Cash dividends of SAR 240 million (SAR 0.4 per share) have been paid after its been approved by the Ordinary General Assembly meeting of the Bank on April 11, 2018.

17. OTHER RESERVES

Other reserves represent the net unrealized revaluation (losses) / gains on FVOCI and available for sale investments. This reserve is not available for distribution to shareholders. Movement in other reserves is as follows:

<u>2018</u>	**FVOCI (Sukuk) SAR' 000**	**FVOCI (Equity) SAR' 000**	**Total SAR' 000**
Restated balance at beginning of the year	(4,202)	(2,661)	(6,863)
Net movement during the year	(42,848)	(20,121)	(62,969)
Balance at end of the year	**(47,050)**	**(22,782)**	**(69,832)**

2017	**Total SAR' 000**
Balance at beginning of the year	**25,280**
Net change in fair value of available for sale investments	29,716
Transfer to consolidated statement of income	(7,820)
Impairment charge on available for sale investments	244
Net movement during the year	**22,140**
Balance at end of the year	**47,420**
Impact of adoption of new standards at 1 January 2018	(54,283)
Restated balance at end of the year	**(6,863)**

18. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2018, there were legal proceedings outstanding against the Bank. Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisers.

b) Capital commitments

As at December 31, 2018, the Bank had capital commitments of SAR 124 million (2017: SAR 52 million) relating to leasehold improvements and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantee and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as financing. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

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

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

(i) Contractual maturity structure of the Group's commitments and contingencies:

2018 (SAR' 000)	**Less than 3 months**	**From 3 months to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total**
Letters of credit	**469,188**	**321,070**	**35,640**	**-**	**825,898**
Letters of guarantee*	**707,086**	**2,177,617**	**1,199,203**	**192,251**	**4,276,157**
Acceptances	**417,740**	**36,309**	**362**	**-**	**454,411**
Irrevocable commitments to extend credit	**-**	**-**	**496,104**	**-**	**496,104**
Total	**1,594,014**	**2,534,996**	**1,731,309**	**192,251**	**6,052,570**

2017 (SAR' 000)	Less than 3months	From 3 months to 12 months	From 1 to 5 years	More than 5 years	Total
Letters of credit	338,317	531,557	61,467	-	931,341
Letters of guarantee	750,241	2,296,408	1,171,030	114,921	4,332,600
Acceptances	197,253	213,569	1,812	-	412,634
Irrevocable commitments to extend credit	-	-	568,010	-	568,010
Total	1,285,811	3,041,534	1,802,319	114,921	6,244,585

The outstanding unused portion of commitments as at December 31, 2018 which can be revoked unilaterally at any time by the Group, amounts to SAR 7.7 billion (2017: SAR 6.8 billion).

* This is as per contractual period of the guarantee and in event of default may be payable on demand and therefore current in nature.

(ii) Commitments and contingencies by counterparty:

	2018 SAR' 000	2017 SAR' 000
Corporate	**4,571,693**	5,105,524
Financial institutions	**1,392,324**	1,052,347
Others	**88,553**	86,714
Total	**6,052,570**	6,244,585

d) Operating lease commitments

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

	2018	2017
	SAR' 000	SAR' 000
Less than one year	**157,167**	139,496
One year to five years	**525,349**	416,836
Over five years	**145,065**	272,358
Total	**827,581**	828,690

19. INCOME FROM INVESTING AND FINANCING ASSETS

	2018	2017
	SAR' 000	SAR' 000
Income from investments and due from banks and other financial institutions		
Income from commodity murabaha with		
- SAMA	**53,883**	45,999
- Banks and other financial institutions	**189,261**	141,766
Income from sukuk	**118,302**	46,339
Income from financing	**2,343,538**	1,883,085
Total	**2,704,984**	2,117,189

20. RETURN ON DEPOSITS AND FINANCIAL LIABILITES

	2018	2017
Return on:	**SAR' 000**	SAR' 000
Due to banks and other financial institutions	**61,130**	53,271
Deposits	**411,605**	247,261
Sukuk	**86,780**	77,662
Total	**559,515**	378,194

21. FEES AND COMMISSION INCOME, NET

	2018	2017
	SAR' 000	SAR' 000
Fees and commission income		
Remittance	**453,171**	465,651
ATM and point of sale	**247,362**	204,568
Facilities management fee	**100,798**	90,704
Letters of credit and guarantee	**44,060**	47,585
Management fee (mutual fund and others)	**81,162**	61,286
Brokerage income	**51,769**	27,013
Documentation charges	**89,713**	69,825
Others	**75,599**	59,185
Total fees and commission income	**1,143,634**	1,025,817
Fees and commission expenses		
ATM and point of sale	**183,166**	142,092
Brokerage expenses	**23,314**	4,296
Remittance	**7,435**	7,360
Others	**86,819**	38,168
Total fees and commission expenses	**300,734**	191,916
Fees and commission income, net	**842,900**	833,901

22. OTHER OPERATING INCOME

	2018	2017
	SAR' 000	SAR' 000
Recovery of directly written-off financing	**34,356**	38,652
Others	**11,153**	22,762
Total	**45,509**	61,414

23. SALARIES AND EMPLOYEE RELATED BENEFITS

The following table summarizes compensation practices and includes total of fixed and variable compensation paid to employees during the year ended December 31, 2018 and 2017, and the form of such payments:

	Number of employees		Fixed compensation SAR 000		Variable compensation paid SAR' 000					
					Cash		Shares		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Senior executives requiring SAMA no objection	**9**	9	**14,385**	14,845	**9,285**	6,774	**3,110**	1,318	**12,395**	8,092
Employees engaged in risk taking activities	**267**	271	**88,567**	82,976	**19,305**	12,572	**1,171**	1,801	**20,476**	14,373
Employees engaged in control functions	**278**	264	**80,272**	74,914	**11,066**	7,922	**1,590**	1,802	**12,656**	9,724
Other employees	**2,998**	2,849	**440,576**	393,780	**61,596**	46,185	**3,237**	3,221	**64,833**	49,406
Outsourced employees	**680**	457	**93,269**	71,917	**64**	30	**-**	-	**64**	30
Total	**4,232**	3,850	**717,069**	638,432	**101,316**	73,483	**9,108**	8,142	**110,424**	81,625
Variable compensation accrued			**124,826**	109,618						
Other employee related benefits			**210,465**	205,535						
Total salaries and employee related expenses			**1,052,360**	953,585						

Employees Compensation and Benefits

1. Quantitative disclosure:

This disclosure has to be bifurcated between the following categories, whereby the meaning of each category is mentioned below:

a. Senior executive requiring SAMA no objection:

Whose appointment is subject to approval of SAMA: This includes all staff which requires prior approval of SAMA before appointment, such as: CEO, COO, CRO, CFO, CBO, Head of Internal Audit, Head of Compliance, etc.

b. Employees engaged in risk taking activities:

This comprises of management staff within various business lines i.e. corporate, retail, treasury, trade services, private banking etc. who are responsible for executing and implementing the business strategy of the bank.

c. Employees engaged in control functions:

This comprises of employees working in divisions that are not involved in risk taking activities but engaged in review functions i.e. risk management, compliance, internal audit, treasury operations, finance and accounting, etc.

d. Other employees:

All regular employees other than those mentioned in (a) to (c) above.

e. Outsourced employees:

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

2. Qualitative disclosure:

The Bank has developed a Compensation Policy based on the 'Rules on Compensation Practices' issued by SAMA as well as the guidelines provided by the Financial Stability Board and the Basel Committee on Banking Supervision in this respect.

The Compensation Policy has been approved by the Board of Directors (BOD). The BOD have also established a Nominations and Remuneration Committee, comprising of five members, the Chairman and two members of the Committee are independent to oversee the implementation of the Policy.

The mandate of the Committee is to oversee the compensation system design and operation, prepare and periodically review the Compensation Policy and evaluate its effectiveness in line with the industry practice.

Policy objectives

The policy sets guidelines for determination of both fixed and variable compensation to be paid to the employees of the Group. The scope of the Policy includes all compensation elements, approval and reporting process, stock options, bonus and its deferral, etc.

The objective of the Policy is to ensure that the compensation is governed by the financial performance evaluation and is linked to the various risks associated, at an overall level. Key staff members of the Bank are eligible to variable compensation which is derived from Risk Adjusted Net Income of the Bank which accounts for significant existing and potential risks in order to protect the Bank's Capital Adequacy and to mitigate the risk of potential future losses.

Compensation structure

The compensation structure of the Bank is based on appropriate industry benchmarking and includes both fixed and variable components. The variable component is designed to ensure key employee retention and is based on three year vesting period.

a. **Fix components:**

   Provide a competitive salaries or wage according to annual market alignment. Including (Basic, Housing, Transportation and Fix allowance) which is written in the employee's contract.

b. **Variable components:**

   Taking into account the risk associated with the Bank's performance & individual performance appraisal, all these factors are assessed on periodical basis and the results are shared with the stakeholders based on which the incentive is announced at the close of each accounting period. Including (LTIP or the Stoke Options & STIP as Incentives scheme, Annual Bonus and Annual tickets allowance).

Performance management system

The performance of all employees is measured by way of a balance score card methodology taking in to consideration, financial, customer, process and people factors with appropriate weightage to each factor based on the respective assignments.

The Bank has following share-based payment plans outstanding at the end of the year. Significant features of these plans are as follows:

	2018	2017
Grant date	**29 Apr 2018**	14 May 2017
Maturity Date	25% 1 Jan 2019 25% 1 Jan 2020 50% 1 Jan 2021	25% 1 Jan 2018 25% 1 Jan 2019 50% 1 Jan 2020
Number of shares offered on the grant date	**475,319**	733,620
Share price on the grant date (SAR)	**19.20**	18.12
Value of shares offered on grant date (SAR' 000)	**9,126**	13,293
Vesting period	3 years	3 years
Vesting condition	Employees to be in service	Employees to be in service
Method of settlement	Equity	Equity

The movement in the number of shares, during the year, under employees' share plan is as follows	**2018**	2017
Beginning of the year	**1,027,816**	822,646
Granted during the year	**475,319**	733,620
Forfeited	**(40,179)**	(128,563)
Exercised	**(412,819)**	(399,887)
End of the year	**1,050,137**	1,027,816

The shares are granted only under service condition with no market condition associated with them.

24. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2018 and 2017 is calculated by dividing the net income for the period attributable to the equity holders by the weighted average number of outstanding shares 2018: 596 million shares (2017: 596 million shares) during the period adjusted for treasury shares.

25. CASH AND CASH EQUIVALENTS

	Notes	**2018** **SAR' 000**	2017 SAR' 000
Cash in hand	4	**1,702,065**	1,724,325
Due from banks and other financial institutions (maturing within ninety days from acquisition)		**5,988,016**	5,810,887
Held at amortized cost (maturing within ninety days from acquisition)		**300,050**	300,065
Balances with SAMA (excluding statutory deposit)	4	**1,584,835**	1,229,349
Total		**9,574,966**	9,064,626

26. EMPLOYEE BENEFIT OBLIGATION

a) General description

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

b) The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2018 **SAR' 000**	2017 SAR' 000
Defined benefit obligation at the beginning of the year	**201,316**	161,307
Current service cost	**34,658**	47,770
Finance cost	**8,902**	8,700
Benefits paid	**(21,286)**	(16,461)
Unrecognized actuarial loss / (gain)	**-**	-
Defined benefit obligation at the end of the year	**223,590**	201,316

c) Charge /(reversal) for the year

	2018 SAR' 000	2017 SAR' 000
Current service cost	**34,634**	47,770
Past service cost	**24**	-
	34,658	47,770

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

	2018 SAR' 000	2017 SAR' 000
Discount rate	**4.90%**	4.75%
Expected rate of salary increase	**4.50%**	4.00%
Normal retirement age		
• Male	**60 years**	60 years
• Female	**55 years**	55 years

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

Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2018 and 2017 to the discount rate (4.90%), salary escalation rate (4.50%), withdrawal assumptions and mortality rates.

	SAR' 000		
2018	**Impact on defined benefit obligation – Increase / (Decrease)**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**1%**	**(21,995)**	**32,694**
Expected rate of salary increase	**1%**	**32,509**	**(22,303)**
Normal retirement age	**20%**	**166**	**5,519**

	SAR' 000		
2017	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(26,905)	20,685
Expected rate of salary increase	1%	20,617	(27,241)
Normal retirement age	20%	(7,101)	(3,606)

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

27. SEGMENTAL INFORMATION

Operating segments, based on customer groups are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Assets and Liabilities Committee (ALCO) in order to allocate resources to the segments and to assess its performance. The Group's main business is conducted in the Kingdom of Saudi Arabia.

There has been no change to the basis of segmentation or the measurements basis for the segment profit or loss since December 31, 2017.

For management purposes, the Group is divided into the following five operating segments:

Retail banking
Services and products to individuals, including deposits, financing, remittances and currency exchange.

Corporate banking
Services and products to corporate customers including deposits, financing and trade services.

Treasury
Money market and treasury services.

Investment banking and brokerage
Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Other
All other support functions.

Transactions between the above operating segments are under the terms and conditions of the approved Fund Transfer Pricing (FTP) system. The support segments and Head Office expenses are allocated to other operating segments, based on an approved criteria.

a) The Group total assets and liabilities, together with its total operating income and expenses, and net income /(loss), for the years ended December 31, 2018 and 2017 for each segment are as follows:

SAR' 000	**2018**					
	Retail banking	**Corporate banking**	**Treasury**	**Investment banking and brokerage**	**Other**	**Total**
Total assets	**27,513,144**	**26,625,435**	**16,905,471**	**862,868**	**1,729,208**	**73,636,126**
Total liabilities	**39,459,233**	**11,195,914**	**9,675,433**	**345,494**	**5,127,103**	**65,803,177**
Net income from investing and financing assets	**1,062,512**	**842,301**	**174,988**	**15,386**	**50,282**	**2,145,469**
Fee, commission and other income, net	**818,446**	**113,729**	**164,528**	**151,093**	**22,755**	**1,270,551**
Total operating income	**1,880,958**	**956,030**	**339,516**	**166,479**	**73,037**	**3,416,020**
Impairment charge for credit and other financial assets, net	**222,248**	**263,934**	**3,738**	**533**	**-**	**490,453**
Depreciation	**94,366**	**8,522**	**2,596**	**2,608**	**-**	**108,092**
Total operating expenses	**1,577,615**	**554,310**	**80,890**	**94,766**	**(2,071)**	**2,305,510**
Net income for the year	**303,343**	**401,720**	**258,626**	**71,713**	**75,108**	**1,110,510**
Attributable to						
Equity holders of the Bank	**303,343**	**401,720**	**258,626**	**71,713**	**75,108**	**1,110,510**
Non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**
Net income for the year	**303,343**	**401,720**	**258,626**	**71,713**	**75,108**	**1,110,510**

SAR' 000	2017					
	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Other	Total
Total assets	19,226,564	25,567,342	16,460,585	444,834	1,508,351	63,207,676
Total liabilities	31,939,534	11,782,080	7,532,423	17,710	4,347,136	55,618,883
Net income from investing and financing assets	747,033	799,059	135,787	14,238	42,878	1,738,995
Fee, commission and other income, net	826,316	134,744	111,650	91,374	56,499	1,220,583
Total operating income	1,573,349	933,803	247,437	105,612	99,377	2,959,578
Impairment charge for credit and other financial assets, net	71,597	306,784	-	-	244	378,625
Depreciation	83,403	9,761	1,412	1,943	-	96,519
Total operating expenses	1,307,703	566,647	68,872	79,945	244	2,023,411
Net income for the year	265,646	367,156	178,565	25,667	99,133	936,167
Attributable to						
Equity holders of the Bank	265,646	367,156	178,565	25,667	105,013	942,047
Non-controlling interest	-	-	-	-	(5,880)	(5,880)
Net income for the year	265,646	367,156	178,565	25,667	99,133	936,167

(b) Credit exposure by operating segments is as follows:

2018 **SAR' 000**	**Retail**	**Corporate**	**Treasury**	**Total**
Total assets	**21,146,184**	**29,446,849**	**14,018,980**	**64,612,013**
Commitments and contingencies	**-**	**2,720,263**	**-**	**2,720,263**

2017 SAR' 000	Retail	Corporate	Treasury	Total
Total assets	15,442,372	28,005,057	11,849,694	55,297,123
Commitments and contingencies	-	3,148,960	-	3,148,960

Group credit exposure is comprised of due from bank and other financial institutions, investments and financing. The credit equivalent value of commitments and contingencies are included in credit exposure as calculated in accordance with SAMA regulations.

28. FINANCIAL RISK MANAGEMENT

i. CREDIT RISK

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Supervisory Board which has the responsibility to monitor the overall risk process within the bank.

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports on a weekly basis to the Supervisory Board.

The Group 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 arrive principally in financing and investment activities. There is also credit risk in off-balance sheet financial instruments, such as letters of credit, letter of guarantees and financing commitments.

The Group assesses the probability of default of counterparties using internal rating tools. In addition, the Group uses external ratings from major rating agencies, where available.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify, 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 Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure.

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

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

The Group seeks to manage its credit risk exposure through diversification and managing undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant facilities.

Management requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment of financings.

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

Concentration of risks of financial assets with credit risk exposure and financial liabilities.

a) Geographical concentration

The geographical distribution of assets, liabilities, commitments and contingencies and credit risk exposure as of December 31:

2018 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Assets							
Cash and balances with SAMA	6,372,971	7,404	3,953	53,205	548	120	6,438,201
• Cash in hand	1,636,835	7,404	3,953	53,205	548	120	1,702,065
• Balances with SAMA	4,736,136	-	-	-	-	-	4,736,136
Due from Banks and other financial institutions	6,302,702	732,851	1,177,377	43,936	36,746	40,672	8,334,284
• Demand	-	40,016	27,174	43,936	36,746	40,672	188,544
• Commodity murabaha	6,302,702	692,835	1,150,203	-	-	-	8,145,740
Investments, net	6,184,143	263,482	-	18,085	-	-	6,465,710
• FVOCI	4,508,881	263,482	-	-	-	-	4,772,363
• FVTPL	381,998	-	-	18,085	-	-	400,083
• Amortized cost	1,293,264	-	-	-	-	-	1,293,264
Financing, net	50,593,033	-	-	-	-	-	50,593,033
• Consumer	21,146,183	-	-	-	-	-	21,146,183
• Commercial	29,446,850	-	-	-	-	-	29,446,850
Property and equipment, net	1,146,848	-	-	-	-	-	1,146,848
Other assets	658,050	-	-	-	-	-	658,050
Total	71,257,747	1,003,737	1,181,330	115,226	37,294	40,792	73,636,126
Liabilities							
Due to SAMA	-	-	-	-	-	-	-
Due to banks and other financial institutions	2,714,499	364,705	762	-	4,069	16,756	3,100,791
• Demand	-	257,088	762	-	4,069	16,756	278,675
• Direct investment	2,714,499	107,617	-	-	-	-	2,822,116
Customer deposits	57,175,594	-	-	-	-	-	57,175,594
• Demand	29,290,547	-	-	-	-	-	29,290,547
• Direct investment	11,023,615	-	-	-	-	-	11,023,615
• Albilad account (Mudarabah)	15,781,512	-	-	-	-	-	15,781,512
• Other	1,079,920	-	-	-	-	-	1,079,920
Sukuk	2,008,587	-	-	-	-	-	2,008,587
Other liabilities	3,518,205	-	-	-	-	-	3,518,205
Total	65,416,885	364,705	762	-	4,069	16,756	65,803,177
Commitments and contingencies							
• Letters of credit	825,898	-	-	-	-	-	825,898
• Letter of Guarantee	4,276,157	-	-	-	-	-	4,276,157
• Acceptances	454,411	-	-	-	-	-	454,411
• Irrevocable commitments to extend credit	496,104	-	-	-	-	-	496,104
	6,052,570	-	-	-	-	-	6,052,570
Credit risk (stated at credit equivalent amounts) on commitments and contingencies	2,720,263	-	-	-	-	-	2,720,263

2017 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Assets							
Cash and balances with SAMA	5,688,931	-	-	-	-	-	5,688,931
• Cash in hand	1,724,325	-	-	-	-	-	1,724,325
• Balances with SAMA	3,964,606	-	-	-	-	-	3,964,606
Due from Banks and other financial institutions	5,757,587	1,808,903	79,857	6,277	35,933	17,825	7,706,382
• Demand	-	17,753	79,857	6,277	35,933	17,825	157,645
• Commodity murabaha	5,757,587	1,791,150	-	-	-	-	7,548,737
Investments, net	4,815,538	311,777	8,833	3,869	-	-	5,140,017
• Available for sale	2,922,737	311,777	8,833	3,869			3,247,216
• Held at amortized cost	1,892,801	-	-	-	-	-	1,892,801
Financing, net	43,447,429	-	-	-	-	-	43,447,429
• Consumer	15,442,372	-	-	-	-	-	15,442,372
• Commercial	28,005,057	-	-	-	-	-	28,005,057
Property and equipment, net	875,424	-	-	-	-	-	875,424
Other assets	349,493	-	-	-	-	-	349,493
Total	60,934,402	2,120,680	88,690	10,146	35,933	17,825	63,207,676
Liabilities							
Due to SAMA	2,012,518	-	-	-	-	-	2,012,518
Due to banks and other financial institutions	1,221,517	91,955	-	245,539	181,885	8,041	1,748,937
• Demand	-	69,428	-	245,539	23,537	8,041	346,545
• Direct investment	1,221,517	22,527	-	-	158,348	-	1,402,392
Customer deposits	47,782,959	-	-	-	-	-	47,782,959
• Demand	27,442,213	-	-	-	-	-	27,442,213
• Direct investment	6,623,054	-	-	-	-	-	6,623,054
• Albilad account (Mudarabah)	12,811,178	-	-	-	-	-	12,811,178
• Other	906,514	-	-	-	-	-	906,514
Sukuk	2,006,575	-	-	-	-	-	2,006,575
Other liabilities	2,067,894	-	-	-	-	-	2,067,894
Total	55,091,463	91,955	-	245,539	181,885	8,041	55,618,883
Commitments and contingencies							
• Letters of credit	931,341	-	-	-	-	-	931,341
• Letter of Guarantee	4,332,600	-	-	-	-	-	4,332,600
• Acceptances	412,634	-	-	-	-	-	412,634
• Irrevocable commitments to extend credit	568,010	-	-	-	-	-	568,010
	6,244,585	-	-	-	-	-	6,244,585
Credit risk (stated at credit equivalent amounts) on commitments and contingencies	3,148,960	-	-	-	-	-	3,148,960

Credit equivalent amounts reflect the amounts that result from translating the Group's commitments and contingencies into the risk equivalent of financing facilities using credit conversion factors prescribed by SAMA. Credit conversion factor is used to capture the potential credit risk resulting from the Group meeting its commitments.

b) The geographical distribution of the impaired financial assets and the allowance for impairment is set out as below:

2018 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Non-Performing financing	**728,626**	**-**	**-**	**-**	**-**	**-**	**728,626**
Allowance for financing impairment	**1,715,616**	**-**	**-**	**-**	**-**	**-**	**1,715,616**
Impaired other financial assets	**-**	**90,923**	**-**	**-**	**-**	**-**	**90,923**
Allowance for impairment for other financial assets	**11,227**	**91,652**	**802**	**5**	**12**	**20**	**103,718**

2017 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Non-Performing financing	532,176	-	-	-	-	-	532,176
Allowance for financing impairment	1,248,951	-	-	-	-	-	1,248,951
Impaired available for sale investments and commodity murabaha	547	90,923	-	-	-	-	91,470
Allowance for impairment for investments and commodity murabaha	244	90,923	-	-	-	-	91,167

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost, FVOCI debt investments (2018) and available for sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31 December 2018			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
		SAR in '000'		
Due from bank and other financial institutions				
Investment grade	8,287,166	-	90,923	8,378,089
Non-investment grade	33,685	-	-	33,685
Unrated	15,318	-	-	15,318
Carrying amount	**8,336,169**	**-**	**90,923**	**8,427,092**

	31 December 2018			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
		SAR in'000'		
Financing to customers at amortized cost				
Commercial				
Grades 1-15: Low – fair risk	20,949,078	5,371,121	-	**26,320,199**
Grades 16-20: Watch list	1,520,627	2,394,507	100,174	**4,015,308**
Grades 21: Substandard	-	-	58,023	**58,023**
Grades 22: Doubtful	-	-	40,696	**40,696**
Grades 23: Loss	-	-	364,726	**364,726**
Consumer				
Unrated	21,128,920	152,129	228,648	**21,509,697**
Carrying amount	**43,598,625**	**7,917,757**	**792,267**	**52,308,649**

	31 December 2018			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
		SAR in'000'		
Debt investment securities at amortized cost (2017: Held to maturity)				
Investment grade	1,294,422	-	-	**1,294,422**
Carrying amount	**1,294,422**	-	-	**1,294,422**

	31 December 2018			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
		SAR in'000'		
Debt investment securities at FVOCI (2017: Available for sale)				
Investment grade	4,049,487	-	-	**4,049,487**
Unrated	351,116	-	-	**351,116**
Carrying amount	**4,400,603**	-	-	**4,400,603**

	31 December 2018			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
		SAR in'000'		
Commitments and contingencies				
Grades 1-15: Low – fair risk	5,008,057	387,135	-	**5,395,192**
Grades 16-20: Watch list	208,540	341,170	-	**549,710**
Grades 21: Substandard	-	-	23,304	**23,304**
Grades 22: Doubtful	-	-	-	-
Grades 23: Loss	-	-	84,364	**84,364**
Carrying amount	**5,216,597**	**728,305**	**107,668**	**6,052,570**

a) Amounts arising from ECL – Significant increase in credit risk

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

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

- The point in time PD at the reporting date; with
- The Point in time PD estimated at the time of initial recognition of the exposure.

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

Determining whether credit risk has increased significantly

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

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

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

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

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

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

Credit risk grades

For the wholesale portfolio, the bank allocates each exposure (either through reliance on internal rating or external rating agencies) 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 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 typically involves use of the following data.

Commercial 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, and compliance with covenants, quality management, and senior management changes. • Data from credit reference agencies, press articles, changes in external credit ratings • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities • Business analysis of the borrower, including business risk, management, financial document and support, stability and behavior. • Industry analysis in which the borrower is operating, including the phase of industry growth and industry failure rate.	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilization of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades (or the four aforementioned bucket created for consumer portfolio) are a primary input into the determination of the term structure of PD for exposures.

Using the realized default data for each grade or bucket, the bank employs statistical models to generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The bank employs following steps in order to generated term structure of the PD:

The bank first calculates the observed default rates for its portfolios which involves monitoring customer behavior over next 12 months, then classifying default, which is then forecasted using acceptable actuarial method and thereafter adjusted for macroeconomic outlook (see below).

The Bank factors in forward looking information in its PD calibration through macroeconomic models for each portfolio. The impact of macroeconomic variables on default rates has been calculated using a multiple scenario-based modeling framework which factors upturn, downturn and baseline scenarios' forecast in to the probability of default. This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors. The forecast is used to estimate the impact on the PD over the upcoming years.

The Point in Time" PD, and later adjusted for macroeconomic overly to make it forward looking. Transition matrix approach is used to forecast grade wise PDs over the upcoming years transition matrix. This provide the grade wise PD over the upcoming years, thus the term structure of the PD.

Definition of 'Default'

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

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group 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.

In assessing whether a borrower is in default. The Bank considers indicators that are:

- Qualitative- e.g. breaches of covenant;
- Quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.
- Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

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

Modified financial assets

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

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

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

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

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing covenants. Both consumer and commercial financing are subject to the forbearance policy. The Bank Audit Committee regularly reviews reports on forbearance activities.

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

During the period, no material losses were recognized on modification or restructuring of any facility.

Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

For the purpose of ECL measurement with respect to the consumer and commercial (and SME) portfolios, this is done through application of macroeconomic models which have been developed for the various portfolios of the banks. Through the macroeconomic models the banks assesses the impact of the macroeconomic variables on the default rates. The forecasts of the variables is gathered from the external sources.

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 in the Kingdom and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the 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 has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 8 to 10 years.

With respect to the listed, sovereign and Financial Institutions, the bank utilizes a Credit Default Swap based methodology, which incorporates the market’s forward looking view in order to arrive at the ECL.

Measurement of ECL

For Consumer and Commercial (including SME exposures), the key inputs into the measurement of ECL are the term structure of the following variables:

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

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

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

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. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD is calculated on a discounted cash flow basis using the contractual profit rate as the discounting factor.

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 over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance, terminate a financing commitment, or guarantee.

For consumer overdrafts and credit card facilities that include both a financing and an undrawn commitment component, the Bank measures ECL over a period of contractual maturity, as the bank considers that it has the contractual ability to demand repayment and cancel the undrawn commitment. Although these facilities do not have a fixed term or repayment structure and are managed on a collective basis, there is an annual review of the limits, where these can be cancelled.

For portfolios, such as listed exposures, Sovereign and FI exposures, in respect of which the Bank has limited historical data, credit default swap spreads are utilized to determine the Expected Credit Loss amount.

a) Economic Sector risk concentration for the financing and allowance for impairment are as follows

(SAR, 000')

	2018						**2017**				
	Performing	Credit-impaired		Allowance for impairment	Financing, net		Performing financing	Non-performing financing		Allowance for impairment	Financing, net
Commercial	**4,633,522**	**283,649**		**426,887**	**4,490,284**		4,619,301	166,309		(271,564)	4,514,046
Industrial	**5,639,354**	**104,174**		**224,377**	**5,519,152**		5,618,660	98,185		(186,548)	5,530,297
Building and construction	**10,872,621**	**73,853**		**307,470**	**10,639,004**		9,981,591	50,361		(252,295)	9,779,657
Transportation and communication	**1,570,853**	**144**		**5,700**	**1,565,296**		744,765	574		(8,460)	736,879
Electricity, water, gas & health services	**1,172,915**	**2,125**		**3,956**	**1,171,084**		941,828	3,000		(8,079)	936,749
Services	**1,423,689**	**19,259**		**77,458**	**1,365,490**		2,155,851	4,945		(62,281)	2,098,515
Agriculture and fishing	**759,342**	**-**		**14,106**	**745,235**		475,978	-		(28,545)	447,433
Mining & Quarrying	**32,420**	**-**		**125**	**32,295**		9,609	-		(24)	9,585
Consumer	**21,344,690**	**165,007**		**363,514**	**21,146,183**		15,535,506	140,018		(233,152)	15,442,372
Other	**4,130,617**	**80,415**		**292,023**	**3,919,010**		4,081,115	68,784		(198,003)	3,951,896
Total	**51,580,023**	**728,626**		**1,715,616**	**50,593,033**		44,164,204	532,176		(1,248,951)	43,447,429

b) Collateral

The banks in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the financing. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer financing 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

The amount of commercial collateral held as security for financing that are credit-impaired as at 31 December 2018 are as follows

SAR ‘000	**2018**
Total amount of collateral	29,817,363

29. MARKET RISK

Market risk is the risk that the fair value to future cash flows of the financial instruments will fluctuate due to changes in market variables such as profit rate, foreign exchange rates and equity prices.

a) Profit rate risk

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Group does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit bearing liabilities are at fixed rates and are carried in the consolidated financial statements at amortized cost. In addition to this, a substantial portion of the Group's financial liabilities are non-profit bearing.

b) Foreign exchange rate risk

a. Foreign exchange rate risk represents the risk of change in the value of financial instruments due to change in exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on both its financial position and on its cash flows. The Group's management sets limits on the level of exposure by individual currency and in total for intra day positions, which are monitored daily.

The Group had the following summarized exposure to foreign currency exchange rate risk as at December 31:

	2018		2017	
	Saudi Riyal SAR' 000	**Foreign currency SAR' 000**	Saudi Riyal SAR' 000	Foreign currency SAR' 000
Assets				
Cash and balances with SAMA	**6,372,968**	**65,233**	5,620,789	68,142
Due from banks and other financial institutions, net	**7,957,037**	**377,247**	7,548,737	157,645
Investments, net	**5,802,294**	**663,416**	4,568,759	571,258
Financing, net	**50,335,198**	**257,835**	43,244,465	202,964
Other assets	**633,355**	**24,695**	325,782	23,711
Liabilities and equity				
Due to SAMA	**-**	**-**	2,012,518	-
Due to banks and other financial institutions	**2,477,006**	**623,785**	716,830	1,032,107
Customer deposits	**56,255,996**	**919,598**	46,304,520	1,478,439
Sukuk	**2,008,587**	**-**	2,006,575	-
Other liabilities	**3,513,164**	**5,041**	2,060,342	7,552
Equity	**7,841,066**	**(8,117)**	7,588,708	85

A substantial portion of the net foreign currency exposure to the Group is in US Dollars, where SAR is pegged to US Dollar. The other currency exposures are not considered significant to the Group's foreign exchange rate risks and as a result the Group is not exposed to major foreign exchange rate risks.

The Bank has performed a sensitivity analysis over one year time horizon for the probability of changes in foreign exchange rates, other than US Dollars, using historical average exchange rates and has determined that there is no significant impact on its net foreign currency exposures.

b. Currency position

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

	2018 SAR' 000 Long/(short)	2017 SAR' 000 Long/(short)
US Dollars	**(172,436)**	(1,474,290)
Kuwaiti Dinars	**4,198**	(2,253)
Pakistani Rupees	**26,423**	10,018
Euro	**(43,709)**	(8,443)
UAE Dirhams	**28,351**	(3,129)
Bangladeshi Takas	**(4,118)**	(2,308)
Others	**9,410**	(14,058)
Total	**(151,881)**	(1,494,463)

c) Investment price risk

Investment risk refers to the risk of decrease in fair values of equities, mutual funds and sukuk in the Group's available-for-sale investment portfolio as a result of possible changes in levels of market indices over a one year time horizon and the value of individual stocks.

The effect on the Group's investments held as available for sale due to reasonable possible change in market indices, with all other variables held constant is as follows:

	December 31, 2018		December 31, 2017	
Security types	**Change in investment price %**	**Effect in SAR' 000**	**Change in investment price %**	**Effect in SAR' 000**
Equity				
Quoted	**± 10**	**21,562**	± 10	13,225
Unquoted	**± 2**	**3,318**	± 2	3,168
Mutual Funds				
Quoted	**±10**	**5,450**	±10	38,287
Unquoted	**±2**	**6,912**	±2	6,464
Sukuk				
Quoted	**±10**	**388,848**	±10	94,248
Unquoted	**±2**	**10,048**	±2	26,161

30. LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Assets Liability Committee (ALCO). Daily reports cover the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2017: 7%) of total demand deposits and 4% (2017: 4%) of time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its total deposits, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through special investment arrangements facilities with SAMA.

a) Analysis of discounted assets and liabilities by expected maturities

The table below summarises the maturity profile of the Group’s assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group’s deposit retention history. The amounts disclosed in the table are the contractual discounted cash flows, whereas the Group manages the inherent liquidity risk based on expected discounted cash inflows.

2018 SAR' 000	**Within 3 Months**	**3 months to 1 year**	**Over one year to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Assets						
Cash and balances with SAMA	3,286,900	-	-	-	3,151,301	6,438,201
• Cash in hand	1,702,065	-	-	-	-	1,702,065
• Balances with SAMA	1,584,835	-	-	-	3,151,301	4,736,136
Due from Banks and other financial institutions	6,885,787	75,261	1,373,236	-	-	8,334,284
• Demand	188,544	-	-	-	-	188,544
• Commodity murabaha	6,697,243	75,261	1,373,236	-	-	8,145,740
Investments, net	991,451	248,811	706,647	3,737,206	781,595	6,465,710
• FVOCI	-	248,811	706,647	3,435,393	381,512	4,772,363
• FVTPL	-	-	-	-	400,083	400,083
• Amortized cost	991,451	-	-	301,813	-	1,293,264
Financing, net	12,275,282	10,796,460	22,200,108	5,321,183	-	50,593,033
• Consumer	1,402,865	3,860,325	11,709,970	4,173,023	-	21,146,183
• Commercial	10,872,417	6,936,135	10,490,138	1,148,160	-	29,446,850
Other assets*	-	-	-	-	143,080	143,080
Total assets	23,439,420	11,120,532	24,279,991	9,058,389	4,075,976	71,974,308
Liabilities						
Due to SAMA	-	-	-	-	-	-
Due to banks and other financial institutions	2,912,798	187,993	-	-	-	3,100,791
• Demand	278,675	-	-	-	-	278,675
• Direct investment	2,634,123	187,993	-	-	-	2,822,116
Customer deposits	55,461,745	1,713,849	-	-	-	57,175,594
• Demand	29,290,547	-	-	-	-	29,290,547
• Direct investment	9,309,766	1,713,849	-	-	-	11,023,615
• Albilad account (Mudarabah)	15,781,512	-	-	-	-	15,781,512
• Other	1,079,920	-	-	-	-	1,079,920
Sukuk	-	-	-	2,008,587	-	2,008,587
Other liabilities*	-	-	-	-	3,402,009	3,402,009
Total Liabilities	58,374,543	1,901,842	-	2,008,587	3,402,009	65,686,981
Commitments & contingencies	1,594,015	2,534,995	1,731,309	192,251	-	6,052,570

The cumulative maturities of commitments & contingencies are given in note 18 of the financial statements

*It does not include non-financial assets and liabilities.

2017 SAR' 000	Within 3 Months	3 months to 1 year	Over one year to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	2,953,674	-	-	-	2,735,257	5,688,931
• Cash in hand	1,724,325	-	-	-	-	1,724,325
• Balances with SAMA	1,229,349	-	-	-	2,735,257	3,964,606
Due from Banks and other financial institutions	6,391,004	360,579	954,799	-	-	7,706,382
• Demand	157,645	-	-	-	-	157,645
• Commodity murabaha	6,233,359	360,579	954,799	-	-	7,548,737
Investments, net	1,628,633	10,230	497,500	2,006,948	996,706	5,140,017
• Available for sale	37,532	10,230	497,500	1,705,248	996,706	3,247,216
• Held at amortized cost	1,591,101	-	-	301,700	-	1,892,801
Financing, net	9,927,147	20,042,406	10,868,928	2,608,948	-	43,447,429
• Consumer	623,114	3,284,472	9,655,390	1,879,396	-	15,442,372
• Commercial	9,304,033	16,757,934	1,213,538	729,552	-	28,005,057
Other assets*	-	-	-	-	64,024	64,024
Total assets	20,900,458	20,413,215	12,321,227	4,615,896	3,795,987	62,046,783
Liabilities						
Due to SAMA	2,012,518	-	-	-	-	2,012,518
Due to banks and other financial institutions	1,236,723	512,214	-	-	-	1,748,937
• Demand	346,546	-	-	-	-	346,546
• Direct investment	890,177	512,214	-	-	-	1,402,391
Customer deposits	46,266,291	1,516,668	-	-	-	47,782,959
• Demand	27,442,213	-	-	-	-	27,442,213
• Direct investment	5,106,386	1,516,668	-	-	-	6,623,054
• Albilad account (Mudarabah)	12,811,178	-	-	-	-	12,811,178
• Other	906,514	-	-	-	-	906,514
Sukuk	-	-	-	2,006,575	-	2,006,575
Other liabilities*	-	-	-	-	1,448,034	1,448,034
Total Liabilities	49,515,532	2,028,882	-	2,006,575	1,448,034	54,999,023
Commitments & contingencies	1,285,811	3,041,534	1,802,319	114,921	-	6,244,585

The cumulative maturities of commitments & contingencies are given in note 18 of the financial statements

*It does not include non-financial assets and liabilities.

b) Analysis of financial liabilities by the remaining undiscounted contractual maturities as at December 31, are as follows:

2018 SAR' 000	Within 3 Months	3 months to 1 year	Over one year to 5 years	Over 5 Years	No fixed Maturity	Total
Financial liabilities						
Due to banks and other financial institutions	**2,914,620**	**190,903**	**-**	**-**	**-**	**3,105,523**
Customers' deposits	**55,476,013**	**1,737,470**	**-**	**-**	**-**	**57,213,483**

2017 SAR' 000						
Financial liabilities						
Due to SAMA	2,014,309	-	-	-	-	2,014,309
Due to banks and other financial institutions	1,237,279	515,578	-	-	-	1,752,857
Customers' deposits	46,274,649	1,533,665	-	-	-	47,808,314

31. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The 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 accessible market for the asset or liability.
-

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;
Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
Level 3: valuation techniques for which any significant input is not based on observable market data.

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

		Fair value			
SAR' 000	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2018					
Financial assets measured at fair value					
Held as FVTPL	**400,083**	**54,496**	**345,587**	**-**	**400,083**
Held as FVOCI	**4,772,363**	**4,104,095**	**-**	**668,268**	**4,772,363**
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	**8,334,284**	**-**	**-**	**8,334,284**	**8,334,284**
Investments held at amortized cost	**1,293,264**	**-**	**-**	**1,293,264**	**1,293,264**
Financing, net	**50,593,033**			**50,014,077**	**50,014,077**

		Fair value			
SAR' 000	Carrying value	Level 1	Level 2	Level 3	Total
December 31, 2017					
Financial assets measured at fair value					
Available for sale investments	3,247,216	1,457,601	323,186	1,466,429	3,247,216
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	7,706,382	-	-	7,706,382	7,706,382
Investments held at amortized cost	1,892,801	-	-	1,892,801	1,892,801
Financing, net	43,447,429	-	-	42,356,960	42,356,960

		Fair value			
SAR' 000	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
December 31, 2018					
Financial liabilities not measured at fair value					
Due to SAMA	**-**	**-**	**-**	**-**	**-**
Due to banks and other financial institutions	**3,100,791**	**-**	**-**	**3,100,791**	**3,100,791**
Customers' deposits	**57,175,594**	**-**	**-**	**57,175,594**	**57,175,594**
Sukuk	**2,008,587**	**-**	**-**	**2,008,587**	**2,008,587**

		Fair value			
SAR' 000	Carrying value	Level 1	Level 2	Level 3	Total
December 31, 2017					
Financial liabilities not measured at fair value					
Due to SAMA	2,012,518	-	-	2,012,518	2,012,518
Due to banks and other financial institutions	1,748,937	-	-	1,748,937	1,748,937
Customers' deposits	47,782,959	-	-	47,782,959	47,782,959
Sukuk	2,006,575	-	-	2,006,575	2,006,575

The fair values of financial instruments which are not measured at fair value in these consolidated financial statements are not significantly different from the carrying values included in the consolidated financial statements.

The fair values, of profit bearing customer deposits, held at amortized cost investment, due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since either the current market profit rates for similar financial instruments are not significantly different from the contracted rates, or for the short duration of certain financial instruments particularly due from and due to banks and other financial institutions or a combination of both. An active market for these instruments is not available and the Group intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

Financing classified as level 3 have been valued using expected cash flows discounted at relevant SIBOR.

Fair Value Through Other Comprehensive Income (FVOCI) and Available for sale investments classified as level 3 include unlisted sukuk which have been measured by the management at fair value using broker quotes or estimating present value by discounting cash flows using adjusted discount rate. The adjusted discount rate is calculated using CDS of a similar entity using publicly available information. The valuation method has been approved by ALCO.

During the current year, no financial assets / liabilities have been transferred between level 1 and / or level 2 fair value hierarchy.

Reconciliation of level 3 fair values held as FVOCI

	December 31, 2018 SAR' 000	December 31, 2017 SAR' 000
Balance at the beginning of the year	**1,466,429**	628,144
Purchase	**256,250**	830,284
Sales	**(1,048,754)**	-
Gain / (loss) included in OCI		
Net changes in fair value (unrealised)	**(5,657)**	8,001
Total	**668,268**	1,466,429

32. RELATED PARTY BALANCES AND TRANSACTIONS

In the ordinary course of business, the Group transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. Major shareholders are those shareholders who own 5% or more of the Bank's issued share capital. Key management personnel include the Chief Executive Officer and other officers having authority and responsibility for planning, directing, and controlling the activities of the Bank. The nature and balances of transactions with the related parties for the years ended December 31 are as follows:

	2018 **SAR' 000**	2017 SAR' 000
a) Directors, Key management personnel, other major shareholders and their affiliates balances:		
- Financing	**2,274,067**	2,042,234
- Commitments and contingencies	**78,726**	81,512
- Deposits	**227,408**	175,239

	2018 **SAR' 000**	2017 SAR' 000
b) Group's mutual funds*:		
These are the outstanding balances with Group's mutual funds as of December 31:		
- Customers' deposits	**8,758**	196
- Investments – units	**221,307**	220,367

c) Income and expense:

Directors, Key management personnel, other major shareholders and their affiliates and mutual funds managed by the Group:

	2018 **SAR' 000**	2017 SAR' 000
- Income	**114,106**	91,422
- Expenses	**15,683**	18,035

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

	2018 **SAR' 000**	2017 SAR' 000
- Employee benefits	**76,300**	69,523

33. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

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

The following table summarizes the Group's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios.

	2018	2017
	SAR' 000	SAR' 000
Credit Risk RWA	**55,268,406**	49,050,813
Operational Risk RWA	**5,572,623**	4,899,270
Market Risk RWA	**231,436**	1,512,788
Total Pillar-I RWA	**61,072,465**	55,462,871
Tier I Capital	**7,890,012**	7,588,793
Tier II Capital	**2,690,855**	2,693,286
Total Tier I & II Capital	**10,580,867**	10,282,079
Capital Adequacy Ratio %		
Tier I ratio	**12.92%**	13.68%
Tier I + Tier II ratio	**17.33%**	18.54%

34. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank offers investment management services to its customers through its subsidiary, AlBilad Investment Company. These services include the management of seven public mutual funds (2017: seven public mutual funds) with assets under management (AUM) totaling SAR 1,053 million (2017: SAR 921 million). Al Bilad Investment acts as the fund manager of these funds. All of these funds comply with Shariah rules and are subject to Shariah controls on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors.

The Group also manages private investment portfolios on behalf of its customers amounting to SAR 1,240 million (2017: SAR 1,105 million). The financial statements of these funds and private portfolios are not included in the consolidated financial statements of the Group. However, the transactions between the Group and the funds are disclosed under related party transactions (see note 32).

35. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

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

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

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

Transition to IFRS 16

The Bank plans to adopt IFRS 16 prospectively, in that, comparative periods are not restated. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Bank has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

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

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

36. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year presentation.

37. BOARD OF DIRECTORS’ APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Bank’s Board of Directors on 24 Jumada ‟ Al Awwal 1440H (corresponding to 30 January, 2019).