Notes to the Consolidated Financial Statements

1 General

(a) Incorporation and operation

Al Rajhi Banking and Investment Corporation, a Saudi Joint Stock Company, (the "Bank"), was formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qadah 1407H (corresponding to 29 June 1987) and in accordance with Article 6 of the Council of Ministers' Resolution No. 245, dated 26 Shawal 1407H (corresponding to 23 June 1987).

The Bank operates under Commercial Registration No. 1010000096 and its Head Office is located at the following address:

Al Rajhi Bank
8467, King Fahd Road – Al Muruj District
Unit No. 1
Riyadh 12263 – 2743
Kingdom of Saudi Arabia

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and Bylaws, the Banking Control Law and the Council of Ministers' Resolution referred to above. The Bank is engaged in banking and investment activities inside and outside the Kingdom of Saudi Arabia through 581 branches (2017: 599 branches) including the branches outside the Kingdom and 13,532 employees (2017: 13,077 employees). The Bank has established certain subsidiary companies (together with the Bank hereinafter referred to as "the Group") in which it owns all or majority of their shares as set out below [Also see Note 3 (b)]:

Name of subsidiaries	Beneficial shareholding percentage 2018 %	2017 %	
Al Rajhi Development Company – KSA	100	100	A limited liability company registered in the Kingdom of Saudi Arabia to support the mortgage programmes of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank, provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.
Al Rajhi Corporation Limited – Malaysia	100	100	A licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia.
Al Rajhi Capital Company – KSA	100	100	A limited liability company registered in the Kingdom of Saudi Arabia to act as principal agent and/or to provide brokerage, underwriting, managing, advisory, arranging and custodial services.
Al Rajhi Bank – Kuwait	100	100	A foreign branch registered with the Central Bank of Kuwait.
Al Rajhi Bank – Jordan	100	100	A foreign branch operating in Hashemie Kingdom of Jordan, providing all financial, banking, and investments services and importing and trading in precious metals and stones in accordance with Islamic Sharia rules and under the applicable banking law.
Al Rajhi Takaful Agency Company – KSA	99	99	A limited liability company registered in the Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative Insurance Company.
Al Rajhi Company for Management Services – KSA	100	100	A limited liability company registered in the Kingdom of Saudi Arabia to provide recruitment services.

The subsidiaries are wholly or substantially owned by the Bank and therefore, the non-controlling interest which is insignificant is not disclosed. All the above-mentioned subsidiaries have been consolidated. As of 31 December 2018 and 2017, interests in subsidiaries not directly owned by the Bank are owned by representative shareholders for the beneficial interest of the Bank.

(b) Sharia Authority

As a commitment from the Bank for its activities to be in compliance with Islamic Sharia legislations, since its inception, the Bank has established a Sharia Authority to ascertain that the Bank's activities are subject to its approval and control. The Sharia Authority had reviewed several of the Bank's activities and issued the required decisions thereon.

2 Basis of Preparation

(a) Statement of compliance

The (consolidated) financial statements of the Bank (Group) 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 preparation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investments held as fair value through statement of income ("FVSI") and fair value through other comprehensive income ("FVOCI") investments.

The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 27.2.

(c) Functional and presentation currency

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

(d) Critical accounting judgements, estimates and assumptions

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Bank, based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur. Significant areas where management has used estimates, assumptions or exercised judgements is as follows:

(i) Impairment losses on financial assets

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

The 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 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 of financial instruments

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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** – Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3** – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

(iii) Determination of control over investees

The control indicators are subject to management's judgements that can have a significant effect in the case of the Bank's interests in investments funds.

Investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried profits and expected management fees) and the investor's rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

(iv) Provisions for liabilities and charges

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

(v) Going concern

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

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 31 December, 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. The impact and disclosures pertaining to adoption of IFRS 9 has been disclosed in the later part of these financial statements.

Adoption of New Standards

Effective 1 January 2018, the Group has adopted the following accounting standards and the impact of the adoption of these standards is explained below.

Except for the adoption of the following new accounting standards, several other amendments and interpretations apply for the first time in 2018, but do not have impact on the consolidated financial statements of the Bank.

Adoption of 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 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRSs. 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.

IFRS 15 also includes a comprehensive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Bank has assessed that the impact of IFRS 15 is not material on the consolidated financial statements of the Group as at the initial adoption and the reporting date.

Adoption of IFRS 9 – Financial instruments

The Bank has adopted IFRS 9 – Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

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

Classification of financial assets and financial liabilities

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

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

Impairment of financial assets

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

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

IFRS 7 – Financial Instruments: Disclosures

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures were updated and the Bank has adopted it, together with IFRS 9, for year beginning 1 January 2018. Changes include transition disclosures as shown in Note 3, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 27.

Reconciliations from opening to closing ECL allowances are presented in Notes 7.

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 financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
    i. The determination of the business model within which a financial asset is held.
    ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVSI.
    iii. The designation of certain investments in equity instruments not held for trading as FVOCI.

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

A. Financial assets and financial liabilities

(i) 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 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39 (SAR '000)	New carrying value under IFRS 9 (SAR '000)
Financial assets				
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks	Loans and receivables	Amortised cost	48,282,471	48,282,471
Due from banks and other financial institutions	Loans and receivables	Amortised cost	10,709,795	10,705,849
Investments held at amortised cost				
Murabaha with Saudi Government and SAMA	Held to maturity	Amortised cost	23,452,869	23,437,245
Sukuk	Held to maturity	Amortised cost	9,805,139	9,775,876
	Held to maturity	FVTPL	800,000	800,000
Investments held as FVSI				
Equity investments	FVSI	FVOCI	23,487	23,487
Mutual funds	FVSI	FVTPL	389,193	389,193
Available-for-sale investments				
Equity investments	Available for sale	FVOCI	771,293	771,293
Mutual funds	Available for sale	FVTPL	1,034,286	1,034,286
Financing, net	Loans and receivables	Amortised cost	233,535,573	230,701,718
			328,804,106	325,921,418
Financial liabilities				
Due to banks and other financial institutions	Amortised cost	Amortised cost	5,522,567	5,522,567
Customers' deposits	Amortised cost	Amortised cost	273,056,445	273,056,445
Other liabilities	Amortised cost	Amortised cost	8,786,598	8,786,598
			287,365,610	287,365,610

(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 1 January 2018.

	IAS 39 carrying amount as at 31 December 2017 (SAR '000)	Reclassification (SAR '000)	Re-measurement (SAR '000)	IFRS 9 carrying amount as at 1 January 2018 (SAR '000)
Financial assets				
Amortised cost				
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks:				
Opening balance	48,282,471	–	–	–
Closing balance	48,282,471	–	–	**48,282,471**
Due from banks and other financial institutions				
Opening balance	10,709,795	–	–	–
Remeasurement (ECL allowance) (Note 1)	–	–	(3,946)	–
Closing balance	10,709,795	–	(3,946)	**10,705,849**
Financing – Net:				
Opening balance	233,535,573	–	–	–
Remeasurement (ECL allowance) (Note 1)	–	–	(2,833,855)	–
Closing balance	233,535,573	–	(2,833,855)	**230,701,718**
Investment:				
Opening balance	34,058,008	–	–	–
To FVTPL	–	(800,000)	–	–
Remeasurement (ECL allowance) (Note 1)	–	–	(44,887)	–
Closing balance	34,058,008	(800,000)	(44,887)	**33,213,121**
Total financial assets	326,585,847	(800,000)	(2,882,688)	**322,903,159**

Note 1: Impairment allowance is increased due to change from incurred to expected credit loss (ECL).

Notes to the Consolidated Financial Statements

	IAS 39 carrying amount as at 31 December 2017 (SAR '000)	Reclassification (SAR '000)	Remeasurement (SAR '000)	IFRS 9 carrying amount as at 1 January 2018 (SAR '000)
Financial assets				
Available for sale				
Investment:				
Opening balance	1,805,579	–	–	–
Transferred to:				
FVOCI – equity (Note 1)	–	(771,293)	–	–
FVSI (Note 2)	–	(1,034,286)	–	–
Total available for sale	1,805,579	(1,805,579)	–	–
FVSI				
Investment:				
Opening balance	412,680	–	–	–
From available for sale (Note 2)	–	1,034,286	–	–
From amortised cost (Note 3)	–	800,000	–	–
Transfer to FVOCI (Note 1)	–	(23,487)	–	–
Total FVSI	412,680	1,810,799	–	**2,223,479**
FVOCI				
Investment:				
Opening balance	–	–	–	–
From available for sale	–	771,293	–	–
From FVSI	–	23,487	–	–
Total FVOCI	–	794,780	–	**794,780**
Financial liabilities				
At Amortised cost				
Due to banks and other financial institutions	5,522,567	–	–	**5,522,567**
Customers deposits	273,056,445	–	–	**273,056,445**
Other liabilities	8,786,598	–	–	**8,786,598**
Total at amortised cost	287,365,610	–	–	**287,365,610**

Note 1: The Bank has elected to irrevocably designate equity investments of SAR 771.293 Mn. in a portfolio of non trading equity securities at FVOCI as permitted under IFRS 9. These securities were previously classified as available for sale. Upon disposal of equity investment, any balances within the OCI reserve (fair value movement) for these investments will no longer be reclassified to profit or loss. Moreover, equity investments amounting to SAR 23.487 Mn. were reclassified from FVSI to FVOCI.

Note 2: The Bank holds a portfolio of mutual funds that failed to meet the solely payments of principal and interest (SPPI) requirement for Amortised cost/FVOCI classification under IFRS 9. As a result, these funds which amounted to SAR 1,034,286 Mn. were classified as FVSI from the date of initial application.

Note 3: The Bank holds investment in certain Sukuk that failed to meet the solely payments of principal and interest (SPPI) requirement. As a result, these Sukuk amounted to SAR 800 Mn. were classified as FVSI from the date of initial application.

(iii) Impact on retained earnings and other reserves

	Retained earnings (SAR '000)	Other reserves (SAR '000)
Closing balance under IAS 39 (31 December 2017)	13,906,736	5,281,682
Reclassifications under IFRS 9	129,789	(129,789)
Recognition of expected credit losses under IFRS 9	(2,882,688)	–
Opening balance under IFRS 9 (1 January 2018)	**11,153,837**	**5,151,893**

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

	31 December 2017 (IAS 39) (SAR '000)	Re-measurement (SAR '000)	**1 January 2018 (IFRS 9) (SAR '000)**
Allowance for impairment			
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)			
Due from banks and other financial institutions	–	3,946	**3,946**
Financing – net:	5,555,210	2,833,855	**8,389,065**
Investments	–	44,887	**44,887**
Total	5,555,210	2,882,688	**8,437,898**

(iv) The following table provides the carrying value of financial assets and financial liabilities in the Statement of Financial Position

	31 December 2018			
	Mandatorily at FVSI (SAR '000)	FVOCI – equity investments (SAR '000)	Amortised cost (SAR '000)	Total carrying amount (SAR '000)
Financial assets				
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks	–	–	43,246,043	43,246,043
Due from banks and other financial Institutions	–	–	30,808,011	30,808,011
Investments held at amortised cost				
Murabaha with Saudi Government and SAMA	–	–	22,477,145	22,477,145
Sukuk	–	–	17,395,957	17,395,957
Investments held as FVSI				
Mutual funds	1,141,584	–	–	1,141,584
Sukuk	800,000	–	–	800,000
FVOCI investments				
Equity investments	–	1,103,463	–	1,103,463
Financing, net	–	–	234,062,789	234,062,789
Total financial assets	1,941,584	1,103,463	347,989,945	351,034,992
Financial liabilities				
Due to banks and other financial institutions	–	–	7,289,624	7,289,624
Customers' deposits	–	–	293,909,125	293,909,125
Other liabilities	–	–	15,251,063	15,251,063
Total financial liabilities	–	–	316,449,812	316,449,812

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	31 December 2017							
	Note	Trading (SAR '000)	Designated as at FVSI (SAR '000)	Held to maturity (SAR '000)	Loans and receivables (SAR '000)	Available for sale (SAR '000)	Other amortised (SAR '000)	Total carrying amount (SAR '000)
Financial assets								
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks		–	–	–	48,282,471	–	–	48,282,471
Due from banks and other financial Institutions		–	–	–	10,709,795	–	–	10,709,795
Investments held at amortised cost								
Murabaha with Saudi Government and SAMA		–	–	23,452,869	–	–	–	23,452,869
Sukuk		–	–	10,605,139	–	–	–	10,605,139
Investments held as FVSI								
Equity investments		–	23,487	–	–	–	–	23,487
Mutual funds		–	389,193	–	–	–	–	389,193
Available-for-sale investments								
Equity investments		–	–	–	–	771,293	–	771,293
Mutual funds		–	–	–	–	1,034,286	–	1,034,286
Financing, net		–	–	–	233,535,573	–	–	233,535,573
Total financial assets		–	412,680	34,058,008	292,527,839	1,805,579	–	328,804,106
Financial liabilities								
Due to banks and other financial institutions		–	–	–	–	–	5,522,567	5,522,567
Customers' deposits		–	–	–	–	–	273,056,445	273,056,445
Other liabilities		–	–	–	–	–	8,786,598	8,786,598
Total financial liabilities		–	–	–	–	–	287,365,610	287,365,610

(b) Policies applicable from 1 January 2018

1. Classification of financial assets

On initial recognition, a financial asset is classified and measured at: amortised cost, FVOCI or FVSI.

Financial asset at amortised cost

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

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

Financial 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 FVSI:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 FVSI

All other financial assets are classified as measured at FVSI.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVSI 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.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- 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 realised.

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

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the 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 interest rates.

Reclassification

The Bank reclassifies the financial assets between FVSI, FVOCI and amortised cost if and only if under rare circumstances its business model objective for its financial assets changes so its previous business model assessment would no longer apply.

Financing and Investment

The Bank offers profit based products including Mutajara, instalment sales, Murabaha and Istisnaa to its customers in compliance with Sharia rules.

The Bank classifies its Principal financing and Investment as follows:

Financing: These financing represents loans granted to customers. These financings mainly constitute four broad categiries i.e. Mutajara, Installment sales, Murabaha and credit cards. The Bank classifies these financings at amortised cost.

Due from banks and other financial institutions: These consists of placements with financial Institutions (FIs). The Bank classifies these balances due from banks and other financial institutions at amortised cost as they are held to collect contractual cash flows and pass SPPI criterion.

Investments (Murabaha with SAMA): These investments consists of placements with Saudi Arabian Monetary Authority (SAMA). The Bank classifies these investments at amortised cost as they are held to collect contractual cash flows and pass SPPI criterion.

Investments (Sukuk): These investments consists of Investment in various Sukuk. The Bank classifies these investment at amortised cost except for those Sukuk which fails SPPI criterion, are classified at FVSI.

Equity Investments: These are the strategic equity investments which the Bank does not expect to sell, for which Bank has made an irrevocable election on the date of initial recognition to present the fair value changes in other comprehensive income.

Investments (Mutual Funds): The investments consist of Investment in various Mutual Funds. The Bank classifies these investment at FVSI as these investments fail SPPI criterion.

2. Classification of financial liabilities

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

All amounts due to banks and other financial institutions and customer deposits are initially recognised at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through profit or loss.

3. Derecognition

(a) Financial assets

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

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

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

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

(b) Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

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 derecognised and a new financial asset is recognised at fair value.

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

(b) Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

5. Impairment

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

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

No impairment loss is recognised on equity investments.

The 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. It is measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the 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 loan 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 derecognised and ECL are measured as follows:

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

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

Credit-impaired financial assets

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

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

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

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

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

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

- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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 amortised cost: as a deduction from the gross carrying amount of the assets;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan 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.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank'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. Any subsequent recoveries are credited to credit loss expense.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as 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 ECL. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or market securities relating to margining requirements, is valued daily.

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, or based on housing price indices.

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.

6. Financial guarantees and loan 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. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

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

- from 1 January 2018: at the higher of this amortised amount and the amount of loss allowance; and
- Before 1 January 2018: at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

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

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

7. Foreign Currencies

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

Realised and unrealised gains or losses on exchange are credited or charged to the interim condensed consolidated statement of comprehensive income.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of available-for-sale equity instruments (before 1 January 2018) or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (from 1 January 2018) are recognised in OCI.

The monetary assets and liabilities of foreign subsidiaries are translated into SAR at rates of exchange prevailing at the date of the interim condensed consolidated statement of financial position. The statements of income of foreign subsidiaries are translated at the weighted average exchange rates for the year.

8. 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 payment service system, share trading services, remittance business, SADAD and Mudaraba (i.e. subscription, management and performance fees), should be recognised at the point when services are rendered i.e. when performance obligation is satisfied.

1. Financing and Investment

The Bank offers non-profit based products including Mutajara, instalment sales, Murabaha and Istisnaa to its customers in compliance with Sharia rules.

The Bank classifies its principal financing and investment as follows:

i. **Held at amortised cost** – such financing and certain investments which meets the definition of loans and receivables under IAS 39, are classified as held at amortised cost, and comprise Mutajara, instalment sale, Istisnaa, Murabaha and credit cards operations accounts balances. Investments held at amortised cost are initially recognised at fair value and subsequently measured at amortised cost (using effective yield basis) less any amounts written off, and allowance for impairment.

Financings are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments. Financings are recognised when cash is advanced to borrowers. They are derecognised when either borrower repays their obligations, or the financings are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All financing are initially measured at fair value, plus incremental direct transaction costs (above certain threshold) and are subsequently measured at amortised cost using effective yield basis. Following the initial recognition, subsequent transfers between the various classes of financings is not ordinarily permissible. The subsequent period-end reporting values for various classes of financings are determined on the basis as set out in the following paragraphs.

ii. **Held to Maturity** – Investments having fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in value. Amortised 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 recognised in the consolidated statement of income when the investment is derecognised or impaired.

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

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.

iii. **Held as FVSI** – Investments in this category are classified as either investment held for trading or those designated as FVSI on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short term. These investments comprise mutual funds and equity investments. Such investments are measured at fair value and any changes in the fair values are charged to the consolidated statement of income. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVSI investments and are expensed in the consolidated financial statements. Investment income and dividend income on financial assets held as FVSI are reflected under other operating income in the consolidated statement of income.

Investments at FVSI are not reclassified subsequent to their initial recognition, except that non-derivative FVSI instruments, other than those designated as FVSI upon initial recognition, may be reclassified out of the FVSI (i.e. trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, and the following conditions are met:

- If the financial asset would have met the definition of financing and receivables, if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of financing and receivables, and then it may be reclassified out of the trading category only in "rare circumstances".

iv. **Available-for-sale** – Available-for-sale investments are those non-derivative equity securities 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 special commission rates, exchange rates or equity prices.

Investments which are classified as "available-for-sale" are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealised gains or losses arising from changes in fair value are recognised in other comprehensive income until the investment is de-recognised or impaired whereupon any cumulative gain or loss previously recognised in other comprehensive income are reclassified to consolidated statement of income. A security held as available-for-sale may be reclassified to "Other investments held at amortised cost" if it otherwise would have met the definition of "Other investments held at amortised cost" and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

2. Impairment of financial assets

Held at amortised cost

An assessment is made at the date of each consolidated statement of financial position to determine whether there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset or a group of financial assets and that a loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If such evidence exists, the difference between the assets carrying amount and the present value of estimated future cash flows is calculated and any impairment loss, is recognised for changes in the asset's carrying amount. The carrying amount of the financial assets held at amortised cost, is adjusted either directly or through the use of an allowance for impairment account, and the amount of the adjustment is included in the Consolidated Statement of Income.

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

Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are essentially based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such allowance for impairment. In addition to the specific allowance for impairment described above, the Bank also makes collective impairment allowance for impairment, which are evaluated on a group basis and are created for losses, where there is objective evidence that unidentified losses exist at the reporting date. The amount of the provision is estimated based on the historical default patterns of the investment and financing counter-parties as well as their credit ratings, taking into account the current economic climate. In assessing collective impairment, the Bank also uses internal loss estimates and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Loss rates are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

The criteria that the Bank uses to determine that there is an objective evidence of impairment loss include:

- Delinquency in contractual payments of principal or profit.
- Cash flow difficulties experienced by the customer.
- Breach of repayment covenants or conditions.
- Initiation of bankruptcy proceedings against the customer.
- Deterioration of the customer's competitive position.
- Deterioration in the value of collateral.

When financing amount is uncollectible, it is written-off against the related allowance for impairment. Such financing is written-off after all necessary procedures have been completed and the amount of the loss has been determined.

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.

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 recognised (such as an improvement in the customer's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance for impairment account. The amount of the reversal is recognised in the statement of income as impairment charge. Financial assets are written-off only in circumstances where effectively all possible means of recovery have been exhausted.

Collectively assessed impairment allowances are provided for:

- Portfolios of homogeneous assets mainly relating to the retail financing portfolio that are individually not significant.
- On the corporate portfolio for financing where losses have been incurred but not yet identified, by using historical experience, judgement and statistical techniques.

Available for-sale equity investments

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

3. De-recognition of financial assets and financial liabilities

- 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 expire or the asset is transferred and the transfer qualifies for de-recognition.
- A financial liability (or a part of a financial liability) can only be derecognised when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

4. Guarantees

In the ordinary course of business the Bank gives guarantees which include letters of credit, letters of guarantee, acceptances and stand-by letters of credit. Initially, the received margins are recognised as liabilities at fair value, being the value of the premium received and included in customers' deposits in the consolidated financial statements. Subsequent to the initial recognition, 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. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in "impairment charge for credit losses, net". The premium received is recognised in the consolidated statement of income under "Fees from banking services, net" on a straight line basis over the life of the guarantee.

5. Foreign currencies

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is also the Bank's functional currency. Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are translated into SAR at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in foreign operations are translated into SAR at exchange rates prevailing on the reporting date.

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

Foreign exchange gains or losses from settlement of transactions and translation of period end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

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

As at the reporting date, the assets and liabilities of foreign operations are translated into SAR at the rate of exchange as at the statement of financial position date, and their statement of incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognised in the statements of other comprehensive income.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the statement of income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

(b) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as set out in note 1 to these financial statements (collectively referred to as "the Group"). The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect amount of its returns.

When the Group has less than majority of the voting or similar rights of an investee entity, the Bank considers all relevant facts and circumstances in assessing whether it has power over the entity, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Bank's voting rights and potential voting rights granted by equity instruments such as shares

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it:

- derecognises the assets and liabilities of the subsidiary
- derecognises the cumulative translation differences recorded in shareholder's equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate as would be required if the Bank had directly disposed of the related assets or liabilities.

Intra-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements.

Investment in associate

An associate is an entity over which the Bank exercises significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint arrangement. Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted or the recoverable amount. Equity-accounted value represents the cost plus post-acquisition changes in the Bank's share of net assets of the associate (share of the results, reserves and accumulated gains/losses based on latest available financial statements) less impairment, if any.

The previously recognised impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of the investment in the statement of financial position remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount. On derecognition the difference between the carrying amount of investment in the associate and the fair value of the consideration received is recognised in the consolidated statement of income.

(c) Trade date

All regular way purchases and sales of financial assets are recognised and derecognised on the trade date (i.e. the date on which the Bank commits to purchase or sell the assets). Regular way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place. All other financial assets and financial liabilities (including assets and liabilities designated at fair value through statement of income) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

(d) Offsetting financial instruments

Financial assets and financial liabilities are offset and are reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts, and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

(e) Revenue recognition

The following specific recognition criteria must be met before revenue is recognised.

Income from Mutajara, Murabaha, investments held at amortised cost, instalment sale, Istisnaa financing and credit cards services is recognised based on the effective yield basis on the outstanding balances. The effective yield is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset . When calculating the effective yield, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses. Fees and commissions are recognised when the service has been provided.

Financing commitment fees that are likely to be drawn down and other credit related fees are deferred (above certain threshold) and, together with the related direct cost, are recognised 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 recognised on a straight-line basis over the commitment period.

Fee and commission income that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, over the period when the service is being provided i.e. related performance obligation is satisfied.

Fee and commission income that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, over the period when the service is being provided i.e. related performance obligation is satisfied.

Fees received for asset management, wealth Management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the service is being provided i.e. related performance obligation is satisfied . Asset management fees related to investment funds are recognised over the period the service is being provided. The same principle applies to Wealth management and Custody Services that are continuously recognised over a period of time.

Dividend income is recognised when the right to receive income is established which is generally when the shareholders approve the dividend. Dividends are reflected as a component of net trading income, net income from FVSI financial instruments or other operating income based on the underlying classification of the equity instrument.

Foreign currency exchange income/loss is recognised when earned/incurred.

Net trading income results from trading activities and include all realised and unrealised gains and losses from changes in fair value and related gross investment income or expense, dividends for financial assets and financial liabilities held for trading and foreign exchange differences.

Net income from FVSI financial instruments relates to financial assets and liabilities designated as FVSI and includes all realised and unrealised fair value changes, investment income, dividends and foreign exchange differences.

(f) Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of financing. Such real estate are considered as assets held for sale and are initially stated at the lower of net realisable value of due financing and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate. Rental income from other real estate is recognised in the consolidated statement of income.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets, to the extent this does not exceed the cumulative write down previously recognised are recognised, in the consolidated statement of income. Gains or losses on disposal are recognised in the consolidated statement of income.

(g) Investment properties

Investment properties are held for long-term rental yield and are not occupied by the Group. They are carried at cost, and depreciation is charged to the consolidated statement of income.

The cost of investment properties is depreciated using the straight-line method over the estimated useful life of the assets.

(h) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment loss. Land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful life of the assets, as follows:

- Leasehold land improvements over the lesser of the period of the lease or the useful life
  - Buildings 33 years
  - Leasehold building improvements over the lease period or 3 years, whichever is shorter
  - Equipment and furniture 3 to 10 years

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

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

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

(h) Customers' deposits

Customer deposits are financial liabilities that are initially recognised at fair value less transaction cost, being the fair value of the consideration received, and are subsequently measured at amortised cost.

(i) Provisions

Provisions are recognised when the Bank has present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(j) Accounting for leases

1. 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 Bank 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.

1. Where the Group is the lessor

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

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.

When assets are transferred under a finance lease, including assets under Islamic lease arrangements (e.g. Ijara Muntahia Bittamleek or Ijara with ownership promise) (if applicable) the present value of the lease payments is recognised as a receivable and disclosed under "Financing". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(k) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, 'cash and cash equivalents' include notes and coins on hand, balances with SAMA (excluding statutory deposits) and due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition which are subject to insignificant risk of changes in their fair value.

(l) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

(m) Special commission excluded from the consolidated statement of income

In accordance with the Sharia Authority's resolutions, special commission income (non-Sharia compliant income) received by the Bank, is excluded from the determination of financing and investment income of the Bank, and is transferred to other liabilities in the consolidated statement of financial position and is subsequently paid-off to charities institution.

(n) Provisions for employees' end of service benefits

The provision for employees' end of service benefits is accrued using actuarial valuation according to the regulations of Saudi labour law and local regulatory requirements.

(o) Share-based payments

The Bank's founders had established a share-based compensation plan under which the entity receives services from the eligible employees as consideration for equity instruments of the Bank which are granted the employees.

(p) Mudaraba funds

The Group carries out Mudaraba transactions on behalf of its customers, and are treated by the Group as being restricted investments. These are included as off balance sheet items. The Group's share of profits from managing such funds is included in the Group's consolidated statement of income.

(q) Zakat

As per the SAMA Circular No. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the Zakat and Income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

(r) Investment management services

The Bank provides investment management services to its customers, through its subsidiary which include management of certain mutual funds. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the Group's consolidated financial statements. The Group's share of these funds is included under FVSI investments. Fees earned are disclosed in the consolidated statement of income.

(s) Bank's products definition

The Bank provides its customers with banking products based on interest avoidance concept and in accordance with Sharia regulations. The following is a description of some of the financing products:

Mutajara financing:

It is a financing agreement whereby the Bank purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price, accordingly the client becomes debtor to the Bank with the sale amount and for the period agreed in the contract.

Instalment sales financing:

It is a financing agreement whereby the Bank purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price. Accordingly the client becomes a debtor to the Bank with the sale amount to be paid through instalments as agreed in the contract.

Istisnaa financing:

It is a financing agreement whereby the Bank contracts to manufacture a commodity with certain known and accurate specifications according to the client's request. The client becomes a debtor to the Bank for the manufacturing price, which includes cost plus profit.

Murabaha financing:

It is a financing agreement whereby the Bank purchases a commodity or asset and sells it to the client with a price representing the purchase price plus a profit known and agreed by the client which means that the client is aware of the cost and profit separately.

4 Cash and Balances with SAMA and Other Central Banks

Cash and balances with SAMA and central banks as of 31 December comprise the following:

	2018 (SAR '000)	2017 (SAR '000)
Cash in hand	**8,133,635**	8,595,037
Statutory deposit	**19,444,194**	17,952,252
Current account with SAMA	**293,214**	425,071
Mutajara with SAMA	**15,375,000**	21,310,111
Total	**43,246,043**	48,282,471

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA and central banks at stipulated percentages of its customers' demand deposits, customers' time investment and other customers' accounts calculated at the end of each Gregorian calendar month.

The above statutory deposits are not available to finance the Bank's day-to-day operations and therefore are not considered as part of cash and cash equivalents (Note 24), when preparing the consolidated statement of cash flows.

5 Due from Banks and Other Financial Institutions

Due from banks and other financial institutions as of 31 December comprise the following:

	2018 (SAR '000)	2017 (SAR '000)
Current accounts	**778,769**	825,908
Mutajara	**30,029,242**	9,883,887
Total	**30,808,011**	10,709,795

The table below depicts the quality of due from banks and other financial institutions as at 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Investment grade [credit rating (AAA to BBB-)]	**29,801,590**	10,142,259
Non-investment grade [credit rating (BB+ to B-)]	**750,591**	436,360
Unrated	**255,830**	131,176
Total	**30,808,011**	10,709,795

The credit quality of due from banks and other financial institutions is managed using external credit rating agencies. The above due from banks and other financial institution balances are neither past due nor impaired.

6 Investments, Net

(a) Investments comprise the following as of 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Investment in an associate	172,753	124,825
Investments held at amortised cost		
Murabaha with Saudi Government and SAMA	22,477,145	23,452,869
Sukuk	17,395,957	10,605,139
Less: Impairment (Stage 1)	(28,337)	–
Total investments held at amortised cost	39,844,765	34,058,008
Investments held as FVSI		
Equity investments	–	23,487
Mutual funds	1,141,584	389,193
Sukuk	800,000	–
Total investments held as FVSI	1,941,584	412,680
FVOCI investments		
Equity investments	1,103,463	771,293
Mutual funds	–	1,034,286
Total FVOCI investments	1,103,463	1,805,579
Investments	43,062,565	36,401,092

The designated FVSI investments included above are designated upon initial recognition as FVSI are in accordance with the documented risk management strategy of the Bank.

All investments held at amortised costs are neither past due nor impaired as of 31 December 2018.

Equity investment securities designated as at FVOCI

At 1 January 2018, the Bank designated its equity securities as at FVOCI. In 2017, these investments were classified as available for sale and FVSI. The FVOCI designation was made because the investments are expected to be held for the long-term for strategic purposes. The Bank does not hold these equity investments for trading purposes.

None of the material strategic investments were disposed of during 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Investment in an associate

The Bank owns 22.5% (31December 2017: 22.5%) shares of Al Rajhi Company for Cooperative Insurance, a Saudi Joint Stock Company.

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

	2018		
	Quoted (SAR '000)	Unquoted (SAR '000)	Total (SAR '000)
Murabaha with SAMA	–	22,477,145	22,477,145
Sukuk	–	18,167,620	18,167,620
Equities	1,251,854	24,362	1,276,216
Mutual funds	–	1,141,584	1,141,584
Total	1,251,854	41,810,711	43,062,565

	2017		
	Quoted (SAR '000)	Unquoted (SAR '000)	Total (SAR '000)
Murabaha with SAMA	–	23,452,869	23,452,869
Sukuk	–	10,605,139	10,605,139
Equities	896,118	23,487	919,605
Mutual funds	–	1,423,479	1,423,479
Total	896,118	35,504,974	36,401,092

(c) The analysis of unrecognised gains and losses and fair values of investments are as follows:

	2018			
	Gross carrying value (SAR '000)	Gross unrecognised gains (SAR '000)	Gross unrecognised losses (SAR '000)	Fair value (SAR '000)
Murabaha with SAMA	22,477,145	1,813	–	22,478,958
Sukuk	18,195,957	–	134,960	18,060,997
Equities	1,276,216	–	–	1,276,216
Mutual funds	1,141,584	–	–	1,141,584
Total	43,090,902	1,813	134,960	42,957,755

	2017			
	Gross carrying value (SAR '000)	Gross unrecognised gains (SAR '000)	Gross unrecognised losses (SAR '000)	Fair value (SAR '000)
Murabaha with SAMA	23,452,869	6,984	–	23,459,853
Sukuk	10,605,139	–	45,503	10,559,636
Equities	919,605	–	–	919,605
Mutual funds	1,423,479	–	–	1,423,479
Total	36,401,092	6,984	45,503	36,362,573

(d) Credit quality of investments

	2018 (SAR '000)	2017 (SAR '000)
Murabaha with SAMA	**22,477,145**	23,452,869
Sukuk – Investment grade	**18,195,957**	10,605,139
Total	**40,673,102**	34,058,008

Investment grade includes those investments having credit exposure equivalent to Standard & Poor's rating of AAA to BBB. The unrated category only comprise unquoted sukuks. Fitch has assigned A+ rating to the KSA as a country, as at 31 December 2018.

(e) The following is an analysis of foreign investments according to investment categories as at 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Investments held at amortised cost		
Sukuk	**1,539,271**	1,545,059
Investments held as FVSI		
Equity investments	**21,282**	21,300
Mutual funds	**562,477**	347,180
Total	**2,123,030**	1,913,539

(f) The following is an analysis of investments according to counterparties as at 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Government and quasi government	23,840,814	24,820,739
Companies	1,279,065	971,969
Banks and other financial institutions	16,829,439	9,184,905
Mutual funds	1,141,584	1,423,479
Less: Impairment	(28,337)	–
Net investments	43,062,565	36,401,092

7 Financing, Net

7.1 Financing

(a) Net financing as of 31 December comprises the following:

	2018			
	Performing (SAR '000)	Non-performing (SAR '000)	Allowance for impairment (SAR '000)	Net financing (SAR '000)
Mutajara	47,552,342	1,024,320	(2,562,159)	46,014,503
Instalment sale	175,407,901	591,541	(4,024,656)	171,974,786
Murabaha	14,671,326	662,570	(1,219,747)	14,114,149
Credit cards	1,973,379	11,881	(25,909)	1,959,351
Total	239,604,948	2,290,312	(7,832,471)	234,062,789

	2017			
	Performing (SAR '000)	Non-performing (SAR '000)	Allowance for impairment (SAR '000)	Net financing (SAR '000)
Mutajara	48,729,890	1,052,534	(2,387,590)	47,394,834
Instalment sale	172,631,262	521,289	(1,938,279)	171,214,272
Murabaha	15,058,355	175,196	(1,221,817)	14,011,734
Credit cards	901,097	21,160	(7,524)	914,733
Total	237,320,604	1,770,179	(5,555,210)	233,535,573

(b) The net financing by location, inside and outside the Kingdom, as of 31 December is as follows:

	2018				
	Mutajara (SAR '000)	Instalment sale (SAR '000)	Murabaha (SAR '000)	Credit cards (SAR '000)	Total (SAR '000)
Description					
Inside the Kingdom	48,576,662	171,615,775	11,108,714	1,978,461	233,279,612
Outside the Kingdom	–	4,383,667	4,225,182	6,799	8,615,648
Gross financing	48,576,662	175,999,442	15,333,896	1,985,260	241,895,260
Allowance for impairment	(2,562,159)	(4,024,656)	(1,219,747)	(25,909)	(7,832,471)
Net financing	46,014,503	171,974,786	14,114,149	1,959,351	234,062,789

	2017				
	Mutajara (SAR '000)	Instalment sale (SAR '000)	Murabaha (SAR '000)	Credit cards (SAR '000)	Total (SAR '000)
Description					
Inside the Kingdom	49,782,424	168,822,412	10,192,559	917,103	229,714,498
Outside the Kingdom	–	4,330,139	5,040,992	5,154	9,376,285
Gross financing	49,782,424	173,152,551	15,233,551	922,257	239,090,783
Allowance for impairment	(2,387,590)	(1,938,279)	(1,221,817)	(7,524)	(5,555,210)
Net financing	47,394,834	171,214,272	14,011,734	914,733	233,535,573

The table below depicts the categories of financing as per main business segments at 31 December:

	2018		
	Retail (SAR '000)	Corporate (SAR '000)	Total (SAR '000)
Mutajara	320,987	48,255,675	48,576,662
Instalment sale	169,178,633	6,820,809	175,999,442
Murabaha	373,612	14,960,284	15,333,896
Credit cards	1,985,260	–	1,985,260
Financing, gross	171,858,492	70,036,768	241,895,260
Less: Allowance for impairment	(4,050,565)	(3,781,906)	(7,832,471)
Financing, net	167,807,927	66,254,862	234,062,789

	2017		
	Retail (SAR '000)	Corporate (SAR '000)	Total (SAR '000)
Mutajara	132,645	49,649,779	49,782,424
Instalment sale	164,893,047	8,259,504	173,152,551
Murabaha	414,109	14,819,442	15,233,551
Credit cards	922,257	–	922,257
Financing, gross	166,362,058	72,728,725	239,090,783
Less: Allowance for impairment	(2,023,434)	(3,531,776)	(5,555,210)
Financing, net	164,338,624	69,196,949	233,535,573

(c) The table below summarises financing balances at 31 December that are neither past due nor impaired, past due but not impaired and impaired, as per the main business segments of the Group:

	2018					
	Neither past due nor impaired (SAR '000)	**Past due but not impaired (SAR '000)**	**Impaired (SAR '000)**	**Total (SAR '000)**	**Allowance for impairment (SAR '000)**	**Net financing (SAR '000)**
Retail	**170,978,735**	**276,300**	**603,457**	**171,858,492**	**(4,050,565)**	**167,807,927**
Corporate	**62,082,584**	**6,267,329**	**1,686,855**	**70,036,768**	**(3,781,906)**	**66,254,862**
Total	**233,061,319**	**6,543,629**	**2,290,312**	**241,895,260**	**(7,832,471)**	**234,062,789**

	2017					
	Neither past due nor impaired (SAR '000)	Past due but not impaired (SAR '000)	Impaired (SAR '000)	Total (SAR '000)	Allowance for impairment (SAR '000)	Net financing (SAR '000)
Retail	165,405,592	414,018	542,448	166,362,058	(2,023,434)	164,338,624
Corporate	67,503,558	3,997,436	1,227,731	72,728,725	(3,531,776)	69,196,949
Total	232,909,150	4,411,454	1,770,179	239,090,783	(5,555,210)	233,535,573

Financing past due for less than 90 days is not treated as impaired, unless other available information proves otherwise.

"Neither past due nor impaired" and "past due but not impaired" comprise total performing financing.

7.2 Allowance for impairment of financing

(a) The movement in the allowance for impairment of financing for the years ended 31 December is as follows:

	2018		
	Retail (SAR '000)	Corporate (SAR '000)	Total (SAR '000)
Closing allowance as at 31st December 2017 (calculated under IAS 39)	2,023,434	3,531,776	5,555,210
Amounts restated through opening retained earnings 3A (iii)	1,863,397	1,019,291	2,882,688
Opening impairment allowance as at 1 January 2018 (calculated under IFRS 9)	3,886,831	4,551,067	8,437,898
Charge for the year, net	1,774,673	982,523	2,757,196
Bad debts written off against provision	(1,610,939)	(1,751,684)	(3,362,623)
Balance at the end of the year	4,050,565	3,781,906	7,832,471

	2017		
	Retail (SAR '000)	Corporate (SAR '000)	Total (SAR '000)
Balance at beginning of the year	3,088,691	3,544,010	6,632,701
Charge for the year, net	1,575,624	1,063,367	2,638,991
Bad debts written off against provision	(2,640,881)	(1,075,601)	(3,716,482)
Balance at the end of the year	2,023,434	3,531,776	5,555,210

(b) The following table shows reconciliations from the opening to the closing balance of the impairment allowance for financings to customers at amortised cost.

	2018			
	12 month ECL (SAR '000)	Lifetime ECL not credit impaired (SAR '000)	Lifetime ECL credit impaired (SAR '000)	Total (SAR '000)
Financings to customers at amortised cost				
Balance at 1 January 2018	2,643,679	4,094,076	1,700,143	8,437,898
Transfer to 12 month ECL	411,893	(411,893)	–	–
Transfer to Lifetime ECL not credit impaired	(38,177)	112,134	(73,957)	–
Transfer to Lifetime ECL credit impaired	(8,766)	(329,629)	338,395	–
Charge for the period	138,418	361,338	2,468,622	2,968,378
Write-offs	(497,701)	(465,137)	(2,399,785)	(3,362,623)
Balance as at 31 December 2018	2,649,346	3,360,889	2,033,418	8,043,653

Closing balance as at 31 December 2018 includes impairment allowance related to off balance amounting to SAR 211 Mn. which is accounted for in other liabilities. Closing balance of Lifetime ECL credit impaired differs from total reported Non-Performing Loans (NPL) due to IFRS 9 implementation.

7.3 Impairment charge movement

The details of the impairment charge on financing for the year recorded in the consolidated statement of income is as follows:

	2018 (SAR '000)	2017 (SAR '000)
Charge for the year for on balance sheet	2,968,378	2,638,991
Charge for the year for off balance sheet	(211,182)	–
Recovery of written off financing, net	(1,226,250)	(1,091,414)
Allowance for impairment, net	1,530,946	1,547,577

7.4 Financing include finance lease receivables, which are as follows:

	2018 (SAR '000)	2017 (SAR '000)
Gross receivables from finance lease	30,551,173	33,802,769
Less than 1 year	4,485	1,234,258
1 to 5 years	22,201,101	24,357,231
Over 5 years	8,345,587	8,211,280
	30,551,173	33,802,769
Unearned future finance income on finance lease	(4,593,105)	(4,903,943)
Net receivables from finance lease	25,958,068	28,898,826

8 Property and Equipment, Net

Property and equipment, net comprises the following as of 31 December:

	Land (SAR '000)	Buildings (SAR '000)	Leasehold land and buildings improvements (SAR '000)	Equipment and furniture (SAR '000)	**Total 2018 (SAR '000)**
Cost					
At 1 January 2017	2,009,863	3,219,265	932,383	4,533,276	**10,694,787**
Additions	310,996	459,651	9,288	1,034,027	**1,813,962**
Disposals	(263)	(429)	–	(39,284)	**(39,976)**
At 31 December 2017	2,320,596	3,678,487	941,671	5,528,019	**12,468,773**
Additions	23,229	502,482	34,242	959,949	**1,519,902**
Disposals	–	–	(26,159)	(35,391)	**(61,550)**
At 31 December 2018	**2,343,825**	**4,180,969**	**949,754**	**6,452,577**	**13,927,125**
Accumulated depreciation					
At 1 January 2017	–	352,187	888,632	2,968,806	**4,209,625**
Charge for the year	–	58,684	14,403	367,479	**440,566**
Disposals	–	(430)	–	(39,115)	**(39,545)**
At 31 December 2017	–	410,441	903,035	3,297,170	**4,610,646**
Charge for the year	–	65,388	13,628	363,155	**442,171**
Disposals	–	–	–	(23,279)	**(23,279)**
At 31 December 2018	**–**	**475,829**	**916,663**	**3,637,046**	**5,029,538**
Net book value					
At 31 December 2018	**2,343,825**	**3,705,140**	**33,091**	**2,815,531**	**8,897,587**
At 31 December 2017	2,320,596	3,268,046	38,636	2,230,849	**7,858,127**

Buildings include work-in-progress amounting to SAR 2,172 Mn. as at 31 December 2018 (2017: SAR 1,803 Mn.).

Equipment and furniture includes information technology-related assets having net book value of SAR 2,573 Mn. as at 31 December 2018 (2017: SAR 2,082 Mn.).

9 Investment Properties, Net

Investment properties consist of properties acquired by the Group in the year 2016. The net book value of the investment properties approximates the fair value.

10 Other Assets, Net

Other assets, net comprise the following as of 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Receivables, net	879,916	1,270,554
Prepaid expenses	393,317	714,996
Assets in transit subject to financing	574,905	574,921
Accrued income	273,846	497,979
Cheques under collection	324,636	494,009
Advance payments	266,634	407,982
Other real estate	72,106	147,106
Others, net	843,885	907,917
Total	3,629,245	5,015,464

11 Due to Banks and Other Financial Institutions

Due to banks and other financial institutions comprise the following as of 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Current accounts	925,945	1,066,474
Banks' time investments	6,363,679	4,456,093
Total	7,289,624	5,522,567

12 Customers' Deposits

Customers' deposits by type comprise the following as of 31 December:

	2018 (SAR '000)	2016 (SAR '000)
Demand deposits	268,416,842	251,729,768
Customers' time investments	18,689,225	15,917,263
Other customer accounts	6,803,058	5,409,414
Total	293,909,125	273,056,445

The balance of the other customers' accounts includes margins on letters of credit and guarantees, cheques under clearance and transfers.

Customers' deposits by currency comprise the following as of 31 December:

	2018 (SAR '000)	2016 (SAR '000)
Saudi Arabian Riyals	282,460,829	260,388,240
Foreign currencies	11,448,296	12,668,205
Total	293,909,125	273,056,445

13 Other Liabilities

Other liabilities comprise the following as of 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Accounts payable	3,602,605	3,436,195
Provision for employees' end of service benefits (see Note 25)	901,970	848,422
Accrued expenses	974,599	837,597
Charities (see Note 31)	56,350	16,854
Zakat payable	6,348,660	–
Other	3,366,879	3,647,530
Total	15,251,063	8,786,598

14 Share Capital

The authorised, issued and fully paid share capital of the Bank consists of 1,625 million shares of SAR 10 each (2017: 1,625 million shares of SAR 10 each).

15 Statutory and Other Reserves

The Banking Control Law in Saudi Arabia and the By-Laws of the Bank require a transfer to statutory reserve at a minimum of 25% of the annual net income for the year. Such transfers continue until the reserve equals the paid up share capital. This reserve is presently not available for distribution.

Previously, the Bank was recording the amount of Zakat it calculates in other reserves until the final amount of Zakat payable can be determined.

As a major event, during the year, the Bank reach a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the Zakat Liability amounting to SAR 5,405,270,925 for previous years and until the end of the financial year 2017. The settlement agreement requires the Bank to settle the 20% of the agreed Zakat liability in the current year and the remaining to be settled over the period of five years. Accordingly the Bank have adjusted Zakat for the previous years and until the end of financial year 2017 through its retained earnings. As a result of the settlement agreement the Bank have agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to Zakat. Furthermore, Zakat for 2018 is amounted to SAR 943,389,178. In addition, there is 48 million has been paid related to ZAKAT 2017 and other payment.

In addition, other reserves includes FVOCI investments reserve, foreign currency translation reserve and employee share plan.

The movements in FVOCI investments, foreign currency reserves, and employee share plan are summarised as follows:

	2018			
	FVOCI investments (SAR '000)	**Foreign currency translation (SAR '000)**	**Employee share plan (SAR '000)**	**Total (SAR '000)**
Balance at beginning of the year	(80,130)	(74,311)	37,110	(117,331)
Impact of adopting IFRS 9	(129,789)	–	–	(129,789)
Net change in fair value	(49,798)	–	–	(49,798)
Exchange difference on translation of foreign operations	–	(52,637)	–	(52,637)
Balance at the end of the year	(259,717)	(126,948)	37,110	(349,555)

	2017			
	Available-for-sale investments (SAR '000)	Foreign currency translation (SAR '000)	Employee share plan (SAR '000)	Total (SAR '000)
Balance at the beginning of the year	58,179	(147,935)	37,110	(52,646)
Net change in fair value	201,825	–	–	201,825
Net amount transferred to consolidated statement of income	(340,134)	–	–	(340,134)
Exchange difference on translation of foreign operations	–	73,624	–	73,624
Balance at the end of the year	(80,130)	(74,311)	37,110	(117,331)

16 Commitments and Contingencies

(a) Legal proceedings

As at 31 December 2018, there were certain legal proceedings outstanding against the Bank in the normal course of business including those relating to the extension of credit facilities. Such proceedings are being reviewed by the concerned parties.

Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisors.

(b) Capital commitments

As at 31 December 2018, the Bank had capital commitments of SAR 170 million (2017: SAR 629 million) relating to contracts for computer software update and development, and SAR 65 million (2017: SAR 410 million) relating to building new workstation, and development and improvement of new and existing branches.

(c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required. Credit related commitments and contingencies mainly comprise letters of guarantee, standby letters of credit, acceptances and unused commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financing.

Letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate, and therefore, carry less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Cash requirements under guarantees and letters of credit are considerably less than the amount of the commitment because the Bank does not expect the third party to draw necessarily funds under the agreement.

Commitments to extend credit represent unused portions of authorisation to extended credit, principally in the form of financing, guarantees and letters of credit.

(d) Credit related commitments and contingencies

With respect to credit risk relating to commitments to extend unused credit, the Bank is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire without being funded.

Notes to the Consolidated Financial Statements

1. The contractual maturities of the Bank's commitments and contingent liabilities are as follows at 31 December:

	2018				
	Less than 3 months (SAR '000)	From 3 to 12 months (SAR '000)	From 1 to 5 years (SAR '000)	Over 5 years (SAR '000)	Total (SAR '000)
Letters of credit	562,899	417,925	1,945	–	982,769
Acceptances	261,183	208,706	–	–	469,889
Letters of guarantee	1,270,202	2,405,041	1,159,962	41,956	4,877,161
Irrevocable commitments to extend credit	2,459,684	2,901,726	855,965	265,061	6,482,436
Total	4,553,968	5,933,398	2,017,872	307,017	12,812,255

	2017				
	Less than 3 months (SAR '000)	From 3 to 12 months (SAR '000)	From 1 to 5 years (SAR '000)	Over 5 years (SAR '000)	Total (SAR '000)
Letters of credit	1,027,240	82,382	68,626	–	1,178,248
Acceptances	313,137	117,327	–	–	430,464
Letters of guarantee	1,790,856	1,986,680	1,183,423	8,396	4,969,355
Irrevocable commitments to extend credit	875,279	2,983,742	2,969,064	161,284	6,989,369
Total	4,006,512	5,170,131	4,221,113	169,680	13,567,436

2. The analysis of commitments and contingencies by counterparty is as follows as at 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Corporates	11,704,696	10,728,656
Banks and other financial institutions	1,107,559	2,838,780
Total	12,812,255	13,567,436

(d) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases, where the Bank is the lessee, are as follows as at 31 December:

	2018 (SAR '000)	2017 (SAR '000)
Less than 1 year	400	41,163
1 to 5 years	234,652	197,712
Over 5 years	52,458	56,362
Total	287,510	295,237

17 Net Financing and Investment Income

Net financing and investment income for the years ended 31 December comprises the following:

	2018 (SAR '000)	2017 (SAR '000)
Financing		
Corporate Mutajara	2,176,364	2,049,915
Instalment sale	9,055,152	8,533,438
Murabaha	684,999	691,807
Investments and other		
Murabaha with SAMA	1,092,878	673,238
Mutajara with banks	563,249	517,212
Income from sukuk	186,815	115,394
Gross financing and investment income	13,759,457	12,581,004
Return on customers' time investments	(346,796)	(360,084)
Return on due to banks and financial institutions' time investments	(159,928)	(191,503)
Return on customers', banks' and financial institutions' time investments	(506,724)	(551,587)
Net financing and investment income	13,252,733	12,029,417

18 Fee From Banking Services, Net

Fee from banking services, net for the years ended 31 December comprise the following:

	2018 (SAR '000)	2017 (SAR '000)
Fee income:		
Financing related	1,334,378	1,060,165
Drafts and remittances	397,142	437,953
Credit cards	499,007	400,823
Other electronic channel related	920,795	821,598
Brokerage and Asset Management	398,725	335,706
Other	362,150	358,759
Total fee income	3,912,197	3,415,004
Fee expenses:		
ATM Interchange related	(810,911)	(717,796)
Fee from banking services, net	3,101,286	2,697,208

19 Other Operating Income

Other operating income for the years ended 31 December comprises the following:

	2018 (SAR '000)	2017 (SAR '000)
Dividend income	39,852	30,176
(Loss)/Gain on sale of property and equipment, net	(115)	594
Rental income from investment property	115,280	81,592
Share in earnings of associate	47,928	35,545
Gain/(loss) on investments held as FVSI	14,600	12,635
Income from sale of various investments	–	3,374
Loss on sale of other real state	(32,000)	–
Gain on sale of equity investment	–	72,144
Other income, net	24,150	100,330
Total	209,695	336,390

20 Salaries and Employees' Related Benefits

The following tables provide an analysis of the salaries and employees' related benefits for the years ended 31 December:

	2018			
			Variable compensations paid	
	Number of employees	Fixed compensation (SAR '000)	Cash (SAR '000)	Shares
Executives	17	31,515	18,352	35,712
Employees engaged in risk-taking activities	1,460	391,876	57,459	15,818
Employees engaged in control functions	463	146,484	32,964	15,534
Other employees	11,592	1,876,868	197,110	18,360
Total	13,532	2,446,743	305,885	85,424
Accrued fixed compensations in 2018		148,136	–	–
Other employees' costs		214,570	–	–
Gross total	13,532	2,809,449	305,885	85,424

	2017			
			Variable compensations paid	
	Number of employees	Fixed compensation (SAR '000)	Cash (SAR '000)	Shares
Executives	18	29,328	18,588	30,577
Employees engaged in risk-taking activities	1,486	384,212	63,815	17,155
Employees engaged in control functions	363	169,956	27,097	12,221
Other employees	11,210	1,769,152	171,720	17,468
Total	13,077	2,352,648	281,220	77,421
Accrued fixed compensations in 2018		241,622	–	–
Other employees' costs		219,648	–	–
Gross total	13,077	2,813,918	281,220	77,421

Salaries and employees' related benefits include end of services, General Organisation for Social Insurance, business trips, training and other benefits.

As the Kingdom of Saudi Arabia is part of the G-20, instructions were given to all financial institutions in the Kingdom to comply with the standards and principles of Basel II and the Financial Stability Board.

SAMA, as the regulatory for financial institutions in Saudi Arabia, issued regulations on compensations and bonus in accordance with the standards and principles of Basel II and the Financial Stability Board.

In light of the above SAMA's regulations, the Bank issued compensation and bonuses policy which was implemented after the Board of Directors approval.

The scope of this policy is extended to include the Bank and its subsidiary companies (local and international) that are operating in the financial service sector. Accordingly, it includes all official employees, permanent and temporary contracted employees and service providers (contribution in risk position if SAMA allows the use of external resources).

For consistency with other banking institutions in the Kingdom of Saudi Arabia, the Bank has used a combination of fixed and variable compensation to attract and maintain talent. The fixed compensation is assessed on a yearly basis by comparing it to other local banks in the Kingdom of Saudi Arabia including the basic salaries, allowance and benefits which is related to the employees' ranks. The variable compensation is related to the employees performance and their compatibility to achieve the agreed on objectives. It includes incentives, performance bonus and other benefits. Incentives are mainly paid to branches' employees whereby the performance bonuses are paid to head office employees and others who do not qualify for incentives.

These bonuses and compensation are approved by the Board of Directors as a percentage of the Bank's income.

21 Other General and Administrative Expenses

Other general and administrative expenses for the years ended 31 December comprises the following:

	2018 (SAR '000)	2017 (SAR '000)
Communications & Utilities Expenses	356,061	310,007
Maintenance & Security Expenses	415,660	400,168
Cash Feeding & Transfer Expenses	327,112	329,331
Software & IT Support Expenses	178,317	161,396
Other Operational Expenses	648,368	470,150
Total	1,925,518	1,671,052

22 Earnings Per Share

Earnings per share for the years ended 31 December 2018 and 2017 have been calculated by dividing the net income for the year by the weighted average number of shares outstanding. The weighted average number of ordinary shares outstanding during the year is the number of ordinary shares outstanding at the beginning of the year, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor, if any. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the year.

23 Paid and Proposed Gross Dividends and Zakat

The Bank distributed dividends for the first half of 2018 amounting to SAR 3,250,000 thousand (i.e. SAR 2 per share) (2017: SAR 2,437,500 thousand (i.e. SAR 1.5 per share). Also the Bank proposed final dividends for the year 2018 amounting to SAR 3,656,250 thousand (i.e. SAR 2.25 per share) (2017: SAR 4,062,500 thousand i.e. SAR 2.5 per share).

24 Cash and Cash Equivalents

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

	2018 (SAR '000)	2017 (SAR '000)
Cash in hand	8,133,635	8,595,037
Due from banks and other financial institutions maturing within 90 days from the date of purchased	5,984,654	891,976
Balances with SAMA and other central banks (current accounts)	293,214	425,071
Mutajara with SAMA	15,375,000	21,310,111
Total	29,786,503	31,222,195

25 Employee Benefit Obligations

25.1 General description

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

25.2 The amounts recognised 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	848,422	761,671
Current service cost	107,685	97,475
Interest cost	85,995	34,579
Benefits paid	(140,132)	(74,824)
Remeasurement loss/(gain)	–	29,521
Defined benefit obligation at the end of the year	901,970	848,422

25.3 Charge/(reversal) for the year

	2018 (SAR '000)	2017 (SAR '000)
Current service cost	106,152	97,475
Past service cost	1,533	–
	107,685	97,475

25.4 Remeasurement recognised in other comprehensive income

	2018 (SAR '000)	2017 (SAR '000)
(Gain)/loss from change in demographic assumptions	–	601
(Gain)/loss from change in experience assumptions	–	20,094
(Gain)/loss from change in financial assumptions	–	8,826
	–	29,521

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

	2018	2017
Discount rate	5.00%	4.50%
Expected rate of salary increase	3.00%	3.50%
Normal retirement age	60 years for male employees and 55 for female employees	60 years for male employees and 55 for female employees

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

25.6 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the defined benefit obligation valuation as at 31 December 2018 to the discount rate (5%), salary escalation rate (3.00%), withdrawal assumptions and mortality rates.

2018	Impact on defined benefit obligation – Increase/(Decrease)		
Base Scenario	Change in assumption	Increase in assumption (SAR '000)	Decrease in assumption (SAR '000)
Discount rate	+/- 100 basis points	(96,511)	115,452
Expected rate of salary increase	+/- 100 basis points	117,256	(99,217)
Normal retirement age	Increase or decrease by 20%	9,020	(10,824)

2017	Impact on defined benefit obligation – Increase/(Decrease)		
Base Scenario	Change in assumption	Increase in assumption (SAR '000)	Decrease in assumption (SAR '000)
Discount rate	+/- 100 basis points	(84,916)	121,031
Expected rate of salary increase	+/- 100 basis points	120,796	(86,419)
Normal retirement age	Increase or decrease by 20%	13,800	(3,252)

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

25.7 Expected maturity

Expected maturity analysis of undiscounted defined benefit obligation for the end of service plan is as follows:

As at 31 December 2018	Less than a year	1-2 years	2-5 years	Over 5 years	Total
901,970	61,300	71,836	244,884	572,808	950,828

The weighted average duration of the defined benefit obligation is 15 years.

26 Operating Segments

The Bank identifies operating segments on the basis of internal reports about the activities of the Bank that are regularly reviewed by the chief operating decision-maker, principally the Chief Executive Officer, in order to allocate resources to the segments and to assess its performance.

For management purposes, the Bank is organised into the following four main businesses segments:

Retail segment:	Includes individual customer deposits, credit facilities, customer debit current accounts (overdrafts) and fees from banking services.
Corporate segment:	Incorporates deposits of VIP, corporate customers deposits, credit facilities, and debit current accounts (overdrafts).
Treasury segment:	Includes treasury services, Murabaha with SAMA and international Mutajara portfolio and remittance business.
Investment services and brokerage segments:	Includes investments of individuals and corporates in mutual funds, local and international share trading services and investment portfolios.

Transactions between the above segments are on normal commercial terms and conditions. Assets and liabilities for the segments comprise operating assets and liabilities, which represents the majority of the Bank's assets and liabilities.

(a) The Bank's total assets and liabilities, together with its total operating income and expenses, and net income, as of and for the years ended 31 December for each segment are as follows:

	2018				
	Retail segment (SAR '000)	Corporate segment (SAR '000)	Treasury segment (SAR '000)	Investment services and brokerage segment (SAR '000)	Total (SAR '000)
Total assets	187,897,978	62,102,390	111,970,301	3,033,161	365,003,830
Total liabilities	273,503,541	18,947,567	23,868,335	130,369	316,449,812
Financing and investments income from external customers	8,968,075	2,790,552	1,976,310	24,520	13,759,457
Inter-segment operating income/(expense)	1,154,739	(697,360)	(457,379)	–	–
Gross financing and investment income	10,122,814	2,093,192	1,518,931	24,520	13,759,457
Return on customers', banks' and financial institutions' time investments	(124,676)	(213,870)	(159,928)	(8,250)	(506,724)
Net financing and investment income	9,998,138	1,879,322	1,359,003	16,270	13,252,733
Fees from banking services, net	1,848,899	570,304	283,358	398,725	3,101,286
Exchange income, net	143,513	40,892	571,399	–	755,804
Other operating income, net	25,019	–	62,699	121,977	209,695
Total operating income	12,015,569	2,490,518	2,276,459	536,972	17,319,518
Depreciation	(415,035)	(7,358)	(14,009)	(5,769)	(442,171)
Impairment charge for financing, net	(1,177,409)	(302,894)	(50,643)	–	(1,530,946)
Other operating expenses	(4,095,037)	(322,513)	(490,076)	(141,908)	(5,049,534)
Total operating expenses	(5,687,481)	(632,765)	(554,728)	(147,677)	(7,022,651)
Net income for the year	6,328,088	1,857,753	1,721,731	389,295	10,296,867

	2017				
	Retail segment (SAR '000)	Corporate segment (SAR '000)	Treasury segment (SAR '000)	Investment services and brokerage segment (SAR '000)	Total (SAR '000)
Total assets	183,869,949	63,535,245	92,783,499	2,927,835	343,116,528
Total liabilities	249,429,672	21,288,466	16,107,112	540,360	287,365,610
Financing and investments income from external customers	8,230,257	2,862,192	1,466,239	22,316	12,581,004
Inter-segment operating income/(expense)	984,000	(648,377)	(335,623)	–	–
Gross financing and investment income	9,214,257	2,213,815	1,130,616	22,316	12,581,004
Return on customers', banks' and financial institutions' time investments	(75,531)	(240,145)	(235,911)	–	(551,587)
Net financing and investment income	9,138,726	1,973,670	894,705	22,316	12,029,417
Fees from banking services, net	1,758,574	573,605	37,114	327,915	2,697,208
Exchange income, net	427,996	50,714	363,129	–	841,839
Other operating income, net	131,306	–	105,063	100,021	336,390
Total operating income	11,456,602	2,597,989	1,400,011	450,252	15,904,854
Depreciation	(410,957)	(10,866)	(12,834)	(5,910)	(440,566)
Impairment charge for financing, net	(1,191,115)	(355,917)	(545)	–	(1,547,577)
Other operating expenses	(3,985,776)	(460,695)	(218,634)	(130,880)	(4,795,985)
Total operating expenses	(5,587,847)	(827,478)	(232,013)	(136,790)	(6,784,128)
Net income for the year	5,868,755	1,770,511	1,167,998	313,462	9,120,726

(b) The Group's credit exposure by business segments as of 31 December is as follows:

	2018				
	Retail segment (SAR '000)	Corporate segment (SAR '000)	Treasury segment (SAR '000)	Investment services and brokerage segment (SAR '000)	Total (SAR '000)
Consolidated balance sheet assets	158,519,040	52,392,321	94,463,095	2,558,909	307,933,365
Commitments and contingencies excluding irrevocable commitments to extend credit	–	6,329,819	–	–	6,329,819

	2017				
	Retail segment (SAR '000)	Corporate segment (SAR '000)	Treasury segment (SAR '000)	Investment services and brokerage segment (SAR '000)	Total (SAR '000)
Consolidated balance sheet assets	164,609,073	62,660,677	51,727,163	2,927,835	281,924,748
Commitments and contingencies excluding irrevocable commitments to extend credit	–	6,776,468	–	–	6,776,468

27 Financial Risk Management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies, procedures and systems are designed to identify and analyse these risks and to set appropriate risk mitigates and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Credit and Risk Management Group ("CRMG") under policies approved by the Board of Directors. The CRMG identifies and evaluates financial risks in close co-operation with the Bank's operating units. The most important types of risks identified by the Bank are credit risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk, operational risk and price risk.

27.1 Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the CRMG which sets parameters and thresholds for the Bank's financing activities.

(a) Credit risk measurement

(i) Financing

The Bank has structured a number of financial products which are in accordance with Sharia law in order to meet the customers demand. These products are all classified as financing assets in the Bank's consolidated statement of financial position. In measuring credit risk of financing at a counterparty level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology. This risk rating methodology utilises a 10 point scale based on quantitative and qualitative factors with seven performing categories (rated 1 to 7) and three non-performing categories (rated 8-10). The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counterparty and assist in determining suitable pricing commensurate with the associated risk.

Specific provisions are evaluated individually for all different types of financing, whereas additional provisions are evaluated based on collective impairment of financing, and are created for credit losses where there is objective evidence that the unidentified potential losses are present at the reporting date. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The collective provision is based upon deterioration in the internal credit ratings allocated to the borrower or group of borrowers. These internal grading take into consideration factors such as the current economic condition in which the borrowers operate. Any deterioration in country risk, industry, as well as identified structural weaknesses or deterioration in cash flows.

(ii) Credit risk grades

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

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

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

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.
- 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.

(iii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its customers analysed by segment as well as by credit risk grading.

The Bank employs analytical techniques incorporating internal default estimates backed by transition matrices published by external agencies to construct PD term structures that can be applied to each exposure based on the its remaining lifetime. These PD tern structures are then adjusted to incorporate the impact of macroeconomic outlook to arrive at a forward looking estimate of PD across the lifetime.

For retail exposure, borrower and loan specific information collected at the time of application, repayment behaviour etc. are used to construct risk based segmentation using Chi-square Automatic Interaction Detection (CHAID) (or Decision Tree) technique. Risk segments are constructed to identify and aggregate customer with similar risk characteristics. For each risk segment thus formed, PD term structures are constructed using historical data that can be applied to each exposure based on its remaining lifetime.

Based on consideration of a variety of external actual and forecast information from published sources, the Bank formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macro economic models.

Risk rating 1

Exceptional – Obligors of unquestioned credit standing at the pinnacle of credit quality.

Risk rating 2

Excellent – Obligors of the highest quality, presently and prospectively. Virtually no risk in lending to this class, Cash flows reflect exceptionally large and stable margins of protection. Projected cash flows including anticipated credit extensions indicate strong liquidity levels and debt service coverage. Balance Sheet parameters are strong, with excellent asset quality in terms of value and liquidity.

Risk rating 3

Superior – Typically obligors at the lower end of the high quality range with excellent prospects. Very good asset quality and liquidity. Consistently strong debt capacity and coverage. There could however be some elements, which with a low likelihood might impair performance in the future.

Risk rating 4

Good – Typically obligors in the high end of the medium range who are definitely sound with minor risk characteristics. Elements of strength are present in such areas as liquidity, stability of margins, cash flows, diversity of assets, and lack of dependence on one type of business.

Risk rating 5

Satisfactory – These are obligors with smaller margins of debt service coverage and with some elements of reduced strength. Satisfactory asset quality, liquidity, and good debt capacity and coverage. A loss year or declining earnings trend may occur, but the borrowers have sufficient strength and financial flexibility to offset these issues.

Risk rating 6

Adequate – Obligors with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk, such borrowers have limited additional debt capacity, modest coverage, average or below average asset quality and market share. Present borrower performance is satisfactory, but could be adversely affected by developing collateral quality/adequacy etc.

Risk rating 7

Very high risk – Generally undesirable business constituting an undue and unwarranted credit risk but not to the point of justifying a substandard classification. No loss of principal or profit has taken place. Potential weakness might include a weakening financial condition, an unrealistic repayment program, inadequate sources of funds, or a lack of adequate collateral, credit information or documentation. The entity is undistinguished and mediocre. No new or incremental credits will generally be considered for this category.

Risk rating 8

Substandard – Obligors in default and 90 Days Past Due on repayment of their obligations. Unacceptable business credit. Normal repayment is in jeopardy, and there exists well defined weakness in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral. Specific provision raised as an estimate of potential loss.

Risk rating 9

Doubtful – Obligors in default and 180 Days Past Due (DPD) on their contracted obligations, however in the opinion of the management recovery/ salvage value against corporate and real estate obligors is a possibility, and hence write-off should be deferred. Full repayment questionable. Serious problems exist to the point where a partial loss of principle is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable. Specific provision raised as an estimate of potential loss. However, for retail obligors (except real estate) and credit cards, total loss is expected. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

Risk rating 10

Loss – Obligors in default and 360 Days Past Due (DPD) on their obligations. Total loss is expected. An uncollectible assets which does not warrant classification as an active asset. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

(iv) 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.

For Corporate portfolio, the Bank's assessment of significant increase in credit risk is based on facility level except for watch-list accounts whereby Bank assessment is based on counterparty. Significant increase in credit risk assessment for retail loans is carried out at customer level within same product family. All the exposures which are considered to have significantly increased in credit risk are subject to lifetime ECL.

The Bank considers all investment grade debt securities issued by sovereigns including Gulf Corporation Council (GCC) countries to have low credit risk.

(v) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Bank uses its internal credit risk grading system, external risk ratings, quantitative changes in PDs, delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition base on quantitative assessment and/or using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

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

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

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

The Bank classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1 for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Bank recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1.

Stage 2 for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Bank recognises an allowance for the lifetime ECL for all financings categorised in this stage based on the actual/expected behavioural maturity profile including restructuring or rescheduling of facilities.

Stage 3 for credit-impaired financial instruments, the Bank recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is used as stage 3.

(vi) Modified financial assets

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

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

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/ in default. A customer needs to demonstrate consistently good payment behaviour over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default.

(vii) Definition of "Default"

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

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

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

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

- Qualitative – e.g. breaches of 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.

(viii) 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. Based on consideration of a variety of external actual and forecast information from published sources, the Bank formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macroeconomic models.

The Bank considers scenarios in range of 3-5 years horizon (consistent with forecast available from public sources) beyond which long term average macroeconomic conditions prevail. Externally available macroeconomic forecast from International Monetary Fund (IMF) and Saudi Arabian Monetary Authority (SAMA) are used for making base case forecast. For other scenarios, adjustment are made to base case forecast based on expert judgement.

The base case represents a most-likely outcome as published by external sources. The other scenarios represent more optimistic and more pessimistic outcomes.

Economic Indicators	Weightage 2018 %
GDP growth rate	56.29
Government expenditure to GDP	43.71

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

(ix) Measurement of ECL

The Bank measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, CCF and discount rate.

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

i. probability of default (PD);

ii. loss given default (LGD);

iii. 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 and estimated prepayment rates.

For Retail portfolio, bank uses internal LGD models to arrive at the LGD estimates. For Corporate portfolio, bank used supervisory estimates of LGD.

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 amortisation. 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.

The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

(x) Credit quality analysis

(a) The following table sets out information about the credit quality of Financings measured at amortised cost.

	2018			
	12 month ECL (SAR '000)	Life time ECL not credit impaired (SAR '000)	Lifetime ECL credit impaired (SAR '000)	Total (SAR '000)
Carrying amount distribution by Grades				
Grade 1-3/(Aaa - A3)	8,322,229	–	–	8,322,229
Grade (4-6)/(Baa1 - B3)	44,981,511	12,217,422	–	57,198,933
Grade 7- Watch list/(Caa1 – C)	–	2,918,751	–	2,918,751
Non-performing	–	–	1,686,855	1,686,855
Total Corporate and non-performing	53,213,740	15,136,173	1,686,855	70,036,768
Total Retail (un-rated)	168,182,212	3,072,823	603,457	171,858,492
Total Carrying amount	221,395,952	18,208,996	2,290,312	241,895,260

(xi) Financings

(a) The net financing concentration risks and the related provision, by major economic sectors at 31 December are as follows:

Description	2018			
	Performing (SAR '000)	Non-Performing (SAR '000)	Allowance for impairment (SAR '000)	Net financing (SAR '000)
Commercial	19,670,493	746,180	(618,139)	19,798,534
Industrial	28,007,663	774,347	(696,112)	28,085,898
Building and construction	3,442,028	71,682	(82,411)	3,431,299
Consumer	171,255,069	603,423	(470,400)	171,388,092
Services	16,295,853	80,751	(75,584)	16,301,020
Agriculture and fishing	467,960	–	–	467,960
Others	465,882	13,929	(6)	479,805
Total	239,604,948	2,290,312	(1,942,652)	239,952,608
Collective allowance for impairment			(5,889,819)	(5,889,819)
Balance			(7,832,471)	234,062,789

Description	2017			
	Performing (SAR '000)	Non-Performing (SAR '000)	Allowance for impairment (SAR '000)	Net financing (SAR '000)
Commercial	26,967,699	513,822	(263,818)	27,217,703
Industrial	19,443,855	564,975	(518,704)	19,490,126
Building and construction	3,504,017	107,193	(178,804)	3,432,406
Consumer	165,819,609	542,448	(641,327)	165,720,730
Services	20,099,055	41,741	(25,689)	20,115,107
Agriculture and fishing	1,464,247	–	–	1,464,247
Others	22,122	–	–	22,122
Total	237,320,604	1,770,179	(1,628,342)	237,462,441
Collective allowance for impairment			(3,926,868)	(3,926,868)
Balance			(5,555,210)	233,535,573

(b) The tables below set out the aging of financing past due but not impaired as of 31 December:

Age	2018 Mutajara (SAR '000)	Instalment sale (SAR '000)	Credit cards (SAR '000)	Total (SAR '000)
up to 30 days	5,640,509	180,122	–	5,820,631
31-60 days	338,418	40,829	12,700	391,947
61-90 days	288,367	26,209	16,475	331,051
Total	6,267,294	247,160	29,175	6,543,629
Fair value of collateral	485,726	–	–	485,726

Age	2017 Mutajara (SAR '000)	Instalment sale (SAR '000)	Credit cards (SAR '000)	Total (SAR '000)
up to 30 days	2,645,513	256,582	–	2,902,095
31-60 days	437,734	82,667	10,627	531,028
61-90 days	914,189	51,569	12,573	978,331
Total	3,997,436	390,818	23,200	4,411,454
Fair value of collateral	594,752	–	–	594,752

The Banks in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in financings . These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. Real estate collaterals against financing are considered as held for sale and included in other assets.

The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realisable 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.

(c) The table below sets out gross balances of individually impaired financing, together with the fair value of related collateral held by the Group as at 31 December:

	2018 Retail (SAR '000)	Corporate (SAR '000)	Total (SAR '000)
Individually impaired financing	603,457	1,686,855	2,290,312
Fair value of collateral	–	485,726	485,726

	2017 Retail (SAR '000)	Corporate (SAR '000)	Total (SAR '000)
Individually impaired financing	542,448	1,227,731	1,770,179
Fair value of collateral	–	594,752	594,752

(d) The table below stratify credit exposures from corporate financing by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the financing or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowance.

	2018 (SAR '000)	2017 (SAR '000)
Less than 50%	**7,368,209**	2,965,647
51-70%	**12,531,682**	5,490,525
71-90%	**20,630,702**	8,113,447
91-100%	**17,198,582**	35,060,621
More than 100%	**2,492,999**	986,265
Total exposure	**60,222,174**	52,616,505

(b) Settlement risk

The Bank is also exposed to settlement risk in its dealings with other financial institutions. This risk arises when the Bank pays its side of the transaction to the other bank or counterparty before receiving payment from the third party. The risk is that the third party may not pay its obligation. While these exposures are short in duration but they can be significant. The risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures according to the risk rating of the counterparty.

(c) Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise-wide in scope. Strong risk management is integrated into daily processes, decision making and strategy setting, thereby making the understanding and management of credit risk the responsibility of every business segment. The following business units within the Bank assist in the credit control process:

- Corporate Credit Unit
- Credit Administration, Monitoring and Control Unit
- Remedial Unit
- Credit Policy Unit
- Retail Credit Unit

The monitoring and management of credit risk associated with these financing are made by setting approved credit limits. The Bank manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual customers and groups, and to industries and countries.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, 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 risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors.

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the executive committee.

Exposure to credit risk is also managed through regular analysis on the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising credit limits where appropriate.

Some other specific control and mitigation measures are outlined below:

c.1 Collateral

The Bank implements guidelines on the level and quality of specific classes of collateral, The principal collateral types are:

- Mortgages over residential and commercial properties.
- Cash, shares, and general assets for customer.
- Shares for Murabaha (collateralised share trading) transactions.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as traditional banking products of the Bank.

Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying goods to which they relate, and therefore, risk is partially mitigated.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of further financing products, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

(d) Impairment and provisioning policies

Allowance for impairment is recognised for financial reporting purposes only for stage 3 losses that have been incurred at the statement of financial position date based on objective evidence of impairment, and management judgment.

The table below sets out the maximum exposure to credit risk at the reporting date without considering collateral or other credit enhancements and includes the off-balance sheet financial instruments involving credit risks as at 31 December:

	2018 (SAR '000)	2017 (SAR '000)
On-balance sheet items Investments:		
Murabaha with Saudi Government and SAMA	22,477,145	23,452,869
Sukuk	18,195,957	10,605,139
Due from banks and other financial institutions	30,808,011	10,709,795
Financing, net		
Corporate	66,254,862	69,196,949
Retail	167,807,927	164,338,624
Total on-balance sheet items	305,543,902	278,303,376
Off-balance sheet items:		
Letters of credit and acceptances	1,452,658	1,608,712
Letters of guarantee	4,877,161	4,969,355
Irrevocable commitments to extend credit	6,482,436	6,989,368
Total off-balance sheet items	12,812,255	13,567,435
Maximum exposure to credit risk	318,356,157	291,870,811

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018 and 2017, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

27.2 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay deposits and financing parties and fulfil financing commitments. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the Bank help mitigate this risk. Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents.

Liquidity risk management process

The Bank's liquidity management process is as monitored by the Bank's Asset and Liabilities Committee (ALCO), includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Maintain diversified funding sources; and
- Liquidity management and asset and liability mismatching.

Monitoring and reporting take the form of analysing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured and ensured that they are within acceptable ranges. The Treasury/ ALCO also monitors, the level and type of undrawn lending commitments, usage of overdraft facilities and the potential impact of contingent liabilities such as standby letters of credit and guarantees may have on the Bank's liquidity position.

The tables below summarise the maturity profile of the Bank's assets and liabilities, on the basis of the remaining maturity as of the consolidated statement of financial position date to the contractual maturity date.

Management monitors the maturity profile to ensure that adequate liquidity is maintained, Assets available to meet all of the liabilities and to cover outstanding financing commitments include cash, balances with SAMA and due from banks. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Bank maintains a statutory deposit equal to a sum not less than 7% of total customers' deposits, and 4% of total other customers' accounts. In addition to the statutory deposit, the Bank maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days. Also, the Bank has the ability to raise additional funds through special financing arrangements with SAMA including deferred sales transactions.

The contractual maturities of financial assets and liabilities as of 31 December based on discounted cash flows are as follows. The table below reflect the expected cash flows indicated by the deposit retention history of the Group. Management monitors rolling forecast of the Group's liquidity position and cash and cash equivalents on the basis of expected cash flows. This is carried out in accordance with practice and limits set by the Group and based on the pattern of historical deposit movement. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

	2018					
	Less than 3 months (SAR '000)	3 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	No Fixed Maturity (SAR '000)	Total (SAR '000)
Assets						
Cash and balance with SAMA and central banks	35,490,644	–	–	–	7,755,399	43,246,043
Due from banks and other financial institutions	10,569,683	8,273,620	10,908,457	–	1,056,251	30,808,011
Financing, net						
Corporate Mutajara	14,480,073	15,127,724	13,950,532	2,456,174	–	46,014,503
Instalment sale	10,769,129	30,019,044	101,794,885	29,391,728	–	171,974,786
Murabaha	1,193,548	4,462,625	5,665,908	2,792,068	–	14,114,149
Credit cards	1,959,351	–	–	–	–	1,959,351
Investments						
Investment in an associate	–	–	–	–	172,753	172,753
Investments held at amortised cost	370,447	213,900	14,118,036	25,142,380	–	39,844,765
Investments held as FVSI	–	1,941,584	–	–	–	1,941,584
FVOCI investments	–	–	–	1,103,463	–	1,103,463
Other assets, net	–	–	–	–	13,824,422	13,824,422
Total	74,832,876	60,038,498	146,437,818	61,058,566	22,636,073	365,003,830
Liabilities						
Due to banks and other financial institutions	3,951,361	2,583,028	–	–	755,235	7,289,624
Demand deposits	19,701,796	32,451,597	173,021,496	43,241,953	–	268,416,842
Customers' time investments	17,027,753	1,661,472	–	–	–	18,689,225
Other customer accounts	1,662,667	1,359,251	3,781,140	–	–	6,803,058
Other liabilities	–	–	–	–	15,251,063	15,251,063
Total Liabilities	42,343,577	38,055,348	176,802,636	43,241,953	16,006,297	316,449,812
Gap	32,489,299	21,983,150	(30,364,818)	17,816,613	6,629,775	48,554,019

	2017					
	Less than 3 months (SAR '000)	3 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	No Fixed Maturity (SAR '000)	Total (SAR '000)
Assets						
Cash and balance with SAMA and central banks	39,758,880	–	–	–	8,523,591	48,282,471
Due from banks and other financial institutions	1,240,890	6,019,134	1,349,887	1,123,040	976,844	10,709,795
Financing, net						
Corporate Mutajara	3,496,901	31,085,237	6,603,136	6,209,560	–	47,394,834
Instalment sale	3,252,120	37,121,858	109,151,183	21,689,108	–	171,214,269
Murabaha	4,812,673	3,318,574	3,173,356	2,707,131	–	14,011,734
Credit cards	914,733	–	–	–	–	914,733
Investments						
Investment in an associate	–	–	–	–	124,825	124,825
Investments held at amortised cost	999,925	–	7,135,000	25,923,083	–	34,058,008
Investments held as FVSI	–	–	389,193	–	–	389,193
FVOCI investments	–	–	–	1,829,066	–	1,829,066
Other assets, net	–	–	–	–	2,262,542	2,262,542
Total	54,476,122	77,544,806	127,801,755	59,480,988	11,887,802	331,191,470
Liabilities						
Due to banks and other financial institutions	4,772,259	–	–	–	750,308	5,522,567
Demand deposits	18,476,965	30,434,129	162,265,008	40,553,666	–	251,729,768
Customers' time investments	14,502,218	1,415,045	–	–	–	15,917,263
Other customer accounts	1,322,061	1,080,801	3,006,552	–	–	5,409,414
Other liabilities	7,921,322	–	–	–	–	7,921,322
Total	46,994,825	32,929,975	165,271,560	40,553,666	750,308	286,500,334
Gap	7,481,297	44,614,828	(37,469,805)	18,927,322	11,137,494	44,691,136

The following tables disclose the maturity of contractual financial liabilities on undiscounted cash flows as at 31 December:

	2018					
	Less than 3 months (SAR '000)	3 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	No fixed maturity (SAR '000)	Total (SAR '000)
Due to banks and other financial institutions	3,957,968	2,602,328	–	–	763,202	7,323,498
Customer deposits	41,238,211	36,835,111	175,521,784	43,065,449	–	296,660,555
Other liabilities	–	–	–	–	15,276,565	15,276,565
Total	45,196,179	39,437,439	175,521,784	43,065,449	16,039,767	319,260,618

	2017					
	Less than 3 months (SAR '000)	3 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	No fixed maturity (SAR '000)	Total (SAR '000)
Due to banks and other financial institutions	4,780,239	–	–	–	757,436	5,537,675
Customer deposits	39,389,542	33,037,784	160,724,895	42,449,658	–	275,601,879
Other liabilities	–	–	–	–	7,934,568	7,934,568
Total	44,169,781	33,037,784	160,724,895	42,449,658	8,692,004	289,074,122

The cumulative maturities of commitments and contingencies are given in Note 16 (c) 1 of the consolidated financial statements.

27.3 Market risks

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Market risk exposures are monitored by Treasury/Credit and Risk department and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensure that they are appropriate.

(a) Market risks – Speculative operations

The Bank is not exposed to market risks from speculative operations. The Bank is committed to Sharia guidelines which does not permit it to enter into contracts or speculative instruments such as hedging, options, forward contracts and derivatives.

(b) Market risks – Banking operations

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

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 Bank 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 financial statements at amortised cost. In addition to this, a substantial portion of the Bank's financial liabilities are non-profit bearing.

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

The following table depicts the sensitivity to a reasonable possible change in profit rates, with other variables held constant, on the Bank's statement of income or equity. The sensitivity of the income is the effect of the assumed changes in profit rates on the net income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2018 and 2017. The sensitivity of equity is same as sensitivity of income since the Bank does not have fixed rate FVOCI financial assets as at 31 December 2018 and 2017. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in SAR million.

2018

Currency	Increase in basis	Sensitivity of gross financing and investment income			
		As at 31 December (SAR Mn.)	Average (SAR Mn.)	Maximum for (SAR Mn.)	Minimum (SAR Mn.)
SAR	+25	201	204	216	193

Currency	Decrease in basis	Sensitivity of gross financing and investment income			
		As at 31 December (SAR Mn.)	Average (SAR Mn.)	Maximum for (SAR Mn.)	Minimum (SAR Mn.)
SAR	-25	(201)	(204)	(216)	(193)

2017

Currency	Increase in basis	Sensitivity of gross financing and investment income			
		As at 31 December (SAR Mn.)	Average (SAR Mn.)	Maximum for (SAR Mn.)	Minimum (SAR Mn.)
SAR	+25	202	191	209	169

Currency	Decrease in basis	Sensitivity of gross financing and investment income			
		As at 31 December (SAR Mn.)	Average (SAR Mn.)	Maximum for (SAR Mn.)	Minimum (SAR Mn.)
SAR	-25	(202)	(191)	(209)	(169)

**Profit rate movements affect reported equity through retained earnings, i.e. increases or decreases in financing and investment income.*

Commission sensitivity of assets, liabilities and off balance sheet items

	2018						
	Less than 3 months (SAR '000)	3 to 6 months (SAR '000)	6 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	Non-Commission Sensitive	Total (SAR '000)
Assets							
Cash and balance with SAMA	35,112,408	–	–	–	–	8,133,635	43,246,043
Due from banks and other financial institutions	11,306,178	987,681	7,810,067	9,647,834	–	1,056,251	30,808,011
Investments							
Investment in an associate	–	–	–	–	–	172,753	172,753
Investments held at amortised cost	23,952,560	–		13,318,036	2,574,169	–	39,844,765
Investments held as FVSI	–	–		–	1,941,584		1,941,584
Available-for-sale investments	–	–		–	1,103,463	–	1,103,463
Financing, net							
Corporate Mutajara	17,239,834	19,924,825	3,958,429	4,891,415	–	–	46,014,503
Instalment sale	13,409,580	13,669,220	21,812,332	99,409,717	23,673,937	–	171,974,786
Murabaha	4,064,638	4,406,381	182	4,784,157	858,791	–	14,114,149
Credit cards	1,959,351	–	–	–	–	–	1,959,351
Other assets	–	–	–	–	–	13,824,422	13,824,422
Total assets	107,044,549	38,988,108	33,581,010	132,051,159	30,151,944	23,187,061	365,003,830
Liabilities							
Due to banks and other financial institutions	6,534,389	–	–	–	–	755,235	7,289,624
Customer deposits	53,768,764	12,293,302	23,253,246	179,101,531	–	–	268,416,843
Customers' time investments	17,027,753	213,057	1,448,415	–	–	–	18,689,225
Other customer accounts	1,362,776	311,575	589,356	4,539,350	–	–	6,803,057
Other liabilities	–	–	–	–	–	15,251,063	15,251,063
Total liabilities	78,693,681	12,817,934	25,291,017	183,640,881	–	16,006,298	316,449,812
Gap	28,350,868	26,170,174	8,289,993	(51,589,722)	30,151,944	7,180,763	48,554,018
Profit rate sensitivity – On statement of financial positions	28,350,868	26,170,174	8,289,993	(51,589,722)	30,151,944	7,180,763	48,554,018
Profit rate sensitivity – Off statement of financial positions	439,043	–	–	–	–	–	439,043
Total profit rate sensitivity gap	27,911,825	26,170,174	8,289,993	(51,589,722)	30,151,944	7,180,763	48,114,975
Cumulative profit rate sensitivity gap	27,911,825	54,081,999	62,371,992	10,782,270	41,990,464	48,114,975	90,228,289

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The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of commission rate reprising that may be undertaken, which is monitored daily by Bank Treasury.

The table below summarises the Bank's exposure to profit rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

	2017						
	Less than 3 months (SAR '000)	3 to 6 months (SAR '000)	6 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	Non Commission Sensitive	Total (SAR '000)
Assets							
Cash and balance with SAMA	39,687,434	–	–	–	–	8,595,037	48,282,471
Due from banks and other financial institutions	2,217,734	113,993	5,905,141	1,349,887	–	1,123,040	10,709,795
Investments							
Investment in an associate	–	–	–	–	–	124,825	124,825
Investments held at amortised cost	23,300,000	2,025,000	–	7,135,000	1,598,008	–	34,058,008
Investments held as FVSI	–	–	–	–	389,193		389,193
Available-for-sale investments	–	–	–	–	1,829,066	–	1,829,066
Financing, net							
Corporate Mutajara	15,075,878	19,326,741	3,443,515	7,637,634	1,911,066	–	47,394,834
Instalment sale	19,190,499	10,039,850	18,901,845	104,625,719	18,456,359	–	171,214,272
Murabaha	3,768,368	2,666,288	1,687,143	3,178,456	2,711,479	–	14,011,734
Credit cards	914,733	–	–	–	–	–	914,733
Other assets	–	–	–	–	–	4,537,079	4,537,079
Total assets	104,154,647	34,171,873	29,937,642	123,926,696	26,895,171	14,379,981	333,466,010
Liabilities							
Due to banks and other financial institutions	4,772,259	–	–	–	–	750,308	5,522,567
Customer deposits	50,426,040	11,529,046	21,807,626	167,967,056	–		251,729,768
Customers' time investments	14,885,092	91,881	940,423	–	–	–	15,917,263
Other customer accounts	1,083,604	247,747	468,623	3,609,439			5,409,414
Other liabilities	–	–	–	–	–	8,455,319	8,455,319
Total liabilities	71,166,995	11,868,674	23,216,672	171,576,495	–	9,205,627	287,034,463

	2017						
	Less than 3 months (SAR '000)	3 to 6 months (SAR '000)	6 to 12 months (SAR '000)	1 to 5 years (SAR '000)	Over 5 years (SAR '000)	Non Commission Sensitive	Total (SAR '000)
Gap	32,987,652	22,303,199	6,720,970	(47,649,799)	26,895,171	5,174,354	46,431,547
Profit rate sensitivity – On statement of financial positions	32,987,652	22,303,199	6,720,970	(47,649,799)	26,895,171	5,174,354	46,431,547
Profit rate sensitivity – Off statement of financial positions	472,420	–	–	–	–	–	472,420
Total profit rate sensitivity gap	32,515,232	22,303199	6,720,970	(47,649,799)	26,895,171	5,174,354	45,959,127
Cumulative profit rate sensitivity gap	32,515,232	50,538,583	58,740,173	13,056,216	41,907,813	–	87,071,372

The tables below summarise the Bank's exposure to foreign currency exchange rate risk at 31 December 2018 and 2017 and the concentration of currency risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency:

	2018							
	UAE Dirham (SAR '000)	Japanese Yen (SAR '000)	Euro (SAR '000)	Malaysian Ringgit (SAR '000)	US Dollar (SAR '000)	Pound Sterling (SAR '000)	Other (SAR '000)	Total (SAR '000)
Assets								
Cash and cash equivalents	25,946	–	29,291	193,088	568,393	15,538	504,016	1,336,273
Due from banks and other financial institutions	117,748	5,302	145,528	520,081	1,979,909	30,803	721,623	3,520,994
Financing, net	–	–	–	4,564,609	5,077,371	–	3,778,869	13,420,848
Investments	–	–	375	1,305,296	1,132,989	–	255,390	2,694,050
Fixed assets	1,226	–	6,578	41,423	269,965	993	36,782	356,966
Other assets, net	–	–	1,258	174,711	63,244	332	17,209	256,754
Total assets	144,919	5,302	183,029	6,799,208	9,091,871	47,665	5,313,890	21,585,885
Liabilities								
Due to banks and other financial institutions	71	–	5,169	569,557	3,304,930	17	(564,139)	3,315,605
Customer deposits	9,629	2,284	109,079	5,146,634	1,268,627	48,735	4,863,308	11,448,296
Other liabilities	17,305	699	97,032	117,000	695,523	8,882	196,799	1,133,241
Total liabilities	27,005	2,983	211,280	5,833,192	5,269,080	57,634	4,495,969	15,897,143
Net	117,914	2,319	28,250	966,017	3,822,791	(9,969)	817,921	5,688,743

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	2017							
	UAE Dirham (SAR '000)	Japanese Yen (SAR '000)	Euro (SAR '000)	Malaysian Ringgit (SAR '000)	US Dollar (SAR '000)	Pound Sterling (SAR '000)	Other (SAR '000)	Total (SAR '000)
Assets								
Cash and cash equivalents	25,828	–	23,232	356,412	370,979	21,031	587,309	1,384,791
Due from banks and other financial institutions	72,459	3,393	195,812	858,354	554,364	33,096	705,180	2,422,658
Financing, net	–	–	393	1,634,458	864,990	–	257,432	2,757,273
Investments	–	–	–	5,522,749	4,389,826	–	3,724,296	13,636,871
Fixed assets	55	–	5,174	42,091	142,676	549	36,702	227,247
Other assets, net	–	–	655	191,139	61,125	(24)	34,003	286,898
Total assets	98,342	3,393	225,266	8,605,203	6,383,960	54,652	5,344,922	20,715,738
Liabilities								
Due to banks and other financial institutions	12,176	–	2,085	1,100,092	493,262	18	501,812	2,109,445
Customer deposits	3,711	2,639	186,830	6,865,588	1,054,707	56,596	4,498,133	12,668,204
Other liabilities	13,926	910	60,415	91,245	414,488	7,750	218,845	807,579
Total liabilities	29,813	3,549	249,330	8,056,925	1,962,457	64,364	5,218,790	15,585,228
Net	68,529	(156)	(24,064)	548,278	4,421,503	(9,712)	126,132	5,130,510

Foreign currency risks

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank management has set limits on positions by currencies, which are regularly monitored to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at 31 December 2018 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity. A positive effect shows a potential increase in the statement of income statement of income or equity, whereas a negative effect shows a potential net reduction in the statement of income or statement of changes in shareholders' equity.

Currency exposures as at 31 December 2018	Change in currency rate in %	Effect on net income (SAR Mn.)	Effect on equity (SAR Mn.)
AED	+/-2	2,358	2,358
USD	+/-2	76,146	76,146
EUR	+/-5	-768	-768
INR	+/-5	1,813	1,813
PKR	+/-5	547	547

Currency exposures as at 31 December 2017	Change in currency rate in %	Effect on net income (SAR million)	Effect on equity (SAR million)
AED	+/-2	2.12	2.12
USD	+/-2	88.66	88.66
EUR	+/-5	-0.98	-0.98
INR	+/-5	0.40	0.40
PKR	+/-5	0.87	0.87

Currency position

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intraday positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2018 (SAR '000) (Long/(short)	2017 (SAR '000) (Long/(short)
US Dollar	3,807,308	4,432,919
Japanese Yen	2,319	-157
Euro	-15,364	-19,569
Pound Sterling	-7,569	-9,713
Others	282,013	115,844
Total	**4,068,707**	4,519,324

(c) Price risk

The Bank has certain investments which are carried at fair value through the income statement (FVSI) and includes investments in quoted mutual funds and other investments. Price risk arises due to changes in quoted market prices of these mutual funds.

As these investments are in a limited number of funds and are not significant to the total investment portfolio, the Bank monitors them periodically and determines the risk of holding them based on changes in market prices.

Other investments have little or no risks as these are bought for immediate sales. Investments are made only with a confirmed sale order and therefore involve minimal risk.

- **Equity price risk**

Equity risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Bank's equity investments held as FVOCI/available-for-sale due to reasonable possible change in prices, with all other variables held constant is as follows:

	31 December 2018		31 December 2017	
Local Market indices	Change in equity price %	Effect in SAR million	Change in equity price %	Effect in SAR million
Local Share Equity	+ /- 10	+/- 107,910	+ /- 10	+/- 77,129

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events.

Operational risk is inherent in most of the Bank's activities this necessitates an integrated approach to the identification, measurement and monitoring of operational risk.

An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group which facilitates the management of Operational Risk within the Bank. ORMU facilitates the management of Operational Risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units and providing ongoing monitoring and guidance across the Bank.

The three primary operational risk management processes in the Bank are Risk Control Self Assessment, Operational Loss Database and eventual implementation of Key Risk Indicators which are designed to function in a mutually reinforcing manner.

28 Geographical Concentration

(a) The distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts as of 31 December is as follows:

	2018						
	Kingdom of Saudi Arabia (SAR '000)	Other GCC and Middle East (SAR '000)	Europe (SAR '000)	North America (SAR '000)	South East Asia (SAR '000)	Other Countries (SAR '000)	Total (SAR '000)
Assets							
Cash and balances with SAMA and central banks	43,169,276	56,311	–	–	20,456	–	43,246,043
Due from banks and other financial institutions	9,224,158	19,835,928	755,337	61,154	919,489	11,945	30,808,011
Financing, net							
Corporate Mutajara	42,890,888	1,023,541	2,100,074	–	–	–	46,014,503
Instalment sale	167,591,118	2,885,814	–	–	1,497,854	–	171,974,786
Murabaha	9,018,760	1,932,928	–	–	3,162,461	–	14,114,149
Credit cards	1,952,552	5,575	–	–	1,224	–	1,959,351
Investments, net							
Investment in an associate	172,753	–	–	–	–	–	172,753
Investments held at amortised cost	38,132,001	349,095	–	–	1,363,669	–	39,844,765
Investments held as FVSI	1,896,758	33,234	375	–	11,217	–	1,941,584
FVOCI investments	1,103,463	–	–	–	–	–	1,103,463
Total	315,151,727	26,122,426	2,855,786	61,154	6,976,370	11,945	351,179,408
Liabilities							
Due to banks and other financial institutions	6,401,763	44,133	–	329,267	514,461	–	7,289,624
Customer deposits	284,200,248	4,847,634	–	–	4,860,064	1,179	293,909,125
Total	290,602,011	4,891,767	–	329,267	5,374,525	1,179	301,198,749
Commitments and contingencies	6,141,044	98,315	2,262	–	88,198	–	6,329,819
Credit exposure (stated at credit equivalent value)	4,401,104	–	–	–	2,081,332	–	6,482,436

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	2017						
	Kingdom of Saudi Arabia (SAR '000)	Other GCC and Middle East (SAR '000)	Europe (SAR '000)	North America (SAR '000)	South East Asia (SAR '000)	Other Countries (SAR '000)	Total (SAR '000)
Assets							
Cash and balances with SAMA and central banks	47,364,215	563,370	–	–	354,887	–	48,282,472
Due from banks and other financial institutions	2,873,774	6,298,191	233,716	271,962	1,030,678	1,474	10,709,795
Financing, net							
Corporate Mutajara	45,733,013	–	1,661,821	–	–	–	47,394,834
Instalment sale	166,922,446	2,553,313	–	–	1,680,651	–	171,156,410
Murabaha	9,003,654	1,167,348	–	–	3,840,732	–	14,011,734
Credit cards	889,808	3,789	–	–	1,365	–	894,962
Investments, net							
Investment in an associate	124,825	–	–	–	–	–	124,825
Investments held at amortised cost	32,512,949	177,189	–	–	1,367,870	–	34,058,008
Investments held as FVSI	2,188	288,893	393	–	121,206	–	412,680
FVOCI investments	1,636,474	168,191	–	–	915		1,805,580
Total	307,140,977	11,220,284	1,895,930	271,962	8,398,304	1,474	328,928,931
Liabilities							
Due to banks and other financial institutions	4,371,081	422,487	6,615	251,218	467,968	3,198	5,522,567
Customer deposits	261,776,977	4,429,765	–	–	6,849,703	–	273,056,445
Total	266,148,058	4,852,252	6,615	251,218	7,317,671	3,198	278,579,012
Commitments and contingencies	10,167,478	406,234	2,818	–	2,989,605	1,300	13,567,435
Credit exposure (stated at credit equivalent value)	5,109,109	178,503	1,409	–	1,486,847	600	6,776,468

(b) The distributions by geographical concentration of non-performing financing and allowance for impairment of financing as of 31 December are as follows:

	2018			
	Kingdom of Saudi Arabia (SAR '000)	GCC and Middle East (SAR '000)	South East of Asia (SAR '000)	Total (SAR '000)
Non-performing				
Corporate Mutajara	991,751	5,959	26,610	1,024,320
Instalment sale	534,309	14,942	16,969	591,541
Murabaha	536,865	108,621	17,084	662,570
Credit cards	11,874	–	7	11,881
Allowance for impairment of financing				
Corporate Mutajara	(837,349)	(2,066)	(2,958)	(842,373)
Instalment sale	(453,000)	(10,185)	(4,244)	(467,429)
Murabaha	(504,296)	(108,500)	(17,084)	(629,880)
Credit cards	(2,970)	–	–	(2,970)

	2017			
	Kingdom of Saudi Arabia (SAR '000)	GCC and Middle East (SAR '000)	South East of Asia (SAR '000)	Total (SAR '000)
Non-performing				
Corporate Mutajara	1,217,981	–	4,333	1,222,314
Instalment sale	495,193	14,827	11,267	521,287
Murabaha	–	–	5,418	5,418
Credit cards	19,168	–	1,992	21,160
Allowance for impairment of financing				
Corporate Mutajara	(982,385)	–	(3,609)	(985,994)
Instalment sale	(620,357)	(10,149)	(4,491)	(634,997)
Murabaha	–	–	(1,020)	(1,020)
Credit cards	(4,792)	–	(1,539)	(6,331)

Refer to Note 7 (a) for performing financing.

29 – Fair Value of Financial Assets and Liabilities

Determination of fair value and fair value hierarchy

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

Level 1: Quoted prices in active markets for the same instrument (i.e. without modification or additions).

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.

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

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

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

Carrying amounts and fair value:

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	31 December 2018				
	Carrying value (SAR '000)	Level 1 (SAR '000)	Level 2 (SAR '000)	Level 3 (SAR '000)	Total (SAR '000)
Financial assets					
Financial assets measured at fair value					
Investments held at FVSI	1,141,584	–	1,141,584	–	1,141,584
FVOCI investment	1,103,463	1,079,101	–	24,362	1,103,463
Sukuk	800,000	–	–	800,000	800,000
Financial assets not measured at fair value					
Due from banks and other financial institutions	30,808,011	–	–	30,701,027	30,701,027
Investments held at amortised cost					
– Murabaha with Saudi Government and SAMA	22,477,145	–	–	22,478,958	22,478,958
– Sukuk	17,395,957	–	–	17,274,997	17,274,997
Gross financing	241,895,260	–	–	242,364,635	242,364,635
Total	315,621,420	1,079,101	1,141,584	313,643,979	315,864,664
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	7,289,624	–	–	7,287,557	7,287,557
Customers' deposits	293,909,125	–	–	293,909,125	293,909,125
Total	301,198,749	–	–	301,196,682	301,196,682

	31 December 2017				
	Carrying value (SAR '000)	Level 1 (SAR '000)	Level 2 (SAR '000)	Level 3 (SAR '000)	Total (SAR '000)
Financial assets					
Financial assets measured at fair value					
Investments held at FVSI	412,680	–	389,193	23,487	412,680
Available-for-sale investments	1,805,579	771,293	1,034,286	–	1,805,579
Financial assets not measured at fair value					
Due from banks and other financial institutions	10,709,795	–	–	10,698,223	10,698,223
Investments held at amortised cost					
– Murabaha with SAMA	23,452,869	–	–	23,459,853	23,459,853
– Sukuk	10,605,139	–	–	10,559,636	10,559,636
Gross Financing	239,090,783	–	–	248,834,350	248,834,350
Total	286,076,845	771,293	1,423,479	293,575,549	295,770,321
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	5,522,567	–	–	5,522,554	5,522,554
Customers' deposits	273,056,445	–	–	273,056,440	273,056,440
Total	278,579,012	–	–	278,578,994	278,578,994

FVSI and FVOCI investments classified as Level 2 include mutual funds, the fair value of which is determined based on the latest reported net assets value (NAV) as at the date of statement of consolidated financial position.

The Level 3 financial assets measured at fair value represent investments recorded at cost. The carrying value of these investments approximate fair value.

Gross financing classified as Level 3 has been valued using expected cash flows discounted at relevant SIBOR as at 31 December 2018. Investments held at amortised cost, due to/from banks and other financial institution have been valued using the actual cash flows discounted at relevant SIBOR/SAMA Murabaha rates as at 31 December 2018.

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

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

30 Related Party Transactions

In the ordinary course of business, the Bank 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. The nature and balances resulting from such transactions as at and for the year ended 31 December are as follows:

	2018 (SAR '000)	2017 (SAR '000)
Related parties		
Members of the Board of Directors		
Mutajara	**69,967**	39,163
Contingent liabilities*	**16,634**	–
Current accounts	**77,788**	586
Companies and establishments guaranteed by members of the Board of Directors		
Mutajara	**10,242,942**	1,585,464
Contingent liabilities*	**6,913,183**	16,334
Other major shareholders (above 5% equity share)		
Mutajara	–	3,308,232
Contingent liabilities*	–	–
Current accounts	–	–
Other liabilities	–	26,067
Associate		
Contributions receivable	**252,706**	121,017
Payable against claims	**144,640**	150,243
Bank balances	**274,705**	289,236

**off balance sheet items.*

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements for the years ended 31 December are as follows:

	2018 (SAR '000)	2017 (SAR '000)
Income from financing and other	**139,496**	194,190
Mudaraba fees	**68,272**	49,860
Employees' salaries and benefits (air tickets)	**4,142**	4,253
Rent and premises related expenses	**2,238**	1,131
Contribution – Policies written	**1,059,392**	1,339,545
Claims incurred and notified during the period	**900,207**	1,139,983
Claims paid	**905,840**	1,023,048
Board of Directors' remunerations	**5,945**	5,418

The amounts of compensations recorded in favour of or paid to the Board of Directors and the Executive Management Personnel during the years ended 31 December are as follows:

	2018 (SAR '000)	2017 (SAR '000)
Short-term benefits	**85,579**	37,866
Provision for end of service benefits	**11,536**	1,280

The executive management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Banks directly or indirectly.

31 Mudaraba Funds

Mudaraba funds as of 31 December comprise the following:

	2018 (SAR '000)	2017 (SAR '000)
Customers' Mudaraba and investments	21,070,580	21,199,185
Current accounts, metals	–	2,031
Total	21,070,580	21,201,216

Mudaraba and investments represents customer's investment portfolio managed by Al Rajhi Capital Company and are considered as off balance sheet. consistent with the accounting policies of the Group, such balances are not included in the consolidated financial statements as these are held by the Group in fiduciary capacity.

32 Special Commissions Excluded from the Consolidated Statement of Income

The following represents the movements in charities account, which is included in other liabilities (see Note 13):

	2018 (SAR '000)	2017 (SAR '000)
Balance at beginning of the year	16,854	23,785
Additions during the year	40,520	5,201
Payments made during the year	(1,024)	(12,132)
Balance at end of the year	56,350	16,854

33 Investment Management Services

The Group offers investment services to its customers. The Group has established a number of Mudaraba funds in different investment aspects. These funds are managed by the Bank's Investment Department, and a portion of the funds is also invested in participation with the Group. The Group also offers investment management services to its customers through its subsidiary, which include management of funds with total assets under management of SAR 41,294 Mn. (2017: SAR 26,595 Mn.). The mutual funds are not controlled by the Bank and neither are under significant influence to be considered as associates. Mutual funds' financial statements are not included in the consolidated statement of financial position of the Group. The Group's share of investments in these funds is included under investments, and is disclosed under related party transactions. Funds invested by the Group in those investment funds amounted to SAR 1,142 Mn. at 31 December 2018 (2017: SAR 1,423 Mn.).

34 Capital Adequacy

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's Management, SAMA requires the banks to hold the minimum level of the regulatory capital and also to maintain a ratio of total regulatory capital to the risk-weighted assets at or above 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position, commitments and contingencies, to reflect their relative risk as of 31 December 2018 and 2017.

	2018 (SAR '000)	2017 (SAR '000)
Credit risk weighted assets	222,309,112	219,687,988
Operational risk weighted assets	28,094,351	26,832,383
Market risk weighted assets	4,102,847	4,594,750
Total Pillar I – risk weighted assets	254,506,310	251,115,121
Tier I – capital	48,554,018	55,750,918
Tier II – capital	2,778,864	2,746,100
Total Tier I and II capital	51,332,882	58,497,018
Capital Adequacy Ratio		
Tier I ratio (%)	19.08	22.20
Tier I and II ratio (%)	20.17	23.29

35 Standards Issued but not yet Effective

IFRS 16 "Leases"

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. The impact is not material for the Bank.

IAS 19 "Employee Benefits"

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) to harmonise accounting practices and to provide more relevant information for decision-making. An entity applies the amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019.

These amendments are not expected to have material impact on the consolidated financial statements of the Group.

36 Approval of the Board of Directors

The consolidated financial statements were approved by the Board of Directors on 5 Jumada II 1440H (corresponding to 10 February 2019).

37 Comparative Figures

Figures have been rearranged or reclassified wherever necessary for the purpose of better presentation, however, no significant rearrangements or reclassifications have been made in these consolidated financial statements.

38 Other Adjustment

The Bank has conducted a review of the timing of the recognition of up-front fees and special commission income relating to retail credit products. As a result of the review, the method of the application of the accounting policy on timing of the recognition of up-front fees and special commission income has been amended to appropriately reflect the systematic deferral of the recognition of such income. Based on materiality considerations, an adjustment of SAR 799.356 Mn. was only made to the opening retained earnings as at 1 January 2018 with a corresponding adjustment to deferred income as at that date.

39 Subsequent Events

The Board of Directors proposed, on 3 January 2019, a distribution of final dividends to the shareholders for the year amounting to SAR 3,656.25 Mn., of SAR 2.25 per share.

In addition, the Board of Directors has recommended to increase the share capital to SAR 25,000 Mn. by granting share dividends of 7 shares for every 13 shares owned. The Board's proposal is subject to the approval of the Extraordinary General Assembly in the next meeting.