البنك السعودي للاستثمار
The Saudi Investment Bank

VISION رؤيـــة
2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

INTEGRATED REPORT 2018

البنك السعودي للاستثمار
The Saudi Investment Bank

Integrated Report
2018

Prince Mohammad bin Salman bin Abdulaziz Al-Saud
Crown Prince

King Salman bin Abdulaziz Al-Saud
Custodian of The Two Holy Mosques

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ABOUT THIS REPORT

This is our second consecutive Integrated Report, one which builds further on the new approach to reporting we adopted in 2017. It is a concise communication about how our strategy, governance, performance and prospects, in the context of the external environment, leads to creation of value over the short, medium and long term.

GRI 102-46, 102-48, 102-49, 102-50, 102-51, 102-52, 102-53, 102-54

This new approach to reporting balances the need to communicate effectively through concise, relevant information while at the same time providing comprehensive compliance-related disclosures. Our Integrated Report thus is presented in two primary formats as seen in the previous page.

Report boundary

The Report largely covers operations of The Saudi Investment Bank (referred to as "SAIB") only, unless otherwise stated. The boundary for financial reporting includes SAIB and its subsidiaries and associate companies (referred to as "Bank").

Reporting period

Our reporting covers the period from January 1, to December 31, 2018, and is consistent with our usual annual reporting cycle for financial and sustainability reporting. There are no restatements of information provided in previous reports and no significant changes from previous reporting periods in the scope and aspect boundaries.

The most recent previous Integrated Report covered the 12-month period ended December 31, 2017.

This Integrated Report has been issued in both English and Arabic, and in the event of any discrepancy the Arabic version shall prevail.

Compliance

The information contained herein, as in the past, is in compliance with all applicable laws, regulations and standards. In preparing this Integrated Report we have drawn on concepts, principles and guidelines given in the International Integrated Reporting Framework <IIRC> and the Smart Integrated Reporting Methodology™.

This Report has been prepared in accordance with the GRI Standards: Core option.

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and Income Tax (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 are in compliance with the provisions of the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

Queries

The Bank's Corporate Communication Group is the custodian of this Report and for comments or queries please contact the Head of CSR at Head Office, The Saudi Investment Bank.

The SAIB Integrated Report online

The HTML version is published online on the same date as the date of issue of this Integrated Report at www.saib.com.sa/integratedreport2018

SCAN to view the online version

Reading this Integrated Report

The Bank uses a variety of media in communicating a cohesive story. In this printed version, cross-referencing has been given to various sections within the report, where relevant, as shown below. Apart from this printed version, a detailed view of our story is accessible through the online version, which has been referenced as shown below, throughout this report where relevant.

Further information could be found elsewhere in this printed version of the Integrated Report.

Additional information that supplement the printed version is available in the online version of this Integrated Report.

GRI 102-1, 102-2, 102-4, 102-6, 102-7

THE SAUDI INVESTMENT BANK

Our Vision

To offer the simplest and most accessible products and services to each of our customers.

Our Mission

Towards our customers

- We make banking simple and accessible for each of our customers.
- We are flexible, adaptive and responsive to deliver what suits our customers.
- We listen to our customers and understand their needs and preferences in order to evolve and improve.

Towards our employees

- We value ideas, inputs, and initiatives.
- We empower our staff to bring out their best and go the extra mile.
- We recognise individual contribution and we support individual development.
- We enhance team spirit, which allows us to collectively build the smartest solutions.

Our history and operations

The Bank commenced business in 1977, pursuant to a Royal decree dated June 22, 1976. It concentrated on medium-term financing of industrial projects. In 1983, with the adoption of the SAIB name, the Bank moved into full commercial banking. The ALASALAH Islamic Banking Brand, through which the Bank provides Shariah complaint products and services was launched in 2006. Islamic principles are at the heart of all our operations. Adherence to Shariah principles in product development is assured by our Shariah Committee.

SAIB provides wholesale, retail and commercial banking products in the Kingdom of Saudi Arabia, both Shariah-compliant and traditional. In addition to personal banking, the Bank services the government, quasi-government, corporate and MSME sectors. Our finance operations offer a range of non-interest-bearing banking products including Murabaha, Istisna'a and Ijarah. Our product portfolio also includes several treasury and investment banking products.

An even wider range of products and services is provided through our joint ventures and subsidiaries, such as investment banking, share trading, asset management, leasing finance, mortgage finance, brokerage services, corporate finance services and credit card services.

The Bank's network currently includes 52 branches of which 48 offer Shariah-compliant banking services and 11 ladies sections. As of December 31, 2018, the Bank operated a network of 419 ATMs and over 9,300 POS terminals.

The Group

The Saudi Investment Bank

The Bank has four **subsidiary companies**, all of which are 100% owned by the Bank

Alistithmar for Financial Securities and Brokerage Company (ICAP)
Brokerage, asset management, investment banking and other services within the Kingdom.

The Saudi Real Estate Company
Limited liability company of which the main activity is to hold real estate assets given to the Bank as collateral.

Saudi Investment First Company
Holds the shares in American Express (Saudi Arabia).

SAIB Markets Limited Company
Incorporated in Cayman Islands and trades in derivatives and Repo activities on behalf of the Bank.

In addition, the Bank has investments in the following three **associate companies**

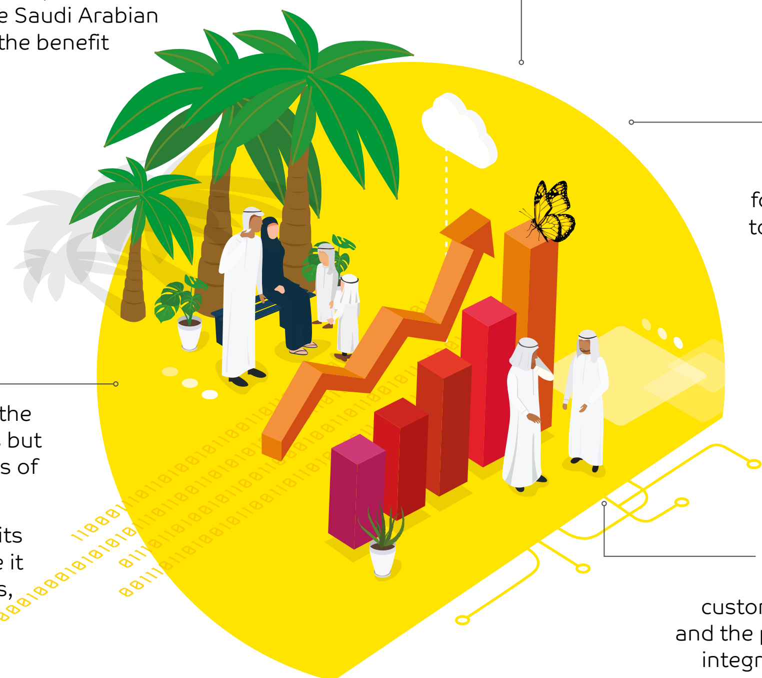
American Express (Saudi Arabia) Issuing and handling of credit cards and other American Express products in the Kingdom.	Ownership **50%**
Saudi Orix Leasing Company Primarily deals in lease financing services.	Ownership **38%**
Amlak International for Finance and Real Estate Development Company Offers real estate products and services.	Ownership **32%**

Our sustainability framework

SAIB has a sustainability framework including five Islamic principles which have been crafted to integrate our commercial responsibilities with our social and environmental responsibilities. They also reflect Islamic principles of good governance and management.

Hifth (Environmental protection)
SAIB will build a competitive advantage by embedding environmental management into the Bank's core activities and continuously de-materialising banking. SAIB will be a model of the competitive environmental practices the Saudi Arabian Government is seeking for the benefit of the Kingdom.

Nummow (Growth)
We aim to deliver strong financial performance for our shareholders by executing our growth strategy while maintaining a disciplined approach to financial stability.



Re'aya (Workforce)
SAIB will be the most sought-after Bank to work for, owing first and foremost to its clear transparency and accountability to both its employees and society.

Awn (Helping others)
SAIB will measure not only the amount of money it invests but the extent and effectiveness of its impact.

SAIB will narrow and focus its investments in areas where it can contribute money, tools, and expertise.

Takleef (Responsibility)
SAIB will be recognised by customers, investors, employees and the public as the most genuine, integrity based, value driven, and accountable Bank in Saudi Arabia.

Our commitment to Vision 2030

Vision 2030 is the overarching framework which drives the aspirations, policies and plans of the Kingdom today. The Vision is founded on three themes – a vibrant society, a thriving economy and an ambitious nation. Since many of Vision 2030 goals either are directly connected with finance or have a financial implication, SAIB has a tremendous contribution to make.

The detailed goals and SAIB's contribution are listed below:

A vibrant society

Vision goals		SAIB contribution
Moderation, tolerance, excellence, discipline and transparency	▷	The Islamic principle of Takleef, Nummow, Re'aya, Hifth and Awn
Receiving 30 million Umrah visitors a year	▷	Financing of general infrastructure and tourism infrastructure
40% of citizens to exercise once a week	▷	Fitness club memberships, promoting sports teams, awareness campaigns, "Flexx Bike" and promoting healthy diet
3 KSA cities among top 100 in the world	▷	Urban infrastructure project finance
Resource efficiency, pollution reduction and nature conservation	▷	GHG emissions tracking, evaluate EMS, UNPRI and Building Management System
5% increase in home ownership by 2020	▷	Al Asalah home finance
Empowering educational, cultural and entertainment institutions	▷	Community investment, Kidzdomm and Kidzania activities for children

A thriving economy

Vision goals		SAIB contribution
Reduce unemployment to 7%	▷	Youth employment programmes such as Fast Track, Graduate programme and young hires
Small businesses contribute 35% to GDP, financial institutions allocate up to 20% funding to SMEs	▷	MSME specific products
30% female employment	▷	19.1% female employees, 25% of new hires women
Improve living and working conditions for non-Saudis	▷	Expatriate personal finance
Increasing environmental friendliness in oil and gas, mining, tourism and leisure; digitalisation of economy, 75% localisation of oil and gas, 9.5 GwH renewable energy	▷	A targeted 10% of loan portfolio for financing of environmentally friendly, low carbon activities
Private sector to contribute 65% of GDP, FDI 5.7% of GDP, within top 10 in Global Competitiveness Index	▷	Specialised products and services, ICAP a signatory to the United Nations Principles for Responsible Investment, Global Reporting Initiative Gold Member, signatory to the UN Global Compact
Rank 25 in logistics performance index, invest in infrastructure	▷	Infrastructure project finance guided by equator principles

An ambitious nation

Vision goals		SAIB contribution
Reach top 5 in E-government Index	▷	Ranked 7th in Hawkamah ESG Pan Arab index in 2017 for disclosure of ESG issues
Interactive online and smart engagement methods	▷	E-services, online banking, annual and sustainability reporting
Households save 10% of income leading to greater financial independence	▷	Murabaha Deposit, awareness campaigns via the Bank's social media channels
Corporate social responsibility	▷	Health, financial literacy, charity events, WooW Alkhair programme, etc.
1/3 of NPO projects have deep and measurable social impact; one million volunteers by 2020	▷	Community investment, active volunteer programme and volunteering policy

Signatory to the United Nations Global Compact (UNGC)

Our policies, products, services and operations are not developed from a strictly commercial perspective only. We have demonstrated the much broader approach we take by becoming a signatory to the United Nations Global Compact (UNGC). The UNGC conducts advocacy for the adoption of principles of human rights, environmental protection, labour rights and anti-corruption by commercial and non-profit organisations. As required by our commitments as a signatory, SAIB has communicated description of the relevance of the above four themes and concrete actions we have taken regarding them to UNGC. We have also communicated the methodology of monitoring and evaluating performance as well as the outcome of the measurements.

Our HR Policy Code lays down the standards of behaviour that are expected of our employees. Alistithmar Capital (ICAP), our investment and brokerage subsidiary, is also a signatory to the United Nations Principles for Responsible Investment (UNPRI). This is noteworthy, since there is only one other entity in Saudi Arabia that has taken this step. Of the six principles which are the core of the United Nations Principles for Responsible Investment (UNPRI), three are related to environment, social and governance issues. The others are

principles,

GRI 102-7

HIGHLIGHTS OF THE YEAR

Financial capital

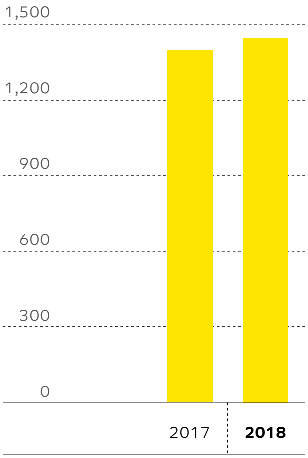
	2018 SAR million	2017 SAR million
Total income*	**2,839**	2,792
Total expense**	**1,133**	1,059
Operating profit	**1,706**	1,733
Impairment charges	**247**	332
Net income	**1,459**	1,411
Loans and advances, net	**59,413**	59,588
Investments, net	**24,638**	21,714
Investments in associates	**1,012**	1,020
Total assets	**96,070**	93,796
Term loans	**2,030**	2,015
Subordinated debt	**2,006**	2,003
Customer deposits	**63,690**	66,943
Shareholders' equity	**11,654**	13,494
Tier I Sukuk	**1,785**	785
Total equity	**13,439**	14,279
Return on average equity %	**11.99**	10.72
Return on average assets %	**1.54**	1.51
Capital adequacy %	**19.36**	20.38
Equity to total assets %	**13.99**	15.22

** Total income includes total operating income plus share in earnings of associates.*

*** Total expense includes total operating expenses before impairment charges.*

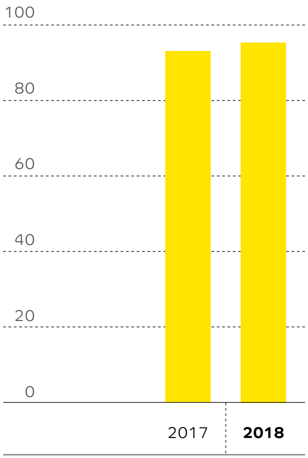
Net income (SAR million)

1,459



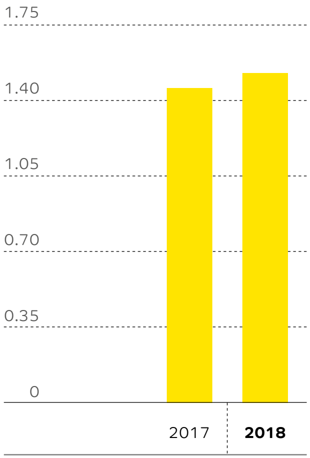
Total assets (SAR billion)

96.1



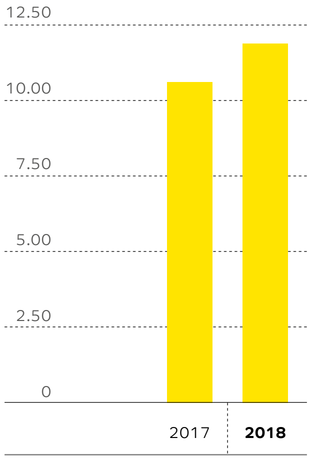
Return on average assets (%)

1.54



Return on average shareholders' equity (%)

11.99



GRI 102-7; 305-1, 305-2

Institutional capital

Implementation of Environmental Management System (EMS) based on ISO 14000 standard

Elite Quality Recognition Award 2018 for quality of outward remittances

Placed first among banks and fifth among Saudi companies in Corporate Governance at the 2nd Corporate Governance Office Conference hosted by Al Faisal University

Investor capital

Market capitalisation
SAR 12.84 billion

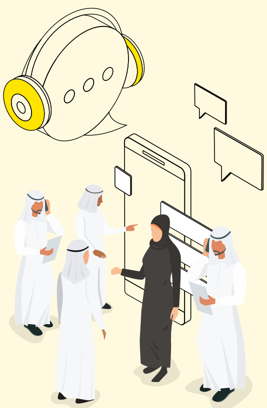
Earnings per share
SAR 1.86

Dividends per share
SAR 0.60

Customer capital

19 million
Online transactions 48% increase from 2017

85%
Customer satisfaction at Contact Centre



446,684
Personal banking customers

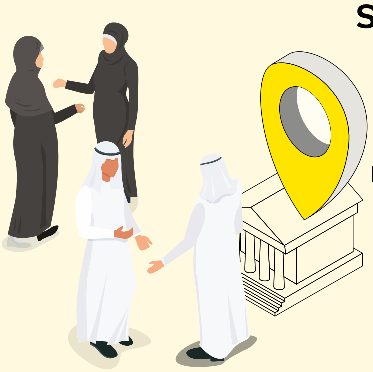
Employee capital

87.7%
Saudisation rate

1,107
Staff trained

19.1%
Female employment

Business partner capital



SAR 390 million
Local procurement

SAIB's network of correspondent banks serves the MENA, European, African and North American regions

Ethical procument policy and process

Social and environmental capital

9.4%
of staff volunteering in CSR activities

Carbon footprint

Direct GHG emissions from fuel usage (scope 1)
2018 – 255 tonnesCO_2e
2017 – 257 tonnesCO_2e

Indirect GHG emssions from electricity usage (scope 2)
2018 – 18,481 tonnesCO_2e
2017 – 20,673 tonnesCO_2e

48,384 kg
Paper recycled

14,620 kg
Electronics recycled

LETTER FROM THE CHAIRMAN

GRI 102-14

As we approach the end of another important phase of our history, with the knowledge and experience gained, we are confident of facing any challenges the next decade may bring.

It is my pleasure to present to you the Bank's second Integrated Report combining the sustainability and annual reports. The past year was another successful period for the Bank as it focused on exceptional customer service through digitalisation and automation of traditional banking services. This enabled the agile development and release to the market of new value-added products and services.

With Vision 2030 being rolled out within the Kingdom, the various initiatives embedded within this vision are expected to have a positive impact on the economy, which in turn will generate positive opportunities for the banking sector. The Saudi market for banking services is now changing more rapidly than what we had seen before which will mean that closeness to the customer is essential for us to maintain a competitive edge and build a sustainable future for the Bank.

Keeping up in such a dynamic and fast changing industry demands that we recruit talented people and keep upgrading their skills through professional training programmes as they are our most important assets. We are focused on empowering and supporting women in the work place and in the community.

Finally, I would like to recognise the significant contributions made by our previous Chief Executive Officer, Mr. Musaed Al-Mineefi who brought significant operational changes through innovation over many years.

Abdallah Saleh Jum'ah
Chairman
March 31, 2019

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

We reap the benefits of cutting edge technology and digitalisation in the form of efficiency for ourselves and convenience to the customer.

I am proud to present to you the second integrated report which conveys a broad view of the Bank's achievements and value creation during the year. Our value creation process is based on five strategic pillars: Nummow (growth), Takleef (responsibility), Awn (helping others), Re'aya (workforce), and Hifth (environmental protection). These pillars embody our ethos of not only seeking to grow our income and profits but also to benefit society and the natural environment.

Our performance

In 2018 the Bank improved its key profitability indicators over the previous year. The net income for the year increased by 3.40% over that of 2017. The return on average assets rose from 1.51% in 2017 to 1.54%; the return on average shareholders' equity rose from 10.72% in 2017 to 11.99%. Total assets increased by 2.42% during the year.

Reaping the results of digitalisation

Due to the progress in digitalisation and automation we have been able to reduce the need for manual transactions. Due to the availability of alternative channels we have been able to reduce the need for physical presence of the customer. Processes such as new account opening and new card issuing have been automated to a degree of 98%. Re-financing of customer loans through telesales has also been automated. A new teller system has digitalised the entire business process from teller to the back office.

Developing our people

We fervently believe that diversity enriches our workforce. We are gradually growing the percentage of women in our workforce which currently stands at 19.1%. The male to female salary ratio is also incrementally narrowing. We are also promoting Saudization; presently 87.7% of our staff are Saudi citizens. Staff in the 21-30 age group accounts for 34% of the total, which highlights the importance we give to youth. A total of 26,425 hours of training was provided to staff of which soft skills training accounted for 75%.

In conclusion, we wish to state that our achievements would not have been possible without the continued support and guidance from our stakeholders. I too would like to extend my sincerest thanks to Musaed Al-Mineefi for his significant contribution to the Bank's performance over the past 10 years.

Faisal Abdullah Al-Omran
Chief Executive Officer
March 31, 2019

STEWARDSHIP

The primary role of stewardship is to ensure sustainable value creation in the short, medium and long term. But it has also to take into account the need to balance the interests of diverse stakeholders of the Bank.

In today's fast paced environment, banks are exposed to diverse types of risk which have to be judiciously managed. In addition, the Bank has to abide by the legal and regulatory guidelines of the relevant authorities.

BOARD OF DIRECTORS

Mr. Abdallah Saleh Jum'ah
Chairman of the Board

Former President and CEO of Saudi Aramco. Has been a board member of many companies including Halliburton. Bachelor's Degree in Political Science from the American University of Beirut.

Mr. Abdulaziz Abdul-rahman Al-Khamis
Vice-Chairman of the Board

Director General Financial Investments, Public Pension Agency. Held numerous positions with the Saudi Arabian Monetary Authority prior to assuming his current position in July 2006. Currently a board member of several companies. Bachelor in Economics Degree from Northeastern University, Boston, Massachusetts.

Mr. Mohammed bin Abdullah bin Ahmed Al Ali
Board Member

Former Senior Vice-President of Finance of Saudi Aramco. He also served in executive committees of several companies. An MBA from the University of Denver and BS Degree in Accounting from the University of Texas-Arlington.

Dr. Abdulraouf bin Mohammed bin Abdullah Mannaa
Board Member

Former Managing Director of SAVOLA Group. Former CEO of several major companies (such as SAVOLA Group, EMAAR Economic City). Bachelor's Degree in Mechanical Engineering from King Fahad University of Petroleum and Minerals, Master's Degree from the University of California at Berkley, and a PhD from the University of Washington at Seattle.

Mr. Abdul Rahman bin Mohammed Al-Rawaf
Board Member

Manager of the Investment Portfolios Department at the General Organization for Social Insurance. Has been a board member of many banks and other companies. Bachelor's Degree in Business Administration from Arkansas State University and an MBA from the University of Southern California.

Dr. Fouad Saud Al Saleh
Board Member

Occupied numerous positions in the government until his retirement as a Colonel in the Ministry of Defence. He is currently a partner in numerous construction-related companies. He holds a BS in Mechanical Engineering from St. Martin College, and an MS and PhD in Construction Engineering from the University of Washington.

Mr. Mishari Ibrahim Al-Mishari
Board Member

Former CEO and board member of Bank Al-Jazira. Has extensive banking experience and currently a board member of many companies. Bachelor's Degree in Business Administration from the University of Oregon.

Dr. Abdulaziz Abdallah Alnowaiser
Board Member

Board member of several public companies and governing authorities, and he also worked as an Assistant Professor of Physics at King Saud University. He holds a BS Degree in Mathematics and Physics from the University of California, and an MS and PhD in Physics from Duke University.

Mr. Saleh Ali Al-Athel
Board Member

Progressed through various executive positions within the Saudi Industrial Development Fund until he reached the position of the Assistant Director General. He is a board member of several companies. He holds a BA in Philosophy and Sociology from Damascus University, and a Higher Diploma in Management from Hartford University.

MANAGEMENT TEAM

Mr. Musaed Mohammad Al-Mineefi
Chief Executive Officer

Mr. Faisal Abdullah Al-Omran
Deputy Chief Executive Officer

Mr. Ramzi Abdullah Al-Nassar
General Manager – Personal Banking

Mr. Majed Abdulghani Fakeeh
General Manager – Corporate Banking

Mr. Suliman Abdulaziz Al-Obaid
Chief Operating Officer

Mr. Salman Badar Al-Fughom
Treasurer and Chief Investment Officer

Mr. David Kenney
Chief Risk Officer

Mr. Nawaf Alhusseini
General Manager – Human Resources

Mr. Badr Sulaiman Al-Aswad
General Manager – Quality Assurance

Mr. Badr Ahmed Allaf
General Manager – Compliance

Mr. Majed Mohammed El-Rubaiaan
General Manager – Operations

Ms. Ishraq Mohammed Al-Thebiani
Assistant General Manager – Corporate Communication

Mr. Saleh Abdullah Al-Oqla
Assistant General Manager – Personal Banking

Mr. Ali Abdullah Al-Shayea
Head of Information Security

Mr. Mohammed Abdulaziz Al Fraih
Assistant General Manager – Chief Information Officer

Mr. Waleed Saleh Al-Omary
Chief Internal Auditor

Mr. David Kent Johnson
Chief Financial Officer

GRI 102-18, 102-19

CORPORATE GOVERNANCE

Objectives of corporate governance

The Corporate Governance of a bank consists of two components. The first is the formal, documented structure of laws, procedures, rules, roles and responsibilities. The second is the intangible element of ethics, values, culture, integrity and reputation.

The primary role of governance is to ensure sustainable value creation in the short, medium and long term. But it has also to take into account the need to balance the interests of diverse stakeholders of the Bank – shareholders, customers, employees, regulators, the Government, local communities, the environment and the general public. There are trade-offs between the needs and interests of the stakeholders and a judicious balance needs to be struck between them.

The Bank fully complies with principles of corporate governance for banks operating in Saudi Arabia issued by the Saudi Arabian Monetary Authority (SAMA) in March 2014. The Bank also complies with Basel Corporate Governance Principles for Banks – a best practise adopted by banks globally; and the Corporate Governance Guidance in the Rules Governing Companies issued by the Capital Market Authority (CMA) of Saudi Arabia on 21/7/1427H corresponding to 12/11/2006G and all the subsequent amendments.

General principles

The main principles of corporate governance at SAIB are as follows:

- The exercise of internal control to support the interests of all stakeholders, driven by the Board and driven by documented guidelines
- The frameworks, policies, procedures and processes to effectively identify, monitor, and control risks and minimise their impact
- The timely and accurate flow of information at a sufficient level of detail to internal and external stakeholders including regulators, investors, and employees
- Demonstrate commitment and follow strong, ethical and effective governance by continuous follow-up and improvement

Governance structure

The governance structure is built on three pillars: establishing strategic direction; executing strategy and managing risks; and stewardship through conformance with policy and established procedures, rules and practices.

The governance structure is underpinned by policies, procedures and practices to ensure good governance, organisation structure to implement the foregoing, values, ethics and integrity. Values, ethics and integrity will help ensure implementation of the laid down governance rules and procedures.

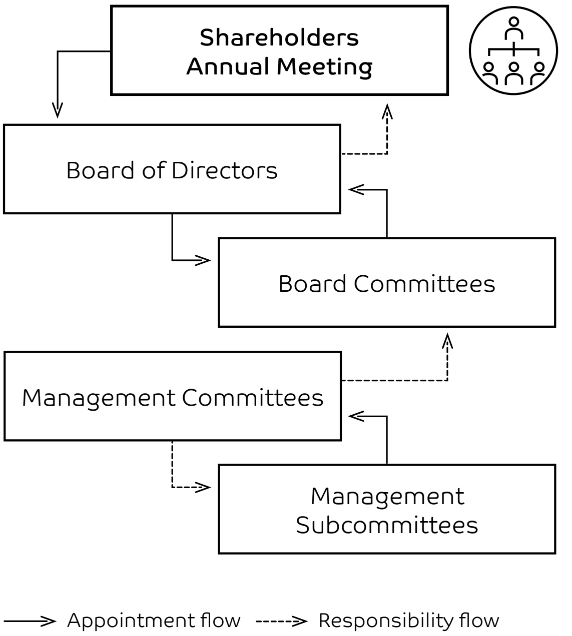
The Corporate Governance Manual lays down the Bank's governance framework, the Board and Executive Management governance structures, key policies, guidelines and control functions, duties of and restrictions on Board members. The General Manager – Corporate Governance is responsible for keeping the manual updated under the guidance of the Bank's Corporate Governance Subcommittee. The Manual is accessible to the general public through the Bank's website.

The Manual is in accordance with the guidelines of regulatory authorities; CMA, SAMA and the Board Committee on Banking Supervision.

Board of Directors

The General Assembly will appoint the Board of Directors. The terms for such appointment are approved by the General Assembly itself. The normal term of a Board member is 3 years. Membership for more than 12 consecutive years is discouraged in conformance with SAMA's principles of Corporate Governance. Subject to the foregoing limitation, members may be reappointed in the absence of anything to the contrary in the Articles of Association. Compensation to Board members is governed by SAMA regulations and any other relevant regulations.

The Bank's governance structure, with its different levels, is depicted in the diagram below. The various levels are shareholders annual meeting, Board of Directors, Board committees, Management committees and Management subcommittees.



For a detailed governance structure of the Bank refer the online report at www.saib.com.sa/integratedreport2018/corporate-governance

Board composition

The Board should consist of at least nine members of whom not more than two should be executive members. The composition of the Board should reflect the diversity of knowledge, skills and disciplines needed to guide the affairs of the Bank.

The qualifications for Board membership in terms of honesty, integrity, past record and personal financial soundness are specified. They should also be free of conflicts of interest to be able to perform their duties in the best interests of the Bank. The Chairman and Vice-Chairman should be Non-Executive Directors. No Board member may serve on the Board of another bank licensed and operating in the Kingdom, or on that of another financial institution that may result in a conflict of interest. They may also not serve on the Board of another significant competitor or on the Board of more than four listed companies. All Board members should keep the Bank informed about other directorships and executive positions they hold in other listed companies.

The profiles of the Board members show an extremely wide range of qualifications, skills and experience. Their exposure includes banking, IT, commerce, regulatory functions, audit, capital markets and strategic planning. The governance Manual stipulates the requirements for the composition of the Board. The Board presently has nine members of which five are Non-Executive Directors and four are Independent Directors.

The details of the members of the Board including status, classification, date of appointment, number of Board meetings attended and other directorships are given in the table below:

Name	Status	Class	Date of appointment	Board meetings attended	Other Board memberships
Mr. Abdullah Saleh Jum'ah	Chairman	Non-executive	February 14, 2010	5	Hassana Investment Company (UL) Saudi Arabian Airlines Corporation Zamil Industrial (Vice-Chairman)
Mr. Abdulaziz Abdulrahman Al- Khamis	Vice-Chairman	Non-executive	February 14, 2007	6	Tawuniya Investment Company (Board Director) United Insurance Co. Bahrain
Dr. Fouad Saud Al Saleh	Board member	Non-executive	February 14, 2013	5	SEICO Saudi Manufacturing Company
Dr. Abdulraouf bin Mohammed bin Abdullah Mannaa	Board member	Independent	February 14, 2010	5	Jabal Omar Development Company
Dr. Abdulaziz Abdallah Alnowaiser	Board member	Independent	February 14, 2013	5	
Mr. Abdul Rahman bin Mohammed Al-Rawaf	Board member	Non-executive	February 14, 2010	5	Jabal Omar Development Company
Mr. Mishari Ibrahim Al-Mishari	Board member	Non-executive	February 14, 2010	5	Saudi Reinsurance Company
Mr. Mohammed bin Abdullah bin Ahmed Al Ali	Board member	Independent	July 1, 2014	5	Saudi Energy Efficiency Services Company
Mr. Saleh Ali Al-Athel	Board member	Independent	February 14, 2014	5	Saudi Specialised Laboratories Company

Responsibilities of the Board

The responsibilities of the Board include strategy responsibilities, risk responsibilities, performance management responsibilities and organisation responsibilities.

A Board member has a fiduciary responsibility to keep confidential all information that has been obtained in the course of his duties other than such information which will be made public. Confidential information may be divulged, during or after his tenure, only with the written permission of the Chairman of the Board. Members are also prohibited from making use of any information for personal gain or for the benefit of any person or entity inside or outside the Bank.

Board process

The number of meetings should be at least the minimum required by Saudi law and the meetings should be scheduled at the beginning of the year. Additional Board meetings can be convened at the request of the Chairman and two or more Board members. The agenda and information packs should be circulated at least seven days prior to the meeting and the Board secretary is responsible for this. For extra-ordinary meetings it should be sent as much in advance as feasible.

In addition to face-to-face meetings, teleconference or video conference meetings are also permissible. The quorum for a Board meeting is:

- The Chairman or Vice-Chairman
- At least five Board members, either in person or by an authorised representation by another Board member subject to the fact that a Board member may not represent more than one member.

Board decisions shall be by a simple majority of members present or represented with the Chairman's (or in his absence the Vice-Chairman's) vote being the deciding vote in the case of a tie.

It is the Board secretary's responsibility to assist the Chairman in the smooth functioning and logistics of the Board. He should maintain minutes of meetings, including deliberations, votes, objections and abstentions from voting. Minutes should be distributed not later than 15 days after the date of the meeting.

For a details of the attendance at the various Board meetings refer the online report at www.saib.com.sa/integratedreport2018/corporate-governance

Six Board of Directors' meetings were held in 2018 and the details of Directors' attendance are given below:

Board member	Board of Directors meetings attended					
	February 1, 2018	March 29, 2018	May 15, 2018	September 19, 2018	October 31, 2018	December 13, 2018
Mr. Abdullah Saleh Jum'ah	x		x	x	x	x
Mr. Abdulaziz Abdulrahman Al- Khamis	x	x	x	x	x	x
Dr. Fouad Saud Al Saleh		x	x	x	x	x
Dr. Abdulraouf bin Mohammed bin Abdullah Mannaa	x	x	x	x	X	
Dr. Abdulaziz Abdallah Alnowaiser	x	x	x	x	x	x
Mr. Abdul Rahman bin Mohammed Al-Rawaf	x	x	x	x	x	x
Mr. Mishari Ibrahim Al-Mishari	x	x	x	x	x	x
Mr. Mohammed bin Abdullah bin Ahmed Al Ali	x	x	x	x	x	x
Mr. Saleh Ali Al-Athel		x	x	x	x	x

Board committees

While the ultimate responsibility for the governance of SAIB rests with the Board of Directors, the Board is assisted in this function by several committees. There are six Board committees.

The Board committees are:

- Board Executive Committee
- Board Risk Committee
- Board Audit Committee
- Board Nomination and Remuneration Committee
- Board Shariah Committee
- Board Governance Committee

For further details of the composition and responsibilities of the Board Committees refer the online report at www.saib.com.sa/integratedreport2018/corporate-governance

The Composition and responsibilities of the Board Committees are given below:

- The Executive Committee is comprised five Board members. This Committee supervises the credit and financial policies of the Bank.
- The Risk Committee is comprised five Board members. This Committee supervises the risk management activities of the Bank including market, credit, and operational risks.
- The Audit Committee is comprised five members: two Board members and three non-Board members. The Audit Committee's activities include overseeing the Bank's internal audit function, recommending the appointment of the external Auditors, and related activities.
- The Nomination and Remuneration Committee is comprised of five Board members. This Committee is responsible for recommending to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards, reviewing on an annual basis the criteria for membership of the Board of Directors, and reviewing the structure of the Board of Directors and recommending changes thereto. It is also responsible to recommend to the Board the approval of the Bank's compensation policy and amendments thereto, and other activities related to the Bank's compensation policies and guidelines.
- The Shariah Committee is comprised three members and is responsible for providing Shariah opinions on submitted applications and related contracts and forms. The Committee is also responsible for ensuring the Bank's compliance with Shariah principles and decisions through the Shariah control function. In addition, the Committee answers Shariah related enquiries for the Bank and its customers.
- The Governance Committee is composed of three Board members. The Committee is responsible for promoting and implementing best practices of governance by acting on behalf of the Board to ensure the implementation of these practices in all activities of the Bank. The Committee also monitors the Bank's compliance with relevant local and international regulations.

The membership of the six Board committees is given below:

Executive Committee	Audit Committee	Nomination and Remuneration Committee	Governance Committee	Risk Committee	Shariah Committee
Mr. Abdulaziz Al-Khamis, (Chairman)	Mr. Muhammad Al Ali (Chairman)	Dr. Abdulaziz Al Nowaiser (Chairman)	Dr. Abdulaziz Al Nowaiser (Chairman)	Mr. Mishari Al-Mishari (Chairman)	Dr. Muhammad Ali Elgari (Chairman)
Mr. Abdulrahman Al-Rawwaf	Dr. Fouad Al- Saleh	Dr. Abdulraouf Mannaa	Dr. Abdulraouf Mannaa	Mr. Abdulrahman Al-Rawwaf	Dr. Ibrahim bin Abdullah Al-Lahim
Dr. Fouad Al- Saleh	Mr. Abdullah Al-Anizi (non-Board)	Mr. Mishari Al-Hussein	Mr. Saleh Al-Athel	Mr. Muhammad Al Ali	Dr. AbdulAziz Ahmad Almezeini
Mr. Mishari Al- Mishari	Mr. Monahy Al Moreikhy (non-Board)	Mr. Saleh Al-Athel		Dr. Abdulraouf Mannaa	
Dr. Abdulaziz Alnowaiser	Mr. Saleh Al-Khulaifi (non-Board)	Mr. Abdulrahman Al-Rawwaf		Dr. Abdulaziz Alnowaiser	

The details of Board Committee meetings and attendance are given below:

Eleven Executive Committee meetings were held in 2018 the details of which are given below:

Committee members	Executive Committee meetings attended										
	January 8, 2018	February 20, 2018	March 20, 2018	April 17, 2018	May 14, 2018	June 10, 2018	July 24, 2018	Sept 18, 2018	October 23, 2018	November 20, 2018	December 18, 2018
Mr. Abdulaziz Abdulrahman Al- Khamis	x	x	x	x	x	x	x	x	x	x	x
Dr. Fouad Saud Al Saleh	x		x		x	x	x	x	x	x	x
Dr. Abdulaziz Abdallah Alnowaiser	x	x	x	x	x	x	x	x	x	x	
Mr. Abdul Rahman bin Mohammed Al-Rawaf	x	x	x	x	x	x	x	x	x	x	x
Mr. Mishari Ibrahim Al-Mishari	x	x	x	x	x	x	x	x	x	x	x

Five Audit Committee meetings were held in 2018, the details of which are given below:

Committee members	Audit Committee meetings attended				
	January 30, 2018	March 28, 2018	May 14, 2018	September 18, 2018	December 12, 2018
Mr. Mohammed bin Abdullah bin Ahmed Al Ali	x	x	x	x	x
Dr. Fouad Saud Al Saleh		x	x	x	X
Mr. Abdullah Al- Anizi	x	x	x	x	x
Mr. Monahy Al Moreikhy	x	x	x	x	X
Mr. Saleh Al- Khulaifi	x	x	x	x	x

Seven Nomination and Remuneration Committee meetings were held during 2018, the details of which are given below:

Committee members	Nomination and Remuneration Committee meetings attended						
	January 30, 2018	March 22, 2018	May 7, 2018	September 17, 2018	October 16, 2018	December 3, 2018	December 12, 2018
Dr. Abdulaziz Abdallah Alnowaiser	x	x	x	x	x	x	X
Dr. Abdulraouf bin Mohammed bin Abdullah Mannaa	x	x	x	x	x		
Mr. Mishari Ibrahim Al-Mishari	x	x	x	x	x	x	x
Mr. Saleh Ali Al-Athel	x	x	x	x	x	x	x
Mr. Abdul Rahman bin Mohammed Al-Rawaf	x	x	x	x	x	x	x

Four Governance Committee meetings were held in 2018 the details of which are given below:

Committee members	Governance Committee meetings attended			
	January 30, 2018	May 7, 2018	September 17, 2018	December 3, 2018
Dr. Abdulaziz Abdallah Alnowaiser	x	x	x	X
Dr. Abdulraouf bin Mohammed bin Abdullah Mannaa	x	x	x	
Mr. Saleh Ali Al-Athel	x	x	x	x

Four Risk Committee meetings were held in 2018, the details of which are given below:

Committee members	Risk Committee meetings attended			
	March 18, 2018	May 6, 2018	September 16, 2018	December 2, 2018
Mr. Mishari Ibrahim Al-Mishari	x	x	x	x
Mr. Abdul Rahman bin Mohammed Al-Rawaf	x	x	x	x
Mr. Mohammed bin Abdullah bin Ahmed Al Ali	x	x	x	x
Dr. Abdulraouf bin Mohammed bin Abdullah Mannaa	x	x	x	
Dr. Abdulaziz Abdallah Alnowaiser	x	x	X	x

Six Shariah Committee meetings were held in 2018, the details of which are given below:

Committee members	Shariah Committee meetings attended					
	February 5, 2018	March 28, 2018	July 10, 2018	September 13, 2018	November 1, 2018	December 17, 2018
Dr. Muhammad Ali Elgari	x	x	x	x	x	X
Dr. Ibrahim bin Abdullah Al-Lahim	x	x	x	x	x	x
Dr. AbdulAziz Ahmad Almezeini	x	x			x	

Two Extraordinary General Meetings were held in 2018 the details of which are given below:

Date of meeting	Members attended
April 24, 2018	Abdullah Saleh Jum'ah Abdulrahman Al Rawaf Dr. Abdulraouf Mannaa Dr. Fouad Al Saleh Saleh Al Athel Muhammad Al Ali
September 26, 2018	Abdulaziz Alkhamis Abdulrahman Al Rawaf Dr. Fouad Al Saleh Dr. Abdulaziz Al Nowaiser Mishari Al Mishari Muhammad Al Ali

Management

The Board is responsible for the appointment of the CEO and the continued evaluation of his performance. The roles and responsibilities of the Chairman and the CEO are clearly distinguished to ensure separation of the Executive Management and the Board.

Management committees

Decisions and directives of the Board and the Senior Management are implemented by Management committees. The Management committees also recommend, decide, approve and monitor matters which are within their purview. They also provide a forum for discussion and exchange of views at a Senior Management level.

There are nine Management committees which are listed below:

- Management Committee
- Credit Committee
- Asset and Liability Committee
- IT Steering Committee
- Enterprise Risk Management Committee
- Information Security Committee
- Compliance Committee
- Expected Credit Loss Committee
- MSME Committee

Management subcommittees

The Management subcommittees make recommendations on specific topics to a specific Management or Board Committee. There are eight Management subcommittees which are listed below:

- Sustainability subcommittee
- Business Continuity subcommittee
- Securities Valuation subcommittee
- Structures Solution Approval subcommittee
- Financial Fraud Control subcommittee
- Operational Risk Management subcommittee
- Stress Testing subcommittee
- Labour subcommittee

Since Board members cannot give directives directly to members of the staff, communication between the Board and the Management should be either through the Board Committee or subcommittee meetings or through the Corporate Secretary. In the latter case the Secretary will obtain the consent of the CEO for the meeting or contact. The CEO can also opt to participate in the discussion if he so desires.

Evaluation of Board and committees

In accordance with the principles of corporate governance issued by SAMA and endorsed by the CMA, annually the Board carries out an assessment of its own performance, the performance of individual members and of the Board committees. Every three years this is carried out by an external consultant. The objective is to review the effectiveness of controls, identify shortcomings and take corrective action. An external review was carried out in 2018, and the conclusion was that the governance framework and the systems of the Bank measure up to both national and international corporate governance best practices. The evaluation found the Board to be among the top 5% of Boards that the GCC Board Directors Institute (BDI) has reviewed.

Financial disclosure and transparency

SAIB follows the:

International Financial Reporting Standards (IFRS) as modified by 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 are in compliance with the provisions of the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the Bank’s Articles of Association.

The Financial Statements for the year ended December 31, 2018 have been approved by the Directors to ensure that they present a true and fair view of the state of affairs of the Bank for the year under review.

GRI 102-16

IT governance

Information technology plays a vital role in the Management and operations of the Bank. The cutting-edge technology we employ is a vital part of our competitive edge. All our IT development and operations are conducted in accordance with international standards and best practices. The IT strategy has been crafted to align with business strategy.

SAIB has a comprehensive IT Information Security Policy which is the bedrock of the Information Security Management System (ISMS). ISMS safeguards the Bank's IT hardware and digital assets. It thereby also safeguards the interests of customers, investors, employees, and other stakeholders. A framework has been designed to restrict access to digital assets. All assets have a nominated owner and rules for access are well established. Access to data and facilities are on a "least privileged" and "need to know" basis. Critical sensitive facilities are housed in areas with appropriate security barriers and limitations to access. Procedures are in place to make swift and effective responses to any information security threats.

Ethics and standards

The Bank maintains the highest degree of ethical and professional standards which are governed by a code of conduct. This governs all commercial operations and practices. Through this code the Bank seeks to inculcate a culture of professionalism where the highest standards of ethics, integrity and respect for confidentiality prevail. The code applies to all Directors, employees, affiliates and any person who may represent the Bank. It provides a guide for making day-to-day decisions as well as strategic decisions. The governance exercised by the Board ensures the effective implementation of the Bank's ethical standards and the Code of Conduct.

To strengthen assurance of ethical conduct we have a Whistle-blowing Policy in place where employees may report suspected cases of breaches of code of conduct, ethics, laws, regulations or procedures without any fear of reprisals. Such reporting may be done to the CEO or to the General Manager – Human Resources. The Bank also has a portal on its website where external parties may report any suspected irregularities.

Internal controls

The Management is responsible for establishing an adequate, effective, and efficient internal control system that will cover all operations of the Bank. The internal control system should include the policies, processes and procedures which are designed by or under the supervision of the Board to achieve the strategic objectives of the Bank and ensure smooth day-to-day operations. All significant findings related to the internal control systems are reported to the Audit Committee of the Bank. The Committee ensures that any shortcomings are corrected to ensure the smooth functioning of the Bank. All levels of the Bank are involved in the efforts to strengthen the internal control system. Each function, under the supervision of the Senior Manager is responsible for rectifying any identified deficiencies relating to the function. It is recognised that necessary controls may change with changing circumstances and review needs to be an ongoing and continuous process.

The testing and assessment of internal controls carried out during the year however, gave reassurance that the system has proved to be adequate and effective.

RISK MANAGEMENT

For a financial services company such as SAIB, operating in today's global business environment, requires a careful identification of the different types of risks, managing the risks, and balancing risk and return. This includes efficient allocation of regulatory capital to support healthy balance sheet growth. Being a custodian of customer deposits, the Bank has to apply best in class risk management practices in order to safeguard the interests of customers, investors and other stakeholders. Hence, the Bank has a well-defined and documented risk management framework in place to prudently fulfil its role as a custodian and intermediary, as well as to rigorously comply with regulatory requirements.

At the apex of the risk policies and procedures of the Bank is the Risk Management Policy Guide, prepared in conformance with the requirements of the Saudi Arabian Monetary Authority (SAMA). This describes in detail the risks the Bank is exposed to and the policies and mechanisms in place to measure, manage and control the risks. Some of the main governance manuals developed for this purpose are the Risk Appetite Framework (RAF), Credit Policy Guide and Treasury Policy Guide.

The RAF is the cornerstone of the Bank's risk management and is overseen and approved by the Board of Directors. It monitors and measures risk tolerance in a structured and transparent manner and infuses risk management considerations into the Bank's strategy and operations. The Board is supported by the Board Risk Committee which recommends policies for Board approval and oversees key risks within the Bank. There are also several supporting committees at Management level including the Enterprise Risk Management Committee, the Credit Committee and the Asset and Liability Committee. At the Departmental level, the Bank has a Risk Management Group headed by the Chief Risk Officer.

The RAF is aligned with the Bank's strategic planning, business planning, capital planning and policies and documents issued by the Board of Directors. The RAF sets out the nature of risks arising from the Bank's strategy. It defines the maximum level of risk the Bank could take without hampering its operations (risk capacity); the maximum level of risk the Bank is willing to take (risk appetite); maximum level of other quantifiable risks (other risk limits); and the desired risk-return trade-off.

In addition to the RAF, the Board has also approved the Risk Assessment Policy Guide which includes the Risk Appetite Policy Framework, Credit Policy Guide, Treasury Policy Guide, Stress Test Policy, Internal Capital Adequacy Assessment Plan Policy, Operational Risk Policy, Fraud Risk Policy, Information Security Policy among others. The Board is also responsible for approving and implementing policies to comply with SAMA guidelines, accounting and reporting standards (including IFRS 9 in relation to anticipated credit loss provisioning) and best industry practices such as Basel guidelines. A comprehensive Group IFRS 9 Governance Policy Framework was approved in 2018. This is backed by additional Management level policies such as the IFRS 9 Data Management and Control Framework Policy and the IFRS 9 Governance Framework.

In addition to the above, the Bank's Internal Audit Function reports to the Audit Committee of the Board of Directors and conducts an independent validation of compliance with risk policies and procedures and the adequacy and effective of the risk management framework. This reflects the "three lines of defence" risk management approach adopted by the Bank, whereby the front line business units are made risk aware, the support functions such as the Risk Management Group are an important second line of defence, and Internal Audit is the third line.

A description of the different types of risks the Bank is exposed to and how the Bank manages these risks is given below:

Credit risk

This is the risk of loss occurring due to counterparties in credit transactions not fulfilling or only partly fulfilling their financial obligations. The credit risk may arise from loans, advances, guarantees, derivatives and foreign exchange products. Credit risk is assessed by a comprehensive framework including an independent credit risk review and credit monitoring process. The Credit Policy Guide (CPG) contains guidelines for the process. The CPG seeks to maximise return while recording, managing and mitigating the associated risks. The Probability of Default (PD) is assessed using internal rating tools. External ratings from major rating agencies are also used when they are available.

The Bank is improving the credit management process by further developing the post-sanction review process to mitigate potential credit losses that may arise.

Operational risk

This is the risk arising from failures in systems, internal processes, human error or external events. The Bank's Operational Risk Management Framework defines the various types of operational risk, and how they are to be assessed and controlled. The assessment and control of operational risks in all organisational units of the Bank are monitored through Risk Control Self Assessment (RCSA) exercises, and establishing a Bank-wide Operational Risk Appetite Matrix. Operational risk losses are monitored on an ongoing basis and corrective action is taken.

Liquidity risk

This is the risk that the Bank will have inadequate funds, or lack funds at an acceptable cost, to meet its obligations when needed. A cause of liquidity risk can be credit downgrades or market disruptions which can make unavailable previously expected sources of funds. The Bank carefully monitors its liquidity position on a daily basis to minimise liquidity risk. Several ratios including the Daily Liquidity Ratio are monitored for this purpose and kept within SAMA guidelines. Liquidity stress testing is also carried out under both normal and stressed scenarios.

Market risk

This is the risk that the fair values of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, exchange rates and equity prices. Measures to manage such risks are laid down in the Treasury Policy Guide issued by the Board of Directors.

Commission rate risk

This is the risk that changes in commission rates will affect either the fair values or future cash flows of financial instruments. This could arise from timing differences in fixed and floating rate assets and liabilities. The Board has set commission rate gap limits by time periods. The Bank also uses hedging strategies to minimise risk within time limits.

Currency risk

This is the risk of changes in exchange rates having an impact on financial position or cash flows. The risk is minimised by limited foreign currency exposure, setting limits on forward maturity gaps and by hedging strategies.

Equity price risk

This is the risk of changes in the value of the Bank's investment portfolio due to fluctuations in prices of equities or market indices. The Board sets limits on exposure to individual industries and for the overall exposure.

Financial crime risk

This is the risk of losses due to frauds and other crimes which are a significant risk for banks as well as their staff. The occurrence of such crimes can have a very negative impact on the reputation of the Bank. SAIB has continued developing its anti-financial fraud control system.

Cyber information security risk

As technology develops it brings with it associated risks. Today cyber risks are an ever-present threat for all financial institutions. The Bank is extremely vigilant in this area; it has deployed precautionary measures including 24x7 Security Operation Centre, Vulnerability Management Programmes and Attack Simulation Exercise to enhance Cyber Resilience. Security practices and culture have also been reinforced through various programmes to educate staff. The Information Security and Operations Risk Division commenced implementation of its new strategy for 2018-2020 which was approved by the Information Security Committee. Confidentiality, integrity, privacy and access controls were integrated into all business and technical processes. Though there have been cyber attacks targeting the Middle East and Saudi Arabia, the Bank has shown resilience in withstanding them.

Risk-based security audit conducted by internal audit, external agencies and certification bodies including ISO 27001 (Information Security Management System) were completed with satisfactory findings. Conformance with international standards and best practices such as General Data Protection Regulation have been verified and assured. In addition, the Information Security and Operation Risk Division complies with the Saudi Information and Cyber Security Regulations imposed by Saudi National Cyber Security Authority (CSA) and SAMA.

Business continuity plan

The Bank continued to recognise the importance of this area and make progress in it in 2018. A robust Business Continuity Plan (BCP) will enable the Bank to respond to a serious disruptive incident in a timely and appropriate manner. During 2018, comprehensive tests were conducted on two separate occasions. In addition, a continuous five-day recovery test was conducted on all mission-critical IT operations by switching them to operate from the Bank's Disaster Recovery Centre (DRC). The Bank will continue to upgrade its disaster recovery capabilities by switching operations in this manner in the event of a major incident. This needs to ensure that they can operate independent of the primary site. The Bank is in the process of establishing a new DRC which will be ready in 2019. Continued training on business continuity will be conducted. The Bank maintained the ISO 22301 Certification for Business Continuity Management through validation by an independent authority.

GRI 103-1, 103-2, 103-3; 205-1

COMPLIANCE

Compliance is the function that ensures that the Bank adheres to all applicable laws, regulations, policies and rules, both internal and external. It therefore plays an essential role in safeguarding the reputation and integrity of the Bank. Compliance is ingrained into SAIB's culture and it is something we seek to instil into employees at all levels. Thus, compliance is a function that is given the highest priority by the Board of Directors and the Executive Management as it concerns the adherence of all the existing rules and regulations which ensures the Bank's pedestal stature.

The Compliance Manual describes in detail the compliance functions and all related procedures as approved by the Board of Directors. It was derived from the Compliance Manual for Banks operating in the Kingdom of Saudi Arabia issued by the Saudi Arabian Monetary Authority (SAMA) in December 2008. The Head of Compliance (HOC) bears the responsibility for administering the manual. The manual requires periodic revision due to changes in laws and regulations, changes in functions and business processes, changes in organisation structure and changes in job roles.

Compliance Group

Organisationally the compliance function is spearheaded by the Compliance Group. The Group has a number of broad roles and responsibilities. The first is the detection and advisory role. One aspect of this is to identify risks that the Bank faces and provide advice to overcome them. There is also the reactive aspect of resolving compliance issues as they arise and helping business units to overcome them.

The second major responsibility is that of designing and implementing controls to protect the Bank from compliance-related risks. The risks include administrative and legal penalties, financial losses, and damage to reputation. This will in turn help safeguard depositors' and investors' interests. Some of the specific functions under this are:

- Safeguarding against violations of laws, rules, or regulations and ensuring that appropriate changes are made whenever there are any changes made to the foregoing or their interpretation.
- Strengthening relationships with regulators.
- Preventing any banking channels from being used to commit crimes such as money laundering and terrorist financing; ensuring the Bank abides by all international sanctions.
- Screening the standard operating and accounting procedures, products, services, forms, contracts and agreements, to ensure they are in compliance with all relevant laws and regulations.
- Circulating new laws and regulations, providing guidance on their implications and implementation, and advising business units on compliance matters.
- Reporting on non-compliance issues and recommending processes to resolve the identified issues.

The Compliance Group is also responsible for monitoring and reporting on the effectiveness of controls. In addition, it also handles communication with regulatory bodies, thereby building a positive image of the Bank in the eyes of the regulators.

Monitoring and action

The Bank has a Compliance Monitoring Programme in place to identify, assess, and monitor the risks of non-compliances. This programme includes a Compliance Risk Assessment Methodology. The compliance function also develops an Annual Compliance Plan which is based on the methodology. As part of the Plan, products and services that carry significant risks are tested at a frequency which depends on the degree of risk. A comprehensive Compliance Risk Register is also maintained which gives full details of all risks.

Compliance initiatives of SAIB

Anti-Money Laundering/Counter Terrorism Financing (AML/CTF)

Money laundering is the mechanism where proceeds of illegal activities are made to flow into the legal economy disguising their source. The banking industry is a prime target of such operations. The sources of the funds may be narcotics, fraud, bribery, organised crime, and terrorism. Money laundering is a criminal activity in the Kingdom and SAIB adheres to the Anti-Money Laundering Rules and Guidelines Law issued by Royal Decree No. M/31 dated 11/5/1433. The Bank has a "Know Your Customer" policy to safeguard against potentially risky customers. Employees are also trained to identify suspicious transactions and are expected to bring any such cases to the notice of AML/CTF.

Cross-border issues

As an institution whose transactions spread far beyond the Kingdom, SAIB has a responsibility, to observe all laws and regulations of all jurisdictions within which it operates. The compliance function needs to align its structure and processes to cater to this need. When the Bank does not have a physical presence in a particular international location it conducts business through local subsidiaries or branches in other locations. In such a situation, compliance should ensure that operations are carried out by persons who have the appropriate skills and expertise.

Human resources policy

Since integrity of employees plays a vital part in ensuring compliance, all prospective employees are screened for their past professional conduct during the recruitment process. All supervisors pay attention to compliance issues when monitoring their direct reports. Those who develop and maintain systems and procedures, as well as other employees, are kept updated on compliance requirements. The Head of Compliance (HOC) is responsible for implementing any new laws and regulations. Conflicts of interest among compliance staff or those of other departments is an issue the compliance function needs to be vigilant about.

Employee adherence to the Bank's compliance policies is a consideration in staff appraisals at all levels.

BUSINESS MODEL

All our operations take place within the overall context of the operating environment and our strategies. Through our business processes, inputs which are resources both tangible and intangible, are transformed into outputs, which are products and services. Outputs are in turn transformed into outcomes, the value created for the Bank and its stakeholders. The end result is the impact which is the long-term value created.

GRI 103-1, 103-2, 103-3

HOW WE CREATE VALUE

Vision and Mission

Operating Environment

Stakeholders and Materiality

Strategy

Inputs

Financial assets
Cash, loans, advances and other receivables

Systems and procedures
Governance procedures, business processes and cutting-edge technology, policies, values and ethics

Investor relationships
A loyal pool of investors who takes a long-term view on the Bank

Proximity to the customer
Being close to the customer, we understand their needs and innovate appropriate products and services

Leveraging business partnerships
Through links with business partners, we expand our reach and obtain the best possible options for sourcing our needs

Our people strengths
Our highly motivated staff whose skills we keep upgrading

Commitment to society and environment
Our social and environmental programmes give value to society and promote our long-term sustainability

Activities

Growing profitably
Grow by expanding our channels, both traditional and technology-enabled, as well as by deepening our penetration of priority markets and customer segments

Developing products and services
Develop products and services that serve changing customer needs

Communicate our offerings
Communicate our product and service offerings to the customer, particularly using non-traditional channels such as web, email, and social media

Digitalization
Increase convenience to customer and through digitalization reduce the need for physical presence

Reducing cost
Through automation of processes, reduce the need for manual intervention

Promoting diversity
Recuitment policies promote diversity

Improving customer service
Through training and development of staff, improve the level of customer service and provide customized service for different customer segments

Reward and recognizing
Motivate employees by long-term benefits in addition to remuneration

Brand awareness
Promoting brand awareness through special offers

GRI 103-1, 103-2, 103-3

Stewardship

Monitoring and Evaluation

Outputs

Retail banking
Deposit accounts with focus on growing demand deposits, home loans, vehicle loans, and cards

Corporate banking
Range of corporate banking services covering the large corporate, mid corporate and MSME sectors including financing, investment services, cards, and real estate financing

Treasury
Management of foreign exchange transactions, liquidity, and Sukuk issues

Reach
Increased reach and accessibility through traditional and non-traditional channels

New products
New and innovative digital applications increasing customer convenience

Security
Increased security of operations especially from cyber threats and other IT-related risks

Staff
More motivated staff able to provide higher level of customer service

Diversity
Higher percentage of women and youth in workforce

Brand
Greater brand recognition

Environmental impact through value chain
Targeting a percentage of lending for environment friendly activities

Outcomes

Value delivered

Improved performance in the Bank's primary function which is that of financial intermediation

Professional development, confidence in career growth and a motivating work culture

Highly competitive and easily usable products and services

Smoother systems that facilitate better customer service and reduce manual intervention

Value derived

Profitability, shareholder loyalty, and business portfolio growth

A dedicated and empowered workforce with high rates of staff retention

Strong brand recognition, customer patronage, and growth in market share

Brand value and market leadership

Impact

Move the Bank towards becoming one of the leading digital banks in the Kingdom

Be a key player in the development of a thriving financial sector and promoter of the economic and social development of the Kingdom as well as being key enabler of the Kingdom's Vision 2030 by offering services to support private sector growth

OPERATING ENVIRONMENT

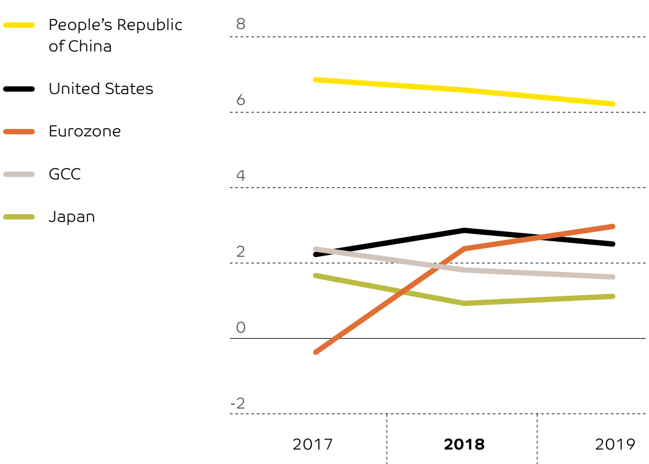
Growth prospects in the global economy have been somewhat dampened in 2018. However, growth in GCC countries is expected to accelerate, driven by higher oil prices and eased fiscal consolidation.

Growth in the global economy in 2018 is estimated to be 3.7%, while the growth forecasts for 2019 and 2020 are 3.5% and 3.6% respectively. The 2019 and 2020 figures are a slight downward revision of previous forecasts. The U.S. imposed trade barriers on imports from China and some other countries during the year. The trading partners are expected to retaliate if they have not already done so. These developments and uncertainty over policy have resulted in dampening of growth. Uncertainties regarding future growth tend to more on the negative side, due to fears of escalating trade tensions. A "no deal Brexit" continues to be another threat.

The U.S. economy received a boost from income and business tax cuts. Growth was expected to peak at 2.9% in 2018 but is expected to reduce to 2.5% in 2019. Capacity constraints are expected to constrain growth in the immediate future. This is likely to cause an increased demand for imports which, together with tariff barriers, will add to domestic price pressures. There is also a shortage of skilled workers and professionals in certain categories. Higher input costs are bound to push up consumer prices before long.

The Euro zone is expected to record a modest growth of 1.8%. Growth has been hampered by soft private consumption and reduced production due to revised auto emission standards in Germany; due to political and industrial unrest in France; and due to weak demand and higher borrowing costs in Italy. In Japan the economy has been affected by higher oil prices and a shortage of labour, but was expected to record a moderate 0.9% 2018 and 1.1% 2019.

Real GDP growth (%)



The large East Asian economies are expected to record only moderate growth, by past standards, due to the impact of external factors. China's growth was constrained by slower expansion in industrial production and fixed assets, and is estimated to reduce to 6.6% in 2018. A further reduction to 6.2% in 2019 is anticipated. While export performance has remained robust, indications are that growth will be dampened by rising trade barriers and weakened credit growth. The economic outlook in India is positive with annual growth of 7.3% in 2018 and 7.4% in 2019 being forecast. Growth has been driven by private consumption, more conducive fiscal policies and previous reforms coming to fruition. Growth in Russia is estimated to increase to 1.7% from 1.5% mainly due to higher oil prices and increased domestic demand.

An important non-economic factor has been that technology has been driving changes in job skills and creating needs for regular re-training. Another important consideration for the banking industry is the growing concern about data security and cyberthreats.

GCC

Growth in GCC countries is expected to accelerate in 2019 driven by higher oil prices and eased fiscal consolidation which will uplift domestic demand. An overall growth of 2.4% in 2018 and 3.0% in 2019 is expected, compared with a 0.4% contraction in 2017. However tighter monetary constraints are expected to dampen some of the positive impacts of expansionary fiscal policy. Higher oil prices than those of the previous year, are expected to enhance the balance of payments, with the combined current account surplus being expected to rise to USD 169 billion in 2018.

For the region as a whole, non-hydrocarbon growth has been gradually increasing and is expected to record 3.2% by 2020. Public spending was expected to increase by 15% in 2018, but this should be compensated by higher oil prices and increase in non-hydrocarbon sector revenues leading to a narrowing of the consolidated fiscal deficit. All countries in the region face challenges in diversifying economies and government finances, and are also affected by regional political tensions. While there have been ambitious plans for economic integration among the GCC countries actual progress on the ground has been relatively slow.

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Saudi Arabia

In 2017 the Saudi government mounted major reforms to reduce the economy's dependence on oil and increase the contribution of the private sector. The latter is one of the main goals of Vision 2030. Fiscal consolidation measures including VAT were introduced.

The GDP was projected to grow by around 2% in 2018 and 2019 (2017: negative 0.7%), as a result of higher oil prices, relaxing of production constraints and increased consumer spending. The current account surplus was expected to be around 10% of GDP in 2018 mainly as a result of oil export revenue. The fiscal position is also showing a positive trend due to reduced fuel subsidies, increased electricity tariffs and reduced oil prices. The budget deficit is expected to reduce to 4.1% and 1.9% of GDP in 2018 and 2019 respectively. Non-oil GDP is also showing a substantial growth, and year on year growth in non-oil exports registered 26% in April 2018. VAT and other taxes have also resulted in a growth in non-oil revenues.

Consumer price inflation was expected to be around 3% in 2018, consequent to the introduction of VAT and price increases but is expected to stabilize at around 2% in 2019. The adoption of Vision 2030 has brought about heartening developments including improving the business environment, developing the SME sector, deepening capital markets, increasing participation of women in the economy and developing industries with high growth potential. The opening of the stock market to foreign investors and creation of a parallel market for the SME sector have been initiatives which augur well for the future.

While the outlook is generally positive, there are some uncertainties that remain. While banks remain well capitalised and liquid there are some doubts about the degree of confidence of investors. There is also an issue of inadequate labour to support certain sectors. While there has been a departure of expatriate labour, employment creation for nationals has not been as rapid as expected and employment in the private sector has declined for the first time since 2005. Matching the available jobs with the type of jobs Saudis are seeking remains a problem. The government continues to employ about 70% of employed Saudis. There are also doubts as to how far the economy will be able to diversify away from oil in the short or medium term.

Kuwait

Kuwait too suffered a difficult year in 2017, but growth of 1.5% is estimated in 2018 and a higher growth in 2019 as curbs on oil production are relaxed. Rising public sector employment has boosted household spending. The implementation of VAT, scheduled for 2018 has been postponed to 2021. However, the economy continues to suffer from excessive dependence on hydrocarbon products; while there has been growth in the non-oil sector, about 60% of GDP, over 90% of exports and over 90% of fiscal receipts is drawn from such products.

Bahrain

Bahrain was expected to record a GDP growth of 2.6% in 2019, driven by higher oil production and major projects especially expansion of industrial capacity. Increase in oil prices should lead to a reduction in fiscal deficit and current account deficit. In the longer term there is optimism due to the discovery of new hydrocarbon reserves. The implementation of VAT is scheduled to begin in 2019, dampening growth somewhat and increasing consumer price inflation temporarily.

UAE

The UAE economy was expected to pick up in 2018 with GDP growth of 2%, rising to 3.2% by 2020 after a depressed performance in 2017. However, inflation is expected to rise to about 4.2%, mainly due to the introduction of VAT, but this should moderate later. Oil production increased in 2018, due to a revised OPEC deal and there will be the benefits of higher prices. Growth will be driven by oil prices, expansionary fiscal policy, pickup in trade and tourism and in investment in anticipation of Expo 2020 in Dubai.

Oman

Oman's economy, which contracted by 0.9% in 2017, showed a marked recovery in 2018. Oman was expected to achieve an increase in GDP growth, to 2.3% in 2018 and 2.5% in 2019. Growth will be driven by increased prices of oil, increased production of gas and lifting of OPEC restrictions. Fiscal and current account deficits have continued to be in the double digits due to lags in adjusting to lower oil prices. High unemployment remains a major challenge with general unemployment of 17% and youth unemployment of 49%. Diversification efforts are expected to bring results in the tourism, logistics, manufacturing and renewable energy sectors in the long term.

While in 2017 the Saudi Arabian economy contracted slightly, the GDP is projected to grow by around 2% in 2018 and 2019 as a result of higher oil prices.

Vision 2030

Vision 2030 was the blueprint for Saudi Arabia's future that was unveiled in 2016. The plan is built on three pillars; Saudi Arabia's historic position as the heart of the Arab and Islamic world; our determination to become a global investment powerhouse; and leveraging our geographic location to become a hub connecting three continents. There are also three themes woven round the pillars.

- A vibrant society – one that would progress and modernise while keeping our religious and cultural heritage
- A thriving economy – this would be built based on education and skills development
- An ambitious nation – this would be achieved through good governance, transparency and responsibility

Vision 2030 envisages developing and diversifying the economy; reducing the dependence on oil and increasing our global competitiveness are key objectives. The part the private sector plays is to be expanded and it is expected that more foreign investment will flow in. It is also proposed to expand the role the SME sector plays in the economy, thereby developing the entrepreneurial skills of Saudis. We will leverage the untapped skills of Saudi women bringing more of them into the workforce. Educational reforms will be introduced and we will develop some of our universities into world class ones; our major cities will rank among the best in the world.

Saudi banking sector*

The Saudi Banking Sector consists of 12 listed banks and several non-listed banks. The four largest banks account for 56.6% of total assets. Four of the banks are Shariah compliant and account for 27.6% of total assets. In 2018 the total assets of banks increased by 2.1% to SAR 2,331 billion. Saudi banking deposits and money supply grew at a 10-year CAGR of 7.6% each.

Demand deposits increased by 4.5% in 2018 from SAR 977.8 billion in 2017 to SAR 1,022.3 billion in 2018. Of total deposits, demand deposits accounted for 62.5% while time and savings deposits accounted for 26.0%. Businesses and individuals held 89% of demand deposits while government entities held the remaining 11%. For time and savings deposits, the corresponding figures were 58.5% and 41.5% respectively.

The total loans of Saudi Banks registered an increase of 1.5% in 2018 and reached SAR 1,430 billion. The 10-year CAGR was 6.8%. About 49.3% of the loans have a maturity period of less than one year (2017: 51.4%). Loans with a maturity of 1-3 years fell by 10.3% year on year and their share of the total fell from 18.3% from the previous year to 16.1%. A high concentration of short-term loans in a rising interest rate environment is advantageous to banks as loans can be re-priced.

In terms of loans by sector, the commerce sector leads with 19.8% of total loans followed by the manufacturing sector (12.2%) and the construction sector (7.2%). Retail loans increased by 3.5% over 2017 to SAR 329.5 billion. The largest segment by loan purpose is home renovation loans accounting for 8.1% of retail loans. Real estate loans grew at a CAGR of 18.6% over the year and reached SAR 217.3 billion.

The Sector's non-performing loan ratio stood at 1.63% in 2018 as against 1.33% in 2017. The loans to deposits ratio decreased to 86.9% from 87.1% year on year. The banking sector's operating income increased by 6.2% from SAR 21.8 billion 2017 to SAR 23.1 billion. The retail sector accounted for 47.3% of total operating income (2017: 45.1%). The corporate sectors share was 28.5% (2017: 30.7%). Treasury income increased by 3.3% while investment income increased by 14.6%.

**The figures in this section are for Q3 2018.*

GRI 103-1, 103-2, 103-3

STRATEGIC FRAMEWORK

We are coming to the end of one stage of our strategic evolution where we identified and focussed on promising markets, product segments and strategic initiatives. Given our results thus far, we can look forward to the future with confidence.

The operative strategic plan of the Bank is the one for the period 2015-2019 with the theme “Building on Strengths”. The plan was developed based on the achievements and learning experiences of the previous plan. The goals of the plans were primarily customer focused, based on a study of where the Bank was placed in the industry and the Bank’s strengths and weaknesses when the plan was formulated.

A four-step methodology was adopted for developing the strategic plan:

01
Market sizing and SAIB positioning
Ascertaining the potential revenue and profit of different market segments

02
Business strategy
Development of a common approach to markets across businesses

03
Operational enablers
Identifying key enablers of business strategies

04
Implementation planning
Strategic initiatives to exploit market opportunities and develop internal enablers

Inputs for the plan were also obtained from meetings, surveys and workshops with staff.

The following trends were identified in the Kingdom’s banking sector. From these trends we were able to identify threats and opportunities. We were also able to identify product segments, customer segments, geographical markets and channels to focus on for expansion:

Trends

- **Shrinking margins and increasing competition**
  high liquidity and fierce competition put pressure on margins
- **Increasing threat to funding mix**
  the sector’s profitability is fuelled by demand deposits but this is threatened by an increasing rate scenario
- **Diversification of services**
  pressure on margins has brought a need for new services, diversification and innovation

Opportunities

- **Local deepening**
  with traditional segments and geographical areas getting saturated, there is a need to expand into under-banked cities and segments
- **Regulation and new entrants**
  while traditional lines such as consumer lending have come under pressure, new opportunities have been created by legislation such as the mortgage law
- **Technology and innovation**
  leveraging technology to develop more efficient channels and services to satisfy the demands of the market

Regarding financial performance, the main objectives have been to increase revenue while significantly increasing profitability and maintaining the capital adequacy ratio.

From a study of the developments in the operating environment, results of stakeholder engagement and our knowledge of the position of SAIB within the industry, we were able to arrive at broad strategic imperatives to focus on. Within these broad imperatives we have identified, at a more granular level, sub-focus areas which are the strategies.

Strategic imperatives and strategies

1

Growing volume profitably

- Organic growth in business volumes
- Expanding footprint – both conventional and alternative channels
- Diversification – product-wise, customer-wise, tenor-wise, and geographical
- Improving operational efficiency
- Ensuring adequate capital to comply with regulatory changes

At the outset a target was set at growing assets at a rate of 8%, which is slightly above the market rate. However, to achieve this there are many considerations that have to be taken into account and balances need to be struck. The more profitable areas, such as demand deposits have to be identified. In common with its counterparts, the Bank has to strive to increase fee-based income.

Given the nature of the banking business, a balance has to be maintained between risk and profitability. The Bank has to adhere to requirements such as capital adequacy and related regulatory provisions such as IFRS 9 and Basel 3.

When transaction volumes expand, operating costs too tend to increase which has to be kept under control if profitability is to increase. Careful credit control has to be exercised in lending to minimise non-performing loans.

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2

Developing systems and processes

- Developing a digital transformation programme to leverage IT
- Improvements to policies and procedures and mechanisms and systems for implementation
- Centralised processing for standardising and economies of scale
- Enhance data and cyber security
- Systems upgrades/integration

The development of systems and processes has been well aligned with the strategic plan and supporting operational initiatives. Supporting processes have to be developed for key elements of the plan. As an example, cross selling has to be implemented not only across organisational units of SAIB, but across corporate lines as well. Thereby we can develop cross selling opportunities leveraging the specialised products that subsidiaries offer. To achieve this, organisational silos had to be broken down.

For successful development and implementation of systems and processes accurate and timely information has to be provided to the required level of granularity. The Sustainability Dashboard Management System (SDMS) has been developed for this purpose.

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3

Leveraging relationships

- Communication with investors
- Understanding the customer better through data analytics
- Streamlining customer onboarding process
- Personalising customer experience/Creating “moments of truth”
- Addressing customers issues swiftly and fairly
- Monitoring customer and business partner satisfaction
- Collaboration through partnerships/joint ventures
- Building long-term mutually beneficial relationships with business partners

To grow and prosper we need to develop lasting and mutually beneficial relationships with customers, investors and business partners. To gain their trust we need to be transparent and honest in our communication. We also need to adopt the most effective and appropriate channels of communication. In the case of customer transactions, there is an extremely diverse range of touch points that has been enabled by technology today in addition to the traditional brick and mortar branches – internet, mobile, ATMs, CDMs, IVR, and self-service kiosks. Many regions of the Kingdom are underserved but when expanding our reach we have to select the most cost-effective channels.

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GRI 103-1, 103-2, 103-3

4

Broadening product and market portfolio

- Evaluating changing customer needs
- Identifying and concentrating on more profitable product segments
- Balancing the needs of different market segments
- Focus on more profitable types of customers
- Streamlining the product development process
- Transitioning from commoditised to innovative and differentiated products
- Promoting sales orientation
- Focus on effective sales strategies such cross selling and joint calling
- Brand strategy to support overall strategy
- Developing market fact base

Today markets are evolving with dizzying rapidity – customers are becoming more and more exposed to modern trends. The population, especially the younger generation, is becoming increasingly technology savvy. Women are increasing their presence in the market.

The new products and services that are being introduced are increasingly digital in character; this applies to both the personal banking and the corporate banking segment. There are also very lucrative opportunities in market niches such as affluent banking.

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5

Building people skills

- Aligning the HR strategy with the corporate strategy
- Motivation and retention
- Health and safety of employees
- Training and skills development in key aspects
- Engagement with staff
- Employee satisfaction through rewards and recognition

Development of our staff is a continuous ongoing process. Employees have to be trained to keep up with the changing technology and cater to the evolving customer needs. Similarly, in the process of recruitment we have to hone our processes to select the best available people and place them in the most appropriate positions.

We are committed to increasing Saudization and increasing the percentage of women employees. We do our utmost to help our female staff balance their career growth and their family responsibilities. In our relationships with our staff we are very conscious of human rights considerations as well as health and safety issues.

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6

Serving the society and the environment

- Identifying issues to address in terms of likely impact
- Addressing impact through the value chain
- Incorporating ESG considerations in strategies and operations

We do not concentrate completely on the bottom line, but as a responsible corporate seek to fulfil our social responsibilities. We minimise the environmental footprint in our own activities. We have also implemented an Environmental Management System (EMS), which caters to the ISO 14001 standard.

We also carry out a large number of social programmes with educational, health and charity objectives.

In addition all the strategies may address contributing to the goals of Vision 2030.

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STAKEHOLDERS

Stakeholders are individuals or entities who by virtue of positions they hold or their relationship with the Bank, are affected by the activities of the Bank or whose actions, opinions or perceptions have an impact on the Bank.

GRI 102-40, 102-42, 102-43, 102-44

SAIB, by virtue of being a Bank operating in Saudi Arabia, is bound by various laws and regulations, some of which relate to protection of stakeholder interests. These include the provisions of the Saudi Companies Act, which lays down policies the Bank should adopt to protect stakeholders; supervisory guidelines issued by SAMA and Corporate Governance rules issued by CMA which protect stakeholders against any violation of their rights. CMA rules provide for mechanisms for settlement of disputes and compensation for any violation of stakeholder rights.

SAIB's stakeholders include investors, customers, business partners, employees, regulators, and the community. There may be "temporary stakeholders" with whom the Bank interacts on certain special projects and or issues; there are also stakeholders who do not transact directly with the Bank but yet have an indirect relationship with it. Examples of such silent stakeholders are environmental groups and future generations.

Investors

Investors are those who have taken an ownership stake in the Bank, with the expectation of a return. Rights of investors, voting rights, rights to dividends and right to information are defined in the Companies Act, SAIB's Articles of Association and Corporate Governance Manual. There are secondary groups which are associated with investors such as analysts and fund managers. In its relationships with investors, the Bank follows a policy of transparency and ethical behaviour; we also provide investors with as much information as possible on all aspects of the Bank's performance.

In addition to the Annual General Assembly and Board of Directors meetings, investors are kept informed through annual, semi-annual, and quarterly reports. The Bank also has a shareholder relations team and a complaint handling mechanism in place.

Customers

Customers are the lifeblood of the Bank. Feeling their pulse and maintaining constant two-way communication is imperative for the Bank to continue to survive and grow. The customers desire convenient, usable and accessible products and services which give financial returns which compare favourably with those in the rest of the market. The Bank takes customers' needs, tastes, perceptions and preferences into account when developing new products, surveys such as "Voice of Customer" and Mystery Shopper are conducted regularly to keep in touch with customer's opinions and gauge their level of satisfaction. Customer workshops are also conducted to strengthen relationships. We seek to provide consistency in service without any discrimination on any grounds.

Business partners

We seek to develop lasting relationships with vendors and service providers; to achieve this there needs to be mutual trust and outcomes need to be beneficial to both parties. We craft our procurement policies with the objective of the vendor and service provider also taking responsibility for quality of products and services. Equal treatment for all business partners is built into our policies and practised in all our dealings. We maintain regular and seamless communication with vendors. This includes future requirements, expansion plans, and changes in systems and procedures. We have in place a seamless tendering and bidding system and a complaint management framework.

Correspondent banks are also important business partners for us. It is through them that many overseas transactions such as opening letters of credit are carried out.

Employees

We are always conscious that we cannot have satisfied customers without having satisfied employees. Staff needs to be motivated and receive appropriate training to serve customers. They need to keep up with the demands of a banking environment which is changing rapidly. Our HR policies are aligned with our broad corporate strategy; our values, strategies and objectives. Staff needs to be kept updated and trained on changes to systems and procedures, customer contracts and relationship policies. Our HR policies are governed by a sustainability pillar of Re'aya. Lines and channels of communicating with staff are clearly laid down.

Employees are bound by a rigid code of conduct which is in accordance with our pillar of Takleef (responsibility). They are expected to be ethical in their own conduct as well as safeguarding the Bank and the customers from illegal acts, fraud, forgery and unauthorised disclosure of information. We however strive to maintain staff morale through mechanisms such as Employee Engagement Survey, in-house magazine, a fair appraisal system, HR help desk, employee suggestion programme, recognition and rewards programme and a social media application.

Regulators

Since ethical conduct is a cornerstone of SAIB's corporate policy, it maintains the highest level of compliance with laws, regulations and guidelines of its regulators. It is especially scrupulous in complying with all requirements of its primary regulator, SAMA. SAMA requires the Bank to strictly adhere to maintaining a required level of capital. In addition SAMA requires Banks to have Anti-Money Laundering procedures (AML), Know-your-customer (KYC) programmes, and Combating Terrorist Financing policies.

CMA governs the capital market of Saudi and the investment environment. SAIB and its subsidiaries deal with financial securities, asset management and real estate management. SAIB is required to comply with CMA rules and regulations, to safeguard shareholders and customers' interests.

Conformance with regulatory requirements entails regular, timely and accurate reporting to a required level of detail. The Bank has to also cooperate with regulators in attending meetings, arranging for on-site visit, and maintain communication through letters and emails when required.

Community

We also lend a helping hand to disadvantaged groups in the society. During the year we carried out a large number of social programmes as we did in previous years. The programmes included agricultural, health, children's education, blood donations and supporting productive families. They also included literacy and orphans' programmes. We encourage our group of staff volunteers to contribute to these programmes and have received a very positive response.

Environment

The Bank is conscious of its environmental responsibilities. One internal programme whereby we demonstrate our commitment is by seeking to limit our own environmental footprint. In our own activities we strive to minimise use of paper and practice green principles.

GRI 102-47

MATERIALITY

SAIB's overarching purpose is to create value – in the short, medium and long term. Value creation is a two-way process; we deliver value to our stakeholders as well as derive value from them. Value creation has to be viewed in the context of the environment within which we operate and the needs and priorities of the stakeholders. To identify the topics which need to be focused on in this Report, we have to first determine which topics have the most impact on our value creation process.

The first step in this process was to carry out a PESTEL analysis of potential material issues categorised under the stakeholder group on which they have the most impact. The results of this analysis are shown below:

Stakeholders	Political A	Economic B	Social C	Technological D	Environmental E	Legal/Regulatory F	
Investors/ Shareholders		Economic slowdown	Growing influence of social media	Unorthodox competition		IFRS 9	1
		Depreciating currencies against USD				Basel III	2
		Expected growth in the Saudi economy				Higher regulatory capital	3
		Financial system stability				Governance and accountability	4
Customers		Propensity to invest in Saudi Arabia	Increasing customer expectations (especially in the younger generation)	Cloud computing		Adherence to Islamic banking principles	5
		Corporates are de-leveraging	Customer trust and protection	e-onboarding			6
		Increase in non-performing loans	Quality of service and customer satisfaction	Digitalisation and automation			7
		New parallel stock market being set up for MSMEs	Engaging with customers	Innovation and product development			8
		Higher oil prices		AI, Robotics			9
		Higher percentage of short-term loans		Blockchain			10
				Cyber security threats			11
				Infrastructure and accessibility			12
				Data security			13

Stakeholders	Political A	Economic B	Social C	Technological D	Environmental E	Legal/Regulatory F	
Employees			Employee productivity	Technology driving change in job skills		Human and labour rights	14
			Staff retention	Operational efficiency			15
			Saudization				16
			Employee satisfaction and engagement				17
			Staff training				18
			Soft skills development				19
			Equal opportunity and anti-discrimination				20
Society and environment	Geopolitical conflicts		Need to commit to Sustainable Development Goals		Reduction of environmental impact of operations	ESG risk in lending and investment	21
			Higher spending power in local population		Increasing demand for green banking and green lending	Compliance with regulations	22
			Community investment and engagement				23
Business partners/ Suppliers			Sustainable procurement				24
			Strengthening relationship				25
Government/ Policy makers		Expected increase in non-oil revenue					26
	Slow growth in economic integration in the GCC						27
	Growth of MSME sector being part of the Vision 2030 goals						28
	Diversification of the economy being one of the Vision 2030 goals						29
Regulators						Business ethics and prevention of financial crime	30

The next step was to map the topics that have the most impact on the stakeholders and/or SAIB itself. The topics have been categorised as risks or opportunities or both.

The degree of materiality or importance of a topic is assessed by its relevance to SAIB or the stakeholder and significance, the latter being determined by the probability of occurrence and the magnitude of its impact. Material risks and opportunities are further analysed as being of high, moderate or low importance to the business and its stakeholders.

The outcomes of the materiality analysis, contributed to the formulation of strategies and strategic imperatives.

Management approach

Material topics are managed in accordance with the strategic plan and responsibilities are assigned to the respective functional unit heads according to the Organisation structure. The degree of materiality of a risk or an opportunity will be a guideline for resource allocation. The Bank has crafted and implemented many policies relevant to material topics to guide its employees in conducting their duties.

Opportunities to be seized

Importance to stakeholder	Low	Moderate	High
High		28A, 9B,1D	29A, 4B, 8B, 26B, 5C, 6C, 7C, 8C, 16C, 17C,18C, 19C, 20C, 22C, 23C, 5D, 6D, 7D, 8D, 10D, 12D, 15D, 22E, 4F, 5F, 14F, 30F
Moderate		2B, 1C, 21E, 1F, 2F, 3F	3B, 10B, 14C, 15C 24C, 25C
Low		22F	

Importance to the Bank

Risks to be mitigated

Importance to stakeholder	Low	Moderate	High
High			1B, 4B, 8B, 5C, 11D, 13D, 4F, 14F
Moderate	14D	2B, 27A, 6B, 7B, 21C, 1F, 2F, 3F	5B, 14C, 15C, 15D, 21F, 22F
Low	10D	1C	1D, 30F

Importance to the Bank


البنك السعودي للاستثمار
The Saudi Investment Bank
مصرفية إسلامية

MANAGEMENT DISCUSSION AND ANALYSIS

Sustainable and long-term value creation requires multi-faceted strategies. These include expanding our reach, controlling costs and innovating products and services. These in turn need to be supported by developing systems and processes, strengthening our relationships with stakeholders, and building people skills. Furthermore, we cannot be sustainable in the long term unless we fulfil our responsibilities to the society and the environment.

GROWING VOLUME PROFITABLY

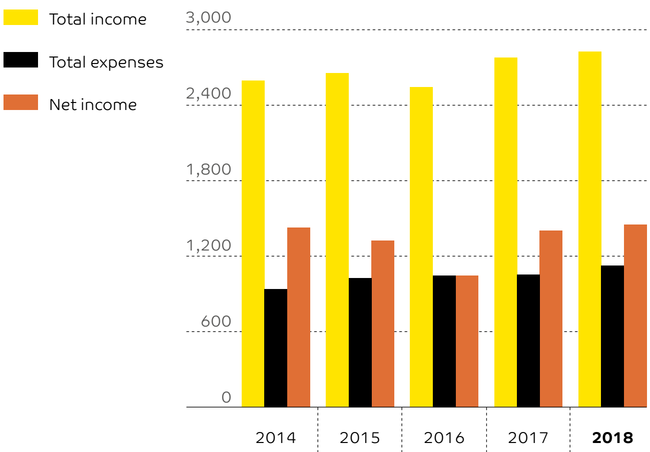
Growing our volume while increasing our profitability can be achieved by expanding our reach through traditional and non-traditional channels. It can also be achieved through other strategic initiatives such as diversifying our product range and deepening our penetration of promising customer segments.

Growing our business volume while increasing our profitably is naturally a core objective. Growth can be achieved in a simple organic manner, by expanding our reach, both through brick-and-mortar branches as well as through other channels, especially digital channels. We can also pursue growth through diversification; widening our product range, deepening our penetration of select customer segments, optimising our product tenure and tapping the potential of hitherto underserved areas of the Kingdom. However, if we are to increase our profitability while growing, we need to keep costs under control. We also have to keep in mind the regulatory requirements of capital adequacy.

Growing business volumes and improving operational efficiency

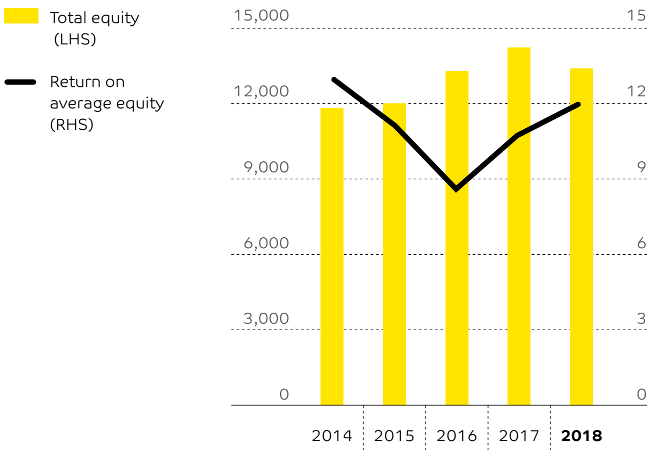
Profitability and income

Income vs expenses (SAR million)



Some of the key indicators of profitability showed a modest increase in 2018. The net income for the year was SAR 1,459 million which was an increase of 3.40% over the 2017 figure of SAR 1,411 million. The return on average assets rose from 1.51% in 2017 to 1.54% in 2018. The return on average shareholders' equity was 11.99% (2017:10.72%).

Total equity vs return on average equity (SAR million/%)

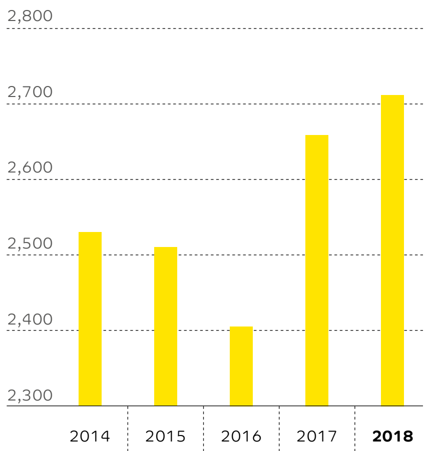


The total operating income increased by 1.99% over the previous year's figure of SAR 2,660 million to reach SAR 2,713 million. Regarding the components of the operating income, the largest contributor which is net special commission income was SAR 2,288 million, an increase of 5.24% over the previous year (2017: SAR 2,174 million). Net special commission income, which includes special commission income (from placements, investments and loans), less special commission expense (on deposits and other borrowings) and fees from banking services increased by 5.36% from SAR 280 million to SAR 295 million in 2018. Exchange income increased by 2.92% to SAR 141 million (2017: SAR 137 million). Dividend income dropped from SAR 20 million to SAR 5 million due to a planned reduction in the Bank's equity investments. All other operating income, consisting mainly of gains and losses through investments, resulted in a net loss of SAR 16 million in 2018 compared to a net gain of SAR 49 million in 2017.

Total operating income (SAR million)

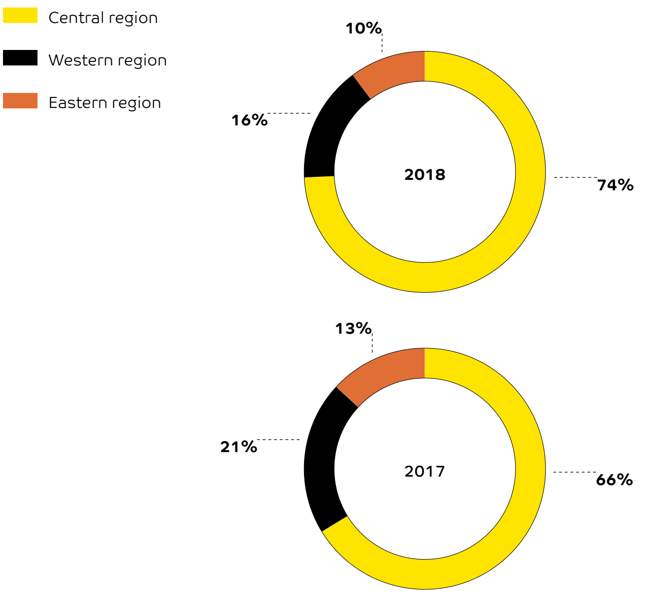
The total operating income increased by 1.99% over the previous year's figure of SAR 2,660 million to reach SAR 2,713 million.

1.99%



Considering the regional distribution of operating income, the Central Region has accounted for 74.29% of the total. This is a considerable increase over the previous year's figure of 66.29%.

Regional distribution of operating income



Operating expenses and efficiency

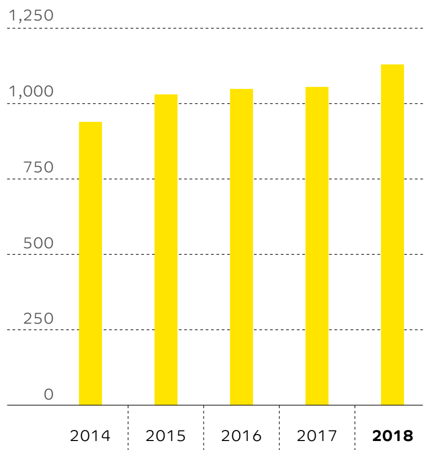
Operating expenses before provision for credit losses and impairment charges on investments were SAR 1,133 million which was a 6.99% increase over the 2017 figure of SAR 1,059 million. There was a slightly adverse movement in the efficiency ratio which increased from 38.01% in the previous year to 39.09%.

Salaries and employee-related expenditure increased by 8.10% to reach SAR 626 million (2017: SAR 579 million). Compared with 2017, general and administrative expenses increased by 11.67%, depreciation and amortisation increased by 11.54%, while rent and premises expenses decreased by 6.19%.

Operating expenses (SAR million)

Operating expenses before provision for credit losses and impairment charges on investments were SAR 1,133 million.

6.99%

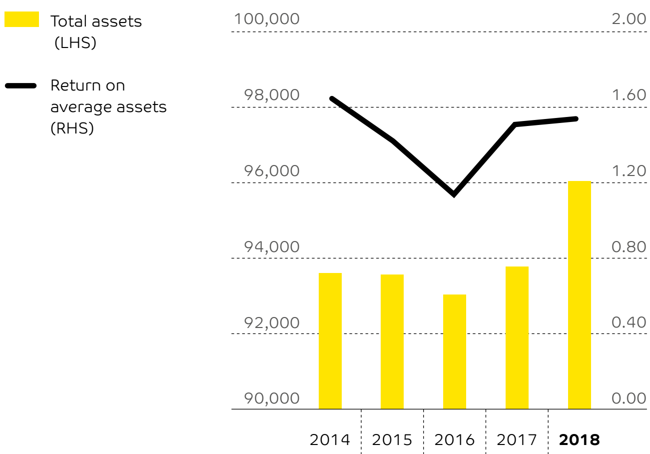


Building our asset and loan portfolio

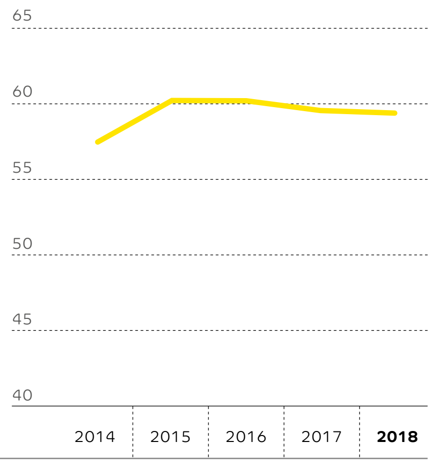
Total assets were SAR 96.1 billion as at end of 2018 compared with SAR 93.8 billion a year before which was an increase of 2.45%. The return on average assets increased from 1.51% the previous year to 1.54%.

Loans and advances, net remained flat (2018, SAR 59.4 billion: 2017, SAR 59.6 billion). Non- interest-based banking products accounted for SAR 37.1 billion of the total loans and advances (2017: SAR 37.3 billion). The estimated fair value of collateral held as security for loans and advances was SAR 49.4 billion (2017: SAR 46.1 billion). The provision for credit losses for 2018 totalled to SAR 247 million (2017: SAR 213 million). The provisions included the requirements of IFRS 9 for all types of loans, advances and other receivables. Due to the adoption of IFRS 9 on January 1, 2018, the Bank recognised fair value changes in its equity investments in other reserves.

Total assets vs return on average assets (SAR million/%)



Loans and advances, net (SAR billion)



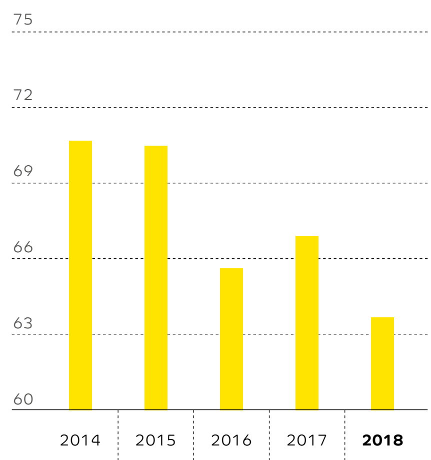
The five-year trend of SAIB's share of the total assets of Saudi Banks is given below:

	Unit	Year				
		2018	2017	2016	2015	2014
SAIB Market share	%	**4.24**	4.22	4.26	4.31	4.46

Customer deposits

Customer deposits decreased by 4.86% to SAR 63.7 billion at the end of 2018. Demand and other deposits decreased by 1.32% and accounted for 39.45% of total deposits (2017:38.03%). Special commission bearing deposits decreased by 7.03% in 2018.

Customer deposits (SAR billion)



Term loans

The five-year medium-term loan facility which SAIB entered into for an amount of SAR 1.0 billion on June 19, 2016, has been fully-utilised and is fully repayable on June 19, 2021. On September 26, 2017, the Bank entered into another medium-term loan facility also for SAR 1.0 billion, which was fully utilised on October 4, 2017 and is repayable on September 26, 2022. Both loans were for general corporate purposes.

The above term loans bear commission at market-based variable rates but are subject to an option for the Bank to effect early repayment subject to the terms and conditions of the related facility agreements. The agreements carry a responsibility to maintain certain requirements, including financial ratios, with which the Bank is in compliance. There have not been any defaults of principal or commission on the term loans.

Subordinated debt

On June 5, 2014 the Bank completed the issuance of a SAR 2.0 billion subordinated debt issue. This was executed through a private placement of a Shariah compliant Tier II Sukuk in the Kingdom. The Sukuk carries a half yearly profit equal to six-month SIBOR plus 1.45%. It also carries a maturity period of 10 years with the Bank having the rights to call the Sukuk at the end of the first five years, subject to certain regulatory approvals.

Tier 1 Sukuk

All documentation related to SAR 1,000 million tranche of Tier 1 Sukuk was completed in 2018 and the issuance was successfully completed, including all regulatory and other legal formalities.

Treasury and investment operations*

The Treasury and Investments Group (TIG) of the Bank handles foreign exchange trading, funding, and liquidity management, the Bank's investment portfolio and derivative products.

In 2018 the Group made a very significant contribution to the Bank's financial results, surpassing its performance in 2017 and its budget target. TIG net income for 2018 was SAR 792.2 million compared to SAR 392.6 million in 2017, which was an increase of 102%. The contribution to the Bank's net income was 73% as against 37% in 2017. TIG's net adjusted income was SAR 357.5 million compared to SAR 198.5 million in 2017. On adjusted basis the contribution to the Bank's net income was 33% (2017: 19%).

The components of the income for the two years are shown below:

	2018 SAR million	2017 SAR million
Exchange income	**106.8**	102.8

Dynamic management of the investment portfolio by investing and re-investing total funds of SAR 4.55 billion yielded a risk/reward average purchase yield of 3.99%. The investment portfolio was optimised by investing and re-investing SAR 3.54 billion of high-quality liquid assets that consist of sovereign and quasi-sovereign issuer. This improved the portfolio average yield from 3.44% on SAR 24.7 billion in December 2018 compared to weighted average yield of 3.12% on portfolio of SAR 21.5 billion in December 2017. The weighted average rating of newly purchased securities of SAR 3.54 billion was A- and eligible for HQLA. The investment portfolio exposure to floating rate was strategically shifted by applying interest rate hedges.

The balance sheet was further strengthened by maintaining a loan-to-deposit ratio at December 31, 2018 of 93%. Prudent liquidity management was achieved by maintaining an average liquidity ratio for the year of 25.64% (month end 24%). The top 20 depositors' concentration as at December 31, 2018, was 35.44% compared with the threshold of 45%. The third tranche of Tier 1 Sukuk programme of SAR 1 billion was closed.

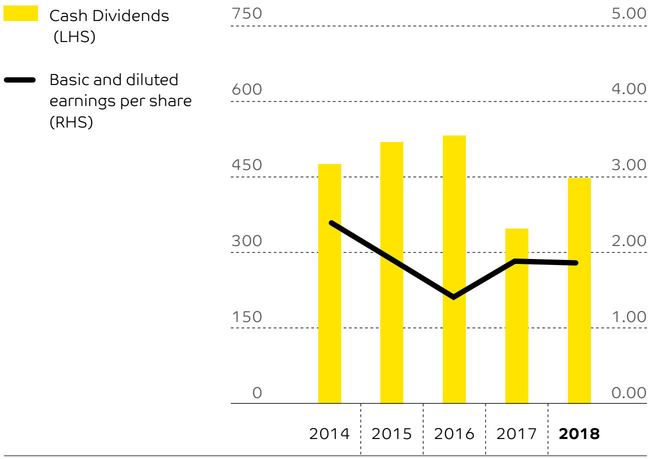
The number of client visits was increased to 410 in 2018, compared with 356 in 2017, which was an increase of 15%. Due to a business slowdown in 2018, the total volume of business in the four major currencies (USD, EUR, GBP, and AED) has decreased by an equivalent of SAR 2.5 billion (-9.7%). However, the profit generated from these four currencies has increased by SAR 27.1 million, which is an increase of 11.7%.

Although the Bank lost clients who contributed SAR 6.1 million in 2017, this was more than compensated for by new clients who added SAR 11.44 million to the total profit. These new clients contributed 16% of total foreign exchange profit flow. The first historical structured deposit trades (six trades) of tenors 3, 4 and 5 years to assist in raising long-term funding of a total SAR 2.55 billion were executed. Five syndicated hedging requirement transactions of a total size of USD 92.5 million were also executed.

**The figures in this section are for Q3 2018.*

Distribution of profit

Profit distribution (SAR million/SAR)



The Saudi Arabian Banking Control Law and the Articles of Association of the Bank stipulate that a minimum of 25% of the annual net income should be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, a transfer of SAR 365 million has been made from the net income for 2018. The statutory reserve is not currently available for distribution.

In 2018 the Board of Directors proposed a cash dividend of SAR 450 million equal to SAR 0.60 per share, net of Zaket to be withheld from Saudi shareholders. This dividend was approved by the Bank's shareholders at an Extraordinary General Assembly meeting held on 8 Shaban 1439H (corresponding to 24 April 2018), after which the net dividends were paid to the Bank's shareholders.

Expanding our footprint

Our customer numbers have shown a steady increasing trend in personal banking and corporate banking.

Customer numbers by segment

Customer type	Year				
	2018	2017	2016	2015	2014
Personal banking	**446,684**	381,571	315,891	248,760	185,868
Corporate banking	**1,540**	1,450	1,407	1,367	1,205
MSME	****11,940**	15,936	13,704	10,441	7,300

*** Reduction in MSME accounts from 2017 to 2018 due to accounts being abandoned.*

During the year, we expanded our reach both by conventional and alternative channels. The details of numbers of access points and transactions are shown below. Although the number of branches has increased only slightly, the number of transactions has increased by 52.3%. The details of numbers by transaction type are given below:

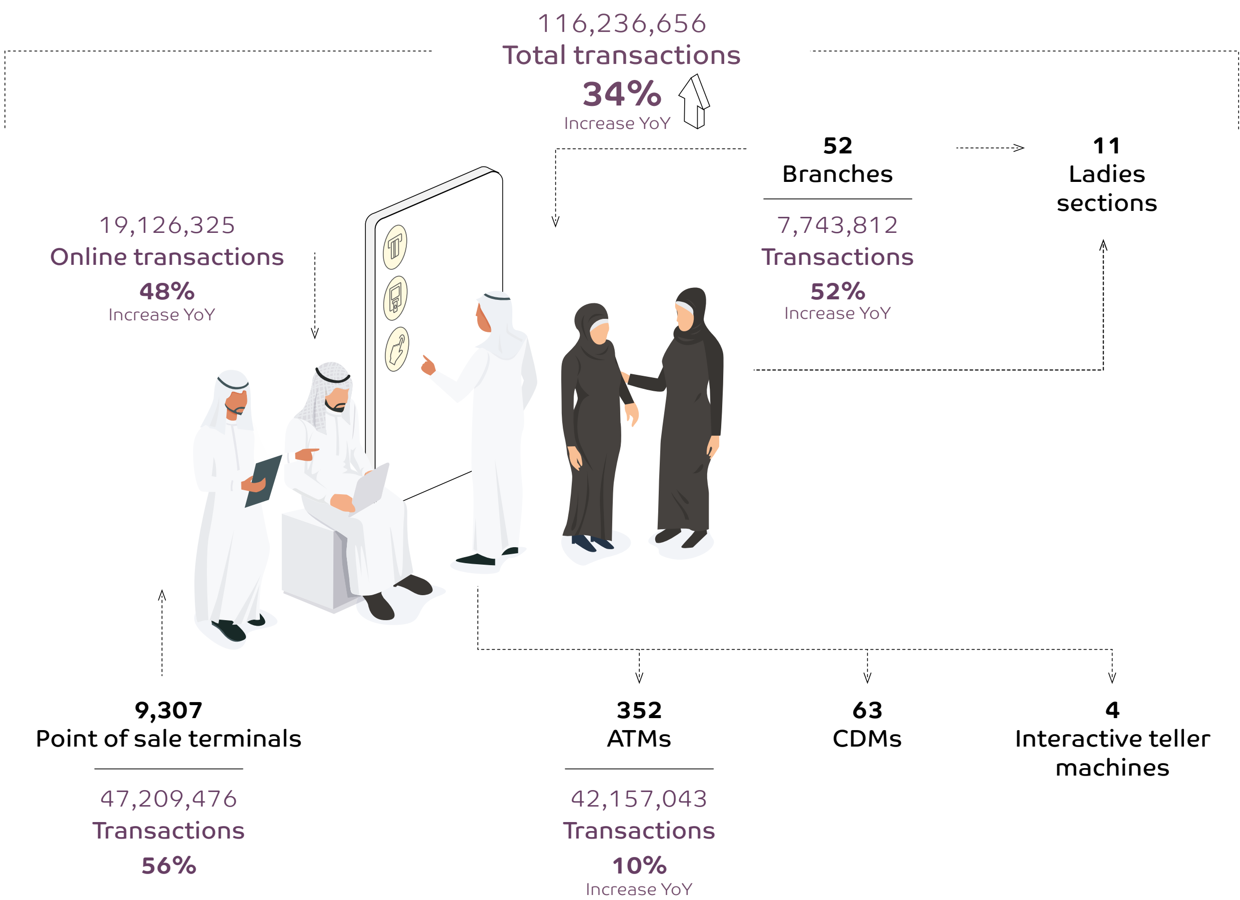
The results show a balance of growth across both types of channels. Branch transactions have grown by over 50% while ATM transactions have grown by less than 10%. On the other hand, online as well as point of sale transactions have increased by around 50%.

Diversifying our operations

SAIB has three main business lines: retail, corporate and treasury and investment.

Retail Banking offers both Shariah compliant and conventional banking products and services through its network of branches, ATMs and the Head Office. The products include current, savings and time deposit accounts.

Corporate Banking group serves a range of clients including large corporates and MSME (micro, small and medium enterprises). Corporate banking products are also both conventional and Islamic. They include working capital financing, trade financing, contract financing, project financing, cash management, syndicated loans, capital expenditure financing and real estate development financing. The Corporate



Banking group operates from three regional headquarters in Riyadh, Jeddah and Al-Khobar. The services are continuously improved to meet changing customer needs, leveraging the latest technology.

Treasury and Investment handles foreign exchange trading, funding, liquidity management as well as the Bank's investment securities portfolio and derivative products.

SAIB provides its premium customers with three customer programmes Silver, Gold and Platinum which are tailored to their specific needs. Gold and Platinum customers receive special customer service in luxurious comfort and in total privacy.

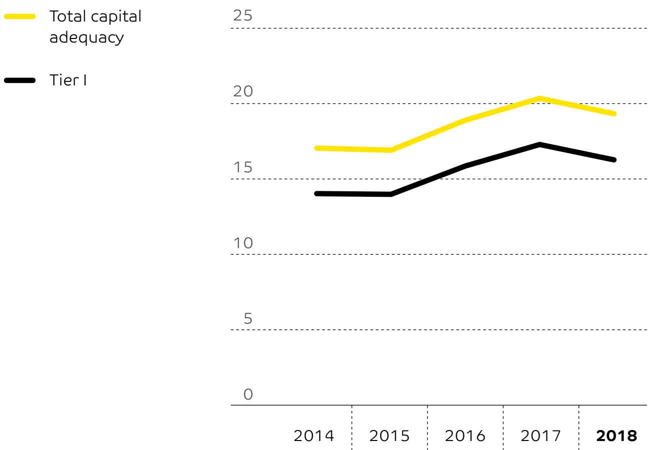
Ensuring adequate capital to comply with regulatory changes

In 2018, there was a decrease in the total equity of the Bank from SAR 14.3 billion the previous year to SAR 13.4 billion. The decrease was due to the adoption of IFRS 9, settlement of prior year Zakat obligations and the purchase of Treasury Shares. The ratio of total equity to total assets declined from 15.22% in December 2017 to 13.99% in December 2018.

On January 1, 2018 the Bank adopted the expected credit loss (ECL) model mandated by IFRS 9. The move to IFRS 9 was made retrospectively without restating the prior year comparative amounts reported. This resulted in a net reduction of total equity of SAR 823 million on January 1, 2018.

The Bank strictly adheres to the capital requirements set by SAMA to ensure its financial stability and maintain a strong capital base. SAMA requires maintenance of a minimum level of regulatory capital as well as a ratio of total regulatory capital to risk weighted assets above 9.875%. The different types of assets are given an appropriate weighting to reflect their level of risk. As at December 31, 2018, the Tier I plus Tier II capital adequacy ratio stood at 19.36%. Although this was a decrease from the previous year's figure of 20.38%, it was still well above the regulatory minimum.

Capital adequacy (%)



Credit ratings

In today's globalised financial environment, international credit ratings are essential for any financial institution which is a major player. They are essential not only to be able to obtain financing and access to global capital markets, but also to demonstrate a high level of adherence to international credit and risk management standards. During 2018, the Bank continued its ratings reviews with Standard and Poor Rating Services (S&P) and Fitch Ratings.

S&P has maintained the Bank's long-term and short-term credit ratings at "BBB"/ "A-2" with a stable outlook. S&P defines these ratings as follows:

Long-term issuer credit ratings

An obligor rated "BBB" has adequate capacity to meet its financial obligations. However, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity of the user to meet its financial obligations.

Short-term issuer credit ratings (less than 12 months)

An obligor rated “A-2” has satisfactory capacity to meet its financial obligations. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.

Fitch affirmed the Bank’s “BBB+”/“F2” long-term and short-term ratings with stable outlook. Fitch defines these ratings as follows:

Long-term issuer default ratings

“BBB+” ratings indicate that there is currently expectation of low credit risk. The capacity for payments of financial commitment is considered adequate but adverse changes in circumstances or economic conditions are more likely to impair the capacity.

Short-term issuer default ratings (less than 12 months)

“F2” ratings indicate good credit quality with a satisfactory capacity for timing of financial commitments, but the margin of safety is not as high as in the case of the higher ratings.

The Bank’s ratings reflect our financial performance, asset quality and capitalisation levels, underpinned by sound strategies and an adequate liquidity profile. The fact that the Bank operates in one of the strongest banking sectors and best regulated markets in the Middle East and among all emerging markets have also contributed to the ratings. So have Saudi Arabia’s sovereign credit ratings from S&P and Fitch, in addition to the country’s economic fundamentals.

DEVELOPING SYSTEMS AND PROCESSES

SAIB's development of systems and processes is well-aligned with our strategic planning process. However, apart from business objectives, our values, ethics and policies are also inbuilt into the process.

Aligning with strategies, values, and the environment

SAIB's development of systems and processes is well-aligned with the overall strategic plan. The main considerations on which the strategic plan was developed were markets, financial targets, human resources, innovation and corporate sustainability. The plan was developed building on the achievements of the previous plan for 2010-2014.

SAIB's values, ethics and policies were also inbuilt into the development of the plan as they are into all our activities. Our sustainability pillar of Takleef (responsibility) also guides us in all our activities and relationships.

The changing environment and business needs make it imperative to regularly review our policies, systems, and procedures. A total of 18 policies and committee charters were revised during the year. Several of these pertained to the governance area. Risk management was another domain where a large number of changes were affected.

Digitalisation is a core strategy of SAIB and we leverage cutting edge technology to achieve this. Thereby we aim to achieve a competitive edge. SAIB utilises the power of IT to introduce value added products and services to the market that will align with our business objectives. New technologies, channels, and services are used synergistically to enrich the customer experience. Reducing the need for manual intervention and physical presence of the customer is another prime objective of our system development.

Developing a digital transformation programme to leverage IT

In an environment where digitalised data and IT systems play such a vital role, security of systems and information becomes of paramount importance. Hardware and software are subject to stringent controls for both access and usage. All IT procedures and projects are carried out according to internationally accepted best practices including ISO 20000, System Development Life Cycle (SLDC), project management frameworks, IT architecture standards, and cybersecurity standards. They also follow the Bank's IT policies and procedures.

Enhancing data and cyber security

As technology improves the pitfalls also increase in tandem; cyberthreats, which can pose dangers to hardware, systems and data, are a global concern today. We are constantly vigilant in this area to ensure that our safeguards are sufficient to mitigate against any emerging threats. IT is a constantly evolving and fast-moving field. We keep a watchful eye on developments in the domain, in particular those that impact the banking industry. We need to be at the frontier to utilise any developments, where they can add value to our customers or improve our internal processes.

Centralised processing for standardising and economies of scale

Timely and accurate information to a suitable level of granularity is imperative to provide a base for the Management and decision-making of the Bank. To this end SAIB has put in place the Sustainability Management Dashboard System (SDMS). This application collects, stores analyses and delivers information in a suitable form for decision-making. SDMS collects information on a monthly or quarterly basis. It facilitates automated calculation and visualisation of performance.

Through the system key decision-makers are able to regularly track and report performance against sustainability goals. Better presentation of information is promoted, both internally and externally. It also enables profitability through cost efficiency up to the branch level. All departments are stakeholders in SDMS, but the key stakeholders are CEO, the Sustainability Committee and the Corporate Communications Department.

GRI 103-1, 103-2, 103-3

LEVERAGING RELATIONSHIPS

Stakeholder communication and relations, especially those with customers, business partners and investors need to be seamless. We are conscious of the need to build long-term relationships and collaborations through partnerships.

Communicating with investors

Investors are the stakeholders who provide the capital for the Bank to operate. The Bank therefore has a responsibility to be transparent to them to the maximum extent practicable. This includes detailed information on all aspects of the Bank's performance present and past, policies, forecasts for future performance, future plans strategies and risks. The Bank also discloses information to the general public in accordance with regulatory requirements and its own policies in the media, on its website and on the Tadawul.

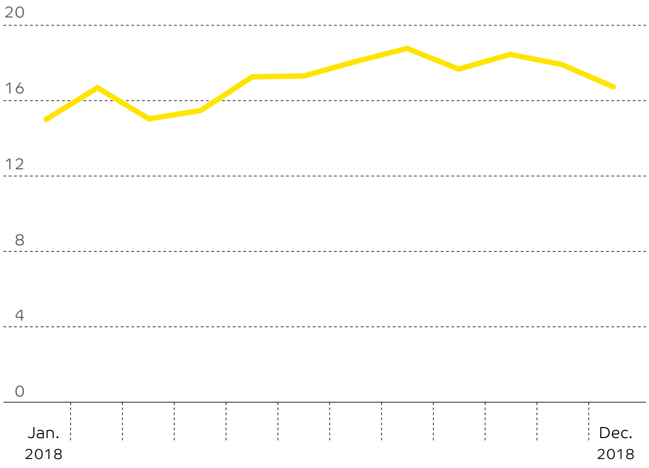
The Bank's Articles of Association and Corporate Governance Rules set out the rights of shareholders, the guidelines for relationships with them, and the mechanisms for exercising their rights. These are also governed by the Saudi Company Law. The rules and procedures for shareholders to exercise their rights include rights relating to dividends, convening meetings, attendance and participation at meetings, voting rights and rights to information. There is also provision for shareholders to make complaints, which they are assured will be attended to. They are also entitled to a reply detailing any action taken regarding the complaint.

Information that is made available to the general public includes the Financial Statements, the Auditors' Report and the Board of Directors' Report; they are published in the press, the SAIB website and the Tadawul website. They are also separately disseminated to the shareholders.

As of December 31, 2018, the market value of the Bank's ordinary share was SAR 17.12 as against SAR 15.08 on December 31, 2017. During the year, the highest price the share recorded was SAR 19.16 which was on July 19, while the lowest price the share recorded was SAR 14.57 which was on March 4.

Movement of the SAIB share

Movement of the SAIB share (SAR)



The breakup of the shareholdings as at December 31, 2018 is as follows:

	2018		2017	
Amounts in SAR million	**Amount**	**%**	Amount	%
Saudi shareholders	**6,750.0**	**90.0**	6,750.0	90.0
Foreign shareholders:				
J.P. Morgan International Finance Limited (Note 40 to the Consolidated Financial Statements)	**–**	**–**	562.5	7.5
Mizuho Corporate Bank Limited	**187.5**	**2.5**	187.5	2.5
Treasury shares (Note 40)	**562.5**	**7.5**	–	–
	7,500.0	**100.0**	7,500.0	100.0

GRI 103-1, 103-2, 103-3; 418-1

Market capitalisation

For the years ended December 31,	2018	2017	2016
Value, SAR million	**12,840**	11,325	10,647
Percentage of total market capitalisation	2.07	2.42	2.48

Shareholders' equity

Key performance indicator	2018	2017	2016	2015	2014
Share Capital (SAR million)	**7,500**	7,500	7,000	6,500	6,000
Total shareholders' equity (SAR million)	**11,653**	13,494	12,833	12,036	11,852
Basic and diluted earnings/share (SAR)	**1.86**	1.83	1.40	1.90	2.39

Understanding the customer better

Personal banking

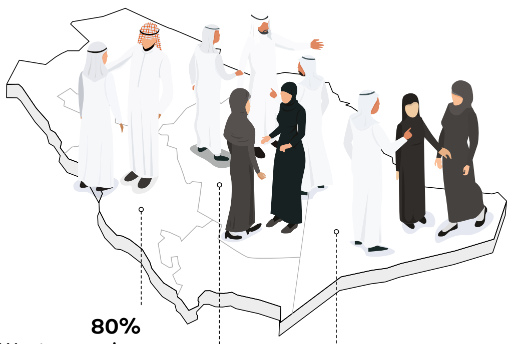
Our strategy in personal banking is based on closeness to the customer. We tailor our offers giving due consideration to the customer's situation and requirements. We focus on building a relationship with the customer to the extent of becoming a long-term financial partner. In the process, we will ensure the financial prosperity of our customers both in the short and long term. To build the relationship towards our customers we make banking simple and accessible for each of our customers.

We assist in financial planning to protect the customers' wealth and ensure that expected future cash flow requirements can be met. Through a good understanding of the customers' needs and preferences we facilitate his financial and asset growth.

Our customer satisfaction surveys show a high degree of satisfaction as shown by the figures shown below:

We have also achieved a Net Promoter Score of +38 for personal banking customers.

It is also commendable that we have achieved almost uniform results in overall customer satisfaction across regions.



Our extremely satisfactory record in complaint resolution has greatly contributed to our achievements in customer satisfaction. In 2018, over 95% of complaints were resolved within five days.

		Year				
Criterion	Unit	2018	2017	2016	2015	2014
Complaints Registered	Nos	**26,497**	14,523	9,897	8,294	7,907
Complaints resolved within 5 days	%	**96.53**	99.03	98.06	99.00	99.00

		Year				
Criterion	Unit	2018	2017	2016	2015	2014
Overall satisfaction	%	**81.85**	82.52	85.61	79.58	85.22
On account opening	%	**86.91**	90.84	90.45	94.00	92.00
On branch services	%	**99.57**	99.12	99.17	99.00	99.00
On loan services	%	**87.52**	88.16	89.80	92.00	91.00
On "Flex Click" internet banking services	%	**82.81**	86.51	89.74	90.00	92.00

GRI 103-1, 103-2, 103-3

Our focus in the year under review has been on digitalisation and automation. We have concentrated on channel migration and convenience to the customer. We are eliminating manual transactions as far as possible. Through Internet banking, mobile banking, self-service kiosks, ATMs, Cash Deposit Machines (CDMs) and Interactive Teller Machines (ITMs) we are eliminating the need for customers to visit branches.

Processes such as new account opening and new card issuing have been fully automated. We have achieved a degree of automation in these transactions as high as 98%. A new automated process has also been implemented to refinance customer loans through telesales. We do not intend to greatly increase the number of branches to widen our reach. Instead, we intend to set up more self-service kiosks in the more remote parts of the Kingdom.

The shift in channels has also been reflected in customer communication. The statistics of marketing and communication initiatives by channel given below show this trend:

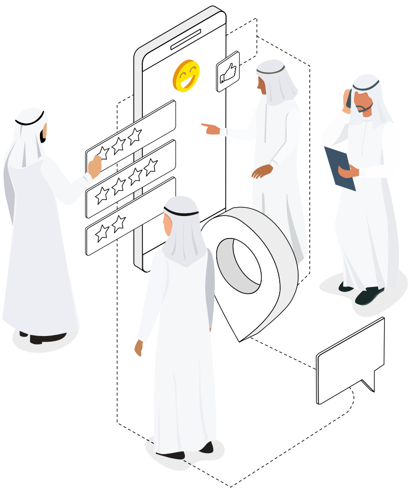
	Year		
Initiative type	**2018**	2017	2016
Marketing campaigns	**153**	45	25
Events	**62**	85	30
Emails to customers	**10,612,267**	95,000	65,000
Press releases	**54**	54	40
Unique visitors per month to SAIB Website	**215,906**	179,432	132,122
Page views per month	**1,002,738**	732,875	571,313
Twitter followers	**928,000**	845,347	754,058
Facebook fans	**1,298,437**	1,317,206	1,278,533
Instagram followers	**36,200**	27,497	19,200
Product and service social media videos	**62**	30	Not recorded accurately enough to report

The trend is also shown in the statistics for e-channel penetration. It is also significant that customer surveys indicate a high degree of satisfaction with non-traditional channels.

Customer satisfaction by engagement channel

e-channel

99%	56%	75%
SMS Alerts	"Flex Call" phone banking services	"Flex Click" internet banking services



78%
Branches

90%
Internet banking

85%
ATM

85%
Contact centres

An important change during the year, driven by regulatory change is the move to responsible banking. Formerly personal financing was governed by strict limits based on a percentage of income without taking the individual's factors into account. The Bank has now moved to making decisions based on a 360 degree survey of the customer's situation. We evaluate his disposable income based on his family situation and expenses, when making financing decisions without being bound by a rigid percentage of income formula. Thereby we avoid burdening lower Income customers with a repayment they are unable to keep up while we can be more flexible on the amounts, we loan to higher income clients. The outcome is win-win for both the Bank and customer. We have also seen a move from consumer finance towards housing finance which results in a lasting benefit for the customer.

Regarding customer segments affluent banking has been identified as a potentially lucrative one and we are specially catering to this group. Several of our branches do have Ladies sections. However, our recent experience has shown that our women customers do not have markedly different requirements from their male counterparts.

Corporate finance

Our corporate banking function serves a diverse clientele, large corporates, mid-corporates and the MSME sector. The related organisational unit, the Corporate Banking Business Group, operates from three regional headquarters housed in Riyadh, Jeddah and Al-Khobar. Our programmes for the MSME sector contribute to the Vision 2030 of growing the sector's contribution to the GDP to 35%. The government has shown its commitment to the development of the sector by establishing the MSME Authority, which is also a favourable development for us.

We offer a wide range of technology-enabled products to meet our clients' diverse needs, including Islamic banking products. We also leverage the capabilities of our subsidiary and associate companies in providing the following products and services:

- Investment services through Alistithmar Capital
- Corporate cards through American Express (Saudi Arabia)
- Real estate financing through Amlak International
- Leasing through Saudi Orix
- Insurance through Medgulf

Corporate banking performed creditably well during the year despite the unfavourable general economic climate, with the customer base growing by 6%. However, it was helped by an increase in liquidity in the banking system. The trend towards digitalisation and automation was very visible in this product line too, with customer transactions automation reaching 92%. Several agreements have been signed with various government organisations to support certain priority sectors in line with plans for 2020 and 2030. Our expansion strategies during the year focused on the mid-market segment. We also initiated cash management services and sought to deepen client relationships; our cross-sell ratio reached 22%. In the large corporate sector, a major development was that we were a partner in a syndicated deal for aircraft purchasing.

Assuring quality customer service

The Bank's Quality Assurance Group undertook several initiatives during the year to meet the requirements of SAMA, which also supported development, innovation and adherence to the best banking standards.

More than 400 Product/Service approval memorandums were published to meet SAMA standards. This enabled introducing necessary controls for each and every risk identified in a product or service before launching it. Customer complaints were resolved and delivered within time lines stipulated by SAMA within a 100% success rate. Site quality standards were developed to ensure that premises are maintained at world class standards and required maintenance is carried out within agreed timelines.

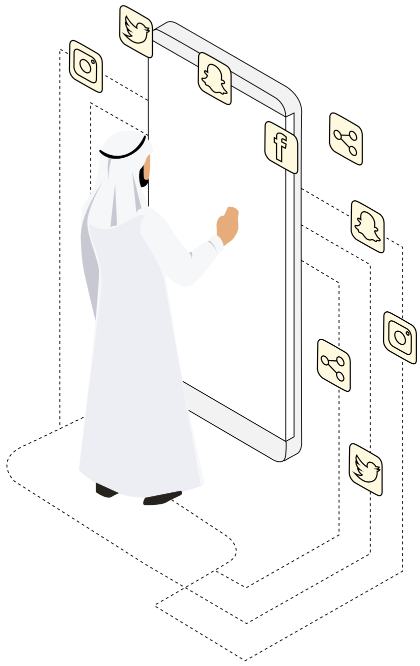
Resolution of customer complaints is carried out by the Customer Care Unit within Quality Assurance. The Mystery Shopper project evaluates the quality of customer service, including electronic channels. This project also assesses the quality of service SAIB provides compared with its competitors. The Quality Assurance Group also carried out a customer satisfaction survey which covered more than 80,000 customers. The survey has provided a measured degree of satisfaction with the banking products as well the efficiency of channels.

Personalising customer experience

The Bank's website was restructured to make it more user friendly and easier to navigate through with less clicks to a target page. The site's content was reviewed and updated in consultation with all Bank Departments. The numbers of visitors increased by 27% during the year from 175,451 to 223,326 and the number of page views increased by 60% from 690,539 to 1,103,148.

A new revamped version of the Silah portal was launched to give it a facelift and enhanced functionalities. The new portal received excellent rating from new staff.

SAIB has the widest social media presence of any financial institution in Saudi Arabia.



Building Loyalty

In 2018 the loyalty team adopted a wide range of initiatives to build enrolment and retention. These included digitalisations and innovations; big data business intelligence research; costs optimisation; and business continuity.

During 2018, 153 marketing campaigns were launched compared to in 2017 which is a growth of 220%.

- Four above-the-line campaigns were conducted in 2018 compared with one in 2017
- 110 below-the-line campaigns were conducted in 2018 as against 45 in 2017

"Know Your Companion" Travel Card

The major "Know Your Companion" Travel Card Campaign was launched in April 2018 and continued until September 2018. It was aimed at driving Travel Card usage, growing customer acquisition, increasing card issuance and further promoting the SAIB brand. This Above-the-Line campaign was targeted at existing customers as well as non-customers. The brand was given high visibility in Riyadh and Jeddah Airports where campaign messages were prominently displayed; the campaign was also advertised in strategic locations within the cities using billboards. It was also promoted by inflight advertising on Saudi Airline's inflight entertainment system. Results of the campaign showed an increase in average card issuance of 3,300 card per month and a spend growth of SAR 106 million.

WooW programme and promoting brand awareness

The WooW programme is a loyalty programme offered by SAIB where members are rewarded with points for their transactions. The points earned can then be redeemed through various gifts and options through the WooW e-catalogue.

The enrollment data of WooW and points data is shown below:

Three WooW campaigns were launched as described below:

- Live it WooW – this campaign was carried out through outdoor activities, radio broadcasts, and all SAIB digital channels.
- WooW surprise campaign – this was launched during the Holy Month of Ramadan with the objective of creating brand awareness and engagement.
- WooW summer campaign – digital campaign to promote awareness.

In addition, there was the WooW Friday programme which was a six-day campaign offering discounts on various gift items. The campaign resulted in the following positive outcomes during the campaign period:

- An increase of 531% in new orders by unique customers during the campaign period compared with daily average
- Increase in gift items redeemed of 627%, during the campaign period against the daily average
- Increase of 384% in points redeemed against the daily average

GRI 102-9, 102-10; 103-1, 103-2, 103-3; 204-1; 308-1; 414-1

Collaboration through partnerships

Maintaining smooth relationships with business partners is essential for uninterrupted conduct of our operations. Long-term relationships based on mutual trust and confidence need to be built with vendors and service providers. We need to be ethical and transparent in our dealings with them and we expect our partners to reciprocate. Our procurement spending is mainly concentrated on utilities, stationery, equipment and software. SAIB is always conscious of the positive impact we can make through our purchasing to the local economy and to local communities. We therefore source from Saudi suppliers whenever possible. We regularly review the performance of our suppliers, both to ensure regular and quality supplies as well as to maintain good relations. We also meet our payment obligations in a timely manner.

Our network of correspondent banks serves the MENA, European, African and North American regions and plays an indispensable role by supporting our overseas transactions.

There were 2.26 million fans/followers across all social media channels.

The external email marketing tool was launched to increase the effectiveness of email marketing. There was a resulting increase in customer email data from 95,000 to 174,000 customers.

Increase in remittance accounts and travel card currencies from 7 to 50 has been a step towards realising the Bank's vision of being the leading Travel Card program in the middle east and the 9th largest globally.

During the year, detailed performance reports were prepared on each business partner company highlighting the Company's background, products, market analysis, financial analysis, major risks and mitigation, valuations, and recommendations. The reports were presented to ALCO and BOD. The shareholders' agreement with American Express was amended and restated with five supporting agreements. This was completed through a process of active engagement with shareholders and legal advisors. SAIB's share of Medgulf's rights issue subscription of SAR 400 million (which amounted to SAR 76 million) was successfully completed. The Bank's shareholding of SAR 0.9 million in the newly established Saudi Company for Registration of Finance Lease Contracts was completed after all necessary approvals. The Bank's margin lending portfolio was entirely transferred from SAIB to ICAP.

During the year, a number of major initiatives and transactions were completed in partnership with other financial organisations.

In partnership with external shareholders and internal stakeholders, we were able to onboard SAIB markets limited SPV with counterparties by negotiating relevant documentation. Two new custody accounts were also opened. A deal was successfully closed with SAMBA for a SAR 1 billion bilateral loan agreement. The rate for the loan was reduced from 1.1% to 0.6% per annum while the tenor was reduced from five years to three years and eight months.

Five new Vostro accounts were opened to increase the trade finance flows.

New trade finance flows of LGs totalling SAR 10.5 billion (2017: SAR 4.5 billion) were captured. Letters of credit totalling SAR 29 billion (2017: SAR 12 billion) were opened. Risk participation has totalled SAR 127.5 million.

The supplier and procurement numbers and costs, show a consolidation of suppliers while there has been an increase in costs.

	Year				
	2018	2017	2016	2015	2014
International suppliers	**39**	79	24	25	30
Local suppliers	**148**	154	80	65	55
Spending (international procurement) – SAR	**60,777,564**	36,644,044	25,000,000	7,000,000	8,000,000
Spending (local procurement) – SAR	**389,513,667**	259,314,171	130,000,000	83,000,000	80,000,000

Our Affiliations

GRI Gold community member

The GRI Gold Community is a network of diverse organisations encompassing corporates, consultancies, civil society, academia, labour, public sector, and inter-governmental organisations. This community plays a key role in charting the future of sustainability reporting. SAIB retained its GRI Gold Membership status based on its sustainability reporting and publicly available disclosures on sustainability.

UN Global compact status

The UN Global Compact is an initiative in which companies participate voluntarily to align their strategies and operations with universal principles on the environment, labour, human rights, and anti-corruption.

SAIB retained for the third year its UN Global Compact (GC) status based on its Communication on Progress (COP) submission, demonstrating its commitment to and leadership in corporate sustainability governance. The Bank's COP met all minimum requirements and qualified for the GC Active level. The Bank's COP and the self-assessment is now publicly available on the Global Compact website.

International integrated reporting council

SAIB joined the International Integrated Reporting Council - Business Network, the first commercial entity to do so in the Middle East. This gives the Bank the opportunity to benefit from the experience of over 1,750 international participants and have peer-to-peer contact with reporting practitioners. The joining of the Business Network further reaffirms the Bank's ambition to make a significant difference locally and internationally to support better investment decisions and contribute to improved capital allocation and longer-term growth.

Saudi Standards, Metrology and Quality Organisation

Invited Members of the Organisational Practice Committee with SASO to review and revise the ISO 26000 CSR standard for Saudi Arabia. We thereby made a contribution to enhancing the impact of CSR activities in the Kingdom in general.

Ministry of Labour and Social Development

SAIB was invited by the Ministry of Labour and Social Development to participate in a workshop about increasing the economic value for volunteering.

King Salman Youth Centre

We were invited by King Salman Youth Centre to represent the private sector at a workshop about the role of CSR in achieving Vision 2030.

Maintaining healthy relationships with regulators

A settlement was arrived at in December 2018, between the Bank and General Authority for Zakat and Tax (GAZT) that the Bank's Zakat assessments for the period 2006 to 2018 would be approximately SAR 775.5 million.

The agreed schedule of Zakat payments is as follows:

	SAR '000
January 1, 2019	155,089
December 1, 2019	124,072
December 1, 2020	124,072
December 1, 2021	124,072
December 1, 2022	124,072
December 1, 2023	124,072
Total	775,449

The Zakat settlement has been provided for through a charge to retained earnings with the corresponding liability included under other liabilities. The payment due on January 1, 2019 of SAR 155 million has been effected.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BROADENING PRODUCT AND MARKET PORTFOLIO

At SAIB, we strive to make our banking products and services simple and accessible. We listen to our customers and understand their needs and preferences in order to evolve and improve. The main thrust of our product and service development during the year was digitalisation.

GRI 103-1, 103-2, 103-3

During 2018, the Information Technology Group completed infrastructure enhancements to the Bank's network, storage, servers and core systems to support improved services. The infrastructure for internet and mobile banking has also been upgraded to bring it on par with international standards.

Balancing the needs of different market segments

The definition of Micro, Small and Medium Enterprises was amended during 2018, in conformance with a directive from SAMA and now includes customers up to SAR 200 million in annual sales turnover. The categorisation within MSME is as follows:

Segment	Annual sales	Employees
Micro	SAR 0 – SAR 3 million	1-5
Small	SAR 3 million – SAR 40 million	6-49
Medium	SAR 40 million – SAR 200 million	50-249

The Kalafah programme was launched for Saudi MSMEs by the Saudi Industrial Development Fund (SIDF) and Saudi banks. The objective of the programme was to promote financing for MSMEs in the Kingdom.

The Bank's Kalafalah programme's credit processing was restructured in line with recent changes in the programme agreement. Participants in the SME Authority's Elite programme, which targets fast growing medium enterprises, accounted for 25% of the total participants. The Agricultural Fund financing agreement, which mainly aims to support the MSME segment, was rolled out.

During the year, a total of 82 man-days of training was provided to staff while 16 man-days training was provided to customers.

Adapting to changing customer needs

Automating procedures with a view to maximising customer convenience was the focus of our IT innovations which were carried out during the year. A new teller system was developed which covered the entire business process from teller through the back-office processes. This included automation of exceptions approvals and document archiving. The need for customers to visit branches to issue or replace several types of cards was eliminated by implementation of Phase 1 of the Smart Branch Project. This automated service is now available on a 24X7 basis. Customer information such as ID Numbers and addresses can now be updated online. Customer letters and certificates can also now be issued through internet banking.

Account opening has been automated to enable customers who have availed themselves of the internet banking facility (Flexx Click) to open accounts online. This has been a great convenience, especially to customers from areas where there are no branches. Refinancing of customer loans has also been automated through telesales. These developments have eased the pressure on branches. Another development which has also resulted in a reduction in customer visits, is a new infrastructure hub to integrate with the different government entities which provides for automatic updates of customer information. New services were added for corporate customers to manage their Easypay employees through internet banking.

Transitioning from commoditised to innovative and differentiated products

The SAIB WhatsApp business account was successfully launched making the Bank a pioneer in this area of customer service. Since launching, a total of 16,046 messages have been received from 4,147 unique mobile numbers.

The Twitter Chatbot was also launched to give customers a novel experience. Users are greeted with welcome message in their selected language and automated replies are given for frequently asked questions.

Another digital initiative was to enable shopping card wallet funding with points from the WooW loyalty programme. The Flynas airline miles programme was integrated with redemption using WooW points.

A robotics system has been introduced, which has replaced manual processes and increased speed and efficiency. New system developments facilitated improved functionalities in online payments, mobile payments and e-Wallets. Mada card management has also been automated through Flexx Click to control online purchases. Household card services have been automated through the internet. Enhancements have also been made to Travel card to allow up to 50 currencies and multiple wallets on the card. One innovation we have made on the regulatory front is automating the reporting to SAMA.

By innovation and utilising technology, we have successfully met the challenges of increasing demands. Technology and customer requirements are constantly evolving and the new demands will emerge in the next year and beyond. Yet we face the future with confidence that we can fulfil whatever demands that are placed on us, and continue to delight our customers.

GRI 103-1, 103-2, 103-3

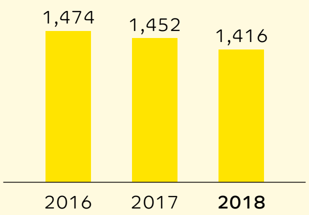
BUILDING PEOPLE SKILLS

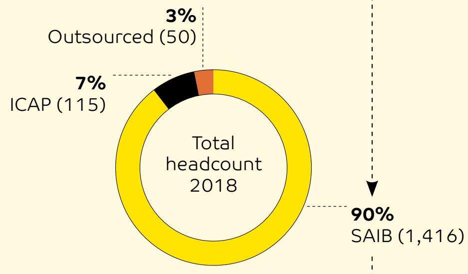
Our HR resources planning is underpinned by a demand and supply analysis. Considering the demand aspect required numbers and roles at business unit levels to be derived from business needs. On the supply side, availability of people is ascertained by function and levels, taking into account the possible contribution of training and development.

GRI 102-8; 202-2; 405-1

1,416

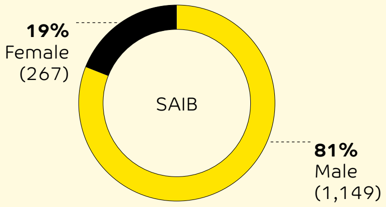
Permanent employees

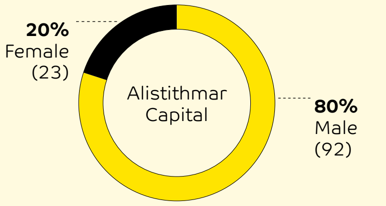




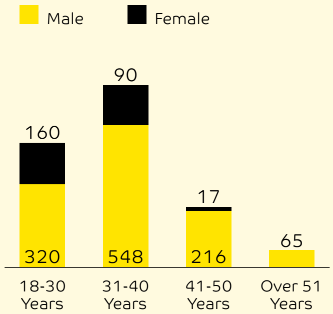
Total staff by gender

(SAIB and Alistithmar)



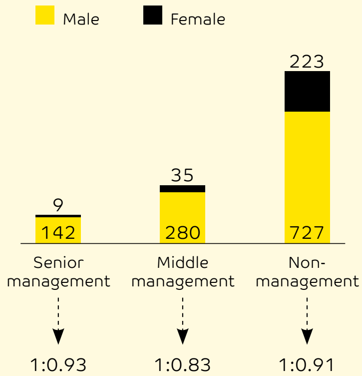


Workforce by age group



One third of employees in the 21-30 age group are female.

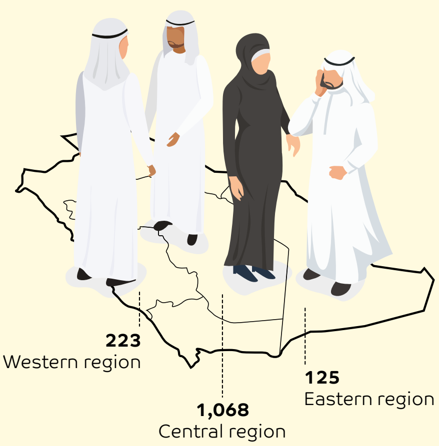
Workforce by employee grade



Salary ratio for 2018 for all three categories

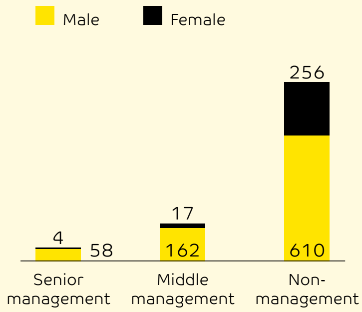
Male: female salary gap has narrowed remarkably in 2018.

Workforce by region

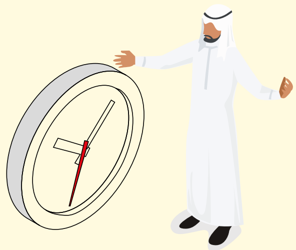


192
Training programmes

1,681
Participants



1,107
Staff trained



26,425
Hours spent on training*
(3,775 Training days)

Rate of Saudization

SAIB only
1,416

Saudi 88%
Non-Saudi 12%

Alistithmar Capital (ICAP)
115

Non-Saudi 21%
Saudi 79%

12.3%

87.7%

*calculation based on a 7-hour training day

GRI 103-3; 401-1; 405-2

Aligning HR Strategies with overall strategies

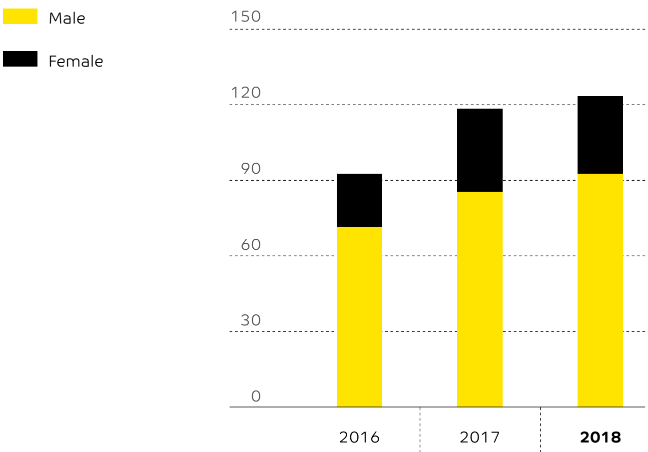
Our human resource planning is closely aligned with overall business strategies. Our HR planning is based on a demand and supply analysis. On the demand side, business needs are cascaded down to numbers and roles at organisation unit levels. On the supply side availability of people is analysed by functions and levels. How gaps can be filled by staff development and training is also identified.

The strategic plan for 2015-2019 identified three high level initiatives for developing human resources. They were excellence in learning; excellence in staff performance; and attaining the employer of choice status. There were several second-tier initiatives identified including recruitment and training for new teams and focus areas; evaluation of centralising incentive schemes under HR; Management succession plans; and training in focus areas such as cross selling.

SAIB has always regarded employees as a key asset and has not stinted in training and developing them.

When recruiting we try to obtain the most talented Saudi citizens and place them in appropriate roles. We source the best person for the job, using a systematic and fair approach. We also value diversity and inclusion in our workplace; we strive to give as many opportunities as possible to youth and women.

New hires (Nos)



Strategic pillars of HR policy

The human resources strategy is founded on five pillars:

- Control of headcounts and costs: We strive to limit numbers while maximising efficiency; pay and performance are linked while being equitable initially and competitive in the market place.
- Partnering with business departments: SAIB has in place a sophisticated organisation framework, taking many human resources related factors into account, which facilitates partnering with business departments.
- Enhancing Saudisation: This pillar is in line with Vision2030. Our successions plans ensure that people with the right skills are there when needed.
- Upskill SAIB human capital: We give the utmost importance to developing our human capital so as to fulfil our goals, objectives and plans.
- Boost automation: We are constantly seeking to increase automation to boost the efficiency of our HR manpower.

Narrowing the gender gap

We seek to promote diversity in our workforce giving emphasis to growing the numbers of young people and women. The total number of permanent staff of SAIB only as at December 31, 2018 stood at 1,416. The female staff ratio has increased from 18.6% to 19.1% during the year and we are making every effort to grow the percentage.

We have been gradually narrowing the gap in the male: female salary ratio. The ratio at Senior Management level stands at 1: 0.93. At middle management and non-management levels it stands at 1:0.83 and 1:0.91 respectively. In line with Vision 2030, we have promoted Saudisation, and in 2018 our ratio has increased by 3% to 87.7%.

Salary ratio for 2018 for all three categories

	2018	2017	2016	2015	2014
Male: female salary ratio – Senior Management	**1:0.93**	1:0.55	1:0.69	1:0.78	1:0.74
Male : female salary ratio – middle management	**1:0.83**	1:0.76	1:0.86	1:0.96	1:0.92
Male: female salary ratio non-management	**1:0.91**	1:0.86	1:0.96	1:0.96	1:0.92

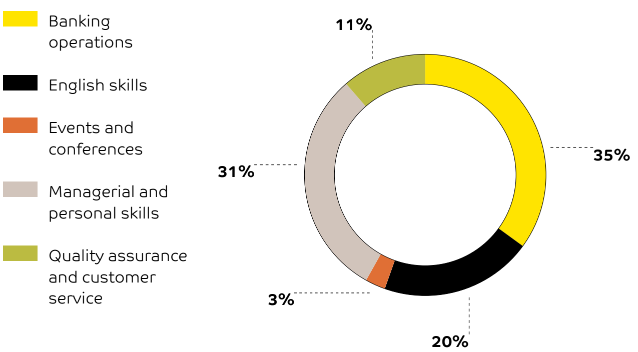
GRI 103-1, 103-2, 103-3; 401-2, 401-3; 404-1, 404-2, 404-3; 412-2

Training and skills development

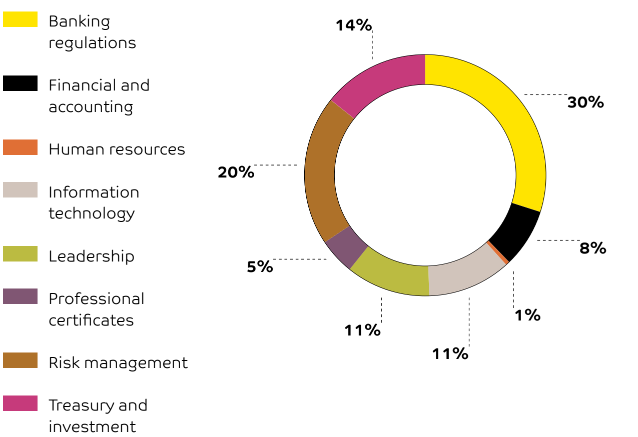
Special attention is paid to identifying the training needs of Saudis who will fill leadership positions in the future and carrying out such training. Considering the age distribution of the staff of SAIB only, the largest percentage is in the 31-40 age bracket which accounts for 44.83% of the total staff. However, the 21-30 age bracket accounts for 34.22% which is an indication of the importance given to youth. Around 62% of the staff have followed formal training.

A total of 26,425 formal training hours has been provided to the staff of which 74.4% was for soft skills and 25.6% was for technical skills. The figures highlight the importance that is being given to soft skills. Of the employees who received training 25.0% were female, while females accounted for 32.8% of the total hours spent on training. The total number of participants in the training was 1,681. In addition to the formal training, the Bank has offered over 208 eLearning modules to its staff.

Training (soft skills)



Training (technical skills)



Motivation and retention

The total expenditure for salaries and benefits for 2018 was SAR 626 million. Of this, salaries accounted for SAR 452 million, additional benefits for SAR 118 million, social security contributions for SAR 31 million and staff insurance for SAR 25 million.

SAR million	**2018**	2017	2016	2015	2014
Salaries paid	**452**	386	274	254	227
Benefits paid	**118**	118	267	316	270
Social Security Contributions	**31**	51	28	27	21
Staff Insurance	**25**	24	23	22	14
Total salaries and benefits paid	**626**	579	592	619	531

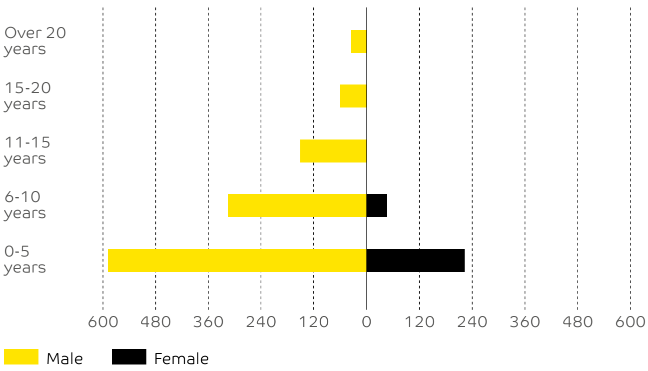
In addition to basic remuneration that compares well with market rates, we offer many other benefits to our employees. These include life insurance, medical insurance, fitness club membership, social security, loyalty programmes and allowances for housing and transportation. We also give all possible assistance to our female staff in balancing their work and family responsibilities. This includes paid maternity leave of up to 10 weeks and up to 180 days sick leave for pregnant women for illness due to pregnancy.

The Bank recognises that employees are motivated not only by short term but also by long-term benefits. Benefits which employees are entitled to either during the course of their service or at the conclusion of it are accrued according to the Saudi Arabian labour regulations or the Bank's accounting policies. A provision of SAR 26.7 million was made for employee end of service benefits during the year ended December 31, 2018. The balance of accrued benefits outstanding at the end of the year was SAR 165.1 million.

The Bank also offers to certain eligible employees shares under an employee stock grant plan. The employees are granted shares which vest over a four-year period. During the year, the Bank vested 1,736,178 shares for a cost of SAR 25.4 million. In addition, the Bank offers to its eligible employees other types of security and savings schemes that are based on mutual contributions by the employees and the Bank. The balance of the benefits outstanding of the security and the savings plan was SAR 1.9 million as at December 31, 2018.

However, we also give a great deal of importance to the non-monetary aspect of motivation and retention. We recognise the importance of job satisfaction. Sustaining a person's interest in a single job for a long period of time is not easy. Providing enough diversity within a single career path to keep an employee contended is often not possible, and this can lead to frustration and absenteeism. SAIB has a job rotation policy to alleviate the problem. Moving an employee across jobs, gives him or her the opportunity to gain new knowledge, reskills, and see a broader picture of the Bank's operations. This also serves the purpose of rotating staff in certain critical areas periodically to minimise risk.

Service analysis of workforce (SAIB only) (Nos)



Safeguarding health and safety of employees

The utmost importance is given to safeguarding the health and safety of our employees. While this is necessitated by our commitment to human rights, it will also bring results in the form of employee loyalty, productivity and retention. Our security and safety policies include the risks of violence and criminal activity. Our policies are reinforced by branch inspections, safety sessions and awareness programmes. Very significantly, there were no employee or contractor fatalities or injuries and no absenteeism due to any work-related health issues during the year.

Engaging with staff

It is a cornerstone of our HR policies that to achieve employee motivation, satisfaction and retention two-way communication is essential. By open dialogues between the Management and staff we can achieve understanding of each others' viewpoints and perspectives. We conduct a biennial employee satisfaction survey through which we gauge the pulse of our staff. The need for such a survey became clear with the backdrop of the current volatile, uncertain, complex and ambiguous (VUCA) milieu. Through this survey a wide range of employee related variables are measured including satisfaction with performance appraisal, pay and benefits, work processes, working environment, communication and customer focus.

The employee suggestion programme "my idea" allows employees to suggest ideas to our innovation centre for consideration.

Employee hours spent on CSR activities

	2018	2017	2016
Employee hours spent on CSR activities*	**363**	449	382

this excludes the three permanent full time Staff employed in the CSR Unit

GRI 103-2, 103-3; 403-2

SERVING THE SOCIETY AND THE ENVIRONMENT

Our environmental impact is two-fold; the direct impact through our operations and the indirect impact through our value chain. We fervently believe that our continued long-term value creation depends on conserving natural resources and minimising adverse impact on the environment.

Developing environmental policies and systems

One of our five sustainability pillars is Hifth (environmental protection). Our environmental impact is two-fold; the direct impact through our operations and the indirect impact which occurs through our value chain. Conserving natural resources and minimising adverse impact on the environment contributes to our long-term sustainability. The importance we have given to the environment highlights our commitment to Vision 2030 and the United Nations Sustainable Development Goals.

SAIB has adopted the ISO14000 standard and implemented its Environmental Management System (EMS) based on the standard. The EMS covers the entire gamut of environment-related issues. It includes protecting the environment by minimising and mitigating adverse impact, mitigating the environment's impact on SAIB, fulfilling compliance obligations, realising financial and operational benefits from environmentally sound alternatives, and communicating environment-related information. Environmental risks and opportunities need to be prioritised for the EMS to be implemented.

We have also developed a Standard Accounting and Operating Procedure (SAOP), to provide a framework for environmental management. The SAOP facilitates implementation of the EMS through the following:

- Defining needs and expectations of stakeholders concerned with the environment
- Identifying environmental conditions that bear on the Organisation
- Identifying environmental impact of SAIB's activities
- Defining risks and opportunities that need to be taken into account in management of environmental issues
- Crafting a framework for implementing SAIB's environmental policies and objectives
- Identifying key performance indicators (KPIs) for measuring SAIB's environmental performance

We also make our contribution to the wider issue of combating global climate change. Our commitment to this is underlined by our being a signatory to the United Nations Global Compact and our Communication on Progress (COP) submission. The Bank's COP met all the requirements to qualify the Bank for the Global Compact Active level.

During the formulation of the Strategic Plan (2014 – 2019), the goal was set of having at least 10% of SAIB's loan portfolio for financing of environmentally-friendly, low carbon activities like solar energy, wind farms and such other non-conventional energy sources, bio-mass and bio-degradable products, waste and hazardous material recycling projects, energy efficient buildings and construction projects, financing for energy efficient devices related to heating and cooling, home electronics and hybrid/electric cars.

In case of individual lending, it would include active support for lending for installation of solar pumps, solar water heaters, and roof-top solar electricity generation initiatives. In 2018, we achieved 2.28%, but we will strive to achieve the original target in 2019.

Laying down organisational responsibilities

The EMS lays down the responsibilities of Executive Management, Middle Management and various functional departments. The Executive Management bears overall responsibility for endorsing the EMS and conducting advocacy for the EMS throughout the organisation; appointing a person with overall responsibility for the EMS; and providing the necessary resources and conducting reviews. Middle management bears the main responsibility for implementation and compliance. The HR Department also plays a key role by identifying the needed competencies and training needs and delivering the necessary training. It is also responsible for incorporating environmental considerations into performance appraisal and reward systems.

The Finance Department contributes by tracking data on environmental management costs and conducting environmental feasibility studies regarding environmental initiatives. The Procurement Department is responsible for aligning purchases with SAIB's environmental policy, identifying requirements for suppliers and criteria for procurement, and monitoring suppliers' environmental performance.

The Administration Department plays a broad role in implementation of the EMS including:

- Coordination of establishment, implementation, and review of the EMS
- Developing environmental objectives and specific targets and action plans for objectives
- Preparing programme budgets

GRI 103-1, 103-2, 103-3; 302-1, 302-4; 305-1, 305-2

- Supporting development of training plans and content
- Managing internal communication and supporting development of external content regarding environmental issues; managing all queries relating to the EMS
- Tracking environmental data, environmental performance, and EMS performance as well as making suggestions for improvement

Measuring our environmental footprint

The specific environmental initiatives include monitoring and reducing energy use, greenhouse gas emissions, paper and water consumption; reducing waste production and recycling; investing in energy conserving technologies; and incorporating environmental considerations into all aspects of building construction and management. Our Building Management System has shown a reduction in water and electricity consumption which reflects a positive environmental impact. Five-year paper consumption and recycling and water expenditure are given on page 86.

Energy usage and emissions

SAIB strives to minimise the environmental impact of its operations. Our direct impact comes mainly from energy usage in our service facilities, usage in our technical infrastructure and fuel consumption incurred in inter-branch travelling. The environmental impact of these activities can be quantified by emissions of CO_2 generated by the electricity and fuel consumption.

	2018	2017	2016	2015
Direct GHG emissions from fuel usage (scope 1)	**255**	257	264	223
Indirect GHG emssions from electricity usage (scope 2)	**18,481**	20,673	21,936	25,251

GRI 103-2, 103-3; 203-1, 203-2; 301-2; 303-1; 306-2

Paper usage/recycling

68,770 kg
Total paper consumption

46 kg
Paper consumption/ employee

48,384 kg
Paper recycled

10,788 kg
Plastics recycled

14,620 kg
Electronics recycled

624 kg
Clothing recycled

Recycling of paper has shown a remarkable increase from 2017 to 2018 due to increase of staff awareness campaigns and activities to promote recycling.

Water expenditure

Year	Consumption (liters)	Expenditure (SAR ’000)
2018	Not captured	489
2017	Not captured	580
2016	Not captured	174
2015	Not captured	293
2014	Not captured	112

Addressing impact through the value chain

Another of SAIBs sustainability pillars is Awn (helping others). It is part of our ethos that we have a social responsibility to help the community grow and prosper and extend a helping hand to the disadvantaged. We also believe that this will enhance our long-term sustainability. Beyond this, our sustainability strategy includes influencing all stakeholders to adopt practices that will benefit the economy, society, and the nation. The Bank’s efforts in the area of social responsibility were recognised by it being awarded the 2018 Arabia CSR Network Award; the award recognises the Bank’s consistent adherence to responsible practices and its leadership in this field. Our social programmes have been concentrated on certain areas such as literacy programmes, agriculture, health and charity programmes. Our staff, including female staff, participate enthusiastically in our social programmes. In 2018, 29% of SAIB volunteers were women. The volunteers contributed to about 20 community activities in 2018. Details of staff volunteering are given below:

133
Total No. of volunteers

9.4%
Volunteers as % total staff

71%
Male volunteers

29%
Female volunteers

336 h
Hours worked

GRI 103-2, 103-3; 203-1, 203-2; 413-1

Helping the community

Four blood donation programmes were conducted in 2018 with 85,700 mml of blood donated by over 190 staff. An awareness programme was conducted for staff to educate them on the dangers of obesity and its impact on cancer. Individual consultations were also provided to staff. An internal awareness programme was also conducted about Alzheimer's disease. A larger programme was conducted to educate the general public on the disease. This included sharing awareness materials on SAIB's social media accounts, branch screens, and ATM screens throughout the Kingdom.

A permanent clothes donation /recycling box was launched in the Head Office, where over 600kg of clothes were donated to 300 beneficiaries including widows, divorced women and orphans. Ramadan vouchers and winter kits were provided to needy families through charity associations.

Some other community service events and activities held included a programme for supporting productive families, diabetes day activities for children with diabetes and donations to sustainable charitable causes.

Staff was encouraged by internal communications to recycle paper, plastics, electronics, and clothing.

The WooW programme

The WooW programme has been an innovation combining banking with charity. It is also a fusion of banking with our religious and cultural values. Under this programme customers are awarded points for certain types of transactions. The points are redeemable for numerous gifts and options; however, customers have also the option of donating their points to charitable causes. Points donated to charities are handled through the WooW Alkhair programme. A total of SAR 504,935 was donated through the programme this year to 45 participating organisations.

More details can be found under "leveraging relationships" on page 66.

UNGC Status and COP

The UNGC is an initiative which organisations form voluntary affiliation with to demonstrate their commitment to responsible behaviour in the areas of human rights, labour, environment, and anti-corruption. The foundation of corporate sustainability is a company's value system and a principles based way of doing business. SAIB has just renewed its Communication on Progress (COP) with the UNGC for the next 12 months; this also aligns with our commitment to the SDGs and the goals of Saudi Arabia's Vision 2030.

The UNGC encompasses 10 principles which span the four areas mentioned above. The Ten Principles are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the Rio Declaration on Environment and Development. By incorporating the Ten Principles of the UNGC into their strategies, policies, and procedures and establishing a culture of socially and environmentally conscious behaviour companies uphold their responsibilities to society and the planet. In the process, they ensure their long-term success, including financial success.

"Flexx Bike" programme

"Flexx Bike" is a programme initiated to combine promoting health and fitness with environmental consciousness. It seeks to promote cycling in public spaces. Individuals can rent a bike from a "Flexx Bike" station and return it for a moderate fee. The environmental factor has been brought in by having "Flexx Bike" stations solar powered.

At the Al Junadriah Festival, 15 bicycles were provided for visitors to use them for transportation inside the festival. SAIB also partnered with KFU and the Saudi Cycling Federation in hosting the second Bike Marathon in Al Hassa. SAIB's co-sponsorship of the event was used in promoting "Flexx Bike".

FINANCIAL STATEMENTS

Auditors' Report

KPMG Al Fozan & Partners
Certified Public Accountants

Deloitte.
Deloitte and Touche & Co.
Chartered Accountants

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company)

Opinion

We have audited the consolidated financial statements of The Saudi Investment Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as of December 31, 2018, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes from 1 to 43.

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

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances As of December 31, 2018, the gross loans and advances of the Group were Saudi Riyals (SAR) 61,208 million against which an impairment allowance of SAR 1,796 million was maintained. Effective January 1, 2018, the Group has adopted IFRS 9 "Financial Instruments" which introduced a forward looking, expected credit loss ("ECL") impairment model. On adoption, the Group has applied the requirements of IFRS 9 retrospectively without restating the comparatives.	We obtained an understanding of management's assessment of impairment of loans and advances including the IFRS 9 implementation process, the Group's internal rating model, the Group's impairment allowance policy and the ECL modelling methodology. We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9 and assessed the underlying assumptions and the data used.

KPMG Al Fozan & Partners
Certified Public Accountants

Deloitte.

Deloitte and Touche & Co.
Chartered Accountants

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
The adoption of IFRS 9 resulted in a reduction of the Group's equity as of January 1, 2018 by SAR 643 million. The impact of transition is explained in note 3(a)(a2) to the consolidated financial statements. We considered this as a key audit matter as the determination of ECL involves significant management judgement and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include: 1. Categorisation of loans and advances in Stage 1, 2 and 3 based on the identification of: (a) exposures with significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / default exposures. 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of counterparty, expected future cash flows and forward looking macroeconomic factors etc. 3. The need to apply overlays to reflect current or future external factors that might not be captured by the expected credit loss model. 4. Disclosures resulting from the adoption of IFRS 9 and the related incremental disclosures of IFRS 7 "Financial Instruments : Disclosures". *Refer to the significant accounting policies note 3(a)(a2) to the consolidated financial statements for the adoption of IFRS 9 – "Financial Instruments" and significant accounting policy relating to impairment of financial assets, note 2(d)(d1) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7 and note 33 which contains the disclosure of impairment against loans and advances and details of credit quality analysis and key assumptions and factors considered in determination of ECL.*	We evaluated the design and implementation, and tested the operating effectiveness of controls over: • the modelling process including governance over monitoring of the models and approval of key assumptions; • the classification of borrowers in various stages and timely identification of SICR and determination of default or individually impaired exposures; and • integrity of data inputs into the ECL model. We assessed the underlying assumptions including forwad looking assumptions used by the Group in ECL calculations. We assessed the Group's criteria for determination of SICR and identification of "default" or "individually impaired" exposures and their classification into stages. For a sample of customers, we assessed: • the internal ratings determined by the management based on the Group's internal rating model and checked that their ratings were in line with the ratings used in the ECL model; • the staging as identified by management; and • management's computation of ECL. We assessed the underlying assumptions including forward looking assumptions used by the Group in ECL calculation. Where management overlays were used, we assessed those overlays and the governance process around such overlays. We tested the completeness of data underlying the ECL calculation as of December 31, 2018. Where relevant, we involved specialists to assist us in review of model calculations and data integrity. As the Goup has used the modified restrospective approach for adoption of IFRS 9, we performed all the above mentioned tasks to evaluate management's computation of adjustments to the Group's equity as of January 1, 2018 (as a result of adoption of IFRS 9). We assessed the accuracy and adequacy of disclosures included by the managemnet in the consolidated financial statements.

KPMG Al Fozan & Partners
Certified Public Accountants

Deloitte.
Deloitte and Touche & Co.
Chartered Accountants

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
Fees from banking services The Group charges loan-processing fees upfront to customers. Such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, such fees are considered in making an adjustment to the effective yield, and income is recognised using that effective yield and classified as "Special Commission Income". However, due to the large volume of transactions with mostly insignificant fee amounts, management used certain thresholds and assumptions for recognition of such fees. We considered this as a key audit matter since the use of thresholds and assumptions could result in a material over / under-statement of the Group's profitability for the year. *Refer to the summary of significant accounting policies note 3(j)(j3) to the consolidated financial statements.*	We evaluated the design and implementation and tested the operating effectiveness of the key controls over the consistent application of the management's thresholds and assumptions for recognition of such fees. We evaluated the assumptions used and thresholds established by the Group for making adjustments to the effective yield of loans and advances and recording such adjustment. We obtained management's assessment of the impact of the use of thresholds and assumptions and performed the following: • on a sample basis, traced the historical and current year data used by management to source documents; and • assessed management's estimation of the impact on special commission income.
Valuation of Investments held as fair value through other comprehensive income (FVOCI) which are not traded in an active market Investments held as FVOCI comprise a portfolio of corporate bonds and sukuk and equity instruments. These instruments are measured at fair value with the corresponding unrealized fair value changes recognised in other comprehensive income. Whilst the majority of the fair values of the Group's investments were obtained directly from active markets as of December 31, 2018, the Group held an amount of SAR 7.7 billion of unquoted investments. The fair value of these investments is determined through the application of valuation techniques, which often involve the exercise of judgment by management and the use of assumptions and estimates. Estimation uncertainty exists for those investments not traded in an active market and where the internal modelling techniques use: • significant observable valuation inputs (i.e. level 2 investments); and • significant unobservable valuation inputs (i.e. level 3 investments) Estimation uncertainty is particularly high for level 3 investments.	We evaluated the design and implementation and tested the operating effectiveness of key controls over management's processes for performing valuation of investments classified as FVOCI which are not traded in an active market. We reviewed the methodology and assessed the appropriateness of valuation models and inputs used by management to value the investments held as FVOCI through involving our experts. We tested the valuation of a sample of FVOCI investments not traded in an active market. As part of these audit procedures, we assessed key inputs used in the valuation such as comparable entity data and liquidity discounts by benchmarking them with external data.

KPMG Al Fozan & Partners
Certified Public Accountants

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
In the Group's accounting policies, management has described the key sources of estimation involved in determining the valuation of level 2 and level 3 investments and in particular when the fair value is established using valuation techniques due to the complexity of investments or due to the lack of availability of market based data. The valuation of the Group's investments held as FVOCI and FVTPL in level 2 and level 3 categories is considered a key audit matter given the degree of complexity involved in valuing these investments and the significance of the judgments and estimates made by the management. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(b)(b3), note 34 which explains the investment valuation methodology used by the Group and note 2(d)(d2) which explains critical judgments and estimates for fair value measurement.*	
Impairment of investments in debt instruments As of December 31, 2018, the Group held an amount of SAR 24.2 billion of investments in debt instruments classified as fair value through other comprehensive income (FVOCI). FVOCI investments primarily comprised of sovereign and corporate bonds/sukuk which are subject to impairment assessment using the expected credit loss model due to either adverse market conditions and / or liquidity constraints faced by the issuers. The expected credit losses on these debt investments have been determined in accordance with IFRS 9 Financial Instruments from January 1, 2018. As of December 31, 2018, the Group recognized an amount of SAR 75.5 million as an ECL on FVOCI debt investments. We considered this as a key audit matter as the Group makes complex and subjective judgements and makes assumptions relating to the determination of impairment against investments and the timing of such recognition. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(b)(b9) for the accounting policy relating to the impairment of financial assets, note 2(e) for impairment of debt investments, and note 33 for the disclosures of credit risk.*	We obtained an understanding of management's assessment of impairment of investments in debt instruments including the IFRS 9 implementation process, the Group's impairment allowance policy and ECL modelling methodology. We compared the ECL methodology with the requirements of IFRS 9 and assessed the underlying assumptions and the data used. We evaluated the design and implementation and tested the operating effectiveness of relevant controls over the data inputs and the ECL model. We assessed and tested the material modeling assumptions with a focus on the: • key portfolio and counterparty modeling parameters and assumptions adopted by the Group for the corporate and sovereign bonds/sukuk; • macroeconomic variables selected and the scenario weightings applied; and • timely identification of exposures with a significant deterioration in credit quality.

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of derivative financial instruments The Group has entered into various commission rate swaps, commission rate options, foreign exchange forward contracts and foreign exchange options which are over the counter (OTC) derivatives. The valuation of these contracts is subjective and is determined through the application of valuation techniques that often involves the execrcise of judgement and the use of assumptions and estimates. The majority of these derivatives are held for trading purposes; however, certain commission rate swaps are categorized as fair value hedges in the consolidated financial statements. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in case of hedge ineffectiveness, also impact the hedge accounting. Due to the significance of the derivative financial instruments and related estimation and uncertainty, we have assessed the valuation of derivative financial insturments as a key audit matter. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(g) which explains derivative financial instruments and hedge accounting, note 11 which discloses the derivative positions and note 34 which explains the fair values of financial assets and liabilities.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuations of derivatives, including testing of relevant controls covering the fair valuation processes for derivatives. We selected a sample of derivatives and performed the following: • tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; • checked the accuracy and appropriateness of the key inputs to the valuation models; • involved our valuation experts to perform an independent valuation of the derivatives and compared the results with management's valuation; and • checked hedge effectiveness performed by the Group and the related hedge accounting.
Valuation of associated company put option The Group's derivatives as of December 31, 2018 includes a put option with a positive fair value of SAR 418 million (note 11). This put option is embedded within the agreement (the Agreement) with the other shareholder in an associated company and gives the Group an option to sell its share in the associated company to the other shareholder based on a strike price determined in accordance with the Agreement. In accordance with the Group's accounting policy, this put option is segregated from the Agreement and is measured at its fair value.	We inspected the agreement to obtain an understanding of the principal terms of the put option. We considered the put option valuation performed by the management and assessed the methodology and key assumptions used by the management. We involved our experts to assess the reasonableness of the valuation of the associated company put option provided by the management.

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Deloitte.
Deloitte and Touche & Co.
Chartered Accountants

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Key audit matter	How our audit addressed the key audit matter
The Group uses an option pricing model to fair value the put option which requires certain inputs which are not observable in the current market place. These inputs include historical results of the associated company and other inputs which require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. This is considered as a key audit matter as the valuation of this put option, as mentioned above, requires management to exercise judgment. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(g) which explains the accounting policy for derivative financial instruments and hedge accounting, note 11 which explains the put option positions and note 34 which explains the fair values of financial assets and liabilities.*	

Other Information

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

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

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

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

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Certified Public Accountants

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Responsibilities of the Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

KPMG Al Fozan & Partners
Certified Public Accountants

Deloitte.
Deloitte and Touche & Co.
Chartered Accountants

Independent Auditors' Report on the Audit of the Consolidated Financial Statements To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

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

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain jointly responsible for our audit opinion.

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

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

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

KPMG Al Fozan & Partners
Certified Public Accountants

Deloitte.
Deloitte and Touche & Co.
Chartered Accountants

Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company) (continued)

Report on other legal and regulatory requirements

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

KPMG Al Fozan & Partners
Certified Public Accountants
P.O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Deloitte & Touche & Co.
Chartered Accountants
P.O. Box 213
Riyadh 11411
Kingdom of Saudi Arabia

Abdullah Hamad Al Fozan
Certified Public Accountant
Registration No. 348

Ehsan A. Makhdoum
Certified Public Accountant
Registration No. 358

Jumada Al Thani 5, 1440H
February 10, 2019

Consolidated Statement of Financial Position

As of December 31, 2018 and 2017

	Notes	2018 SAR '000	2017 SAR '000
Assets			
Cash and balances with SAMA	4	**4,871,932**	5,263,438
Due from banks and other financial institutions	5, 34	**2,917,697**	3,513,073
Investments	6, 34	**24,638,113**	21,713,976
Positive fair values of derivatives	11, 34	**1,245,243**	669,170
Loans and advances, net	7, 34	**59,412,529**	59,588,284
Investments in associates	8	**1,012,366**	1,019,961
Other real estate		**718,724**	718,724
Information technology intangible assets, net	9, 41	**163,513**	129,094
Property and equipment, net	9, 41	**897,678**	873,816
Other assets, net	10	**192,113**	306,683
Total assets		**96,069,908**	93,796,219
Liabilities and equity			
Liabilities			
Due to banks and other financial institutions	12, 34	**12,620,832**	7,609,686
Customer deposits	13, 34	**63,689,869**	66,942,620
Negative fair values of derivatives	11, 34	**500,704**	116,655
Term loans	14, 34	**2,030,371**	2,014,823
Subordinated debt	15, 34	**2,005,661**	2,003,068
Other liabilities	16	**1,783,795**	830,300
Total liabilities		**82,631,232**	79,517,152
Equity			
Share capital	17	**7,500,000**	7,500,000
Statutory reserve	18	**4,928,000**	4,563,000
Treasury Shares	40	**(787,536)**	–
Other reserves	6	**(192,056)**	204,478
Retained earnings		**205,268**	1,284,858
Shares held for employee options, net	38	**–**	(58,269)
Shareholders' equity		**11,653,676**	13,494,067
Tier 1 Sukuk	39	**1,785,000**	785,000
Total equity		**13,438,676**	14,279,067
Total liabilities and equity		**96,069,908**	93,796,219

The accompanying Notes 1 to 43 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Income

For the years ended December 31, 2018 and 2017

	Notes	2018 SAR '000	2017 SAR '000
Special commission income	20,41	**3,633,416**	3,370,224
Special commission expense	20,41	**1,345,695**	1,195,824
Net special commission income		**2,287,721**	2,174,400
Fee income from banking services, net	21,41	**295,002**	279,817
Exchange income, net		**140,625**	136,772
Dividend income	22	**5,407**	19,749
Realized fair value through profit and loss		**4,528**	–
Unrealized fair value through profit and loss		**(20,464)**	–
Losses on FVOCI debt securities, net	23	**(59)**	–
Gains on investments, net	23	**–**	49,130
Other (loss) operating income, net		**(30)**	15
Total operating income		**2,712,730**	2,659,883
Salaries and employee-related expenses	24	**625,991**	579,105
Rent and premises-related expenses		**151,954**	161,980
Depreciation and amortization	9	**103,239**	92,559
Other general and administrative expenses		**252,001**	225,670
Provisions for credit losses	5,6,7, 10,16	**246,972**	213,000
Impairment charge for equity investments	6	**–**	108,622
Total operating expenses		**1,380,157**	1,380,936
Operating income		**1,332,573**	1,278,947
Share in earnings of associates	8	**126,145**	131,851
Net income		**1,458,718**	1,410,798
Basic and diluted earnings per share (expressed in SAR per share)	**25**	**1.86**	1.83

The accompanying Notes 1 to 43 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2018 and 2017

	Notes	2018 SAR '000	2017 SAR '000
Net income		**1,458,718**	1,410,798
Other comprehensive income (loss)			
Items that cannot be reclassified to the consolidated statement of income in subsequent periods:			
Net change in fair value of equity investments at fair value through other comprehensive income		**6,538**	–
Items that can be reclassified to the consolidated statement of income in subsequent periods:			
Net change in the fair value of debt instruments held at fair value through other comprehensive income		**(379,610)**	–
Fair value losses transferred to the consolidated statement of income on disposal of debt securities		**59**	–
Items that are or may be reclassified to the consolidated statement of income in subsequent periods:			
Net change in fair value of available for sale investments		**–**	(254,631)
Fair value gains transferred to consolidated statement of income on disposal		**–**	(49,130)
Share in other comprehensive loss of associates	8	**(722)**	(1,412)
Total other comprehensive loss		**(373,735)**	(305,173)
Total comprehensive income		**1,084,983**	1,105,625

The accompanying Notes 1 to 43 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2018 and 2017

		2018 (SAR '000)								
	Notes	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shares held for employee options, net	Shareholders' equity	Tier 1 Sukuk	Total equity
Balances at the beginning of the year		7,500,000	4,563,000	–	204,478	1,284,858	(58,269)	13,494,067	785,000	14,279,067
Effect of the adoption of IFRS 9 on January 1, 2018	3	–	–	–	50,603	(873,159)	–	(822,556)	–	(822,556)
Balances at the beginning of the year as adjusted		7,500,000	4,563,000	–	255,081	411,699	(58,269)	12,671,511	785,000	13,456,511
Net income		–	–	–	–	1,458,718	–	1,458,718	–	1,458,718
Total other comprehensive loss		–	–	–	(373,735)	–	–	(373,735)	–	(373,735)
Total comprehensive (loss) income		–	–	–	(373,735)	1,458,718	–	1,084,983	–	1,084,983
Gains on sales of FVOCI equity investments		–	–	–	(73,402)	73,402	–	–	–	–
Zakat for current period		–	–	–	–	(110,346)	–	(110,346)	–	(110,346)
Zakat for prior periods, net of fair value adjustment	27	–	–	–	–	(711,807)	–	(711,807)	–	(711,807)
Income tax for current period		–	–	–	–	(28,060)	–	(28,060)	–	(28,060)
Foreign shareholder income tax reimbursements		–	–	–	–	21,566	–	21,566	–	21,566
Dividends paid	26	–	–	–	–	(450,000)	–	(450,000)	–	(450,000)
Net movement in shares held for employee options	38	–	–	–	–	–	58,269	58,269	–	58,269
Treasury shares purchased	40	–	–	(787,536)	–	–	–	(787,536)	–	(787,536)
Tier 1 Sukuk proceeds	39	–	–	–	–	–	–	–	1,000,000	1,000,000
Tier 1 Sukuk costs		–	–	–	–	(94,904)	–	(94,904)	–	(94,904)
Transfer to statutory reserve	18	–	365,000	–	–	(365,000)	–	–	–	–
Balances at the end of the year		7,500,000	4,928,000	(787,536)	(192,056)	205,268	–	11,653,676	1,785,000	13,438,676

The accompanying Notes 1 to 43 form an integral part of these Consolidated Financial Statements.

		2017 (SAR '000)								
	Notes	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Shares held for employee options, net	Shareholders' equity	Tier 1 Sukuk	Total equity
Balances at the beginning of the year		7,000,000	4,210,000	509,651	826,775	350,000	(62,884)	12,833,542	500,000	13,333,542
Net income		–	–	–	1,410,798	–	–	1,410,798	–	1,410,798
Total other comprehensive loss		–	–	(305,173)	–	–	–	(305,173)	–	(305,173)
Total comprehensive (loss) income		–	–	(305,173)	1,410,798	–	–	1,105,625	–	1,105,625
Zakat for current period		–	–	–	(45,323)	–	–	(45,323)	–	(45,323)
Income Tax for current period		–	–	–	(27,386)	–	–	(27,386)	–	(27,386)
Foreign shareholder income tax reimbursements		–	–	–	13,332	–	–	13,332	–	13,332
Income tax for prior periods, net		–	–	–	(2,091)	–	–	(2,091)	–	(2,091)
Dividends paid	26	–	–	–	–	(350,000)	–	(350,000)	–	(350,000)
Bonus shares issued	26	500,000	–	–	(500,000)	–	–	–	–	–
Net movement in shares held for employee options	38	–	–	–	–	–	4,615	4,615	–	4,615
Tier 1 Sukuk proceeds	39	–	–	–	–	–	–	–	285,000	285,000
Tier 1 Sukuk costs		–	–	–	(38,247)	–	–	(38,247)	–	(38,247)
Transfer to statutory reserve	18	–	353,000	–	(353,000)	–	–	–	–	–
Balances at the end of the year		7,500,000	4,563,000	204,478	1,284,858	–	(58,269)	13,494,067	785,000	14,279,067

The accompanying Notes 1 to 43 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the years ended December 31, 2018 and 2017

	Notes	2018 SAR '000	2017 SAR '000
Operating Activities			
Net income		**1,458,718**	1,410,798
Adjustments to reconcile net income to net cash from (used in) operating activities			
Net accretion of discounts and net amortization of premiums on investments not held as FVTPL		**46,095**	56,903
Net change in accrued special commission income		**(24,243)**	(84,713)
Net change in accrued special commission expense		**85,364**	(85,487)
Net change in deferred loan fees		**(10,300)**	11,038
Losses on FVOCI debt securities	23	**59**	–
Gains on investments, net	23	**–**	(49,130)
Loss (gain) on sales of property, equipment, and intangibles		**30**	(15)
FVTPL unrealized losses		**20,464**	–
FVTPL realized gains		**(4,528)**	–
Depreciation and amortization	9	**103,239**	92,559
Provisions for credit losses		**246,972**	213,000
Impairment charge for equity investments	6	**–**	108,622
Share in earnings of associates	8	**(126,145)**	(131,851)
Share based provisions	38	**5,400**	9,948
		1,801,125	1,551,672
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		**114,975**	243,558
Due from banks and other financial institutions maturing after ninety days from acquisition date		**(53,578)**	25,663
Loans and advances, net		**(88,742)**	545,068
Positive fair values of derivatives		**(545,360)**	6,357
Other assets		**114,278**	(357,024)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**4,971,376**	(1,425,465)
Customer deposits		**(3,251,040)**	1,381,361
Negative fair values of derivatives		**354,885**	(29,708)
Other liabilities		**(723,251)**	(60,178)
Net cash provided from operating activities		**2,694,668**	1,881,304
Investing Activities			
Proceeds from sales and maturities of investments		**1,820,969**	3,894,435
Purchases of investments		**(5,072,207)**	(4,561,311)
Dividends received from associates	8	**108,273**	98,815
Investments in associates	8	**(1,876)**	–
Acquisitions of property, equipment, and intangibles	9	**(161,556)**	(107,880)
Proceeds from sales of property, equipment, and intangibles		**6**	15
Net cash used in investing activities		**(3,306,391)**	(675,926)
Financing Activities			
Zakat and Income Tax payments, net		**(49,840)**	(35,144)
Treasury shares purchased	40	**(787,536)**	–
Sales (purchases) of shares for employee options	38	**16,651**	(17,574)
Vesting of employee share options, net	38	**36,218**	12,241
Dividends paid	26	**(450,000)**	(350,000)
Repayment of term loans	14	**–**	(1,000,000)
Proceeds from term loans	14	**–**	1,000,000
Proceeds from Tier 1 Sukuk	39	**1,000,000**	285,000
Tier 1 Sukuk costs		**(94,904)**	(38,247)
Net cash used in financing activities		**(329,411)**	(143,724)
Net (decrease) increase in cash and cash equivalents		**(941,134)**	1,061,654

	Notes	2018 SAR '000	2017 SAR '000
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		**5,444,306**	4,382,652
Net (decrease) increase in cash and cash equivalents		**(941,134)**	1,061,654
Cash and cash equivalents at the end of the year	28	**4,503,172**	5,444,306
Supplemental special commission information			
Special commission received		**3,609,173**	3,448,376
Special commission paid		**1,263,479**	1,573,746
Supplemental non-cash information			
Total other comprehensive loss		**(373,735)**	(305,173)
Other real estate		**–**	300,000
Bonus shares issued	26	**–**	500,000
Adoption of IFRS 9 on January 1, 2018		**822,556**	–
Zakat settlement from 2006 to 2017, net of fair value adjustment	27	**711,807**	–

The accompanying Notes 1 to 43 form an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

1. General

The Saudi Investment Bank (the Bank), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 52 branches (2017: 49 branches) in the Kingdom of Saudi Arabia. The address of the Bank's Head Office is as follows:

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

These Consolidated Financial Statements include the Financial Statements of the Bank and the Financial Statements of the following subsidiaries (collectively referred to as the "Group" in these consolidated financial statements):

(a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a Saudi closed joint stock company, is registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank;

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

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

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

The Bank offers a full range of commercial and retail banking services. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory, and custody services relating to financial securities. The Group also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board established by the Bank.

References to the "Bank" hereafter in these Consolidated Financial Statements refer to disclosures that are relevant only to The Saudi Investment Bank, and not collectively to the "Group".

2. Basis of preparation

(a) Statement of compliance

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and Income Tax (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 are in compliance with the provisions of the Banking Control Law, the regulations for companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

(b) Basis of measurement and presentation

The Consolidated Financial Statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at Fair Value through Profit or Loss (FVTPL), Fair Value through Other Comprehensive Income (FVOCI) investments, and liabilities for any cash-settled-share based payments. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The statement of financial position is stated broadly in order of liquidity.

(c) Functional and presentation currency

The Consolidated Financial Statements are presented in Saudi Arabian Riyals (SAR) which is the Group's functional currency. Except as otherwise indicated, financial information presented in SAR has been rounded off to the nearest thousand.

(d) Critical accounting judgements, estimates and assumptions

The preparation of the Consolidated Financial Statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires Management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events

2. Basis of preparation – continued

that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where Management has used estimates, assumptions or exercised judgements are as follows:

(d1) Impairment losses on financial assets

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

The Group's Expected Credit Loss (ECL) calculations in 2018 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 Group's internal credit grading model, which assigns Probability of Defaults (PDs) to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk where allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, exposures at default (EADs) and loss given defaults (LGDs); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(d2) Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each consolidated statement of financial position date, except as disclosed in Note 34.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, while 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 consolidated financial statements are categorised within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

Level 2 – Quoted prices in active markets for similar assets and liabilities or other valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

2. Basis of preparation – continued

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

External valuers are involved from time to time for the valuation of certain assets and liabilities. Selection criteria for external valuers include market knowledge, reputation, independence, and whether professional standards are maintained.

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

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

(e) Impairment of FVOCI equity and debt investments

The Group exercises its judgement in considering any impairment on FVOCI equity and debt investments at each reporting date.

(f) Determination of control over investees

The control indicators set out in Note 3 (d) are subject to management's judgement. The Group also acts as Fund Manager to several investment funds. Determining whether the Group controls individual investment funds usually focuses on the assessment of the aggregate economic interests of the Group in an individual fund (comprising any carried interests and expected management fees) and the investors' 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 the financial statements of these funds.

(g) Going concern

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

(h) Provisions for liabilities and charges

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

(i) Employee benefit plans

The Group provides post employment end of service benefits to its employees based on the Saudi Arabia Labour and Workmen Law. The liability is provided based on a projected unit credit method in accordance with the periodic actuarial valuations as described in Note 38.

(j) Depreciation and amortization

Management uses judgement when determining the periods used for purposes of calculating depreciation and amortization for equipment and information technology costs. The judgement includes estimates of any residual values, the estimated periods over which future economic benefits will flow to the Group, and the choice of depreciation and amortization methods.

3. Summary of significant accounting policies

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

(a) Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2017 except for the adoption of IFRS 15 and IFRS 9 on January 1, 2018.

3. Summary of significant accounting policies – continued

(a1) IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after January 1, 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes revenue guidance, which was found across several Standards and Interpretations within IFRS. It established a new five-step model that applies to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The adoption of IFRS 15 has had an insignificant impact on the Group's consolidated financial statements in 2018 or prior periods and is expected to have an insignificant effect in future periods.

(a2) IFRS 9 Financial Instruments

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

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

Classification of financial assets and liabilities

IFRS 9 contains three principal classification categories for financial assets including:

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

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

IFRS 9 eliminates the IAS 39 categories of held to maturity, available for sale, and loans and receivables. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

For an explanation of how the Group classifies financial assets under IFRS 9, see the respective sections of significant accounting policies included in Note 3 (b).

IFRS 9 largely retains the requirements in IAS 39 for the classification of financial liabilities. Under IAS 39 any fair value changes of liabilities designated under the fair value option were recognized in profit or loss, while under IFRS 9 fair value changes are presented as follows:

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

For an explanation of how the Group classifies financial liabilities under IFRS 9, refer to the respective section of significant accounting policies included in Note 3 (b).

Impairment of financial assets

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

IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the year beginning on January 1, 2018. Changes include transition disclosures as shown below, and detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used which are set out in Note 33. Reconciliations from opening to closing ECL allowances are presented below. IFRS 7R also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

3. Summary of significant accounting policies – continued

Under IFRS 9, allowances for credit losses are recognized earlier than previously recognized under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see the respective section of significant accounting policies included in Note 3 (b).

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. The difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other reserves as of January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore are not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - i. The determination of the business model within which a financial asset is held;
  - ii. The designation and revocation of financial assets and financial liabilities previously measured at FVTPL;
  - iii. The designation of certain investments in equity instruments not held for trading as FVOCI; and
  - iv. The determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss for any financial liabilities designated at FVTPL.

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

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

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

	SAR '000			
	IAS 39 Measurement category	IFRS 9 Measurement category	IAS 39 Carrying value	IFRS 9 Carrying value
Financial and other assets				
Cash and balances with SAMA	Amortized cost	Amortized cost	5,263,438	5,263,438
Due from banks and other financial institutions	Amortized cost	Amortized cost	3,513,073	3,499,509
Investments	Available for sale	FVTPL/FVOCI	21,713,976	21,713,976
Positive fair values of derivatives	FVTPL	FVTPL	669,170	669,170
Loans and advances	Amortized cost	Amortized cost	59,588,284	58,944,983
Other assets	Amortized cost	Amortized cost	306,683	306,407
Total			91,054,624	90,397,483
Financial and other liabilities				
Due to banks and other financial institutions	Amortized cost	Amortized cost	7,609,686	7,609,686
Customers' deposits	Amortized cost	Amortized cost	66,942,620	66,942,620
Negative fair values of derivatives	FVTPL	FVTPL	116,655	116,655
Term loans	Amortized cost	Amortized cost	2,014,823	2,014,823
Subordinated debt	Amortized cost	Amortized cost	2,003,068	2,003,068
Other liabilities	Amortized cost	Amortized cost	830,300	969,094
Total			79,517,152	79,655,946

3. Summary of significant accounting policies – continued

Reconciliation of carrying amounts under IAS 39 to carrying amounts on the adoption of IFRS 9

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

	SAR '000		
	IAS 39 Carrying amount as of December 31, 2017	IFRS 9 Re-measurement	**IFRS 9 Carrying amounts as of January 1, 2018**
Financial and other assets			
Due from banks and other financial institutions	3,513,073	(13,564)	**3,499,509**
Investments	21,713,976	–	**21,713,976**
Loans and advances	59,588,284	(643,301)	**58,944,983**
Investments in associates	1,019,961	(26,621)	**993,340**
Other assets	306,683	(276)	**306,407**
Total financial and other assets	86,141,977	(683,762)	**85,458,215**
Financial and other liabilities			
Other liabilities	830,300	138,794	**969,094**
Total financial and other liabilities	830,300	138,794	**969,094**
Total re-measurement		(822,556)	

Reconciliation of carrying amounts under IAS 39 to carrying amounts on the adoption of IFRS 9 due to reclassifications

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

	SAR '000				
	Available for sale investments	FVOCI equities	FVOCI debt securities	FVTPL all other securities	Total Investments
Carrying amounts under IAS 39 as of December 31, 2017	21,713,976	–	–	–	21,713,976
Reclassifications	(21,713,976)	462,422	20,992,733	258,821	–
Carrying amounts under IFRS 9 as of January 1, 2018	**–**	**462,422**	**20,992,733**	**258,821**	**21,713,976**

3. Summary of significant accounting policies – continued

Impact on retained earnings and other reserves

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

	SAR '000		
	Retained earnings	Other reserves	Total
Balances under IAS 39 as of December 31, 2017	**1,284,858**	**204,478**	**1,489,336**
Reclassifications of available for sale investments to FVTPL	10,374	(10,374)	–
Recognition of expected credit losses:			
Due from banks	(13,564)	–	(13,564)
Investments	(60,977)	60,977	–
Loans and advances	(643,301)	–	(643,301)
Other assets	(276)	–	(276)
Loan commitments and financial guarantee contracts	(138,794)	–	(138,794)
Total recognition of expected credit losses	**(856,912)**	**60,977**	**(795,935)**
Recognition of the effect of IFRS9 on associate companies	(26,621)	–	(26,621)
Effect of adoption of IFRS 9 on January 1, 2018	**(873,159)**	**50,603**	**(822,556)**
Adjusted balances under IFRS9 as of January 1, 2018	**411,699**	**255,081**	**666,780**

Summary of the allowances recorded under IAS 39 to those under IFRS 9

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

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

3. Summary of significant accounting policies – continued

Summary of financial assets and financial liabilities as of December 31, 2018

The following table summarizes the balances of financial and other assets and financial and other liabilities by measurement category in the consolidated statement of financial position as of December 31, 2018:

	SAR '000				
	Amortized cost	Mandatorily at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total carrying amount
Financial and other assets					
Cash and balances with SAMA	4,871,932	–	–	–	4,871,932
Due from banks and other financial institutions, net	2,917,697	–	–	–	2,917,697
Investments	–	174,268	261,381	24,202,464	24,638,113
Positive fair values of derivatives	–	1,245,243	–	–	1,245,243
Loans and advances, net	59,412,529	–	–	–	59,412,529
Other assets	192,113	–	–	–	192,113
Total financial and other assets	**67,394,271**	**1,419,511**	**261,381**	**24,202,464**	**93,277,627**
Financial and other liabilities					
Due to banks and other financial institutions	12,620,832	–	–	–	12,620,832
Customers' deposits	63,689,869	–	–	–	63,689,869
Negative fair values of derivatives	–	500,704	–	–	500,704
Term loans	2,030,371	–	–	–	2,030,371
Subordinated debt	2,005,661	–	–	–	2,005,661
Other liabilities	1,783,795	–	–	–	1,783,795
Total financial and other liabilities	**82,130,528**	**500,704**	**–**	**–**	**82,631,232**

(b) Policies applicable from January 1, 2018

(b1) Classification of financial assets

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

(b2) Financial Assets at amortized cost

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

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

(b3) Financial Assets at FVOCI

Debt Instruments

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

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

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

Equity Investments

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

(b4) Financial Assets at FVTPL

All other financial assets are classified as measured at FVTPL.

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

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

3. Summary of significant accounting policies – continued

(b5) Business model assessment

The Group 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 interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – 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 Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

(b6) 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. "Special commission" 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 Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

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

(b7) Classification of financial liabilities

Policy applicable before January 1, 2018

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

Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or an entity has opted to measure a liability at FVTPL as per the requirements of IFRS 9.

Financial liabilities classified as FVTPL using fair value option, if any, after initial recognition, for such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI and all other fair value changes are presented in the consolidated statement of income.

Amounts in OCI relating to own credit are not recycled to the consolidated statement of income even when the liability is derecognized and the amounts are realized.

Financial guarantees and loan commitments that entities choose to measure at FVTPL will have all fair value movements recognized in the consolidated statement of income.

Policy applicable after January 1, 2018

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

3. Summary of significant accounting policies – continued

(b8) Derecognition

The Group 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 Group 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 derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

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

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to 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.

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

The Group may securitise various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Bank transferring substantially all of the risks and rewards of ownership. The securitization vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognized as investment securities and carried at FVOCI. Gains or losses on securitization are recorded in other revenue.

Before January 1, 2018, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

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

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and 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.

The Group 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 recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

(b9) Impairment

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

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognized on equity investments.

3. Summary of significant accounting policies – continued

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

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

(b10) Measurement of ECL

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn 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.

(b11) 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 to determine whether the financial asset should be derecognized and ECL is 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.

(b12) Credit-impaired financial assets

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

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

- 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 consumer loan that is overdue for 90 days or more is considered impaired.

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

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

3. Summary of significant accounting policies – continued

(b13) Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- For debt instruments measured at FVOCI, no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in other reserves.

(b14) Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated 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.

(b15) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group 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 interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

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

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

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

(b16) Special commission income and expenses

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

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

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

(b17) Measurement of amortized cost and special commission income

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

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

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

3. Summary of significant accounting policies – continued

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

(b18) Rendering of services

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

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

(b19) Customer Loyalty Programs

The Group offers customer loyalty programs referred to as reward points, which allows customers to earn points that can be redeemed through certain partner outlets. The Group allocates a portion of transaction price to the reward points awarded to members, based on the relative stand alone selling price. The amount of revenue allocated to reward points is deferred and released to the consolidated statement of income when reward points are redeemed. The cumulative amount of the contract liability related to unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

(c) Policies applicable before the adoption of IFRS 9

The Group classifies its financial assets as follows:

(c1) Investments

All investment securities are initially recognized at fair value, for investments not held as FVTPL, plus incremental direct transaction costs and are subsequently accounted for depending on their classification as either held to maturity, FVTPL, available for sale, or investments held at amortized cost. Premiums are amortized and discounts accreted using the effective yield basis and are taken to special commission income.

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

For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

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

Held as FVTPL

Investments in this category are classified if they are held for trading or designated as FVTPL on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in the short-term and are recorded in the consolidated statement of financial position at fair value. Changes in fair value are included in FVTPL in the consolidated statement of income.

An investment may be designated at FVTPL at initial recognition, if it satisfies the criteria laid down by IAS 39 except for equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured.

Investments at FVTPL are recorded in the statement of financial position at fair value. Changes in the fair value are recognized in the consolidated statement of income for the year in which it arises. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVTPL investments.

Special commission income and dividend income on financial assets held as FVTPL are reflected as either trading income or income from FVTPL financial instruments in the consolidated statement of income.

3. Summary of significant accounting policies – continued

Reclassification

Investments at FVTPL are not reclassified subsequent to their initial recognition, except that non-derivative FVTPL instruments, other than those designated as FVTPL upon initial recognition, may be reclassified out of the FVTPL (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 loans 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 Group 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 loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

Available for sale

Available for sale investments are those non-derivative equity and debt securities which are neither classified as Held to maturity investments, loans and receivables, nor designated as FVTPL, that are intended to be held for an unspecified period of time, and 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 recognized at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealized gains or losses arising from changes in fair value are recognized in other comprehensive income until the investment is de recognized or impaired whereupon any cumulative gain or loss previously recognized in other comprehensive income are reclassified to the consolidated statement of income.

Special commission income is recognized in the consolidated statement of income on an effective yield basis. Dividend income is recognized in the consolidated statement of income when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in the consolidated statement of income.

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

Held to maturity

The accounting for held to maturity investments follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling close to maturity or an insignificant amount, it will be required to reclassify the entire class as available for sale.

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

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

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; and
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group’s control that could not have been reasonably anticipated.

Held at amortized cost

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

3. Summary of significant accounting policies – continued

(c2) Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments. Loans and advances are recognized when cash is advanced to borrowers. They are derecognized when either the borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

All loans and advances are initially measured at fair value, including acquisition charges associated with the loans and advances except for loans held as FVTPL.

Following the initial recognition, subsequent transfers between the various classes of loans and advances is not ordinarily permissible. The subsequent period-end reporting values for various classes of loans and advances are determined on the basis as set out in the following paragraphs.

For loans and advances which are hedged, the related portion of the hedged fair value is adjusted against the carrying amount.

Held at amortized cost

Loans and advances originated or acquired by the Bank that are not quoted in an active market and for which fair value has not been hedged, are stated at amortized cost using effective commission rate.

Held as FVTPL

Loans and advances in this category are classified as either held for trading or those designated as FVTPL. Loans and advances classified as trading are acquired principally for the purpose of selling or repurchasing in the short-term. Loans and advances may be designated as FVTPL if it satisfies the criteria laid down by IAS 39. After initial recognition, such loans and advances are measured at fair value and any change in the fair value is recognized in the consolidated statement of income for the year in which it arises.

Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVTPL loans and advances.

Classified as available for sale

Loans and advances classified as available for sale are subsequently measured at fair value. Any changes in fair value, other than those relating to hedged risks, are recognized directly in other reserves under equity until these are derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity is included in the consolidated statement of income for the year.

(c3) Impairment of financial assets

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

The Group considers evidence of impairment for loans and advances and held to maturity investments at both a specific asset and collective level. The Group reviews its loan portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

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

3. Summary of significant accounting policies – continued

Loans and advances 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 loan. In other cases, renegotiation may lead to a new agreement, and this is treated as a new loan. Restructuring policies and practices are based on indicators or criteria which, indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective yield rate.

The Group also considers evidence of impairment at a collective asset level. The collective provision could be based on criteria including deterioration in internal grading, external credit ratings allocated to the borrower or group of borrowers, the current economic climate in which the borrowers operate, and the experience and historical default patterns that are embedded in the components of the credit portfolio.

The Group exercises judgement to consider impairment on the available-for-sale equity and debt investments at each reporting date. This includes determination of a significant or prolonged decline in the fair value below its cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the decline against the period in which the fair value of the asset has been below its original cost at initial recognition. In making this judgement, the Group evaluates among other factors, the normal volatility in share/ debt price, deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group reviews its debt securities classified as available for sale at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

Impairment of financial assets held at amortized cost

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

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

Impairment of available for sale financial assets

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

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

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 income statement as long as the asset continues to be recognized i.e. any increase in fair value after impairment has been recorded can only be recognized in equity. On derecognition, any cumulative gain or loss previously recognized in equity is included in the consolidated statement of income for the year.

(c4) Derecognition of Financial Instruments

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

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all risks and rewards of ownership. Where the Group has neither transferred nor retained

3. Summary of significant accounting policies – continued

substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

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

(c5) Financial liabilities

All money market deposits, customer deposits, term loans, subordinated debt and other debt securities in issue are initially recognized at fair value less transaction costs. Financial liabilities at FVTPL are recognized initially at fair value and transaction costs are taken directly to the consolidated statement of income.

Subsequently all commission bearing financial liabilities other than those held at FVTPL or where fair values have been hedged are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium. Premiums are amortized and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

Financial liabilities classified as FVTPL, if any, include (i) liabilities held for trading and (ii) liabilities designated as FVTPL on initial recognition if it satisfies certain criteria. After initial recognition, these liabilities are measured at fair value and the resulting gain or loss is included in the consolidated statement of income.

Financial liabilities in an effective fair value hedge relationship are adjusted for fair value changes to the extent of the risk being hedged. The resultant gain or loss is recognized in the consolidated statement of income. For financial liabilities carried at amortized cost, any gain or loss is recognized in the consolidated statement of income when derecognized.

(d) Basis of consolidation

These consolidated financial statements are comprised of the financial statements of the Bank and its subsidiaries as identified in Note 1. The Financial Statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

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

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the sise of its exposure to the variability of returns of the investee. The Financial Statements of any such structured entities are consolidated from the date the Group gains control and until the date when the Group ceases to control the investee. 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 a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group reassesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. 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.

3. Summary of significant accounting policies – continued

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in 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; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

These Consolidated Financial Statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances.

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focusses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors 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.

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

(e) Investments in associates

Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank has significant influence (but not control) over financial and operating matters and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Share in earnings of associates includes the changes in the Group's share of the net assets of the associates. The Group's share of its associates post-acquisition income or losses is recognized in the consolidated statement of income and its share of post-acquisition movements in other comprehensive income is recognized in other reserves included in shareholders' equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

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

The consolidated statement of income reflects the Group's share of the results of operations of the associates. When there has been a change recognized directly in the equity of the associates, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in shareholders' equity. Unrealized gains on transactions are eliminated to the extent of the Group's interest in the investees. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The Group's share of earnings in an associate is shown on the face of the consolidated statement of income, which represents the net earnings attributable to equity holders of an associate and therefore income after tax and Zakat and non-controlling interests in the subsidiaries of the associate. The Financial Statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in-line with those of the Group.

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

(f) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts

3. Summary of significant accounting policies – continued

for any change in fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(g) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are initially recognized at fair value on the date on which the derivatives contract is entered into and are subsequently remeasured at fair value in the consolidated statement of financial position with transaction costs recognized in the consolidated statement of income. All derivatives are carried at their fair value as assets where the net fair value is positive and as liabilities where the net fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow methods, and pricing models as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

(g1) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting.

(g2) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- The host contract is not an asset in the scope of IFRS 9;
- The terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separate embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss unless they form part of qualifying cash flow or net investment hedging relationship.

(g3) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rates, foreign currency, and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage a particular risk, the Bank applies hedge accounting for transactions that meet specific criteria.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, (or assets or liabilities in the case of portfolio hedging), or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy are documented including the identification of the hedging instrument, the related hedged item, the nature of the risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

At each hedge effectiveness assessment / reporting date, each hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness if significant is recognized in the consolidated statement of income. For situations where the hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

3. Summary of significant accounting policies – continued

Fair Value Hedges

When a derivative is designated as a hedging instrument in the hedge of a change in fair value of a recognized asset or liability or a firm commitment that could affect the consolidated statement of income, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income together with the change in the fair value of the hedged item attributable to the hedged risk in special commission income.

For hedged items measured at amortized cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated statement of income.

Cash flow hedges

When a derivative is designated and qualified as a hedging instrument in the hedge of a variability of cash flows attributable to a particular risk associated with a recognized asset or a liability or a highly probable forecasted transaction that could affect the consolidated statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognized directly in other comprehensive income and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. However, if the Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassifies into the consolidated statement of income as a reclassification adjustment the amount that is not to be recognized.

Where the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time such asset or liability is recognized, the associated gains or losses that had previously been recognized directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the transaction is no longer expected to occur or the Group revokes the designation, then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other comprehensive income from the period when the hedge was effective is transferred from shareholders' equity to the consolidated statement of income when the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognized in other comprehensive income is transferred immediately to the consolidated statement of income.

(h) Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the consolidated statement of financial position date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for effective interest rates and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non operating income in the consolidated statement of income, with the exception of differences of foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income except for differences arising on the retranslation of available for sale equity instruments or when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment on investment securities available for sale, unless the non-monetary items have an effective hedging strategy.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of 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.

3. Summary of significant accounting policies – continued

(i) Offsetting financial instruments

Financial assets and 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 recognized 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 Group.

(j) Revenue/expense recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(j1) Special commission income and expense

Special commission income and expense for all special commission earning/bearing financial instruments are recognized in the consolidated statement of income on the effective yield basis. The effective yield is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of a financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognized on the effective yield basis, based on the asset's carrying value net of impairment provisions.

The calculation of the effective yield considers all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees paid or transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

(j2) Exchange income/loss

Exchange income/loss is recognized when earned / incurred and in accordance with the principles included in Note 3 (h).

(j3) Fee income from Banking services

Fees that are considered as integral to the effective commission rate are deferred and included in the measurement of the relevant assets.

Fees from banking services that are not an integral component of the effective yield calculation on a financial asset or liability are generally recognized on an accrual basis when the related service is provided.

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

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

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

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred, together with the investment costs, and recognized as on adjustment to the effective yield rate on the loan. When a loan commitment is not expected to result in the draw down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, and are recognized as expenses as the services are received or the transaction is completed.

(j4) Dividend income

Dividend income is recognized when the right to receive payment is established. Dividends are reflected as a component of net trading income, net income from FVIS financial instruments or other operating income based on the underlying classification of the equity instrument.

(j5) Day 1 profit or loss

Where a transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction

3. Summary of significant accounting policies – continued

price and fair value (a Day 1 profit or loss) in the consolidated statement of income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable, or when the instrument is derecognized.

(k) Repurchase agreements and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership, and are measured in accordance with related accounting policies for investments held as available for sale. The transactions are treated as a collateralised borrowing and the counter party liability for amounts received under these agreements is included in due to banks and other financial institutions or customer deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and recognized over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognized in the consolidated statement of financial position, as the Group does not obtain control over the underlying assets. Amounts paid under these agreements are included in cash and balances with SAMA. The difference between the purchase and resale price is treated as special commission income and recognized over the life of the reverse repurchase agreement on an effective yield basis.

(l) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that non-financial assets may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining an asset's fair value less costs to sell, an appropriate valuation model is used. These model calculations are corroborated by valuation multiples, or other available fair value indicators.

(m) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as held for sale and is initially stated at the lower of net realisable value of the loans and advances 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 recognized 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 gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized together with any gain/ loss on disposal in the consolidated statement of income.

(n) Property, equipment, and Information Technology Intangible assets

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

Buildings	20 to 30 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4 to 5 years
Information technology intangible assets	8 years

The assets' residual values, useful lives, and depreciation or amortization methods are reviewed and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated statement of income.

Other expenditures are capitalised only when it is probable that the future economic benefit of the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed when incurred.

3. Summary of significant accounting policies – continued

Assets are reviewed for impairment 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.

(o) Financial guarantees

A financial guarantee contract generally requires the issuer of the contract to make specific payments to the contract holder for a loss incurred by the holder if a debtor fails to pay under the terms of a debt instrument.

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of the expenditure required to settle any financial obligations arising as a result of such guarantees. Any increase in the liability relating to a financial guarantee is recognized in the consolidated statement of income in impairment charges for credit losses, net. The premium received is recognized in the consolidated statement of income in fee income from banking services, net on a straight-line basis over the life of the guarantee.

(p) Provisions

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

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

(q) Leases

Leases entered into by the Group as a lessee, are classified as operating leases because the leases do not transfer all risks and rewards of ownership. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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

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

(r) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with a maturity of ninety days or less from the date of acquisition which are also subject to insignificant risk of changes in their fair value.

(s) Zakat, Income Tax and Value Added Tax

Zakat and Income Taxes are accrued and included in other liabilities and charged directly to retained earnings as required by SAMA Circular No. 381000074519 issued in April 2017.

The GAZT introduced a Value Added Tax (VAT) system in Saudi Arabia on January 1, 2018. During 2018, the Group collected VAT from its customers for qualifying services provided, and paid VAT to its vendors for qualifying payments. On a monthly basis, net VAT remittances were made to the GAZT representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Group and is either expensed or in the case of property, equipment, and intangibles payments, is capitalised and either depreciated or amortized as part of the capital cost.

(t) Employees' incentive and savings plans

The Group offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("the Plan"). This Plan has been approved by SAMA. Under the terms of the Plan, employees are granted shares which vest over a four-year period. The cost of the Plan is measured by the value of the shares on the date purchased and recognized over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee share option schemes are recorded by the Bank at fair value at grant date. The shares acquired for the share option schemes are recorded at cost and are presented as a deduction from shareholders' equity as adjusted for any transaction costs, dividends, and gains or losses on sales of such shares.

3. Summary of significant accounting policies – continued

The Group also offers to its employees an Employee Contributory Share Option Plan. The Plan entitles eligible employees to acquire shares in the Bank based on a predetermined subscription price at the beginning of the Plan period. Over a two year period, employees contribute to the purchase of the shares through monthly payroll deductions. At the end of the subscription period, according to the plan, employees are granted the subscribed shares. Should the share price at the end of the subscription period fall below the subscription price, the employees are reimbursed for the difference between the share price and the subscription price.

In addition, the Group grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Group and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan.

(u) Other employees' benefits

Short-term employees' benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The liability for the Group's employee's post employment end of service benefits is determined based on an actuarial valuation conducted by an independent actuary, taking into account the provisions of the Saudi Arabian Labour and Workmen Law. The liability for other long-term employees' benefit plans are also based on an actuarial valuation conducted by an Independent Actuary taking into account the respective terms of the individual benefit plans.

(v) Asset management services

The Group offers asset management services to its customers, which include management of certain investment funds in consultation with professional investment advisors. The Group's share of these funds is included in investments and fees earned are included in fee income from banking services, net. The Group's share of investment in these funds is included in the FVTPL investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

(w) Non-interest based banking products

In addition to conventional banking, the Group offers to its customers certain non-interest based banking products, which are approved by its Shariah Board.

High level definitions of non-interest based products include:

i. Murabaha – an agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.
ii. Istisna'a – an agreement between the Group and a customer whereby the Group sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.
iii. Ijarah – an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

All non-special interest based banking products are accounted for in conformity with the accounting policies described in these consolidated financial statements.

4. Cash and balances with SAMA

Cash and balances with SAMA as of December 31, 2018 and 2017 are summarized as follows:

	2018 SAR '000	2017 SAR '000
Cash on hand	**736,763**	725,972
Reverse repurchase agreements with SAMA	**977,000**	1,282,000
Other balances with SAMA, net	**(59,061)**	(76,739)
Cash and balances with SAMA before statutory deposit	**1,654,702**	1,931,233
Statutory deposit with SAMA	**3,217,230**	3,332,205
Cash and balances with SAMA	**4,871,932**	5,263,438

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

5. Due from banks and other financial institutions, net

Due from banks and other financial institutions as of December 31, 2018 and 2017 are summarized as follows:

	2018 SAR '000	2017 SAR '000
Current accounts	**797,185**	913,181
Money market placements	**2,123,215**	2,599,892
Total due from banks and other financial institutions	**2,920,400**	3,513,073
Allowance for credit losses	**(2,703)**	–
Due from banks and other financial institutions, net	**2,917,697**	3,513,073

The credit quality of due from banks and other financial institutions is managed using data from reputable external credit ratings agencies. The average S&P rating for the portfolio is an investment grade of "A" for 2018 and 2017.

The movement of the allowance for credit losses for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000	2017 SAR '000
Balances at the beginning of the year	**–**	–
Effect of the adoption of IFRS 9 on January 1, 2018	**13,564**	–
Provision for credit losses	**(10,861)**	–
Balances at the end of the year	**2,703**	–

5. Due from banks and other financial institutions, net – continued

The following table sets out information about the credit quality of due from banks and other financial institutions measured at amortized cost as of December 31, 2018.

	SAR '000			
	Stage 1 12 month ECL	Stage 2 Life time ECL not credit impaired	Stage 3 Life time ECL credit impaired	Total
Investment grade	2,917,319	–	–	2,917,319
Non-investment grade	–	3,081	–	3,081
Total due from banks and other financial institutions	**2,917,319**	**3,081**	**–**	**2,920,400**

The following table provides a reconciliation from the opening to the closing balances of the allowance for credit losses for due from banks and other financial institutions for the year ended December 31, 2018.

	SAR '000			
	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	**12,667**	**897**	**–**	**13,564**
Provision for credit losses – Changes in exposures and re-measurement	(10,331)	(530)	–	(10,861)
Balances as of December 31, 2018	**2,336**	**367**	**–**	**2,703**

6. Investments

(a) Investments as of December 31, 2018 and 2017 are summarised as follows:

	2018 SAR '000			2017 SAR '000		
	Domestic	International	Total	Domestic	International	Total
Fixed rate debt securities	12,935,491	7,796,720	20,732,211	9,196,031	7,761,445	16,957,476
Floating rate debt securities	1,188,368	2,281,885	3,470,253	1,465,551	2,573,706	4,039,257
Total debt securities	**14,123,859**	**10,078,605**	**24,202,464**	10,661,582	10,335,151	20,996,733
Allowance for credit losses	–	–	–	–	(4,000)	(4,000)
Debt securities, net	**14,123,859**	**10,078,605**	**24,202,464**	10,661,582	10,331,151	20,992,733
Equities	252,750	8,631	261,381	449,151	13,271	462,422
Mutual funds	131,626	–	131,626	212,530	–	212,530
Other securities	–	42,642	42,642	–	46,291	46,291
Investments	**14,508,235**	**10,129,878**	**24,638,113**	11,323,263	10,390,713	21,713,976

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

The Group's investments in equities include SAR 8.6 million as of December 31, 2018 (2017: SAR 245.9 million) which the Bank acquired in prior years in connection with the settlement of loans and advances. During the years ended December 31, 2018 and 2017, the Bank sold a portion of these holdings. The fair value of the shares sold totalled SAR 284.3 million (2017: SAR 237.3 million), resulting in a realized gain of approximately SAR 73.4 million (2017: SAR 31.8 million). The SAR 73.4 million realized gain in 2018 was subsequently transferred from other reserves to retained earnings during the year ended December 31, 2018.

6. Investments – continued

The Bank also holds additional strategic investments in equities totalling SAR 250.6 million as of December 31, 2018 (2017:SAR 215.8 million) including the Mediterranean and Gulf Cooperative Insurance and Reinsurance Co., SIMAH (Saudi Credit Bureau), and the Saudi Company for Registration of Finance Lease Contracts.

Investments include SAR 7.7 billion (2017: SAR 3.0 billion), which have been pledged under repurchase agreements with other financial institutions. The market value of these investments is SAR 9.1 billion (2017: SAR 3.0 billion). See Note 19 (d).

The net cost of the available for sale investment securities before allowance for impairment as of December 31, 2017 was SAR 21.5 billion.

(b) The composition of investments as of December 31, 2018 and 2017 is as follows:

	2018 SAR '000			2017 SAR '000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate debt securities	**14,696,443**	**6,035,768**	**20,732,211**	11,025,277	5,932,199	16,957,476
Floating rate debt securities	**1,822,577**	**1,647,676**	**3,470,253**	2,116,001	1,923,256	4,039,257
Total debt securities	**16,519,020**	**7,683,444**	**24,202,464**	13,141,278	7,855,455	20,996,733
Allowance for credit losses	**–**	**–**	**–**	–	(4,000)	(4,000)
Debt securities, net	**16,519,020**	**7,683,444**	**24,202,464**	13,141,278	7,851,455	20,992,733
Equities	**248,107**	**13,274**	**261,381**	449,151	13,271	462,422
Mutual funds	**131,626**	**–**	**131,626**	212,530	–	212,530
Other securities	**–**	**42,642**	**42,642**	–	46,291	46,291
Investments	**16,898,753**	**7,739,360**	**24,638,113**	13,802,959	7,911,017	21,713,976

The unquoted securities above are principally comprised Saudi Government Development Bonds, and certain Saudi corporate securities. Equities reported under FVOCI investments include unquoted shares of SAR 13.3 million (2017: available for sale SAR 13.3 million) that are carried at cost, as their fair value cannot be reliably measured. Mutual funds are considered as quoted in the table above as daily net asset values are published on the Saudi Stock Exchange (Tadawul).

(c) Investments are classified by counterparty as of December 31, 2018 and 2017 as follows:

	2018 SAR '000	2017 SAR '000
Government and quasi-government	**15,777,094**	12,457,770
Corporate	**4,424,299**	3,354,035
Banks and other financial institutions	**4,436,720**	5,902,171
Total	**24,638,113**	21,713,976

(d) The credit risk exposure of investments as of December 31, 2018 and 2017 is as follows:

	2018 SAR '000	2017 SAR '000
Investment grade	**20,979,707**	18,836,442
Non-investment grade	**1,739,706**	1,109,997
Unrated	**1,483,051**	1,046,294
Subtotal	**24,202,464**	20,992,733
Equities, mutual funds, and other securities	**435,649**	721,243
Total	**24,638,113**	21,713,976

6. Investments – continued

Investment grade securities generally have a minimum external rating from approved rating agencies including Standard & Poor's (BBB-), Moody's (Baa3), or Fitch (BBB-). Unrated investment securities primarily include Saudi corporate securities and other private equity fund investments.

(e) The movement of the allowance for credit losses for debt securities held at FVOCI included in other reserves for the year ended December 31, 2018 and on available for sale investments for the year ended December 31, 2017 is as follows:

	2018 SAR '000	2017 SAR '000
Balance at the beginning of the year	**4,000**	4,000
Effect of the adoption of IFRS 9 on January 1, 2018	**60,977**	–
Provision for credit losses	**10,503**	–
Impaired during the year	–	108,622
Reversals for realized losses during the year	–	(108,622)
Balance at the end of the year	**75,480**	4,000

The following table sets out information about the credit quality of debt securities at FVOCI as of December 31, 2018.

	SAR '000			
	Stage 1 12 month ECL	Stage 2 Life time ECL not credit impaired	Stage 3 Life time ECL credit impaired	Total
Grades 1-6 and unrated	24,198,778	–	–	24,198,778
Grades 7-9	–	3,686	–	3,686
Total debt securities	**24,198,778**	**3,686**	**–**	**24,202,464**

The following table provides a reconciliation from the opening to the closing balances of the allowance for credit losses for debt investments for the year ended December 31, 2018.

	SAR '000			
	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	64,977	–	–	64,977
Changes in exposures and remeasurement	6,828	(2,995)	–	3,833
Transfers from Stage 1 to Stage 2	(11)	6,681	–	6,670
Provision for credit losses	6,817	3,686	–	10,503
Balances as of December 31, 2018	71,794	3,686	–	75,480

6. Investments – continued

(f) Other reserves classified in shareholders' equity as of December 31, 2018 and 2017 are comprized the following:

	2018 SAR '000	2017 SAR '000
Unrealized losses on revaluation of debt securities at FVOCI before allowance for credit losses	(228,599)	–
Allowance for credit losses on debt securities at FVOCI	75,480	–
Unrealized losses on revaluation of debt securities at FVOCI after allowance for credit losses	(153,119)	–
Unrealized losses on revaluation of equities held at FVOCI	(39,192)	–
Unrealized gains on available-for-sale investments	–	204,298
Share of other comprehensive income of associates	255	180
Other reserves	**(192,056)**	204,478

7. Loans and advances, net

(a) Loans and advances, net held at amortized cost as of December 31, 2018 and 2017 are comprised of the following:

	2018 SAR '000			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1, 12 month ECL	34,434,670	3,547,689	14,267,187	52,249,546
Stage 2, Life time ECL not credit impaired	5,171,573	906,743	189,619	6,267,935
Stage 3, Life time ECL credit impaired	1,316,849	1,083,091	290,684	2,690,624
Total loans and advances	**40,923,092**	**5,537,523**	**14,747,490**	**61,208,105**
Allowance for credit losses	(871,262)	(459,161)	(465,153)	(1,795,576)
Loans and advances, net	**40,051,830**	**5,078,362**	**14,282,337**	**59,412,529**

	2017 SAR '000			
	Commercial and other	Overdrafts	Consumer	Total
Performing loans and advances	39,840,264	3,449,960	16,599,693	59,889,917
Non performing loans and advances	126,214	404,739	242,195	773,148
Total loans and advances	39,966,478	3,854,699	16,841,888	60,663,065
Allowance for credit losses	(350,527)	(316,155)	(408,099)	(1,074,781)
Loans and advances, net	39,615,951	3,538,544	16,433,789	59,588,284

Loans and advances above include non-interest based banking products including Murabaha agreements, Istisna'a and Ijarah which are stated at an amortized cost of SAR 37.1 billion (2017: SAR 37.3 billion).

The Group in the ordinary course of lending activities holds collateral as security to mitigate credit risk on its loans and advances. The collateral includes customer deposits, financial guarantees, securities, real estate, and other assets. The collateral is managed against relevant exposures at their net realisable values. The estimated fair value of collateral held by the Group as security for total loans and advances is approximately SAR 49.4 billion (2017: SAR 46.1 billion).

As of December 31, 2018, the Group holds collateral in the form of shares, real estate, and cash margins totalling SAR 11.45 billion against the above Stage 2 and Stage 3 exposures.

The estimated fair value of collateral held by the Group as security for non-performing loans and advances as of December 31, 2017 is approximately SAR 0.6 billion.

7. Loans and advances, net – continued

(b) The movement of the allowance for credit losses for loans and advances for the years ended December 31, 2018 and 2017 is as follows:

	2018 SAR '000	2017 SAR '000
Balances at the beginning of the year	**1,074,781**	994,844
Effect of the adoption of IFRS 9 on January 1, 2018	**643,301**	–
Provision for credit losses	**220,514**	213,000
Write-offs, net	**(143,020)**	(133,063)
Balances at the end of the year	**1,795,576**	1,074,781

The following tables provide a reconciliation from the opening to the closing balance of the allowance for credit losses for loans and advances for the year ended December 31, 2018.

	Commercial and other SAR '000			
	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	89,094	96,595	852,645	1,038,334
Changes in exposures and remeasurement	36,475	(14,328)	(243,274)	(221,127)
Transfers from Stage 1 to Stages 2,3	(462)	7,384	6,974	13,896
Transfers between Stage 2 and Stage 3	–	109	40,050	40,159
Provision for credit losses	36,013	(6,835)	(196,250)	(167,072)
Write-offs	–	–	–	–
Balances as of December 31, 2018	125,107	89,760	656,395	871,262

	Overdrafts SAR '000			
	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	29,611	12,246	227,772	269,629
Changes in exposures and remeasurement	4,992	44,440	26,984	76,416
Transfers from Stage 1 to Stages 2,3	(466)	3,899	25,284	28,717
Transfers from Stage 2 to Stage 3	–	(54,585)	236,912	182,327
Provision for credit losses	4,526	(6,246)	289,180	287,460
Write-offs	–	–	(97,928)	(97,928)
Balances as of December 31, 2018	34,137	6,000	419,024	459,161

7. Loans and advances, net – continued

	Consumer SAR '000			
	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	**176,245**	**15,537**	**218,337**	**410,119**
Changes in exposures and remeasurement	4,222	24,605	64,103	92,930
Transfers from Stage 1 to Stages Transfers from Stage 1 to Stage 3	(90)	–	5,937	5,847
Transfers from Stage 2 to Stage 3	–	(446)	1,795	1,349
Provision for credit losses	**4,132**	**24,159**	**71,835**	**100,126**
Write-offs	–	–	(45,092)	(45,092)
Balances as of December 31, 2018	**180,377**	**39,696**	**245,080**	**465,153**

The transfer amounts in the above tables represent the increase or decrease in the credit loss allowance on those exposures that were transferred between stages during the year ended December 31, 2018.

The movement of the allowance for credit losses for loans and advances for the year ended December 31, 2017 for specific and collective impairment is summarised as follows:

	Commercial and other and overdrafts SAR '000		
	Specific	Collective	Total
December 31, 2016 balances	230,693	383,853	614,546
Provided during the year	118,026	(10,324)	107,702
Bad debts written off during the year	(43,126)	(12,440)	(55,566)
Recoveries during the year	–	–	–
December 31, 2017 balances	305,593	361,089	666,682

	Consumer SAR '000		
	Specific	Collective	Total
December 31, 2016 balances	214,637	165,661	380,298
Provided during the year	105,055	243	105,298
Bad debts written off during the year	(163,189)	–	(163,189)
Recoveries during the year	85,692	–	85,692
December 31, 2017 balances	242,195	165,904	408,099

7. Loans and advances, net – continued

(c) The credit quality of loans and advances as of December 31, 2018 and 2017 is summarised as follows:

(i) Neither past due nor credit impaired (2017: impaired) loans and advances, are as follows:

	2018 SAR '000	2017 SAR '000
Excellent	**1,562,954**	5,106,586
Strong	**4,494,733**	8,270,575
Average	**8,146,686**	13,840,569
Acceptable	**11,730,396**	9,052,186
Marginal	**11,046,285**	2,209,452
Watch	**710,616**	76,406
Unrated	**13,854,259**	18,158,645
Total	**51,545,929**	56,714,419

The ratings of the loans and advances included above are described as follows:

Excellent – leader in a stable industry. Better than peers' financials and cash flows. Has access to financial markets under normal market conditions.

Strong – strong market and financial position with a history of successful performance but certain exceptions exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal conditions.

Average – moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound and within industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

Acceptable – minor weaknesses in industry or company specific risk factors. Some financial fundamentals are inferior to industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal – unfavourable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

Watch – unfavourable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances primarily consist of consumer and other retail loans with no past due balances.

(ii) Past due but not credit impaired loans and advances as of December 31, 2018 are as follows:

	2018 SAR '000			
	Commercial and others	Overdrafts	Consumer	Total
From 1 day to 30 days	5,171,573	748,122	703,612	6,623,307
From 31 days to 90 days	–	158,626	189,619	348,245
Total	**5,171,573**	**906,748**	**893,231**	**6,971,552**

7. Loans and advances, net – continued

Past due but not impaired loans and advances as of December 31, 2017 are as follows:

	2017 SAR '000			
	Commercial and others	Overdrafts	Consumer	Total
From 1 day to 30 days	–	18,957	336,311	355,268
From 31 days to 90 days	131,000	843,787	66,842	1,041,629
From 91 days to 180 days	68,723	110,557	–	179,280
More than 180 days	886,148	713,173	–	1,599,321
Total	1,085,871	1,686,474	403,153	3,175,498

(iii) The economic sector risk concentrations for loans and advances and allowance for credit losses as of December 31, 2018 and 2017 are as follows:

	2018 SAR '000			
	Stage 1 and 2	**Stage 3**	**Allowance for credit losses**	**Loans and advances, net**
Government and quasi-government	**1,600,235**	**–**	**(13,597)**	**1,586,638**
Banks and other financial services	**7,440,131**	**27,065**	**(45,190)**	**7,422,006**
Agriculture and fishing	**9,899**	**–**	**(51)**	**9,848**
Manufacturing	**5,214,198**	**174,998**	**(144,506)**	**5,244,690**
Building and construction	**5,142,286**	**197,608**	**(132,051)**	**5,207,843**
Commerce	**16,142,237**	**1,288,417**	**(620,014)**	**16,810,640**
Transportation and communication	**1,639,577**	**45,112**	**(48,042)**	**1,636,647**
Services	**2,168,940**	**114,646**	**(59,973)**	**2,223,613**
Consumer loans	**14,456,806**	**290,684**	**(465,153)**	**14,282,337**
Other	**4,703,172**	**552,094**	**(266,999)**	**4,988,267**
Total	**58,517,481**	**2,690,624**	**(1,795,576)**	**59,412,529**

	2017 SAR '000			
	Performing	Non-performing	Allowance for credit losses	Loans and advances, net
Government and quasi-government	1,402,545	–	(7,093)	1,395,452
Banks and other financial services	7,701,368	27,065	(67,871)	7,660,562
Agriculture and fishing	20,081	–	(189)	19,892
Manufacturing	5,829,380	143,395	(144,277)	5,828,498
Building and construction	4,499,483	148,304	(62,126)	4,585,661
Commerce	16,481,723	159,720	(237,166)	16,404,277
Transportation and communication	1,799,162	45,112	(46,583)	1,797,691
Services	2,303,587	236	(18,566)	2,285,257
Consumer loans	16,599,693	242,195	(408,099)	16,433,789
Other	3,252,895	7,121	(82,811)	3,177,205
Total	59,889,917	773,148	(1,074,781)	59,588,284

8. Investments in associates

Investments in associates represent the Bank's share of investments in entities where the Bank has significant influence. These investments are accounted for using the equity method of accounting.

(a) Investments in associates as of December 31, 2018 and 2017 include the Bank's ownership interest in associated companies in the Kingdom of Saudi Arabia, as follows:

	2018	2017
American Express Saudi Arabia ("AMEX")	**50%**	50%
Saudi Orix Leasing Company ("ORIX")	**38%**	38%
Amlak International for Finance and Real Estate Development Co. ("AMLAK")	**32%**	32%

AMEX is a Saudi Arabian closed joint stock company in Saudi Arabia with total capital of SAR 100 million. The principal activities of AMEX are to issue credit cards and offer other American Express products in Saudi Arabia.

ORIX is a Saudi Arabian closed joint stock company in Saudi Arabia with total capital of SAR 550 million. The primary business activities of ORIX include lease financing services in Saudi Arabia.

AMLAK is a Saudi Arabian closed joint stock company in Saudi Arabia with total capital of SAR 905 million. AMLAK offers real estate finance products and services in Saudi Arabia.
All of the Group's associates are incorporated in and operate exclusively in Saudi Arabia.

(b) The movement of investments in associates for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000	2017 SAR '000
Balance at beginning of the year	**1,019,961**	1,000,337
Adoption of IFRS 9 on January 1, 2018	**(26,621)**	–
Share of earnings	**126,145**	131,851
Dividends	**(108,273)**	(98,815)
Share of other comprehensive loss	**(722)**	(1,412)
Investments (write-off)	**1,876**	(12,000)
Balance at end of the year	**1,012,366**	1,019,961

(c) The Bank's share of the associates' financial statements as of December 31, 2018 and 2017 is summarised below:

	2018 SAR '000			2017 SAR '000		
	AMEX	**ORIX**	**AMLAK**	AMEX	ORIX	AMLAK
Total assets	**419,174**	**460,557**	**1,051,438**	393,775	504,807	1,072,234
Total liabilities	**209,171**	**134,428**	**677,268**	181,021	176,590	695,600
Total equity	**210,003**	**326,129**	**374,170**	212,754	328,217	376,634
Total income	**197,259**	**46,761**	**56,279**	199,774	57,487	59,177
Total expenses	**121,438**	**24,936**	**24,750**	116,237	38,450	25,807

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

One of the associate companies above has a potential additional Zakat liability as of December 31, 2018 and 2017. If the method of the Zakat assessment by the General Authority for Zakat and Tax is upheld through all levels of the appeal process, the Group has agreed with the associate company that it is unconditionally liable for its share amounting to approximately SAR 108.2 million (2017: SAR 97.6 million).

9. Property and equipment, and Information Technology intangible assets, net

Property and equipment, and Information Technology intangible assets, net as of December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000				
	Property and equipment				
	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Total	Information Technology intangible assets
Cost					
Balance at the beginning of the year	1,009,043	145,725	468,027	1,622,795	255,094
Additions	63,909	14,020	22,820	100,749	60,807
Disposals	–	–	(1,266)	(1,266)	–
Balance at the end of the year	1,072,952	159,745	489,581	1,722,278	315,901
Accumulated depreciation and amortization					
Balance at the beginning of the year	295,993	101,653	351,333	748,979	126,000
Charge for the year	33,125	16,850	26,876	76,851	26,388
Disposals	–	–	(1,230)	(1,230)	–
Balance at the end of the year	329,118	118,503	376,979	824,600	152,388
Net book value	743,834	41,242	112,602	897,678	163,513

	2017 SAR '000				
	Property and equipment				
	Land and buildings	Leasehold improvements	Furniture, equipment, and vehicles	Total	Information Technology intangible assets
Cost					
Balance at the beginning of the year	991,128	130,506	419,871	1,541,505	228,639
Additions	17,915	15,219	48,291	81,425	26,455
Disposals	–	–	(135)	(135)	–
Balance at the end of the year	1,009,043	145,725	468,027	1,622,795	255,094
Accumulated depreciation and amortization					
Balance at the beginning of the year	263,795	85,560	327,397	676,752	105,792
Charge for the year	32,198	16,093	24,060	72,351	20,208
Disposals	–	–	(124)	(124)	–
Balance at the end of the year	295,993	101,653	351,333	748,979	126,000
Net book value	713,050	44,072	116,694	873,816	129,094

Information technology intangible assets primarily include software and software development costs.

10. Other assets, net

Other assets, net as of December 31, 2018 and 2017 are summarised as follows:

	2018 SAR '000	2017 SAR '000
Property, equipment, and intangible costs pending completion	**65,624**	122,769
Customer and other receivables	**40,849**	67,442
Prepaid expenses	**69,542**	92,601
All other assets	**16,664**	23,871
Total other assets	**192,679**	306,683
Less allowance for credit losses	**(566)**	–
Other assets, net	**192,113**	306,683

The movement of the allowance for credit losses for the years ended December 31, 2018 and 2017 is summarised as follows:

	2018 SAR '000	2017 SAR '000
Balances at the beginning of the year	**–**	–
Effect of the adoption of IFRS 9 on January 1, 2018	**276**	–
Provision for credit losses	**290**	–
Balances at the end of the year	**566**	–

11. Derivatives

In the ordinary course of business, the Bank utilises the following derivative financial instruments for trading and hedging purposes:

(a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging notional amounts. For cross-currency special commission rate swaps, notional amounts, and fixed and floating special commission payments are exchanged in different currencies. The notional amounts can also vary based upon the agreed terms in the case of variable notional swaps.

(b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity, or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and special commission rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are settled daily.

(c) Forward rate agreements

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

11. Derivatives – continued

(d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at a fixed future date or at any time during a specified period, a specified amount of a currency, commodity, or financial instrument at a pre-determined price.

The derivative financial instruments utilised are either held for trading or held for hedging purposes as described below:

(a) Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning, and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify, or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates, or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials, between markets or products.

(b) Held for hedging purposes

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

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are routinely monitored and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are periodically used to reduce special commission rate gap within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to optimise its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions. The Bank uses forward foreign exchange contracts to also apply various hedging strategies against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission-rate exposures.

(c) Positive and negative fair values of derivative and notional amounts

The tables below summarise the positive and negative fair values of derivative financial instruments, together with the notional amounts, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at each year-end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts are not indicative of the Bank's exposure to credit risk which is generally limited to the net positive fair values of derivatives, nor market risk.

The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company, the estimated value of which is included in the table below. The terms of the agreement give the Bank a put option and give the counterparty a call option that is exercisable from 2013 onwards for the remaining term of the agreement. The Bank has valued only the put option, as the call option is deemed to be out of the money. The put option, once exercised, grants the Bank the right to receive a payment in exchange for its shares one year after the exercise, based on pre-determined formulas included in the agreement.

11. Derivatives – continued

Derivative financial instruments as of December 31, 2018 and 2017 are summarized as follows:

				Notional amounts by term to maturity				
				2018 SAR '000				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	9,781	6,802	2,919,605	2,919,605	–	–	–	4,012,207
Foreign exchange options	4,408	4,408	848,020	98,020	–	750,000	–	1,135,816
Commission rates swaps	382,628	199,306	9,152,106	–	254,000	7,521,528	1,376,578	13,577,210
Commission rate options	187,979	187,979	6,896,619	–	–	5,397,520	1,499,099	4,706,477
Held as fair value hedges:								
Commission rate swaps	242,456	102,209	12,252,404	–	–	4,107,892	8,144,512	7,310,805
Associated company put option	417,991	–	–	–	–	–	–	–
Total	1,245,243	500,704	32,068,754	3,017,625	254,000	17,776,940	11,020,189	30,742,515

				Notional amounts by term to maturity				
				2017 SAR '000				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	36,689	25,403	6,114,481	2,360,556	3,219,507	534,418	–	7,696,867
Foreign exchange options	12,407	12,407	1,484,679	236,697	398,522	849,460	–	1,501,408
Commission rates swaps	54,450	56,226	12,270,252	–	–	11,270,499	999,753	10,991,357
Held as fair value hedges:								
Commission rate swaps	130,203	22,619	7,617,063	–	–	2,737,792	4,879,271	6,823,156
Associated company put option	435,421	–	–	–	–	–	–	–
Total	669,170	116,655	27,486,475	2,597,253	3,618,029	15,392,169	5,879,024	27,012,788

11. Derivatives – continued

The table below is a summary of the Bank's fair value hedges and hedged portfolios as of December 31, 2018 and 2017, which includes the description of the hedged items and related fair values, the nature of the risk being hedged, and the hedging instruments and related fair values.

	December 31, 2018 SAR '000					
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument used	Positive fair value	Negative fair value
Fixed commission rate investments	**11,938,600**	**12,349,164**	**Fair value risk**	**Commission rate swaps**	**242,456**	**102,209**

	December 31, 2017 SAR '000					
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument used	Positive fair value	Negative fair value
Fixed commission rate investments	7,687,135	7,636,736	Fair value risk	Commission rate swaps	130,203	22,619

The net gains during the year on hedging instruments for fair value hedges were SAR 41.1 million (2017: gains of SAR 44.4 million). The net losses on hedged items attributable to hedged risk were SAR 41.1 million (2017: losses of SAR 44.3 million). The net positive fair value of all derivatives is approximately SAR 744.5 million (2017: SAR net positive 552.5 million). Approximately 57% (2017: 68%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and 23% (2017:19%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

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

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

As of December 31, 2018, the CSA and EMIR net cash collateral amounts held by counterparties in favor of the Bank totalled SAR 184.2 million (2017: SAR 5.7 million).

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

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

12. Due to banks and other financial institutions

Due to banks and other financial institutions as of December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000	2017 SAR '000
Current accounts	16,073	9,137
Repurchase agreements [Note 19(d)]	7,656,065	2,951,658
Money market deposits	4,948,694	4,648,891
Total	**12,620,832**	7,609,686

13. Customer deposits

Customer deposits as of December 31, 2018 and 2017 are summarized as follows:

	2018 SAR '000	2017 SAR '000
Time deposits	37,037,991	39,308,674
Savings deposits	1,529,185	2,174,702
Total special commission bearing deposits	**38,567,176**	41,483,376
Demand deposits	24,113,708	24,585,587
Other deposits	1,008,985	873,657
Customer deposits	**63,689,869**	66,942,620

Customer deposits include SAR 601 million (2017: SAR 537 million) of margin deposits held for irrevocable commitments.

Deposits include Shariah-Compliant deposits totalling SAR 57.4 billion (2017: SAR 58.4 billion).

The above amounts include foreign currency deposits (equivalent to Saudi Arabian Riyals) as of December 31, 2018 and 2017 as follows:

	2018 SAR '000	2017 SAR '000
Demand	1,775,379	1,860,647
Savings	1,161,374	1,303,295
Time	6,092,931	6,868,199
Other	103,407	54,815
Total	**9,133,091**	10,086,956

14. Term loans

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

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

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

15. Subordinated debt

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

The Sukuk carries a half yearly profit equal to six month SIBOR plus 1.45%. The Sukuk has a tenor of 10 years with the Bank retaining the right to call the Sukuk at the end of the first five-year period, subject to certain regulatory approvals. The Bank has not had any defaults of principal or commission on the subordinated debt.

16. Other liabilities

Other liabilities as of December 31, 2018 and 2017 are summarized as follows:

	2018 SAR '000	2017 SAR '000
Accrued Zakat and Income Tax, net	**874,563**	80,081
Accrued salaries and employee related benefits	**356,807**	362,188
Allowance for credit losses for financial guarantee contracts	**165,320**	–
Accrued expenses and other reserves	**158,412**	122,841
Customer related liabilities	**174,435**	210,155
Deferred fee income	**13,422**	17,934
All other liabilities	**40,836**	37,101
Total	**1,783,795**	830,300

The movement of the allowance for credit losses for financial guarantee contracts for the years ended December 31, 2018 and 2017 is summarised as follows:

	2018 SAR '000	2017 SAR '000
Balances at the beginning of the year	**–**	–
Effect of the adoption of IFRS 9 on January 1, 2018	**138,794**	–
Provision for credit losses	**26,526**	–
Balances at the end of the year	**165,320**	–

16. Other liabilities – continued

The following table provides a reconciliation from the opening to the closing balance of the allowance for credit losses for financial guarantee contracts for the year ended December 31, 2018.

	SAR '000			
	Stage 1 12 month credit loss allowance	Stage 2 Life time credit loss allowance not impaired	Stage 3 Life time credit loss allowance impaired	Total
Balances as of January 1, 2018	**98,681**	**14,676**	**25,437**	**138,794**
Changes in exposures and remeasurement	8,775	2,030	(58,350)	(47,545)
Transfers from Stage 1 to Stages 2, 3	(3,417)	19,204	16,291	32,078
Transfers from Stage 2 to Stage 3	–	(4,772)	46,765	41,993
Provision for credit losses	5,358	16,462	4,706	26,526
Balances as of December 31, 2018	**104,039**	**31,138**	**30,143**	**165,320**

17. Share capital

As of December 31, 2018, the authorized, issued, and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2017: 750 million shares of SAR 10 each). The ownership of the Bank's share capital as of December 31, 2018 and 2017 is as follows in SAR millions:

	2018		2017	
	Amount	%	Amount	%
Saudi shareholders	**6,750.0**	**90.0**	6,750.0	90.0
Foreign shareholders:				
J.P. Morgan International Finance Limited (Note 40)	–	–	562.5	7.5
Mizuho Corporate Bank Limited	**187.5**	**2.5**	187.5	2.5
Treasury shares (Note 40)	**562.5**	**7.5**	–	–
	7,500.0	**100.0**	7,500.0	100.0

During 2017, 50 million bonus shares were issued by the Bank increasing the issued number of shares outstanding from 700 million to 750 million shares.

18. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, SAR 365 million has been transferred from 2018 net income (2017: SAR 353 million). The statutory reserve is not currently available for distribution.

19. Commitments, contingencies, and financial guarantee contracts

(a) Legal proceedings

As of December 31, 2018, there were 118 legal proceedings outstanding against the Group (2017: 76). No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome based on professional advice. As of December 31, 2018, the Bank's allowance for such cases totalled SAR 55.2 million (2017: SAR 8.1 million) which are included in other liabilities.

(b) Capital commitments

As of December 31, 2018, the Group had capital commitments of SAR 65.3 million (2017: SAR 13.2 million) for property and equipment.

(c) Credit related commitments and contingencies

The Group enters into certain credit related facilities to ensure that funds are available to a customer as required.

Guarantee and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

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

Commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees, and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

For issued financial guarantee contracts and loan commitments, the maximum amount is allocated to the earliest period in which the guarantee could be called, as the Bank has the right to recall financial guarantee contracts and loan commitments prior to their maturity.

19. Commitments, contingencies, and financial guarantee contracts – continued

(i) The contractual maturity structure for the Group's credit related commitments and contingencies as of December 31, 2018 and 2017 are as follows:

	2018 SAR '000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,325,620	578,465	286,262	–	2,190,347
Letters of guarantee	2,141,354	4,900,113	1,595,453	311,486	8,948,406
Acceptances	402,192	255,513	222	–	657,927
Total financial guarantee contracts	3,869,166	5,734,091	1,881,937	311,486	11,796,680
Irrevocable commitments to extend credit	–	34,049	204,162	320,731	558,942
Credit-related commitments and contingencies	3,869,166	5,768,140	2,086,099	632,217	12,355,622

	2017 SAR '000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	782,950	1,050,329	12,395	–	1,845,674
Letters of guarantee	2,002,434	4,860,898	1,268,746	263,674	8,395,752
Acceptances	360,647	371,671	–	–	732,318
Total financial guarantee contracts	3,146,031	6,282,898	1,281,141	263,674	10,973,744
Irrevocable commitments to extend credit	–	581	280,281	99,861	380,723
Credit-related commitments and contingencies	3,146,031	6,283,479	1,561,422	363,535	11,354,467

The movement of the allowance for credit losses for financial guarantee contracts is summarized in note 10.

The outstanding unused portion of commitments as of December 31, 2018 which can be revoked unilaterally at any time by the Bank, amounts to SAR 23.5 billion (2017: SAR 27.6 billion).

(ii) The analysis of commitments and contingencies by counterparty as of December 31, 2018 and 2017 is as follows:

	2018 SAR '000	2017 SAR '000
Government and quasi-government	5,707,436	5,896,601
Corporate	5,575,514	4,698,100
Banks and other financial institutions	742,951	536,713
Other	329,721	223,053
Total	12,355,622	11,354,467

19. Commitments, contingencies, and financial guarantee contracts – continued

(d) Assets pledged

Debt securities pledged under repurchase agreements with other banks include corporate, bank, and non-government bonds. The fair values of assets pledged as collateral with other financial institutions as security and the related balances of the repurchase agreements as of December 31, 2018 and 2017 are as follows:

	2018 SAR '000		2017 SAR '000	
	Pledged Assets	Repurchase Agreements	Pledged Assets	Repurchase Agreements
Debt securities	9,130,728	7,656,065	2,989,646	2,951,658

The pledged assets presented in the above table are those financial assets that may be repledged or resold by counterparties to whom they have been transferred. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities, as well as requirements determined by exchanges on which the Bank acts as a participant.

(e) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Group is the lessee as of December 31, 2018 and 2017 are as follows:

	2018 SAR '000	2017 SAR '000
Less than 1 year	47,698	49,298
1 to 5 years	93,152	100,327
Over 5 years	75,400	57,957
Total	216,250	207,582

(f) Zakat and Income Tax

Notes 8 and 27 provide information regarding the current status of the Group's Zakat and Income Tax positions.

(g) Credit quality of financial guarantee contracts

The following table sets out information about the credit quality of financial guarantee contracts as of December 31, 2018.

	2018 SAR '000			
	Stage 1 12 month ECL	Stage 2 Life time ECL not credit impaired	Stage 3 Life time ECL credit impaired	Total
Financial guarantee contracts	10,838,500	622,477	335,703	11,796,680

20. Special commission income and expense

Special commission income and expense for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000	2017 SAR '000
Special commission income:		
Loans and advances	2,796,235	2,694,492
Investments	770,591	626,936
Banks and other financial institutions	66,590	48,796
Total (note 41)	**3,633,416**	3,370,224
Special commission expense:		
Customer deposits	926,894	862,028
Banks and other financial institutions	268,248	201,202
Term loans	70,978	58,964
Subordinated debt	79,575	73,630
Total (note 41)	**1,345,695**	1,195,824

21. Fee income from banking services, net

Fee income from banking services, net for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000	2017 SAR '000
Fee income:		
– Share trading and fund management	149,057	139,368
– Trade finance	104,279	92,034
– Corporate and retail finance	19,059	42,012
– Other banking services	175,970	128,227
Total fee income	**448,365**	401,641
Fee expense:		
– Custodial services	86,716	80,572
– Other banking services	66,647	41,252
Total fee expense	**153,363**	121,824
Fee income from banking services, net (note 41)	**295,002**	279,817

22. Dividend income

Dividend income for the years ended December 31, 2018 and 2017 is summarized as follows:

	2018 SAR '000	2017 SAR '000
Dividend income from equity investments	5,407	19,749

23. Gains on investments and losses on FVOCI debt securities, net

Gains on investments for the years ended December 31, 2018 and 2017 are summarized as follows:

	2018 SAR '000	2017 SAR '000
Gains on sales of equities	–	31,826
Gains on sales of other investments	–	17,304
Losses on FVOCI debt securities	(458)	–
Gains on FVOCI debt securities	399	–
Total	**(59)**	49,130

24. Compensation and related governance and practices

As required by SAMA, the following table summarizes the Group's employee categories defined in accordance with SAMA's rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2018 and 2017.

		2018 SAR '000			
			Variable compensation paid		
Category	Number of employees	Fixed compensation paid	Cash	Shares	Total
Senior executives requiring SAMA no objection	23	42,063	15,047	4,609	19,656
Employees engaged in risk taking activities	130	56,463	11,323	3,547	14,870
Employees engaged in control functions	228	61,567	5,784	2,969	8,753
Other employees	1,150	248,614	25,460	10,995	36,455
Outsourced employees	50	8,629	1,137	130	1,267
Totals	**1,581**	**417,336**	**58,751**	**22,250**	**81,001**
Variable compensation accrued		70,000			
Other employee benefits and related expenses		138,655			
Total salaries and employee related expenses		**625,991**			

The total fixed compensation paid in 2018 totalling SAR 417.3 million above includes SAR 18.0 million for cost of living allowances (2017: NIL).

24. Compensation and related governance and practices – continued

			2017 SAR '000		
			Variable compensation paid		
Category	Number of employees	Fixed compensation paid	Cash	Shares	Total
Senior executives requiring SAMA no objection	19	35,130	11,272	4,322	15,594
Employees engaged in risk taking activities	131	54,903	10,437	2,446	12,883
Employees engaged in control functions	231	57,263	6,500	2,642	9,142
Other employees	1,190	230,382	25,262	7,933	33,195
Outsourced employees	54	8,141	1,126	92	1,218
Totals	1,625	385,819	54,597	17,435	72,032
Variable compensation accrued		73,540			
Other employee benefits and related expenses		119,746			
Total salaries and employee related expenses		579,105			

The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which consists of five Board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation of members of the Board of Director's, and overseeing the Bank's employee compensation system's design.

The Committee is also responsible to recommend to the Board of Directors the approval of the Bank's Compensation Policy and any amendments thereto, to ensure that the Bank's remuneration policies are in compliance with SAMA Rules on Compensation Practices and the Financial Stability Board's (FSB) Principles for Sound Compensation Practices, to periodically review the Bank's compensation policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Compensation Policy is designed to attract, retain, and motivate high performing and high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives, which is monitored/measured via a robust performance management system. The grant of the variable component of the reward, both cash and shares, is strictly dependent on the achievement of set targets, both financial and non-financial, level of achievements and the Bank's overall performance, including key risk indicators. Higher achievements will warrant a better performance rating and higher variable compensation. The Balanced Scorecard concept is used as a performance management tool and performance objectives are typically categorised into four segments including financial, customer, process, and people.

Financial and non-financial metrics are used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, quality assurance, employee development and engagement, workforce diversity, sustainable business practices, lending guidelines, internal controls, compliance with regulations, and business systems and processes. Effective risk management is emphasised to maintain a strong and secure operating platform. A Risk Appetite Framework Policy has been established and compliance with the annual Risk Appetite Statement is key to all remuneration decisions including variable pay arrangements.

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Variable remuneration is linked to long-term value creation and risk horisons. It is also based on individual, business segment, and Bank performance criteria. Accordingly, for certain variable remunerations, a portion of the incentive earned for the annual performance bonus programme and the employee stock grant plan programme are deferred in line with long term risk realisation. The vesting is subject to clawback mechanisms.

24. Compensation and related governance and practices – continued

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

The total amount of compensation paid to key management for the year ended December 31, 2018 was SAR 61.7 million (2017: SAR 50.7 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2018 was SAR 4.3 million (2017: SAR 6.0 million).

The total end of service payments made for all employees who left their employment with the Group during the year ended December 31, 2018 totalled SAR 20.7 million (2017: SAR 20.5 million). These payments were made to 121 beneficiaries (2017: 150). The highest payment to a single individual in 2018 was SAR 3.4 million (2017: SAR 1.8 million).

25. Basic and diluted earnings per share

Basic and diluted earnings per share for the year ended December 31, 2018 is calculated by dividing net income adjusted for Tier I Sukuk costs by 735.0 million shares representing the weighted average of the issued and outstanding shares after giving effect to the purchase of 56.2 million Treasury shares on September 27, 2018 (see Note 40).

Basic and diluted earnings per share for the year ended December 31, 2017 is calculated by dividing net income adjusted for Tier I Sukuk costs by 750.0 million shares, after giving effect to the bonus shares issued on April 17, 2017.

26. Dividends

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

In 2016, the Board of Directors proposed a cash dividend of SAR 350 million equal to SAR 0.50 per share, net of Zakat to be withheld from the Saudi shareholders. The Board of Directors also proposed a bonus share issue of 50 million shares with a par value of SAR 10 per share, or one bonus share for each 14 shares outstanding. The proposed cash dividend and bonus share issue were approved by the Bank's shareholders in an extraordinary general assembly meeting held on 20 Rajab, 1438 H (corresponding to April 17, 2017). The net dividends were paid and the bonus shares were issued to the Bank's shareholders thereafter.

27. Zakat and income tax

The Bank has filed the required Zakat and Income Tax returns with the Government Authority for Zakat and Tax (GAZT) which are due on April 30 each year, through the year ended December 31, 2017. The Bank's Zakat and Income Tax calculations and corresponding accruals and payments for Zakat and Income Tax are based on the ownership percentages disclosed in note 17.

The Bank had received final assessments for additional Zakat, Income tax, and withholding tax totalling approximately SAR 277 million relating to the Bank's 2005 to 2009 Zakat filings and 2003 to 2009 Income Tax and withholding tax filings. The Bank had also received partial assessments for additional Zakat totalling approximately SAR 383 million relating to its 2010, 2011, and 2013 Zakat filings. These final and partial assessments included approximately SAR 573 million in Zakat assessments which were primarily due to the disallowance of deductions for certain long-term investments from the Zakat base of the Bank. The Bank, in consultation with its professional Tax and Zakat advisors, had filed appeals for the above final and partial assessments with the General Authority for Zakat and Tax. Further assessments for the years 2012, 2014, 2015, and 2016 were yet to be raised by the GAZT.

27. Zakat and income tax – continued

Zakat Settlement

During the month of December 2018, the Bank agreed with the GAZT to a settlement of Zakat assessments for the years 2006 to 2017 for SAR 775.5 million. The Zakat settlement is to be paid over a period of time as follows:

	2018 SAR '000
January 1, 2019	**155,089**
December 1, 2019	**124,072**
December 1, 2020	**124,072**
December 1, 2021	**124,072**
December 1, 2022	**124,072**
December 1, 2023	**124,072**
Total	**775,449**

The Zakat settlement has been fully provided for through a charge to retained earnings with the corresponding liability included in other liabilities. The Bank has recorded the discounted Zakat liability of SAR 712 million in its consolidated financial statements. The Bank has paid SAR 155 million on January 1, 2019 as per the settlement agreement.

The Zakat settlement also included provisions for the Bank to calculate the Zakat liability for the year ended December 31, 2018 using the same methodology as was agreed in the settlement for the prior years. The current year accrual amounting to SAR 107 million for Zakat was calculated based on this method and has also been charged to retained earnings with the corresponding liability included in other liabilities and which will be settled by April 30, 2019.

The Zakat settlement did not include the year 2005. However, the Bank has recorded provisions of approximately SAR 39 million for this potential additional Zakat liability in its consolidated financial statements.

Refer note 8 to these consolidated financial statements for pending Zakat assessments related to an associate company.

Income tax and withholding tax assessments

Certain outstanding Income Tax and Withholding Tax assessments remain for the years 2003 to 2009. The Bank has provided for any potential Income Tax or Withholding Tax liability that may arise in the event of an unfavourable outcome of these issues through the appeal processes available to the Bank with the GAZT. For the year ended December 31, 2018, the Bank made provisions of approximately SAR 28 million in respect of total income tax and withholding tax liability (2017: SAR 29 million).

28. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows as of December 31, 2018 and 2017 is comprised of the following:

	2018 SAR '000	2017 SAR '000
Cash and balances with SAMA excluding statutory deposit (note 4)	**1,654,702**	1,931,233
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**2,848,470**	3,513,073
Cash and cash equivalents	**4,503,172**	5,444,306

29. Operating segments

Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to the segments and to assess their performance.

Performance is measured based on segment profit as management believes that this indicator is the most relevant in evaluating the results of certain segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by management.

The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated statement of income. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in the Kingdom of Saudi Arabia.

The Group's reportable segments are as follows:

- Retail banking: Loans, deposits, and other credit products for individuals and small to medium-sized businesses.
- Corporate banking: Loans, deposits, and other credit products for corporate and institutional customers.
- Treasury and Investments: Money market, investments, and other treasury services.
- Asset management and brokerage: Dealing, managing, advising, and custody of securities services.
- Other: Support functions, special credit, and other management and control units.

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

(a) The segment information provided to the Board of Directors which includes the reportable segments for the Group's total assets and liabilities as of December 31, 2018 and 2017, its total operating income, total operating expenses, and net income for the years then ended, are as follows:

	2018 SAR '000					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	23,677,143	35,870,049	34,007,092	421,161	2,094,463	96,069,908
Total liabilities	50,113,715	6,088,379	25,395,824	57,425	975,889	82,631,232
Net special commission income	289,613	1,724,805	230,607	23,446	19,250	2,287,721
FTP net transfers	771,212	(762,323)	–	–	(8,889)	–
Net FTP contribution	1,060,825	962,482	230,607	23,446	10,361	2,287,721
Fee income (loss) from Banking services, net	129,663	112,565	69,820	64,644	(81,690)	295,002
Other operating income (loss)	67,250	49,397	127,396	(5,322)	(108,714)	130,007
Total operating income (loss)	1,257,738	1,124,444	427,823	82,768	(180,043)	2,712,730
Direct operating expenses	392,865	70,890	31,803	71,869	–	567,427
Indirect operating expenses	328,139	124,467	113,152	–	–	565,758
Provisions for credit losses	208,009	38,894	(223)	292	–	246,972
Total operating expenses	929,013	234,251	144,732	72,161	–	1,380,157
Income (loss) from operating activities	328,725	890,193	283,091	10,607	(180,043)	1,332,573
Share in earnings of associates	–	–	126,145	–	–	126,145
Net income	328,725	890,193	409,236	10,607	(180,043)	1,458,718
Property, equipment, and intangibles additions	88,795	384	35	937	71,405	161,556
Depreciation and amortization	45,831	1,045	168	2,527	53,668	103,239

29. Operating segments – continued

	2017 SAR '000					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	27,699,853	35,564,170	28,370,374	404,088	1,757,734	93,796,219
Total liabilities	50,538,379	7,974,977	20,010,969	41,785	951,042	79,517,152
Net special commission income	358,136	1,651,057	72,564	15,981	76,662	2,174,400
FTP net transfers	657,258	(768,223)	130,970	–	(20,005)	–
Net FTP contribution	1,015,394	882,834	203,534	15,981	56,657	2,174,400
Fee income (loss) from Banking services, net	106,195	144,763	51,979	71,725	(94,845)	279,817
Other operating income (loss)	49,821	43,440	207,086	(1,433)	(93,248)	205,666
Total operating income (loss)	1,171,410	1,071,037	462,599	86,273	(131,436)	2,659,883
Direct operating expenses	371,695	67,270	29,980	77,283	–	546,228
Indirect operating expenses	256,634	170,511	85,941	–	–	513,086
Provisions for credit losses	96,990	116,010	106,000	2,622	–	321,622
Total operating expenses	725,319	353,791	221,921	79,905	–	1,380,936
Income (loss) from operating activities	446,091	717,246	240,678	6,368	(131,436)	1,278,947
Share in earnings of associates	–	–	131,851	–	–	131,851
Net income	446,091	717,246	372,529	6,368	(131,436)	1,410,798
Property, equipment, and intangibles additions	21,019	45	–	1,949	84,867	107,880
Depreciation and amortization	49,303	1,129	165	3,289	38,673	92,559

(b) The Group's credit exposure by business segment as of December 31, 2018 and 2017 is as follows:

	2018 SAR '000					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Consolidated statement of financial position assets	**22,488,511**	**35,867,577**	**32,541,629**	**349,650**	**665,735**	**91,913,102**
Commitments and contingencies	**4,254,721**	**3,929,374**	**523,599**	**–**	**–**	**8,707,694**
Derivatives	**–**	**–**	**1,971,687**	**–**	**–**	**1,971,687**
Totals	**26,743,232**	**39,796,951**	**35,036,915**	**349,650**	**665,735**	**102,592,483**

	2017 SAR '000					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Consolidated statement of financial position assets	26,529,441	35,561,073	26,731,760	245,531	230,299	89,298,104
Commitments and contingencies	3,349,767	2,554,318	293,785	–	–	6,197,870
Derivatives	–	–	2,582,443	–	–	2,582,443
Totals	29,879,208	38,115,391	29,607,988	245,531	230,299	98,078,417

Consolidated statement of financial position credit exposure is comprised of the carrying value of consolidated statement of financial position assets excluding cash on hand, property, equipment, and intangibles, investments in associates, investments in equities and mutual funds, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are also included in the table above.

30. Geographical concentration

(a) The distribution by geographical region for assets, liabilities, and for commitments, contingencies, and derivatives as of December 31, 2018 and 2017 is as follows:

	2018 SAR '000						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances with SAMA:							
Cash in hand	736,763	–	–	–	–	–	736,763
Balances with SAMA	4,135,169	–	–	–	–	–	4,135,169
Due from banks and other financial institutions:							
Current accounts	–	69,660	252,178	455,048	2,870	16,362	796,118
Money market placements	1,649,902	258,701	212,976	–	–	–	2,121,579
Investments:							
Held as FVTPL	131,626	–	254	42,388	–	–	174,268
Held as FVOCI	15,404,960	5,912,945	1,236,263	1,731,190	–	178,487	24,463,845
Positive fair values of derivatives:							
Held for trading	37,651	–	436,828	110,317	–	–	584,796
Held as fair value hedges	18,504	112,757	111,195	–	–	–	242,456
Associated company put option	–	417,991	–	–	–	–	417,991
Loans and advances, net:							
Commercial and others	40,051,830	–	–	–	–	–	40,051,830
Overdrafts	5,078,362	–	–	–	–	–	5,078,362
Consumer	14,282,337	–	–	–	–	–	14,282,337
Investments in associates	1,012,366	–	–	–	–	–	1,012,366
Other real estate	718,724	–	–	–	–	–	718,724
Information Technology intangible assets, net	163,513	–	–	–	–	–	163,513
Property and equipment, net	897,678	–	–	–	–	–	897,678
Other assets	192,113	–	–	–	–	–	192,113
Total	**84,511,498**	**6,772,054**	**2,249,694**	**2,338,943**	**2,870**	**194,849**	**96,069,908**
Liabilities							
Due to banks and other financial institutions:							
Current accounts	–	7,940	6,665	–	–	1,468	16,073
Money market deposits and repurchase agreements	4,528,124	2,835,145	5,241,490	–	–	–	12,604,759
Customer deposits:							
Time	37,037,991	–	–	–	–	–	37,037,991
Savings	1,529,185	–	–	–	–	–	1,529,185
Demand	24,113,708	–	–	–	–	–	24,113,708
Other	1,008,985	–	–	–	–	–	1,008,985
Negative fair values of derivatives:							
Held for trading	114,373	9,953	118,801	155,368	–	–	398,495
Held as fair value hedges	2,195	17,429	82,585	–	–	–	102,209
Term loans	2,030,371	–	–	–	–	–	2,030,371
Subordinated debt	2,005,661	–	–	–	–	–	2,005,661
Other liabilities	1,783,795	–	–	–	–	–	1,783,795
Total	**74,154,388**	**2,870,467**	**5,449,541**	**155,368**	**–**	**1,468**	**82,631,232**

30. Geographical concentration – continued

	2018 SAR '000						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Commitments and contingencies							
Letters of credit	989,529	129,131	237,366	4,075	24,277	805,969	2,190,347
Letters of Guarantee	8,163,093	166,470	508,308	25,213	6,600	78,722	8,948,406
Acceptances	653,360	2,444	–	–	–	2,123	657,927
Irrevocable commitments to extend credit	558,942	–	–	–	–	–	558,942
Maximum credit exposure (stated at credit equivalent amounts) Commitments and contingencies							
Letters of credit	942,484	122,992	226,082	3,882	23,123	767,652	2,086,215
Letters of Guarantee	5,441,101	110,960	338,812	16,806	4,399	52,472	5,964,550
Acceptances	652,369	2,440	–	–	–	2,120	656,929
Derivatives							
Held for trading	270,904	–	516,748	234,289	–	–	1,021,941
Held as fair value hedges	35,529	212,207	284,019	–	–	–	531,755
Associated company put option	–	417,991	–	–	–	–	417,991

	2017 SAR '000						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Assets							
Cash and balances with SAMA:							
Cash in hand	725,972	–	–	–	–	–	725,972
Balances with SAMA	4,537,466	–	–	–	–	–	4,537,466
Due from banks and other financial institutions:							
Current accounts	–	70,056	253,036	579,294	3,076	7,719	913,181
Money market placements	1,144,360	987,535	459,047	8,950	–	–	2,599,892
Available-for-sale Investments	11,601,267	6,624,978	1,473,864	1,776,502	–	237,365	21,713,976
Positive fair values of derivatives:							
Held for trading	69,436	28,912	5,198	–	–	–	103,546
Held as fair value hedges	8,552	70,759	50,892	–	–	–	130,203
Associated company put option	–	435,421	–	–	–	–	435,421
Loans and advances, net:							
Commercial and others	39,615,951	–	–	–	–	–	39,615,951
Overdrafts	3,538,544	–	–	–	–	–	3,538,544
Consumer	16,433,789	–	–	–	–	–	16,433,789
Investments in associates	1,019,961	–	–	–	–	–	1,019,961
Other real estate	718,724	–	–	–	–	–	718,724
Information Technology intangible assets, net	129,094	–	–	–	–	–	129,094
Property and equipment, net	873,816	–	–	–	–	–	873,816
Other assets	306,683	–	–	–	–	–	306,683
Total	80,723,615	8,217,661	2,242,037	2,364,746	3,076	245,084	93,796,219

30. Geographical concentration – continued

	2017 SAR '000						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Liabilities							
Due to banks and other financial institutions:							
Current accounts	–	6,147	1,962	–	–	1,028	9,137
Money market deposits and repurchase agreements	4,673,295	931,030	1,996,224	–	–	–	7,600,549
Customer deposits:							
Time	39,308,674	–	–	–	–	–	39,308,674
Savings	2,174,702	–	–	–	–	–	2,174,702
Demand	24,585,587	–	–	–	–	–	24,585,587
Other	873,657	–	–	–	–	–	873,657
Negative fair values of derivatives:							
Held for trading	38,374	28,342	27,271	49	–	–	94,036
Held as fair value hedges	3,398	2,899	16,322	–	–	–	22,619
Term loans	2,014,823	–	–	–	–	–	2,014,823
Subordinated debt	2,003,068	–	–	–	–	–	2,003,068
Other liabilities	830,300	–	–	–	–	–	830,300
Total	76,505,878	968,418	2,041,779	49	–	1,028	79,517,152
Commitments and contingencies							
Letters of credit	1,273,488	106,903	214,551	21,401	28,530	200,801	1,845,674
Letters of Guarantee	7,793,073	19,533	483,338	13,879	–	85,929	8,395,752
Acceptances	732,318	–	–	–	–	2,318	734,636
Irrevocable commitments to extend credit	378,405	–	–	–	–	–	378,405
Maximum credit exposure (stated at credit equivalent amounts) Commitments and contingencies							
Letters of credit	1,037,521	87,095	174,797	17,436	23,244	163,594	1,503,687
Letters of Guarantee	3,677,369	9,217	228,076	6,549	–	40,548	3,961,759
Acceptances	732,318	–	–	–	–	106	732,424
Derivatives							
Held for trading	255,443	265,566	439,113	–	–	–	960,122
Held as fair value hedges	331,851	258,744	596,305	–	–	–	1,186,900
Associated company put option	–	435,421	–	–	–	–	435,421

The credit exposure of assets for the consolidated statement of financial position comprises the carrying value of due from banks and other financial institutions, investments subject to credit risk, loans and advances, positive fair value of derivatives, other receivables, and refundable deposits.

The credit equivalent of commitments and contingencies and derivatives is calculated according to SAMA's prescribed methodology.

31. Market risk

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

(a) Market risk-trading book

The Board of Directors has set limits for the acceptable level of risks in managing the trading book. The Group currently has trading book exposures in foreign exchange contracts and commission rate swaps.

(b) Market risk-banking book

Market risk in the banking book mainly arises from commission rate risk, liquidity risk, currency risk, and equity price risk.

(i) Commission rate risk

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Group's consolidated statement of income or shareholders' equity. The reasonably possible change is estimated based on the relevant commission rate movements during the last five years (2014-2018) (2017: 2013-2017). A positive effect shows a potential net increase in the consolidated income or shareholders' equity, whereas a negative effect shows a potential net reduction in consolidated income or shareholders' equity.

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of December 31, 2018 and 2017, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate FVOCI debt securities, including the effect of any associated hedges as of December 31, 2018 (2017: available for sale investments) for the effect of assumed changes in commission rates. The sensitivity of shareholders' equity is analysed by maturity of the asset or swap. The entire banking book exposures are monitored and analysed by currency and relevant sensitivities and are disclosed in SAR thousands. For presentation purposes in the tables below, short-term fixed rate deposit liabilities are treated as variable rate deposits.

		2018 SAR '000	2018 Sensitivity of equity SAR '000				
Commission rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
Saibor	+53/-168	-62,917/ +199,434	–	-2,589/0	-176,552/ +270,543	-216,588/ +21,790	-395,729/ +292,333
Libor	+52/-208	+8,429/ -33,718	-3,218/ +12,869	-6,238/ +24,955	-373,467/ +1,493,872	-1,022,103/ +4,088,416	-1,405,026/ +5,620,112
Euribor	+167/-1	+2,296/-14	–	–	–	–	–

31. Market risk – continued

		2017 SAR '000	2017 Sensitivity of equity SAR '000				
Commission rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
Saibor	+45/-117	-84,303/ +219,186	–	–	-16,892/ +43,919	-70 /+181	-16,962/ +44,100
Libor	+69/-78	-78,446/ +88,678	-248/+281	-1,278/+1,445	-113,017/ +127,755	-256,684/ +290,165	-371,227/ +419,646
Euribor	+164/-4	+2,404/-59	–	–	–	–	–

The Group manages exposure to the effects of various risks associated with fluctuations in prevailing levels of market special commission rates on its financial position and cash flows. The Board of Directors also sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored by the Treasury Unit.

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

The tables below summarize the Group's exposure to special commission rate risks as of December 31, 2018 and 2017. Included in the tables are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	2018 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	736,763	736,763
Balances with SAMA	977,000	–	–	–	3,158,169	4,135,169
Due from banks and other financial institutions						
Current accounts	796,118	–	–	–	–	796,118
Money market placements	2,053,990	67,589	–	–	–	2,121,579
Investments						
Held as FVTPL	–	–	–	–	174,268	174,268
Held as FVOCI	3,270,117	1,411,887	11,405,053	8,115,407	261,381	24,463,845
Positive fair values of derivatives						
Held for trading	–	–	–	–	584,796	584,796
Held as fair value hedges	–	–	–	–	242,456	242,456
Associated company put option	–	–	–	–	417,991	417,991
Loans and advances, net						
Commercial and others	26,339,578	13,156,867	440,267	115,118	–	40,051,830
Overdrafts	5,078,362	–	–	–	–	5,078,362
Consumer	3,744,555	2,417,134	7,347,915	772,733	–	14,282,337
Investments in associates	–	–	–	–	1,012,366	1,012,366
Other real estate	–	–	–	–	718,724	718,724
Information Technology intangible assets, net	–	–	–	–	163,513	163,513
Property and equipment, net	–	–	–	–	897,678	897,678
Other assets	–	–	–	–	192,113	192,113
Total	**42,259,720**	**17,053,477**	**19,193,235**	**9,003,258**	**8,560,218**	**96,069,908**

31. Market risk – continued

	2018 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	16,073	16,073
Money market deposits and Repurchase agreements	7,076,990	5,527,769	–	–	–	12,604,759
Customer deposits						
Time	21,696,731	15,341,260	–	–	–	37,037,991
Savings	1,529,185	–	–	–	–	1,529,185
Demand	–	–	–	–	24,113,708	24,113,708
Other	–	600,745	–	–	408,240	1,008,985
Negative fair values of derivatives						
Held for trading	–	–	–	–	398,495	398,495
Held as fair value hedges	–	–	–	–	102,209	102,209
Term loans	30,371	2,000,000	–	–	–	2,030,371
Subordinated debt	5,661	2,000,000	–	–	–	2,005,661
Other liabilities	–	–	–	–	1,783,795	1,783,795
Total equity	–	–	–	–	13,438,676	13,438,676
Total	**30,338,938**	**25,469,774**	**–**	**–**	**40,261,196**	**96,069,908**
Special commission rate sensitivity-on balance sheet	**11,920,782**	**(8,416,297)**	**19,193,235**	**9,003,258**	**(31,700,978)**	**–**
Special commission rate sensitivity-off balance sheet	12,252,405	–	(4,107,894)	(8,144,511)	–	–
Total special commission rate sensitivity gap	**24,173,187**	**(8,416,297)**	**15,085,341**	**858,747**	**(31,700,978)**	**–**
Cumulative special commission rate sensitivity gap	**24,173,187**	**15,756,890**	**30,842,231**	**31,700,978**	**–**	**–**

31. Market risk – continued

	2017 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	725,972	725,972
Balances with SAMA	1,282,000	–	–	–	3,255,466	4,537,466
Due from banks and other financial institutions						
Current accounts	913,181	–	–	–	–	913,181
Money market placements	2,599,892	–	–	–	–	2,599,892
Available for sale Investments	3,539,678	969,361	9,624,849	6,862,845	717,243	21,713,976
Positive fair values of derivatives						
Held for trading	–	–	–	–	103,546	103,546
Held as fair value hedges	–	–	–	–	130,203	130,203
Associated company put option	–	–	–	–	435,421	435,421
Loans and advances, net						
Commercial and others	25,113,025	13,508,342	898,605	95,979	–	39,615,951
Overdrafts	3,538,544	–	–	–	–	3,538,544
Consumer	2,753,376	2,670,517	10,315,388	694,508	–	16,433,789
Investments in associates	–	–	–	–	1,019,961	1,019,961
Other real estate	–	–	–	–	718,724	718,724
Information Technology intangible assets, net	–	–	–	–	129,094	129,094
Property and equipment, net	–	–	–	–	873,816	873,816
Other assets	–	–	–	–	306,683	306,683
Total	39,739,696	17,148,220	20,838,842	7,653,332	8,416,129	93,796,219
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	9,137	9,137
Money market deposits and repurchase agreements	5,211,784	2,388,765	–	–	–	7,600,549
Customer deposits						
Time	24,387,221	14,921,453	–	–	–	39,308,674
Savings	2,174,702	–	–	–	–	2,174,702
Demand	–	–	–	–	24,585,587	24,585,587
Other	–	537,064	–	–	336,593	873,657
Negative fair values of derivatives						
Held for trading	–	–	–	–	94,036	94,036
Held as fair value hedges	–	–	–	–	22,619	22,619
Term loans	2,014,823	–	–	–	–	2,014,823
Subordinated debt	3,068	2,000,000	–	–	–	2,003,068
Other liabilities	–	–	–	–	830,300	830,300
Total equity	–	–	–	–	14,279,067	14,279,067
Total	33,791,598	19,847,282	–	–	40,157,339	93,796,219
Special commission rate sensitivity-on balance sheet	5,948,098	(2,699,062)	20,838,842	7,653,332	(31,741,210)	–
Special commission rate sensitivity-off balance sheet	9,312,785	358,000	(4,291,638)	(5,379,147)	–	–
Total special commission rate sensitivity gap	15,260,883	(2,341,062)	16,547,204	2,274,185	(31,741,210)	–
Cumulative special commission rate sensitivity gap	15,260,883	12,919,821	29,467,025	31,741,210	–	–

31. Market risk – continued

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

(ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board of Directors has set limits on currency positions, which are monitored daily. Hedging strategies are also used to ensure that positions and market risks are maintained within the limits.

The table below shows the currencies to which the Group has a significant exposure as of December 31, 2018 and 2017, on its banking book assets and liabilities and forecasted cash flows. The table depicts the effect of a reasonably possible movement of the currency rates against the SAR based on historical currency rate movements, with other variables held constant, on the consolidated income (due to the change in the fair value of the currency sensitive banking book assets and liabilities). The reasonably possible change is estimated based on the relevant foreign exchange rate movements during the last five years (2014-2018) (2017: 2013-2017). A positive effect shows a potential net increase in the consolidated income, whereas a negative effect shows a potential net reduction in consolidated income.

Currency Exposures as of December 31, 2018	**Change in currency rate in %**	**Effect on net income SAR '000**
USD	**+0.28/-0.10**	**+3,097/-1,100**
EUR	**+18.00/-12.01**	**-954/+636**
GBP	**+29.64/-9.75**	**-268/+91**
Currency Exposures as of December 31, 2017	Change in currency rate in %	Effect on net income SAR '000
USD	+0.31/-0.04	+4,290/-576
EUR	+18.15/-12.08	-359/+239
GBP	+29.88/-8.74	-332/+97

(iii) Currency position

The Group 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 intra-day positions, which are monitored daily. As of December 31, 2018 and 2017, the Group had the following significant net exposures denominated in foreign currencies:

	2018 SAR '000 Long/(short)	2017 SAR '000 Long/(short)
US Dollar	**1,120,449**	1,404,006
Euro	**(5,299)**	(1,978)
Pound sterling	**(936)**	(1,112)
Japanese yen	**201**	207
U.A.E Dirham	**964**	34,072
Others	**15,747**	11,780

31. Market risk – continued

(iv) Equity price risk

Equity price risk refers to the risk of a decrease in fair values of equities and mutual funds in the Group's investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual investments.

The following table depicts the effect on the Group's investments in equities and mutual funds from a reasonably possible change in relevant indices, with other variables held constant, and the related effect on the Group's net income and shareholders' equity as of December 31, 2018 and shareholders' equity as of December 31, 2017. The reasonably possible changes in relevant indices are estimated based on the relevant indices movements during the last five years (2014-2018) (2017: 2013-2017). A positive effect shows a potential increase in consolidated shareholders' equity, whereas a negative effect shows a potential decrease in consolidated shareholders' equity.

	2018			2017	
Market Indices	**Change in equity price %**	**Net income effect in SAR '000**	**Shareholders' equity effect in SAR '000**	Change in equity price %	Shareholders' equity effect in SAR '000
TADAWUL	**+41.82%/-31.10%**	**+44,109/-32,799**	**+116,281/-86,465**	+66.59%/-19.07%	+442,845/-126,796
Unquoted	**+5.00%/-5.00%**	**-/-**	**+232/-232**	+5.00%/-5.00%	+232/-232

32. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, Management has diversified funding sources, and assets are managed with liquidity in perspective. Management therefore maintains a healthy balance of cash, cash equivalents, and readily marketable securities as part of its high liquid assets. Management also monitors the asset and liability maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset Liability Committee. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the Asset Liability Committee. In addition, the Group's liquidity coverage ratio and net stable funding ratio are each monitored regularly to be in-line with SAMA guidelines. The Group also conducts regular liquidity stress testing under a variety of scenarios covering both normal and more severely stressed market conditions.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Group maintains a statutory deposit with SAMA equal to 7% (2017: 7%) of total demand deposits and 4% (2017: 4%) of saving and time deposits. In addition to the statutory deposit, the Group also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and balances with SAMA, Saudi Government Development Bonds, or other assets which can be converted into cash within a period not exceeding 30 days. The Group has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 98% of the nominal value of Saudi Riyal denominated bonds held.

(a) Contractual maturity profile of assets and liabilities.

The tables below summarise the contractual maturity profile of the Group's assets, liabilities, and shareholders' equity as of December 31, 2018 and 2017. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Group's deposit retention history. The amounts disclosed for derivatives, and commitments and contingencies are not indicative of future payment obligations.

32. Liquidity risk – continued

	2018 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity / on demand	Total
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	736,763	736,763
Balances with SAMA	977,000	–	–	–	3,158,169	4,135,169
Due from banks and other financial institutions						
Current accounts	–	–	–	–	796,118	796,118
Money market placements	2,053,990	67,589	–	–	–	2,121,579
Investments						
Held as FVTPL	–	–	–	–	174,268	174,268
Held as FVOCI	431,306	1,036,468	14,070,094	8,664,596	261,381	24,463,845
Positive fair values of derivatives						
Held for trading	–	584,796	–	–	–	584,796
Held as fair value hedges	–	242,456	–	–	–	242,456
Associated company put option	–	–	–	417,991	–	417,991
Loans and advances, net						
Commercial and others	19,647,774	14,300,442	4,298,864	1,804,750	–	40,051,830
Overdrafts	5,078,362	–	–	–	–	5,078,362
Consumer	3,744,555	2,417,134	7,347,915	772,733	–	14,282,337
Investments in associates	–	–	–	–	1,012,366	1,012,366
Other real estate	–	–	–	–	718,724	718,724
Information Technology intangible assets, net	–	–	–	–	163,513	163,513
Property and equipment, net	–	–	–	–	897,678	897,678
Other assets	–	192,113	–	–	–	192,113
Total	31,932,987	18,840,998	25,716,873	11,660,070	7,918,980	96,069,908
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current Accounts	–	–	–	–	16,073	16,073
Money market deposits and Repurchase agreements	7,076,990	5,527,769	–	–	–	12,604,759
Customer deposits						
Time	21,466,166	12,789,360	2,782,465	–	–	37,037,991
Savings	–	–	–	–	1,529,185	1,529,185
Demand	–	–	–	–	24,113,708	24,113,708
Other	–	600,745	–	–	408,240	1,008,985
Negative fair values of derivatives						
Held for trading	–	398,495	–	–	–	398,495
Held as fair value hedges	–	102,209	–	–	–	102,209
Term loans	30,371	–	2,000,000	–	–	2,030,371
Subordinated debt	5,661	2,000,000	–	–	–	2,005,661
Other liabilities	–	1,287,507	496,288	–	–	1,783,795
Total equity	–	–	–	–	13,438,676	13,438,676
Total	28,579,188	22,706,085	5,278,753	–	39,505,882	96,069,908
Derivatives, commitments and contingencies	6,886,791	6,022,140	19,863,039	11,652,406	–	44,424,376

32. Liquidity risk – continued

	2017 SAR '000					
	Within 3months	3-12 months	1-5 years	Over 5 years	No fixed maturity / on demand	Total
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	725,972	725,972
Balances with SAMA	1,282,000	–	–	–	3,255,466	4,537,466
Due from banks and other financial institutions						
Current accounts	–	–	–	–	913,181	913,181
Money market placements	2,599,892	–	–	–	–	2,599,892
Available-for-sale Investments	167,690	913,956	12,787,002	7,128,085	717,243	21,713,976
Positive fair values of derivatives						
Held for trading	–	103,546	–	–	–	103,546
Held as fair value hedges	–	130,203	–	–	–	130,203
Associated company put option	–	–	–	435,421	–	435,421
Loans and advances, net						
Commercial and others	16,729,891	13,908,635	6,075,319	2,902,106	–	39,615,951
Overdrafts	3,538,544	–	–	–	–	3,538,544
Consumer	2,627,162	2,670,517	10,441,602	694,508	–	16,433,789
Investments in associates	–	–	–	–	1,019,961	1,019,961
Other real estate	–	–	–	–	718,724	718,724
Information Technology intangible assets, net	–	–	–	–	129,094	129,094
Property and equipment, net	–	–	–	–	873,816	873,816
Other assets	–	306,683	–	–	–	306,683
Total	26,945,179	18,033,540	29,303,923	11,160,120	8,353,457	93,796,219
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current Accounts	–	–	–	–	9,137	9,137
Money market deposits and Repurchase agreements	5,211,784	2,388,765	–	–	–	7,600,549
Customer deposits						
Time	24,154,968	15,153,706	–	–	–	39,308,674
Savings	–	–	–	–	2,174,702	2,174,702
Demand	–	–	–	–	24,585,587	24,585,587
Other	–	537,064	–	–	336,593	873,657
Negative fair values of derivatives						
Held for trading	–	94,036	–	–	–	94,036
Held as fair value hedges	–	22,619	–	–	–	22,619
Term loans	14,823	–	2,000,000	–	–	2,014,823
Subordinated debt	3,068	–	2,000,000	–	–	2,003,068
Other liabilities	–	830,300	–	–	–	830,300
Total equity	–	–	–	–	14,279,067	14,279,067
Total	29,384,643	19,026,490	4,000,000	–	41,385,086	93,796,219
Derivatives, commitments and contingencies	5,743,285	9,901,507	16,953,591	6,242,558	–	38,840,941

32. Liquidity risk – continued

Assets available to meet all the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection, loans and advances to banks, and loans and advances to customers. The Group regularly monitors the maturity profile to ensure adequate liquidity is maintained. The cumulative maturities of commitments and contingencies is disclosed in note 19 c (i).

(b) Analysis of financial liabilities by remaining undiscounted maturities

The tables below summarise the estimated maturity profile of the Group's financial liabilities as of December 31, 2018 and 2017 based on contractual undiscounted future repayment obligations. As special commission payment estimates up to the contractual maturities are included in the tables, the totals do not match the amounts included in the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date that the Group could be required to pay and the tables therefore do not reflect the expected cash flows indicated by the Group's deposit retention history.

The undiscounted maturity profile of financial liabilities is as follows:

	2018 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed Maturity / on demand	Total
Due to banks and other financial institutions						
Current Accounts	–	–	–	–	16,073	16,073
Money market deposits and repurchase agreements	7,100,795	5,602,623	–	–	–	12,703,418
Customer deposits						
Time	21,543,176	12,972,887	2,982,107	–	–	37,498,170
Savings	–	–	–	–	1,529,185	1,529,185
Demand	–	–	–	–	24,113,708	24,113,708
Other	–	600,745	–	–	408,240	1,008,985
Negative fair values of derivatives						
Held for trading	–	398,495	–	–	–	398,495
Held as fair value hedges	–	102,209	–	–	–	102,209
Term loans	48,971	55,800	2,055,800	–	–	2,160,571
Subordinated debt	5,661	2,000,000	–	–	–	2,005,661
Total	**28,698,603**	**21,732,759**	**5,037,907**	**–**	**26,067,206**	**81,536,475**
Derivatives	191,000	543,121	2,213,078	413,257	–	3,360,456
Total	**28,889,603**	**22,275,880**	**7,250,985**	**413,257**	**26,067,206**	**84,896,931**

32. Liquidity risk – continued

	2017 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed Maturity / on demand	Total
Due to banks and other financial institutions						
Current Accounts	–	–	–	–	9,137	9,137
Money market deposits and Repurchase agreements	5,220,677	2,405,068	–	–	–	7,625,745
Customer deposits						
Time	24,213,393	15,303,267	–	–	–	39,516,660
Savings	–	–	–	–	2,174,702	2,174,702
Demand	–	–	–	–	24,585,587	24,585,587
Other	–	537,064	–	–	336,593	873,657
Negative fair values of derivatives						
Held for trading	–	94,036	–	–	–	94,036
Held as fair value hedges	–	22,619	–	–	–	22,619
Term loans	30,473	46,950	2,046,950	–	–	2,124,373
Subordinated debt	21,068	54,000	2,186,000	–	–	2,261,068
Total	**29,485,611**	**18,463,004**	**4,232,950**	**–**	**27,106,019**	**79,287,584**
Derivatives	105,406	285,975	998,144	141,978	–	1,531,503
Total	**29,591,017**	**18,748,979**	**5,231,094**	**141,978**	**27,106,019**	**80,819,087**

33. Credit and financial risk management

The Group's Board of Directors is responsible for establishing Corporate Governance processes and approving the Risk Appetite and related risk management framework. It is also responsible for approving and implementing policies to ensure compliance with SAMA guidelines, accounting and reporting standards (most recently IFRS 9 in relation to expected credit loss provisioning), and best industry practices including Basel guidelines. The Board of Directors has approved the Group's Risk Management Guide Policy as an overarching Risk Policy Guide under which the Group has a suite of policies including a Risk Appetite Framework Policy, Credit Policy Guide, Treasury Policy Guide, Stress Test Policy, Internal Capital Adequacy Assessment Plan Policy, Operational Risk Policy, Fraud Risk Policies, Information Security Policies, among others.

The Board of Directors has also approved the Group's comprehensive IFRS 9 Governance Framework Policy in 2018, addressing the Group's IFRS 9 Approach and Methodology Policy, which is supplemented with additional management level policies including an IFRS 9 Data Management and Control Framework Policy, and the IFRS 9 governance framework along with related accounting and operating procedures.

The Board of Directors is supported by the Board Risk Committee, a subcommittee of the Board, responsible for recommending policies for Board approval and for monitoring risks within the Group. At the management level, the Group operates various committees including an Enterprise Risk Management Committee, a Credit Committee, and an Asset Liability Committee, which are responsible for various areas of risk management. A management level Expected Credit Loss Committee linked to the Group's IFRS 9 Governance and Framework Policy also operates which is responsible for all aspects of IFRS 9 including expected credit losses.

33. Credit and financial risk management – continued

Other management level committees include the Operational Risk Management Committee, Stress Testing Committee, Financial Fraud Control Committee, Business Continuity Management Committee, Information Security Steering Committee, and the Structured Solution Approval Committee.

At the departmental level, the Group has a Risk Management Committee headed by a Chief Risk Officer who is assisted by assistant general managers in charge of Risk Management, Credit Risk Review, Credit Administration, and Collections.

Credit Risk

The Group manages its exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in customer lending activities that lead to loans and advances, and other investment activities.

There is also credit risk in off consolidated statement of financial position financial instruments, such as loan commitments and financial guarantee contracts. The Group assesses the Probability of Default (PD) of counterparties using internal rating tools which can be mapped to external ratings where available. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken. The Group assesses wholesale counterparties using the same techniques as for its lending activities to clients.

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

Credit Risk management

The Group has a comprehensive Board approved framework for managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Group seeks to control credit risk by monitoring credit exposures, limiting concentration risks, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are routinely monitored. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations, businesses, or economic sectors. Economic sector risk concentrations are provided in Note 7.

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between portfolios and allocates expected credit loss allowances. The Group determines each individual borrower's grade based on specific objective and subjective financial and business assessment criteria covering debt service, profitability, liquidity, capital structure, industry, management quality, and company standing. The Group conducts a quality classification exercises over all its existing borrowers and the results of this exercise are validated by the independent risk management unit established for that purpose. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products, external economic environment, emerging best practices, and regulatory guidance. Information on the credit quality for loans and advances is provided in Note 7.

33. Credit and financial risk management – continued

The Group, in the ordinary course of lending activities, also takes collateral as security to mitigate credit risk on loans and advances. The collateral includes primarily time, demand, and other cash deposits, financial and contract guarantees, local and international equities, real estate, and other fixed assets. The collateral is held mainly against commercial and similar loans and is managed against relevant exposures at their net realisable value. Management monitors the market value of collateral, requests additional collateral in accordance with underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit losses. The Group also seeks additional collateral from counterparties when impairment indicators are observed. Information on collateral held is included in Note 7 and in this note.

The debt securities included in the investment portfolio are due mainly from corporates, banks, financial institutions, and sovereigns. An analysis of the Group's investments by type of counterparty and credit risk exposure is included in Note 6.

The Group's credit quality of Due from banks and other financial institutions is included in note 5.

The Group's credit risk relating to derivative financial instruments is included in Notes 11 and 29.

Information on the Group's financial guarantee contracts is included in Note 19.

The Group's credit exposure by business segment is included in Note 29.

The Group's distribution of geographic concentration and Stage 3 exposures is provided in Note 30.

The Group's total credit risk exposure and their relative risk weights is included in Note 36.

Credit analysis of investments held at FVTPL

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

Credit risk grades

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

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

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

33. Credit and financial risk management – continued

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

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

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

The Group employs models developed based on the analysis of the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time due to the impact of macroeconomic factors. This analysis includes the identification and calibration of relationships between changes in default rates and macroeconomic factors. For most exposures, key macroeconomic indicators include GDP growth and oil prices.

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

Determining whether credit risk has increased significantly

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group 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 Group's historical experience and credit assessments, and including forward-looking information.

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

33. Credit and financial risk management – continued

Using credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and for which effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. The qualitative indicators include specific high risk rating grades, cross facility defaults and forbearance.

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

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

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

The Group uses three main components to measure ECL, which are Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). The Group has leveraged existing regulatory practices to develop the methodology for model inputs and are adjusted where necessary to comply with IFRS 9 requirements.

The Financial Assets reflecting a Significant Increase in Credit Risk are classified in Stage 2 and the Group recognises loss allowances at an amount equal to lifetime expected credit losses, reflecting a lifetime expected PD that represents the probability of default over the remaining life of the financial asset. The allowances for Stage 2 are higher than for Stage 1, reflecting the impact of a longer time horison compared to a 12-month horison used for the allowance in Stage 1.

Definition of Default

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

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

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

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

- qualitative, e.g. breaches of covenants;
- quantitative, e.g. overdue status and non-payment of another obligation of the same borrower; and
- based on data developed internally and obtained from external sources.

33. Credit and financial risk management – continued

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. IFRS 9 does not define the term "default", but instead requires each entity to do so. In this regard, the Group ensures that it is in alignment with the SAMA definition of default and also that it follows a common definition for regulatory and financial reporting.

The Group recognises a loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100% and recoverable cash flows on the asset, for those financial assets that are credit impaired which are then classified under Stage 3.

Modified financial assets

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

The Group may also renegotiate loans to customers in financial difficulty (referred to as forbearance activities) to maximise collection opportunities and minimise the risk of default. Loan forbearance is granted on a selective basis:

- if there is a high risk of default; or
- if there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk. A customer needs to demonstrate consistently good payment behavior over a period of time before the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to a 12-month ECL. The Group considers a period of 12 months as a curing period to move assets from loss allowance measurement at Lifetime ECL to a 12-month ECL.

Incorporation of forward looking information

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

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

33. Credit and financial risk management – continued

The Group identifies key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and other credit losses.

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 from 2013 to 2018. During 2018, no changes have occurred in underlying assumptions and the defined economic variables. Moreover, a sensitivity analysis has been conducted on the macroeconomic scenarios including GDP and oil prices in order to assess the potential change in ECL. The more optimistic sensitivity scenario would reduce ECL by 4 basis points, while the more pessimistic scenario would increase the ECL by 5 basis points.

Measurement of ECL

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

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

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

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

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

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

As described above and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

33. Credit and financial risk management – continued

For retail overdrafts and other facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period which may be longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect. This contractual right may not be enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These can include a reduction in limits, or cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

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

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

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

34. Fair values of financial assets and liabilities

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. 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 principal market for the asset or liability. The Group uses the hierarchy disclosed in Note 2 d2 for determining and disclosing the fair value of financial instruments.

The following table shows an analysis of financial assets and liabilities recorded at fair value as of December 31, 2018 and 2017 by level of the fair value hierarchy.

	2018 SAR '000			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	–	827,252	417,991	1,245,243
Investments at FVOCI	16,824,303	7,166,960	472,582	24,463,845
Investments at FVTPL	131,625	–	42,643	174,268
Total	**16,955,928**	**7,994,212**	**933,216**	**25,883,356**
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	–	500,704	–	500,704
Total	**–**	**500,704**	**–**	**500,704**

34. Fair values of financial assets and liabilities – continued

	2017 SAR '000			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments	–	233,749	435,421	669,170
Available-for-sale financial investments	13,821,026	7,379,684	513,266	21,713,976
Total	13,821,026	7,613,433	948,687	22,383,146
Financial liabilities carried at fair value:				
Derivative financial instruments	–	116,655	–	116,655
Total	–	116,655	–	116,655

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

The total amount of the changes in fair value recognized in the income statement for the year ended December 31, 2018 which was estimated using valuation models, is a loss of SAR 17.3 million (2017: a loss of SAR 0.7 million).

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

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

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

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

34. Fair values of financial assets and liabilities – continued

Should the significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 97.7 million (2017: SAR 141.2 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 44.6 million (2017: SAR 53.9 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and could increase or decrease by approximately SAR 27.5 million (2017: SAR 30.5 million) due to estimating the fair value of the underlying investment.

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

The following table summarizes the movement of the Level 3 fair values for the years ended December 31, 2018 and 2017:

	2018 SAR '000	2017 SAR '000
Fair values at the beginning of the year	**948,687**	964,470
Net change in fair value	**(11,811)**	896
Investments purchased	**–**	920
Investments sold	**(3,660)**	(17,599)
Fair values at the end of the year	**933,216**	948,687

There were no transfers from either level 1 or level 2 to either level 2 or level 3 during the years ended December 31, 2018 and 2017.

The following table summarizes the estimated fair values of financial assets and financial liabilities as of December 31, 2018 and 2017 that are not carried at fair value in the Consolidated Financial Statements, along with the comparative carrying amounts for each.

December 31, 2018	Carrying values SAR '000	Estimated fair values SAR '000
Financial assets:		
Due from banks and other financial institutions	2,917,697	2,917,697
Loans and advances, net	59,412,529	60,622,336
Total	**62,330,226**	**63,540,033**
Financial liabilities:		
Due to banks and other financial institutions	12,620,832	12,620,832
Customers deposits	63,689,869	62,332,038
Term loans	2,030,371	2,030,371
Subordinated debt	2,005,661	2,005,661
Total	**80,346,733**	**78,988,902**

34. Fair values of financial assets and liabilities – continued

December 31, 2017	Carrying values SAR '000	Estimated fair values SAR '000
Financial assets:		
Due from banks and other financial institutions	3,513,073	3,513,073
Loans and advances, net	59,588,284	61,454,199
Total	63,101,357	64,967,272
Financial liabilities:		
Due to banks and other financial institutions	7,609,686	7,609,686
Customers deposits	66,942,620	65,964,590
Term loans	2,014,823	2,014,823
Subordinated debt	2,003,068	2,003,068
Total	78,570,197	77,592,167

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

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

35. Related party transactions

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

The Bank's Related Party Identification and Disclosure of Transactions Policy complies with the Guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These Guidelines include the following definitions of Related Parties:

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

35. Related party transactions – continued

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

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

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

(a) The balances as of December 31, 2018 and 2017, resulting from such transactions included in the Consolidated Financial Statements are as follows:

	2018 SAR '000	2017 SAR '000
Management of the Bank and/or members of their immediate family:		
Loans and advances	**97,154**	88,334
Customer deposits	**401,349**	227,848
Tier 1 Sukuk	**2,000**	2,000
Commitments and contingencies	**6,067**	1,880
Principal shareholders of the Bank and/or members of their immediate family:		
Due from banks and other financial institutions	–	12,241
Loans and advances	–	126,214
Customer deposits	**5,965,847**	10,416,049
Subordinated debt	**700,000**	700,000
Commitments and contingencies	–	372,991
Treasury shares	**787,536**	–
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:		
Loans and advances	**654,756**	596,117
Customer deposits	**1,485,375**	104,094
Commitments and contingencies	**101,458**	106,317
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:		
Customer deposits and other liabilities	**62,093**	152,572

35. Related party transactions – continued

(b) Income and expense pertaining to transactions with related parties included in the Consolidated Financial Statements for the years ended December 31, 2018 and 2017 are as follows:

	2018 SAR '000	2017 SAR '000
Management of the Bank and/or members of their immediate family:		
Special commission income	3,655	3,093
Special commission expense	96	34
Fee income from banking services	45	20
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission income	–	42,671
Special commission expense	27,914	27,039
Fee income from banking services	2	4,219
Rent and premises-related expenses (Building rental)	7,758	7,758
Affiliates of the Bank and entities for which the investment is accounted for by the Equity method of accounting:		
Special commission income	29,743	8,736
Special commission expense	1,304	9
Fee income from banking services	4,436	5,607
Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank:		
Board of Directors and other Board Committee member remuneration	7,051	5,414

The total amount of compensation charged or paid to management personnel during the year is included in Note 24.

36. Capital adequacy

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

Capital adequacy and the use of regulatory capital are monitored by the Group's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to risk-weighted assets (RWA) at or above the requirement of 9.875%.

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

36. Capital adequacy – continued

The following table summarizes the Bank's Pillar I Risk-Weighted Assets (RWA), Tier I and Tier II Capital, and Capital Adequacy Ratio percentage as of December 31, 2018 and 2017.

	2018 SAR '000	2017 SAR '000
Credit Risk RWA	**79,561,316**	75,882,891
Operational Risk RWA	**4,794,695**	4,605,140
Market Risk RWA	**2,062,510**	1,897,923
Total Pillar I RWA	**86,418,521**	82,385,954
Tier I Capital	**14,078,426**	14,260,772
Tier II Capital	**2,649,509**	2,526,993
Total Tier I & II Capital	**16,727,935**	16,787,765
Capital Adequacy Ratio %		
Tier I Ratio	**16.29%**	17.31%
Tier I + Tier II Ratio	**19.36%**	20.38%

As of December 31, 2018 and 2017, the Tier I and Tier II capital is comprised of following:

	2018 SAR '000	2017 SAR '000
Total Equity	**13,438,676**	14,279,067
IFRS 9 transitional adjustment	**658,045**	–
Goodwill adjustment	**(18,295)**	(18,295)
Tier I Capital	**14,078,426**	14,260,772
Tier II Subordinated debt	**2,000,000**	2,000,000
Qualifying general provisions, net	**649,509**	526,993
Tier II Capital	**2,649,509**	2,526,993
Total Tier I & II Capital	**16,727,935**	16,787,765

As of December 31, 2018 and 2017, the RWA, Tier I and Tier II capital, and capital adequacy ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III.

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

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

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

37. Asset management and brokerage services

The Group offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totalling SAR 15,228 million (2017: SAR 6,816 million). This includes funds managed under Shariah approved portfolios amounting to SAR 1,462 million (2017: SAR 2,150 million).

38. Employee stock option shares and employee end of service benefits

(a) The Group managed an Employee Stock Grant Plan during 2018 and 2017. Significant features of the Plan are as follows: Grant dates: January 1, 2014 and 2016

- Maturity dates: Between 2017 and 2018
- Vesting period: 4 years per plan
- Vesting conditions: Participating employees to remain in service
- Method of settlement: Shares
- Cost to participating employees: SAR 3.99 to SAR 4.24 per share.

The stock option shares outstanding as of December 31, 2017 had a weighted average contractual life of two years. The stock option shares are granted only under a service condition with no market linked condition. There were no stock options shares outstanding as of December 31, 2018.

The following table summarizes the movement in the number of stock option shares for the years ended December 31, 2018 and 2017.

	2018	2017
Stock option shares at the beginning of the year	**1,836,716**	3,749,248
Shares vested during the year	**(1,736,178)**	(1,592,318)
Withdrawals during the year	**(100,538)**	(320,214)
Stock option shares at the end of the year	**–**	1,836,716

In 2018, The Group vested 50% of the shares granted in January 2014, and 75% of the shares granted in January 2016 equivalent to 1,736,178 shares with an estimated cost of SAR 24.5 million.

In 2017, the Group vested 50% of the shares granted in January 2013, 25% of the shares granted in January 2014, and 25% of the shares granted in January 2016, equivalent to 1,592,318 shares, for a total estimated cost of SAR 21.6 million.

The Group also managed an Employee Contributory Share Option Plan during 2018 and 2017. The following table summarizes the movement in the number of subscribed shares for the years ended December 31, 2018 and 2017.

	2018	2017
Subscribed shares at the beginning of the year	**3,731,175**	4,210,139
Shares vested during the year	**(3,495,032)**	–
Withdrawals during the year	**(236,143)**	(478,964)
Stock option shares at the end of the year	**–**	3,731,175

38. Employee stock option shares and employee end of service benefits – continued

In connection with the Group's Employee Stock Grant Plan and Employee Contributory Share Option Plan, the Group purchases and sells shares as required for the respective share vesting and subscription requirements. The following table summarizes the movement in the cost of the shares acquired/sold by the Group net of the share based provision movement for the years ended December 31, 2018 and 2017.

	Cost of shares SAR '000	Share based provisions SAR '000	Total SAR '000
Balances as of December 31, 2016	(98,690)	35,806	(62,884)
Shares acquired	(17,574)	–	(17,574)
Share based provisions	–	9,948	9,948
Share based vesting/granting movement, net	33,818	(21,577)	12,241
Balances as of December 31, 2017	(82,446)	24,177	(58,269)
Shares sold	16,651	–	16,651
Share based provisions	–	5,400	5,400
Share based vesting/granting movement, net	65,795	(29,577)	36,218
Balances as of December 31, 2018	–	–	–

(b) The Group operates end of service benefit plans for its employees based on prevailing Saudi Labour laws. Accruals are made in accordance with actuarial valuations using a projected unit credit method while the benefit payments are discharged as and when the benefit payments are due.

The actuarial obligation amounts recognized in the consolidated statement of financial position which is included in other liabilities and the corresponding movement during the years ended December 31, 2018 and 2017 is as follows:

	2018 SAR '000	2017 SAR '000
Actuarial obligation at the beginning of the year	**186,272**	171,291
Current and prior period service cost	**26,726**	32,316
Benefits paid	**(20,681)**	(20,528)
Effect of changes in actuarial assumptions	**(27,197)**	3,193
Actuarial obligation at the end of the year	**165,120**	186,272

The current and prior period service cost amounts above primarily include costs for employees' current period service plus prior year service costs adjusted for any current year salary increments.

The effect of changes in actuarial assumptions for the year ended December 31, 2018 is primarily related to the usage of a yield curve for the discount factor and the usage of the Group's empirical data for exit rates. The effect of changes in actuarial assumptions for the year ended December 31, 2017 is primarily related to improvement in actuarial assumptions including the discount factor.

The principal actuarial assumptions used in the calculation of the actuarial obligations as of December 31, 2018 and 2017 are as follows:

	2018	2017
Discount rate	**5.05%**	8.42%
Expected rate of salary increment	**2.34%**	3.00%
Normal retirement age	**60**	60

Should the above actuarial assumptions change in the future, the actuarial obligation could be higher or lower than the December 31, 2018 amount.

38. Employee stock option shares and employee end of service benefits – continued

The table below illustrates the sensitivity of the actuarially determined obligation as of December 31, 2018 and 2017 to the discount rate of 5.05% as of December 31, 2018 (2017: 8.42%), and the salary increment rate of 2.34% as of December 31, 2018 (2017: 3.00%).

	2018			2017		
	Impact on actuarially determined obligation increase (decrease)			Impact on actuarially determined obligation increase (decrease)		
	Change in assumption	Increase in assumption SAR'000	Decrease in assumption SAR'000	Change in assumption	Increase in assumption SAR'000	Decrease in assumption SAR'000
Discount rate	**10%**	**(5,613)**	**6,009**	10%	(5,606)	7,510
Salary increment rate	**10%**	**2,629**	**(2,537)**	10%	2,833	(1,761)

The above sensitivity analysis is based on a change in a single assumption holding other assumptions constant.

The approximate expected maturity analysis of the undiscounted actuarially determined obligation as of December 31, 2018 and 2017 is as follows:

	2018	2017
Less than one year	**32,151**	15,696
One to two years	**14,547**	12,973
Two to five years	**51,543**	27,940
Over five years	**138,624**	198,427
Total	**236,865**	255,036

The weighted average duration of the actuarially determined obligation is approximately 9.53 years (2017: 20.67 years).

39. Tier I Sukuk

The Bank completed the establishment of a Shari'a compliant Tier I Sukuk Program (the Program) in 2016. The Program was approved by the regulatory authorities and the Bank's shareholders. The Bank has issued the following Tier I Sukuk securities under the program on the dates indicated. The balances as of December 31, 2018 and 2017 is summarised as follows:

	2018	2017
November 16, 2016	**500,000**	500,000
June 6, 2017	**285,000**	285,000
March 21, 2018	**1,000,000**	–
Total	**1,785,000**	785,000

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

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

40. Treasury Shares

On June 14, 2018, the Bank entered into a Share Purchase Agreement with J.P. Morgan International Finance Limited (J.P. Morgan), to purchase 56,245,350 shares of the Bank owned by JP Morgan for SAR 13.50 per share equal to SAR 759.3 million.

The Bank subsequently received all required regulatory approvals and the agreement to purchase the shares was approved in an Extraordinary General Assembly meeting held on 16 Muharram 1440H, corresponding to September 26, 2018. On September 27, 2018, the Bank completed the purchase. The Treasury Shares include transaction costs and estimated income tax for a total cost of SAR 787.5 million. The share capital of the Bank has not been reduced as a result of the transaction with the cost of the shares purchased presented as a reduction of shareholders' equity.

On November 29, 2018 the Bank entered into a Share Purchase Agreement with Mizuho Bank Ltd. (Mizuho), to purchase 18,749,860 shares of the Bank owned by Mizuho for SAR 13.50 per share equal to SAR 253.1 million, exclusive of transaction costs and estimated Income Tax. The share capital of the Bank will not be reduced as a result of this Agreement. The Agreement is conditional on the finalisation of certain conditions included in the Agreement particularly ensuring all regulatory requirements are satisfied. The Agreement provides that the closing of the transaction shall take place by a date which the Bank and Mizuho will agree after receiving all required regulatory approvals.

41. Reclassifications

The Group has reclassified certain components of operating income in 2018 compared to what was previously reported in 2017. Accordingly, the previously reported amounts in 2017 have been reclassified to conform to the current year presentation as follows:

- Loan fee amortization which had previously been included in fees from banking services is now included in special commission income. The change is being made to reflect loan fee amortization as a yield adjustment to special commission income on loans and advances. This change increases the previously reported special commission income and reduces the fee income from banking services.
- Special commission expense on commission rate swaps had previously been included in special commission expense, and are now netted from the related special commission income on the commission rate swaps. The netting of special commission income and expense reflects the actual settlement of net payments on commission rate swaps according to the ISDA agreements the Bank uses with its counter parties. This change will not affect the previously reported net special commission income.

A summary of the effect on the individual components of operating income in 2017 for the above changes is summarised as follows:

	Previously reported SAR '000	Reclassifications SAR '000	Adjusted SAR '000
Special commission income	3,533,089	(162,865)	3,370,224
Special commission expense	1,491,029	(295,205)	1,195,824
Net special commission income	**2,042,060**	**132,340**	**2,174,400**
Fee income from banking services, net	412,157	(132,340)	279,817
Exchange income, net	136,772	–	136,772
Dividend income	19,749	–	19,749
Gains on investments, net	49,130	–	49,130
Other operating income, net	15	–	15
Total operating income	**2,659,883**	**–**	**2,659,883**

The Group has also presented Information Technology intangible assets, net as a separate line item in the 2018 Statement of Financial Position. In 2017, these amounts were included in Property, equipment and intangibles, net. Accordingly, the 2017 amounts have been reclassified to conform to the current period presentation.

All reclassifications made for the previously reported amounts in 2017 did not affect the previously reported net income or individual components of total equity.

42. Prospective changes in the International Financial Reporting Framework

The Group has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Group's accounting years beginning on January 1, 2019.

The following is a summary of the new IFRS and amendments to IFRS, effective beginning on January 1, 2019:

IFRS 16 – Leases

IFRS 16 is applicable for the year beginning on January 1, 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on balance sheet finance leases and off balance sheet operating leases. Instead, IFRS 16 requires an on balance sheet accounting model.

The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed for those lease contracts where the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases for certain equipment that are considered of low value.

The Bank has completed an impact assessment of IFRS 16. The impact on the statement of financial position as of January 1, 2019 is estimated to increase total assets by approximately SAR 241 million, and increase total liabilities by approximately SAR 265 million. The Bank's net income is not expected to be significantly affected with a change in commission expense and depreciation, and a change in rent expense. This is due to the change in the accounting for the expenses of leases that were previously classified as operating leases under IAS 17.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement and other Standards, amendments, or interpretations

The amendments to IAS 19 are applicable on January 1, 2019. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The effect of the amendments to IAS 19 are not expected to have a significant impact on the net income of the Bank.

For other Standards, amendments or interpretations effective for annual periods beginning on or after January 1, 2019, the Bank does not anticipate that these will have a significant impact on the Bank's Consolidated Financial Statements.

43. Board of Director's approval

The Consolidated Financial Statements were authorised for issue by the Board of Directors on 05 Jumada II, 1440H, corresponding to February 10, 2019.

ANNEXES

Ten Year Financial Highlights

(SAR in millions)	**2018**	2017	2016	2015	2014	2013	2012	2011	2010	2009
Summary of Statement of Income										
Total income	**2,839**	2,792	2,557	2,667	2,610	2,178	1,868	1,709	1,844	1,633
Total expense	**1,133**	1,059	1,051	1,033	943	762	632	628	570	556
Operating profit	**1,706**	1,733	1,506	1,634	1,667	1,416	1,236	1,081	1,274	1,077
Impairment charges	**247**	322	453	305	231	129	324	373	845	555
Net income	**1,459**	1,411	1,053	1,329	1,436	1,287	912	708	429	522
Summary of Balance Sheet										
Loans and advances, net	**59,413**	59,588	60,249	60,269	57,473	47,567	34,051	27,114	31,002	29,785
Investments, net	**24,638**	21,714	21,448	18,983	22,397	17,696	10,912	8,893	8,060	10,737
Investments in Associates	**1,012**	1,020	1,000	939	846	1,071	966	895	865	817
Total assets	**96,070**	93,796	93,047	93,578	93,626	80,495	59,067	51,946	51,491	50,148
Customers' deposits	**63,690**	66,943	65,640	70,518	70,733	57,044	40,414	36,770	37,215	38,247
Total equity	**13,439**	14,279	13,334	12,036	11,852	10,253	9,379	8,557	8,141	7,428
Ratios (%)										
Return on shareholders' equity	**11.99**	10.72	8.54	11.13	12.99	13.11	10.17	8.48	5.51	7.43
Return on assets	**1.54**	1.51	1.13	1.42	1.65	1.84	1.64	1.37	0.84	1.01
Capital adequacy	**19.36**	20.38	18.93	16.94	17.08	15.12	17.62	19.12	17.29	14.48
Equity to total assets	**13.99**	15.22	14.33	12.86	12.66	12.74	15.88	16.47	15.81	14.81

Branch Location Network

Riyadh

Al Kharj Branch
Kharj

Al Nassim Branch
Riyadh

Al Rawabi Branch
Riyadh

Al-Aqeeq Branch
Riyadh

Al-Rahmania Branch*
Riyadh

Al-Rowda Branch
Riyadh

AL-Wadi Branch
Riyadh

Badiah Branch
Riyadh

Ghadeer Branch
Riyadh

Ghurnatah Branch
Riyadh

Head Office Branch*
Riyadh

Khurais Road Branch
Riyadh

King Fahed District Branch
Riyadh

Malaz Branch*
Riyadh

Nuzha Branch
Riyadh

Rayyan Branch
Riyadh

Shifa Branch
Riyadh

Suwidi Branch
Riyadh

Takhassussi Branch
Riyadh

Woroud Branch
Riyadh

Makkah

Al Taif Branch*
Al Taif

Al-Bawadi Branch
Jeddah

AlJamia Branch
Jeddah

Al-Azizia Branch*
Makkah

Jeddah Branch
Jeddah

Makkah Branch
Makkah

Malik Branch
Jeddah

Pr. Majeed Street Branch
Jeddah

Pr. Sultan Branch
Jeddah

Al-Safa Branch*
Jeddah

Eastern

Al-Ahssa Branch
Al-Ahssa

Al-Khobar Branch
Al-Khobar

Aryan Branch
Dammam

Dammam Branch*
Dammam

Hafer Albaten Branch
Hafer Albaten

Hafof Branch
Al-Ahssa

Jubail Branch
Jubail

Qateef Branch
Qateef

Qurtuba Branch*
Al-Khobar

Uhod Branch
Dammam

Qassim

Buraidah Branch
Buraidah

Onizah Branch*
Onizah

Hail

Hail Branch
Hail

Tabuk

Tabuk Branch
Tabuk

Asir

Abha Branch
Abha

Khamis Mushait Branch*
Khamis Mushait

Madina

Madina Branch*
Madina

Yanbu Branch
Yanbu

Najran

Najran Branch
Najran

Jezan

Jezan Branch
Najran

*Branches with Ladies Sections

GRI 102-55

GRI Content Index

"In Accordance" – Core

Content Index
The Saudi Investment Bank
Apr 2019 Service

"For the GRI Content Index Service, GRI Services reviewed that the GRI content index is clearly presented and the reference for all disclosures included align with the appropriate sections in the body of the report"

GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
GRI 101: Foundation 2016			
GRI 102: General Disclosures 2016			
Organisational profile			
102-1	Name of the organisation	8	The Saudi Investment Bank
102-2	Activities, brands, products and services	8	The Saudi Investment Bank
102-3	Location of headquarters	Inner back cover	Corporate information
102-4	Location of operations	8	The Saudi Investment Bank
102-5	Ownership and legal form	Inner back cover	Corporate information
102-6	Markets served	8	The Saudi Investment Bank
102-7	Scale of the organisation	8 12-13	The Saudi Investment Bank Highlights of the year
102-8	Information on employees and other workers	79	Building people skills
102-9	Supply chain	73	Leveraging relationships
102-10	Significant changes to the organisation and its supply chain	73	Leveraging relationships
102-11	Precautionary principle or approach	32	Risk Management
102-12	External initiatives	11	The Saudi Investment Bank
102-13	Membership of associations	74	Leveraging Relationships
Strategy			
102-14	Statement from senior decision-maker	15	Letter from the Chairman
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	30	Corporate governance
Governance			
102-18	Governance structure	23	Corporate governance
102-19	Delegating authority	23	Corporate governance
Stakeholder engagement			
102-40	List of stakeholder groups	49-50	Stakeholders
102-41	Collective bargaining agreements	–	No collective bargaining approach
102-42	Identifying and selecting stakeholders	49	Stakeholders
102-43	Approach to stakeholder engagement	49-50	Stakeholders
102-44	Key topics and concerns raised	49-50	Stakeholders
Reporting practice			
102-45	Entities included in the consolidated financial statements	106	Notes to the consolidated financial statements
102-46	Defining report content and topic boundaries	7	About this report
102-47	List of material topics	51	Materiality
102-48	Restatements of information	7	About this report
102-49	Changes in reporting	7	About this report
102-50	Reporting period	7	About this report
102-51	Date of most recent report	7	About this report
102-52	Reporting cycle	7	About this report
102-53	Contact point for questions regarding the report	7	About this report
102-54	Claims of reporting in accordance with the GRI Standards	7	About this report This Report has been prepared in accordance with the GRI Standards: Core option

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GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
102-55	GRI content index	192-196	GRI content index
102-56	External assurance	–	No external assurance obtained
GRI 200: Economic			
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	36-37	Business model
103-2	The management approach and its components	36-37	Business model
103-3	Evaluation of the management approach	36-37	Business model
GRI 201: Economic performance 2016			
201-3	Defined benefit plan obligations and other retirement plans	108	Notes to the consolidated financial statements
201-4	Financial assistance received from government	–	No financial assistance received from the Government
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	77-78	Broadening product and market portfolio
103-2	The management approach and its components	77-78	Broadening product and market portfolio
103-3	Evaluation of the management approach	77-78	Broadening product and market portfolio
GRI 202: Market presence 2016			
202-2	Proportion of senior management hired from the local community	79	Building people skills
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	36-37	Business model
103-2	The management approach and its components	36-37	Business model
103-3	Evaluation of the management approach	36-37	Business model
GRI 203: Indirect economic impacts 2016			
203-1	Infrastructure investments and services supported	86-87	Serving society and the environment
203-2	Significant indirect economic impacts	86-87	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	73	Leveraging relationships
103-2	The management approach and its components	73	Leveraging relationships
103-3	Evaluation of the management approach	73	Leveraging relationships
GRI 204: Procurement practices 2016			
204-1	Proportion of spending on local suppliers	73	Leveraging relationships
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	33	Compliance
103-2	The management approach and its components	33	Compliance
103-3	Evaluation of the management approach	33	Compliance
GRI 205: Anti-corruption 2016			
205-1	Operations assessed for risks related to corruption	33	Compliance
205-2	Communication and training about anti-corruption policies and procedures	34	Compliance
205-3	Confirmed incidents of corruption and actions taken	–	No confirmed incidents of corruption
GRI 300: Environmental			
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	85	Serving society and the environment
103-2	The management approach and its components	85	Serving society and the environment
103-3	Evaluation of the management approach	86-87	Serving society and the environment
GRI 301: Materials 2016			
301-2	Recycled input materials used	86	Serving society and the environment

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GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	85	Serving society and the environment
103-2	The management approach and its components	85	Serving society and the environment
103-3	Evaluation of the management approach	86	Serving society and the environment
GRI 302: Energy 2016			
302-1	Energy consumption within the organisation	85	Serving society and the environment
302-4	Reduction of energy consumption	85	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	85	Serving society and the environment
103-2	The management approach and its components	85-87	Serving society and the environment
103-3	Evaluation of the management approach	85-87	Serving society and the environment
GRI 303: Water 2016			
303-1	Water withdrawal by source	86	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	85	Serving society and the environment
103-2	The management approach and its components	85	Serving society and the environment
103-3	Evaluation of the management approach	86	Serving society and the environment
GRI 305: Emissions 2016			
305-1	Direct (Scope 1) GHG emissions	13 and 85	Serving society and the environment
305-2	Energy indirect (Scope 2) GHG emissions	13 and 85	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	85	Serving society and the environment
103-2	The management approach and its components	85	Serving society and the environment
103-3	Evaluation of the management approach	85-87	Serving society and the environment
GRI 306: Effluents and waste 2016			
306-2	Waste by type and disposal method	86	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	85	Serving society and the environment
103-2	The management approach and its components	85	Serving society and the environment
103-3	Evaluation of the management approach	85-87	Serving society and the environment
GRI 307: Environmental compliance 2016			
307-1	Non-compliance with environmental laws and regulations	–	No non-compliance with environmental laws and regulations reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Leveraging relationships
103-2	The management approach and its components	81	Leveraging relationships
103-3	Evaluation of the management approach	73	Leveraging relationships
GRI 308: Supplier environmental assessment 2016			
308-1	New suppliers that were screened using environmental criteria	73	Leveraging relationships
GRI 400: Social			
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Building people skills
103-2	The management approach and its components	81	Building people skills
103-3	Evaluation of the management approach	80-83	Building people skills

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GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
GRI 401: Employment 2016			
401-1	New employee hires and employee turnover	80	Building people skills
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	80-81	Building people skills
401-3	Parental leave	81	Building people skills
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Building people skills
103-2	The management approach and its components	81	Building people skills
103-3	Evaluation of the management approach	83	Building people skills
GRI 403: Occupational health and safety 2016			
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	83	Building people skills
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Building people skills
103-2	The management approach and its components	81	Building people skills
103-3	Evaluation of the management approach	80-82	Building people skills
GRI 404: Training and education 2016			
404-1	Average hours of training per year per employee	81	Building people skills
404-2	Programs for upgrading employee skills and transition assistance programs	81	Building people skills
404-3	Percentage of employees receiving regular performance and career development reviews	81-82	Building people skills
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Building people skills
103-2	The management approach and its components	81	Building people skills
103-3	Evaluation of the management approach	81	Building people skills
GRI 405: Diversity and equal opportunity 2016			
405-1	Diversity of governance bodies and employees	79	Building people skills
405-2	Ratio of basic salary and remuneration of women to men	80	Building people skills
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Building people skills
103-2	The management approach and its components	81-83	Building people skills
103-3	Evaluation of the management approach	81-83	Building people skills
GRI 406: Non-discrimination 2016			
406-1	Incidents of discrimination and corrective actions taken	–	No incidents of discrimination were reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Building people skills
103-2	The management approach and its components	81	Building people skills
103-3	Evaluation of the management approach	81-83	Building people skills
GRI 408: Child labour 2016			
408-1	Operations and suppliers at significant risk for incidents of child labour	–	No operations and suppliers at significant risk for incidents of child labour reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	81	Building people skills
103-2	The management approach and its components	81	Building people skills
103-3	Evaluation of the management approach	81-83	Building people skills

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GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
GRI 409: Forced or compulsory labour 2016			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	–	No operations and suppliers at significant risk for incidents of forced or compulsory labour reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	44-47	Strategic framework
103-2	The management approach and its components	44-47	Strategic framework
103-3	Evaluation of the management approach	44-47	Strategic framework
GRI 412: Human rights assessment 2016			
412-2	Employee training on human rights policies or procedures	81	Building people skills
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	85	Serving society and the environment
103-2	The management approach and its components	85	Serving society and the environment
103-3	Evaluation of the management approach	85-88	Serving society and the environment
GRI 413: Local communities 2016			
413-1	Operations with local community engagement, impact assessments, and development programs	87-88	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	73	Leveraging relationships
103-2	The management approach and its components	73	Leveraging relationships
103-3	Evaluation of the management approach	73	Leveraging relationships
GRI 414: Supplier social assessment 2016			
414-1	New suppliers that were screened using social criteria	73	Leveraging relationships
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	68-69	Leveraging relationships
103-2	The management approach and its components	66-69	Leveraging relationships
103-3	Evaluation of the management approach	66-69	Leveraging relationships
GRI 417: Marketing and labelling 2016			
417-2	Incidents of non-compliance concerning product and service information and labelling	–	No incidents of non-compliance concerning product and service information and labelling reported
417-3	Incidents of non-compliance concerning marketing communications	–	No incidents of non-compliance concerning marketing communications reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	66-68	Leveraging relationships
103-2	The management approach and its components	68-74	Leveraging relationships
103-3	Evaluation of the management approach	68-74	Leveraging relationships
GRI 418: Customer privacy 2016			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	68	Leveraging relationships
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	44-46	Strategic framework
103-2	The management approach and its components	44-46	Strategic framework
103-3	Evaluation of the management approach	44-46	Strategic framework
GRI 419: Socioeconomic compliance 2016			
419-1	Non-compliance with laws and regulations in the social and economic area	–	No incidents of non-compliance concerning marketing communications reported

Glossary of Key Islamic Finance Terms

A

Ajr: commission or fee charged for services

Akar: instalment sale to invest in property

Financing to give customers an opportunity to invest in property with repayment to the Bank in the form of instalments over a period of time.

B

Bai al Arboon: down payment sale

A sale agreement in which a down payment is provided in advance as part payment towards the price of the commodity for reserving the commodity. The down payment is forfeited if the buyer does not return to take the commodity and the seller is entitled to sell the commodity.

Bai Al Ajel: deferred payment sale

A sale on a deferred payment basis. Equipment or goods are sold by the Bank to the client for an agreed lump sum price which includes the profit required by the Bank without disclosing the cost. The client may pay by instalments within a pre-agreed period, or in a lump sum.

Bai Inah: sale and buy-back

The sale and buy-back of an asset for a higher price than that for which the seller originally sold it. The seller immediately buys back the asset just sold on a deferred payment basis at a price higher than the original price. This can be seen as a loan in the form of a sale.

E

Eirad: credit facilities granted against assignment of an income stream for a specific period

F

Fiqh: Islamic jurisprudence

G

Gharar: uncertainty

One of three fundamental prohibitions in Islamic finance (the other two being Riba and Maysir). Gharar is a concept that covers certain types of haram uncertainty whereby one or more parties stand to be deceived through ignorance of an essential element in the contract. Gambling is a form of Gharar because the gambler is ignorant of the result of the gamble. The prohibition on Gharar is often used as the grounds for criticism of conventional financial practices such as short selling, speculation and derivatives.

H

Halal: lawful, permissible

Haram: unlawful, forbidden

Activities, professions, contracts and transactions that are explicitly prohibited by the Quran or the Sunnah.

Hawala: bill of exchange, remittance

A contract which allows a debtor to transfer his debt obligation to a third party who owes the former a debt. The mechanism of Hawala is used for settling international accounts by book transfers, thus obviating the need for a physical transfer of cash.

I

Ijara: leasing

A lease agreement whereby a bank or financier buys an item for a customer and then leases it to him over a specific period, thus earning profits for the Bank by charging rental. The duration of the lease and the fee are set in advance. During the period of the lease, the asset remains in the ownership of the lessor (the Bank), but the lessee has the right to use it. After the expiry of the lease agreement, this right reverts to the lessor.

Ijara Thumma Bai: leasing to purchase

The same principle governing an Ijara contract, but at the end of the lease period the lessee buys the asset for an agreed price through a purchase contract.

Ijarah wa Iqtina: buy-back leasing

Istisnaa: advance purchase of goods or buildings

A contract of acquisition of goods by specification or order, where the price is paid in advance, or progressively in accordance with the progress of a job. For example, to purchase a yet to be constructed house, payments would be made to the builder according to the stage of work completed. This type of financing, along with Salam, is used as a purchasing mechanism, and Murabaha and Bai Al Ajel are for financing sales.

K

Kafalah: guarantee

Shariah principle governing guarantees. It applies to a debt transaction in the event of a debtor failing to pay.

M

Maysir: gambling
One of three fundamental prohibitions in Islamic finance (the other two being Riba and Gharar). The prohibition on Maysir is often used as grounds for criticism of conventional financial practices such as speculation, conventional insurance and derivatives.

Mudaraba: trust financing, profit sharing
An investment partnership, whereby the investor (the Rab al mal) provides capital to the entrepreneur (the mudarib) in order to undertake a business or investment activity. While profits are shared on a pre-agreed ratio, losses are born by the investor alone. The mudarib loses only his share of the expected income.

The investor has no right to interfere in the management of the business, but he can specify conditions that would ensure better management of his money. In this way Mudaraba is sometimes referred to as a sleeping partnership.

A joint Mudaraba can exist between investors and a bank on a continuing basis. The investors keep their funds in a special fund and share the profits before the liquidation of those financing operations that have not yet reached the stage of final settlement. Many Islamic investment funds operate on the basis of joint Mudaraba.

Mudarib: entrepreneur in a Mudaraba contract
The entrepreneur or investment manager in a Mudaraba who puts the investor's funds in a project or portfolio in exchange for a share of the profits. A Mudaraba is similar to a diversified pool of assets held in a discretionary asset management portfolio.

Murabaha: cost-plus financing
A form of credit in which the bank buys an item and sells it to the customer on a deferred basis. The price includes a profit margin agreed by both parties. Repayment, usually in instalments, is specified in the contract.

The legality of this financing technique has been questioned because of its similarity to Riba. However, the modern Murabaha has become a popular financing technique among Islamic banks, used widely for consumer finance, real estate and the purchase of machinery and for financing short-term trade.

Musharaka: joint venture, profit and loss sharing
An investment partnership in which all partners are entitled to a share in the profits of a project in a mutually agreed ratio. Losses are shared in proportion to the amount invested. All partners to a Musharaka contribute funds and have the right to exercise executive powers in that project, similar to a conventional partnership structure and the holding of voting shares in a limited company.

This equity financing arrangement is widely regarded as the purest form of Islamic financing. The two main forms of Musharaka are:

Permanent Musharaka: an Islamic bank participates in the equity of a project and receives a share of the profit on a pro rata basis. The length of contract is unspecified, making it suitable for financing projects where funds are committed over a long period.

Diminishing Musharaka: this allows equity participation and sharing of profits on a pro rata basis, and provides a method through which the bank keeps on reducing its equity in the project, ultimately transferring ownership of the asset to the participants. The contract provides for payment over and above the bank's share in the profit for the equity held by the bank. Simultaneously the entrepreneur purchases some of the bank's equity, progressively reducing it until the bank has no equity and thus ceases to be a partner.

Mutajara: an asset financing mechanism with deferred payment 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, thus making the client a debtor to the bank for the sale amount and for the period agreed in the contract.

Q

Qard Hasan: benevolent loan
A loan contract between two parties for social welfare or for short-term bridging finance. Repayment is for the same amount as the amount borrowed. The borrower can pay more than the amount borrowed so long as it is not stated by contract.

R

Riba: interest
An increase, addition, unjust return, or advantage obtained by the lender as a condition of a loan. Any risk-free or "guaranteed" rate of return on a loan or investment is Riba. Riba in all its forms is prohibited in Islam.

In conventional terms, Riba and "interest" are used interchangeably, although the legal notion extends beyond mere interest.

S

Shariah: Islamic jurisprudence

Sukuk: Islamic bond
An asset-backed bond which is structured in accordance with Shariah and may be traded in the market. A Sukuk represents proportionate beneficial ownership in the underlying asset, which will be leased to the client to yield the return on the Sukuk.

T

Takaful: Islamic insurance
Based on the principle of mutual assistance, Takaful provides mutual protection of assets and property and offers joint risk-sharing in the event of a loss by one of the participants. Takaful is similar to mutual insurance in that members are the insurers as well as the insured. Conventional insurance is prohibited in Islam because its dealings contain several haram elements, such as Gharar and Riba.

Tawarruq: reverse Murabaha
In personal financing, a client with a genuine need buys an item on credit from the bank on a deferred payment basis and then immediately resells it for cash to a third party. In this way, the client can obtain cash without taking out an interest-based loan.

U

Ujrah: fee
The financial charge for using services, or Manfaat (wages, allowance, commission, etc.).

W

Waqf: charitable trust

Z

Zakat: religious tax
An obligatory contribution which every wealthy Muslim is required to pay to the Islamic state, or to distribute amongst the poor. According to Islam, Zakat – the third pillar of Islam – purifies wealth and souls. Zakat is levied on cash, cattle, agricultural produce, minerals, capital invested in industry and business.

Notes

GRI 102-3, 102-5

CORPORATE INFORMATION

Name

The Saudi Investment Bank

Commercial registration

1010011570

Registered logo

البنك السعودي للاستثمار
The Saudi Investment Bank

Legal form

The Saudi Investment Bank (the Bank), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, (corresponding to June 23, 1976) in the Kingdom of Saudi Arabia.

Stock exchange listing

The shares of the Bank are listed on the Saudi Stock Exchange (Tadawul)
Stock code: 1030

Auditors

Deloitte and Touche & Co.
KPMG Al Fozan & Partners

Head office/Registered office

The Saudi Investment Bank
Head Office
P. O. Box 3533
Riyadh 11481, Kingdom of Saudi Arabia
Tel : +966 11 8743000 (KSA)
Fax : +966 11 4776781
SWIFT BIC : SIBCSARI
Web : www.saib.com.sa

Subsidiary and associate companies

Name of Subsidiary	Country of operation	Country of establishment
Alistithmar for Financial Securities and Brokerage Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Investment Real Estate Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Investment First Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
SAIB Markets Limited Company	Kingdom of Saudi Arabia	Cayman Islands

Name of Associate	Country of operation	Country of establishment
American Express (Saudi Arabia)	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Orix Leasing Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Amlak International for Finance and Real Estate Development Co.	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia

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