Arab National Bank

(A Saudi Joint Stock Company)

Interim Condensed Consolidated Financial Statements
For the period ended 30 September 2019

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Chartered Accountants

Independent Auditors' Review Report on Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Arab National Bank ("the Bank") and its subsidiaries (collectively referred to as "the Group") as at 30 September 2019, and the related interim consolidated statements of income and comprehensive income for the three and nine month periods then ended and the related interim consolidated statements of changes in equity and cash flows for the nine month period then ended, and other explanatory notes (the "interim condensed consolidated financial statements"). Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

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

Other Regulatory Matters

As required by Saudi Arabian Monetary Authority ("SAMA"), certain capital adequacy information has been disclosed in note (20) to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note (20) to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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6 Rabi' al-Awwal 1441H
(3 November 2019)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

ديلويت آند توش وشركاهم
License. 323/11/96
HO-Riyadh
Chartered Accountants
Deloitte and Touche & Co.

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Amounts in SAR '000

	Notes	**September 30 2019 (Unaudited)**	December 31 2018 (Audited) Restated	September 30 2018 (Unaudited) Restated
ASSETS				
Cash and balances with SAMA	6	**9,961,897**	22,980,266	14,132,693
Due from banks and other financial institutions, net	7	**694,459**	1,134,048	809,744
Positive fair value of derivatives	12	**1,216,518**	1,580,334	2,145,757
Investments, net	8	**34,030,359**	27,857,183	27,486,440
Loans and advances, net	9	**117,880,257**	121,038,239	120,489,435
Investments in associates		**878,435**	887,276	623,418
Other real estate		**222,197**	220,697	220,697
Investment property, net		**-**	-	1,607,963
Property and equipment, net		**2,214,563**	1,552,491	1,592,787
Other assets		**3,826,748**	1,104,298	920,349
Total assets		**170,925,433**	178,354,832	170,029,283
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions	10	**1,734,433**	1,536,602	3,810,078
Negative fair value of derivatives	12	**2,778,117**	1,291,384	1,513,531
Customers' deposits	11	**130,921,417**	142,055,608	130,969,551
Other liabilities		**5,798,922**	4,894,002	6,234,834
Sukuk		**2,042,898**	2,020,491	2,037,706
Total liabilities		**143,275,787**	151,798,087	144,565,700
Equity				
Equity attributable to equity holders of the Bank				
Share capital	17	**15,000,000**	10,000,000	10,000,000
Statutory reserve		**7,000,000**	10,000,000	10,000,000
Other reserves		**51,840**	(7,263)	88,552
Retained earnings		**5,562,180**	5,677,522	4,701,222
Proposed dividends		**-**	850,000	-
Total equity attributable to equity holders of the Bank		**27,614,020**	26,520,259	24,789,774
Non-controlling interests		**35,626**	36,486	673,809
Total equity		**27,649,646**	26,556,745	25,463,583
Total liabilities and equity		**170,925,433**	178,354,832	170,029,283

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Latifa Al-Sabhan
Chief Financial Officer

Robert Eid
Managing Director

Hesham Al-Jabr
Authorized Board Member

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF INCOME
Amounts in SAR '000 (Unaudited)

		For the three month period ended		For the nine month period ended	
	Notes	**September 30 2019**	September 30 2018 Restated	**September 30 2019**	September 30 2018 Restated
Special commission income		**1,916,201**	1,779,138	**5,807,037**	4,952,098
Special commission expense		**505,764**	456,571	**1,594,293**	1,163,740
Net special commission income		**1,410,437**	1,322,567	**4,212,744**	3,788,358
Fees and commission income, net		**187,468**	180,330	**489,152**	524,642
Exchange income, net		**91,253**	107,976	**274,539**	304,679
Unrealized gain / (loss) on FVTPL financial instruments, net		**5,691**	(1,261)	**11,282**	15,445
Trading (loss) / income, net		**(1,355)**	2,433	**(10,292)**	19,762
Dividend income		**22,286**	25,869	**69,436**	51,441
Gain / (loss) on sale of FVOCI debt financial assets, net		**407**	-	**407**	(208)
Other operating income, net		**20,522**	46,011	**56,538**	159,214
Total operating income		**1,736,709**	1,683,925	**5,103,806**	4,863,333
Salaries and employee related expenses		**317,580**	316,423	**955,968**	937,377
Rent and premises related expenses		**14,360**	39,929	**43,543**	117,842
Depreciation and amortization		**61,289**	51,050	**193,022**	154,224
Other general and administrative expenses		**146,416**	148,752	**444,881**	442,638
Total operating expenses before impairment charges		**539,645**	556,154	**1,637,414**	1,652,081
Impairment charges for credit losses and other provisions, net	9	**210,355**	241,816	**545,931**	591,041
Impairment charges / (reversal of impairment charges) for other financial assets, net		**16,829**	(1,977)	**23,561**	(7,610)
Total operating expenses		**766,829**	795,993	**2,206,906**	2,235,512
Net operating income		**969,880**	887,932	**2,896,900**	2,627,821
Share in (losses) / earnings of associates, net		**(18,279)**	1,113	**(977)**	196
Net income before zakat and income tax		**951,601**	889,045	**2,895,923**	2,628,017
Zakat charge for the period	15	**49,840**	95,400	**177,244**	289,800
Income tax charge for the period	15	**72,000**	63,600	**216,480**	193,200
Deferred tax reversal for the period		**(4,919)**	-	**(4,919)**	-
Net income for the period		**834,680**	730,045	**2,507,118**	2,145,017
Attributable to:					
Equity holders of the Bank		**834,763**	731,107	**2,507,978**	2,142,706
Non-controlling interests		**(83)**	(1,062)	**(860)**	2,311
Net income for the period		**834,680**	730,045	**2,507,118**	2,145,017
Basic and diluted earnings per share (expressed in SAR per share)	17	**0.56**	0.49	**1.67**	1.43

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Latifa Al-Sabhan | Robert Eid | Hesham Al-Jabr

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Amounts in SAR '000 (Unaudited)

	For the three month period ended		For the nine month period ended	
	September 30 2019	September 30 2018 Restated	**September 30 2019**	September 30 2018 Restated
Net income for the period	**834,680**	730,045	**2,507,118**	2,145,017
Other comprehensive income				
Items that cannot be reclassified to interim consolidated statement of income in subsequent periods				
Equity instruments at fair value through other comprehensive income:				
· Net changes in fair value	**(95,274)**	(37,833)	**4,200**	117,123
Items that can be reclassified to interim consolidated statement of income in subsequent periods				
Debt instruments at fair value through other comprehensive income:				
· Net changes in fair value	**11,069**	29,391	**39,807**	27,919
· Net amounts transferred to interim consolidated statement of income	**2,056**	(180)	**1,262**	(2,453)
Total other comprehensive (loss) / income for the period	**(82,149)**	(8,622)	**45,269**	142,589
Total comprehensive income for the period	**752,531**	721,423	**2,552,387**	2,287,606
Attributable to:				
Equity holders of the Bank	**752,614**	722,485	**2,553,247**	2,285,295
Non-controlling interests	**(83)**	(1,062)	**(860)**	2,311
Total comprehensive income for the period	**752,531**	721,423	**2,552,387**	2,287,606

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Latifa Al-Sabhan | Robert Eid | Hesham Al-Jabr

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine month period ended September 30, 2019 and 2018
Amounts in SAR '000 (Unaudited)

		Attributable to equity holders of the Bank								
				Other Reserves						
2019	**Notes**	**Share capital**	**Statutory reserve**	**FVOCI**	**Actuarial losses on defined benefit plan**	**Retained earnings**	**Proposed dividends**	**Total**	**Non-controlling interests**	**Total equity**
Restated balance at December 31, 2018		**10,000,000**	**10,000,000**	**73,216**	**(80,479)**	**5,677,522**	**850,000**	**26,520,259**	**36,486**	**26,556,745**
Impact of adopting IFRS 16 at January 1, 2019	5	-	-	-	-	**(76,804)**	-	**(76,804)**	-	**(76,804)**
Changes in equity for the period:		-	-							
Net changes in fair values of FVOCI equity investments		-	-	**4,200**	-	-	-	**4,200**	-	**4,200**
Net changes in fair values of FVOCI debt instruments		-	-	**39,807**	-	-	-	**39,807**	-	**39,807**
Net transfers to interim consolidated statement of income		-	-	**1,262**	-	-	-	**1,262**	-	**1,262**
Net income for the period		-	-	-	-	**2,507,978**	-	**2,507,978**	**(860)**	**2,507,118**
Total comprehensive income for the period		-	-	**45,269**	-	**2,507,978**	-	**2,553,247**	**(860)**	**2,552,387**
Net loss on derecognition of FVOCI equity investments	8	-	-	**13,834**	-	**(13,834)**	-	-	-	-
Bonus shares	17	**5,000,000**	**(3,000,000)**	-	-	**(2,000,000)**	-	-	-	-
2018 final dividends, net		-	-	-	-	-	**(850,000)**	**(850,000)**	-	**(850,000)**
2019 interim dividend, net	18	-	-	-	-	**(532,682)**	-	**(532,682)**	-	**(532,682)**
Balance at the end of the period		**15,000,000**	**7,000,000**	**132,319**	**(80,479)**	**5,562,180**	-	**27,614,020**	**35,626**	**27,649,646**
2018										
Balance at the beginning of the period (as previously reported)		10,000,000	10,000,000	(11,197)	(59,817)	3,161,167	650,000	23,740,153	696,278	24,436,431
Impact of change in accounting policy for zakat and income tax	5	-	-	-	-	64,326	-	64,326	-	64,326
Restated balance at January 1, 2018		10,000,000	10,000,000	(11,197)	(59,817)	3,225,493	650,000	23,804,479	696,278	24,500,757
Changes in equity for the period:										
Net changes in fair values of FVOCI equity investments		-	-	117,123	-	-	-	117,123	-	117,123
Net changes in fair values of FVOCI debt instruments		-	-	27,919	-	-	-	27,919	-	27,919
Net transfers to interim consolidated statement of income		-	-	(2,453)	-	-	-	(2,453)	-	(2,453)
Net income for the period (restated)		-	-	-	-	2,142,706	-	2,142,706	2,311	2,145,017
Total comprehensive income for the period		-	-	142,589	-	2,142,706	-	2,285,295	2,311	2,287,606
Net loss on derecognition of FVOCI equity investments	8	-	-	16,977	-	(16,977)	-	-	-	-
Distribution from a subsidiary		-	-	-	-	-	-	-	(24,780)	(24,780)
2017 final dividends		-	-	-	-	-	(650,000)	(650,000)	-	(650,000)
2018 interim dividends	18	-	-	-	-	(650,000)	-	(650,000)	-	(650,000)
Balance at the end of the period (restated)		10,000,000	10,000,000	148,369	(59,817)	4,701,222	-	24,789,774	673,809	25,463,583

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Latifa Al-Sabhan

Robert Eid

Hesham Al-Jabr

ARAB NATIONAL BANK
(A Saudi Joint Stock Company)
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine month period ended September 30
Amounts in SAR '000 (Unaudited)

	Notes	2019	2018 Restated
OPERATING ACTIVITIES			
Net income before zakat and income tax		**2,895,923**	2,628,017
Adjustments to reconcile net income to net cash used in operating activities:			
Amortization of premium on investments not held as FVTPL, net		**994**	813
Special commission expense on Sukuk		**65,772**	56,278
(Gains) / losses on investments not held as FVTPL, net		**(407)**	208
Unrealized gains on revaluation of investments as FVTPL, net		**(11,282)**	(15,445)
Dividend income		**(69,436)**	(51,441)
Depreciation of investment property		**-**	18,600
Depreciation and amortization of property and equipment		**193,022**	154,224
Losses on disposal of property and equipment, net		**3,458**	1,304
Impairment charges for credit losses and other provisions, net		**545,931**	591,041
Impairment charges / (Reversal of impairment charges) for other financial assets, net		**23,561**	(7,610)
Share in losses / (earnings) of associates, net		**977**	(196)
		3,648,513	3,375,793
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		**135,971**	83,859
Investments held at FVTPL		**(7,943)**	(447,621)
Positive fair value of derivatives		**363,816**	(1,201,997)
Loans and advances		**2,985,286**	(7,129,909)
Other real estate, net		**(1,500)**	-
Other assets		**(2,702,730)**	(102,122)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		**197,831**	1,118,529
Negative fair value of derivatives		**1,486,733**	657,629
Customers' deposits		**(11,134,191)**	(5,217,619)
Other liabilities		**(1,481,411)**	1,556,528
Net cash used in operating activities		**(6,509,625)**	(7,306,930)
INVESTING ACTIVITIES			
Proceeds from sale and maturities of investments not held as FVTPL		**1,190,695**	7,252,843
Purchase of investments not held as FVTPL		**(5,846,482)**	(2,214,709)
Investment in associate		**7,864**	-
Purchase of property and equipment		**(62,244)**	(55,500)
Proceeds from sale of property and equipment		**511**	1,776
Dividends received		**69,436**	51,441
Net cash (used in) / from investing activities		**(4,640,220)**	5,035,851
FINANCING ACTIVITIES			
Dividends paid		**(1,588,753)**	(1,295,465)
Zakat and income tax paid		**(532,305)**	(308,613)
Special commission paid on sukuk		**(43,365)**	(34,846)
Non-controlling interest from distributions from a subsidiary		**-**	(24,780)
Net cash used in financing activities		**(2,164,423)**	(1,663,704)
Net decrease in cash and cash equivalents		**(13,314,268)**	(3,934,783)
Cash and cash equivalents at the beginning of the period		**17,094,956**	11,772,360
Cash and cash equivalents at the end of the period	14	**3,780,688**	7,837,577
Special commission received during the period		**5,569,573**	4,905,944
Special commission paid during the period		**(1,236,334)**	(1,031,737)
<u>Supplemental non-cash information</u>			
Net changes in fair value of investments held at fair value through other comprehensive income		**44,007**	145,042

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Latifa Al-Sabhan | Robert Eid | Hesham Al-Jabr

1. General

Arab National Bank (a Saudi Joint Stock Company, the Bank) was formed pursuant to Royal Decree No. M/38 dated Rajab 18,1399H (corresponding to June 13, 1979). The Bank commenced business on February 2, 1980 by taking over the operations of Arab Bank Limited in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration No. 1010027912 dated Rabi Awal 1, 1400H (corresponding to January 19, 1980) through its 138 branches (September 30, 2018: 140 branches) in the Kingdom of Saudi Arabia and one branch in the United Kingdom. The address of the Bank's head office is as follows:

Arab National Bank
P.O. Box 56921
Riyadh 11564
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of banking services. The Bank also provides its customers non-commission based banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The interim condensed consolidated financial statements comprise the interim condensed financial statements of the Bank and its following subsidiaries (collectively referred to as the Group):

Arab National Investment Company (ANB Invest)

In accordance with the Capital Market Authority (CMA) directives, the Bank has established ANB Invest, a wholly owned subsidiary, a Saudi closed joint stock company, registered in the Kingdom under Commercial Registration No. 1010239908 issued on Shawwal 26, 1428H (corresponding to November 7, 2007), to takeover and manage the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the CMA. The subsidiary commenced its operations effective Muharram 3, 1429H (corresponding to January 12, 2008). Accordingly, the Bank started consolidating the financial statements of the above mentioned subsidiary effective January 12, 2008. On Muharram 19, 1436H (corresponding to November 12, 2014), the subsidiary changed its legal structure from a limited liability company to a closed joint stock company. The objective of the subsidiary was amended and approved by CMA Board of Commissioners on Muharram 28, 1437H (corresponding to November 10, 2015) through a resolution number S/1/6/14832/15 to include dealing as a principal activity. The objective of the subsidiary was further amended on Sha'ban 26, 1437H (corresponding to June 2, 2016) to provide loans to the subsidiary's customers to trade in financial papers as per the Saudi Arabian Monetary Authority's circular No. 371000014867 dated 5/2/1437H, and the CMA's circular No. S/6/16287/15 dated 10/3/1437H.

Arabian Heavy Equipment Leasing Company (AHEL)

An 87.5% owned subsidiary incorporated in the Kingdom, as a Saudi closed joint stock company, under Commercial Registration no 1010267489 issued in Riyadh dated Jumada I 15, 1430H (corresponding to May 10, 2009). The company is engaged in the leasing of heavy equipment and operates in compliance with Shari'ah principles. The Bank started consolidating the subsidiary's financial statements effective May 10, 2009, the date the subsidiary started its operations. On May 6, 2014 the Bank increased its ownership percentage in this subsidiary from 62.5% to reach 87.5%.

ANB Insurance Agency

A Saudi limited liability company established during 2013 as a wholly owned subsidiary, registered in the Kingdom under Commercial Registration no. 1010396423 issued in Riyadh dated Muharram 28, 1435H (corresponding to December 1, 2013). The subsidiary obtained its license from the Saudi Arabian Monetary Authority (SAMA) to start its activities in insurance agency and related business on Jumada I 5, 1435H (corresponding to March 6, 2014).

Al-Manzil Al-Mubarak Real Estate Financing Ltd.

A wholly owned limited liability company, registered in the Kingdom under the commercial registration no. 1010199647 issued in Riyadh dated Jumada I 18, 1425H (corresponding to July 6, 2004). The subsidiary is engaged in the purchase of lands and real estates and invest them through sale or rent in favor of the company, maintenance and management of owners and others' assets as guarantee, sale and purchase of real estates for financing purposes as per SAMA approval No. 361000109161 dated 10/8/1436H.

1. General (continued)

ANB Global Markets Limited

The Bank established on January 31, 2017 ANB Global Markets Limited, as a limited liability company registered in the Cayman Islands. The Bank has 100% ownership. The objective of ANB Global Markets Limited is trading in derivatives and Repo activities on behalf of the Bank.

Change in status of a subsidiary

The Bank owns indirectly 25.47% of ANBI Business Gate Fund (the Fund), which is a closed-ended private placement real estate investment fund launched on August 25, 2014 for a period of 5 years starting from date of closure of first offering on January 11, 2015. CMA has been informed of the offering of the Fund through letter number 8/14/411 dated Shawwal 9, 1435H (corresponding to August 5, 2014). The Fund's purpose is to acquire real estate assets, an income generating real estate property located in the city of Riyadh, out of which the Fund will receive rental and hotel operating income over the Fund term.

The Fund was consolidated as a subsidiary until September 2018. Thereafter, the Group has reassessed its control over the Fund and after considering the Fund Board composition and other factors concluded that the Group does not control the relevant activities of the Fund, effective October 2018, though, significant influence over the Fund is still retained by the Group. Accordingly, the Group has discontinued consolidation of the Fund in its interim condensed consolidated financial statements and has accounted for the Fund as an associate.

2. Basis of preparation

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

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

On July 17, 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia (collectively referred to as "IFRS as endorsed in KSA").

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

These interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018. Further, there are some additional disclosure requirements pertaining to IFRS 7, as a result of above change in framework which will be disclosed in the annual financial statements for the year ending December 31, 2019.

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

3. Basis of consolidation

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments have been made to the financial statements of the subsidiaries where necessary to align them with the Bank's interim condensed consolidated financial statements.

3. Basis of consolidation (continued)

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

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 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 arrangements 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 re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the interim consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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 Group's share of components previously recognised in Other Comprehensive Income 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.

Non-controlling interests represent the portion of net income or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the interim consolidated statement of income and within equity in the interim consolidated statement of financial position, separately from the equity holders of the Bank. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Acquisitions of non-controlling interests are accounted for using the purchase method of accounting, whereby, the difference between the cost of acquisition and the fair value of the share of the net assets acquired is recognized as goodwill.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Non-controlling interests are subsequently adjusted for their share of changes in equity of the consolidated subsidiary after the date of acquisition.

All intra-group assets and liabilities, equity, income and expenses relating to transactions between members of the Group are eliminated in full on consolidation.

4. Significant accounting policies

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2018 except for the policies explained below.

4. Significant accounting policies (continued)

Right of Use (RoU) Assets / Lease Liabilities

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

Right of Use Assets

Group apply cost model, and measure right of use asset at cost;

a) less any accumulated depreciation and any accumulated impairment losses; and
b) adjusted for any re-measurement of the lease liability for lease modifications.

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor. After the commencement date, Group measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability;
2. Reducing the carrying amount to reflect the lease payments made; and
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

Change in the accounting for Zakat and income tax

As mentioned above, the basis of preparation has been changed effective from the period ended June 30, 2019 as a result of the issuance of latest instructions from SAMA dated July 17, 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. With the latest instructions issued by SAMA dated July 17, 2019, the zakat and income tax shall be recognized in the statement of income. The Group has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in note 5 to the interim condensed consolidated financial statements. The change has resulted in reduction of reported income of the Group for the period ended September 30, 2018 by SR 483 million. The change has had no impact on the statement of cash flows for the period ended September 30, 2018.

Income tax

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

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

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

4. Significant accounting policies (continued)

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

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

Deferred income tax

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

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

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

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

Zakat

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

5. Impact of changes in accounting policies

a. Impact of changes in accounting policies due to adoption of new standard

Effective January 1, 2019 the Group has adopted a new accounting standard, the impact of the adoption of this standard is explained below:

IFRS 16 Leases

Before January 1, 2019, the Group follow Accounting for leases:

i) Where the Group is a lessee

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

Penalties paid to a lessor when an operating lease is terminated before the lease period has expired, is recognized as an expense in the period in which termination takes place.

ii) Where the Group is a lessor

When assets are sold under a finance lease, including Shari'ah compliant leases, the present value of the lease payments is recognized as a receivable and disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the effective yield basis, which reflects a constant periodic rate of return.

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

5. Impact of changes in accounting policies due to adoption of new standard (continued)

IFRS 16 Leases (continued)

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after January 1, 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Group's statement of financial position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, using the interest rate at the time of first time application. IFRS 16 transition disclosures also requires the Group to present the reconciliation the off-balance sheet lease obligations as of December 31, 2018 are reconciled as follows to the recognized the lease liabilities as of January 1, 2019.

RECONCILIATION OF LEASE LIABILITIES	**SAR '000**
Off-balance sheet lease obligations as of December 31, 2018	**415,843**
Operating lease obligations as of January 1, 2019 (Gross without discounting)	**415,843**
Operating lease obligations as of January 1, 2019 (net, discounted)	**328,716**
Reasonably certain extension or termination option	**500,298**
Lease liabilities due to initial application of IFRS 16 as January 1, 2019	**829,014**

b. Impact of changes in accounting for zakat and income tax

The change in the accounting for zakat and income tax (as explained in note 4) has the following impact on the line items of the statement of income, statement of financial position and changes in shareholders' equity:

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

Financial statements impacted	**Account**	**Before the restatement for the nine-month period ended September 30, 2018**	**Effect of restatement**	**As restated as at and for the nine-month period ended September 30, 2018**
Statement of changes in equity	Provision for zakat (retained earnings)	289,800	(289,800)	-
	Provision for income tax (retained earnings)	193,200	(193,200)	-
Statement of income	Zakat for the period	-	289,800	289,800
	Income tax for the period	-	193,200	193,200
	Earnings per share (expressed in SAR per share)	1.75	(0.32)	1.43
Statement of financial position	Other assets (deferred tax asset)	-	64,326	64,326

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

Financial statements impacted	**Account**	**Before the restatement for the three-month period ended September 30, 2018**	**Effect of restatement**	**As restated as at and for the three-month period ended September 30, 2018**
Statement of changes in equity	Provision for zakat (retained earnings)	95,400	(95,400)	-
	Provision for income tax (retained earnings)	63,600	(63,600)	-
Statement of income	Zakat for the period	-	95,400	95,400
	Income tax for the period	-	63,600	63,600
	Earnings per share (expressed in SAR per share)	0.59	(0.10)	0.49
Statement of financial position	Other assets (deferred tax asset)	-	64,326	64,326

Amounts in SAR '000

5. Impact of changes in accounting policies due to adoption of new standard (continued)

b. Impact of changes in accounting for zakat and income tax (continued)

As at December 31, 2018

Financial statements impacted	Account	Before the restatement as at December 31, 2018	Effect of restatement	As restated as at December 31, 2018
Statement of financial position	Other assets (deferred tax asset)	-	64,326	64,326
Statement of financial position	Retained earnings	5,613,196	64,326	5,677,522

As at January 1, 2018

Financial statements impacted	Account	Before the restatement as at January 1, 2018	Effect of restatement	As restated as at January 1, 2018
Statement of financial position	Other assets (deferred tax asset)	-	64,326	64,326
Statement of financial position	Retained earnings	3,161,167	64,326	3,225,493

6. Cash and balances with SAMA

	September 30 2019 (Unaudited)	December 31 2018 (Audited)	September 30 2018 (Unaudited)
Cash in hand	**1,853,031**	1,642,662	1,995,141
Statutory deposit	**6,885,838**	7,021,809	7,104,860
Reverse repo with SAMA	**1,220,000**	14,312,000	5,023,000
Other balances	**3,028**	3,795	9,692
Total	**9,961,897**	22,980,266	14,132,693

7. Due from banks and other financial institutions

	September 30 2019 (Unaudited)	December 31 2018 (Audited)	September 30 2018 (Unaudited)
Current accounts	**590,872**	563,753	475,919
Money market placements	**113,757**	572,746	337,722
Less: Impairment	**(10,170)**	(2,451)	(3,897)
Total	**694,459**	1,134,048	809,744

8. Investments, net

Investment securities are classified as follows:

	September 30 2019 (Unaudited)	December 31 2018 (Audited)	September 30 2018 (Unaudited)
Investments at amortized cost	**29,735,709**	23,539,433	22,870,294
Investments at FVOCI - equity	**992,318**	988,140	1,007,840
Investments at FVOCI - debt	**2,792,363**	2,824,286	3,102,337
Investments at FVTPL	**535,888**	516,663	512,918
Less: Impairment	**(25,919)**	(11,339)	(6,949)
Total	**34,030,359**	27,857,183	27,486,440

Equity investment securities designated as at FVOCI

Certain equity investments designated at FVOCI were disposed off during the period and cumulative net loss transferred within the equity related to these investments amounted to SAR 13,834 thousands (September 30, 2018: SAR 16,977 thousands). Dividend income recognized in the interim consolidated statement of income amounted to SAR 45,556 thousands for the nine months period ended September 30, 2019 (September 30, 2018: SAR 41,948 thousands).

Amounts in SAR '000

9. Loans and advances, net

Loans and advances (all held at amortized cost) comprise the following:

September 30, 2019 (Unaudited)	**Overdrafts**	**Credit cards**	**Consumer loans**	**Commercial loans and others**	**Total**
Performing loans and advances, gross	**3,109,638**	**485,021**	**26,540,281**	**89,156,656**	**119,291,596**
Non-performing loans and advances, net	**8,232**	**8,492**	**99,353**	**1,517,377**	**1,633,454**
Total loans and advances	**3,117,870**	**493,513**	**26,639,634**	**90,674,033**	**120,925,050**
Impairment allowance	**(46,161)**	**(30,784)**	**(375,937)**	**(2,591,911)**	**(3,044,793)**
Loans and advances, net	**3,071,709**	**462,729**	**26,263,697**	**88,082,122**	**117,880,257**
December 31, 2018 (Audited)					
Performing loans and advances, gross	3,694,867	496,547	24,387,163	93,641,280	122,219,857
Non-performing loans and advances, net	5,364	11,727	93,141	1,385,454	1,495,686
Total loans and advances	3,700,231	508,274	24,480,304	95,026,734	123,715,543
Impairment allowance	(22,066)	(35,953)	(432,806)	(2,186,479)	(2,677,304)
Loans and advances, net	3,678,165	472,321	24,047,498	92,840,255	121,038,239
September 30, 2018 (Unaudited)					
Performing loans and advances, gross	3,996,026	520,293	24,204,682	92,688,742	121,409,743
Non-performing loans and advances, net	17,519	12,711	116,493	1,758,377	1,905,100
Total loans and advances	4,013,545	533,004	24,321,175	94,447,119	123,314,843
Impairment allowance	(56,991)	(47,402)	(439,861)	(2,281,154)	(2,825,408)
Loans and advances, net	3,956,554	485,602	23,881,314	92,165,965	120,489,435

The movement in the allowance for impairment of loans and advances to customers for the nine month period ended September 30 are as follows:

	September 30 2019 (Unaudited)	September 30 2018 (Unaudited)
Impairment allowance balance as reported at the beginning of the period	**2,677,304**	2,253,542
Amounts restated through opening retained earnings	**-**	386,180
Adjusted impairment allowance balance at the beginning of the period	**2,677,304**	2,639,722
Charge for the period, net	**597,757**	722,053
Bad debts written off against impairment allowance	**(230,268)**	(536,367)
Balance at the end of the period	**3,044,793**	2,825,408

Impairment charge for credit losses, net for the period ended September 30, 2019 amounted to SAR 529,295 thousand (September 30, 2018: SAR 684,299 thousand), including bad debts directly written-off to interim consolidated statement of income amounting to SAR 37,150 thousand (September 30, 2018: SAR 68,089 thousand) and net of recoveries amounting to SAR 105,612 thousand (September 30, 2018: SAR 105,843 thousand).

An analysis of charges in impairment allowance of loans and advances is as follows:

September 30, 2019 (Unaudited)	**12 month ECL**	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loans and advances to customers at amortized cost				
Balance at January 1, 2019	**431,022**	**1,122,906**	**1,123,376**	**2,677,304**
Transfer to 12-month ECL	**104,167**	**(88,578)**	**(15,589)**	**-**
Transfer to lifetime ECL not credit - impaired	**(23,225)**	**50,253**	**(27,028)**	**-**
Transfer to lifetime ECL credit impaired	**(1,159)**	**(108,838)**	**109,997**	**-**
Net charge for the period	**172,855**	**181,458**	**243,444**	**597,757**
Write-offs	**-**	**-**	**(230,268)**	**(230,268)**
Balance at September 30, 2019	**683,660**	**1,157,201**	**1,203,932**	**3,044,793**

"Life time ECL credit impaired (Stage 3)" includes loss allowance for non-performing loans portfolio along with the impact of other factors to IFRS 9.

Amounts in SAR '000

9. Loans and advances, net (continued)

Impairment charges for credit losses and other provisions, net as reflected in the interim consolidated statement of income are detailed as follows:

	For the nine month period ended	
	September 30 2019 (Unaudited)	September 30 2018 (Unaudited)
Impairment charges for credit losses, net	**529,295**	684,299
Charge / (reversal) of provisions for credit-related commitments and contingencies, net	**16,636**	(93,258)
	545,931	591,041

10. Due to banks and other financial institutions

	September 30 2019 (Unaudited)	December 31 2018 (Audited)	September 30 2018 (Unaudited)
Current accounts	**189,558**	576,979	141,044
Money market deposits	**1,544,875**	959,623	3,669,034
Total	**1,734,433**	1,536,602	3,810,078

11. Customers' deposits

	September 30 2019 (Unaudited)	December 31 2018 (Audited)	September 30 2018 (Unaudited)
Demand	**65,436,490**	65,759,753	64,892,689
Time	**58,749,403**	67,888,136	62,071,746
Saving	**140,068**	112,263	114,339
Others	**6,595,456**	8,295,456	3,890,777
Total	**130,921,417**	142,055,608	130,969,551

12. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments, together with their notional amounts, analysed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

	September 30, 2019 (Unaudited)			December 31, 2018 (Audited)			September 30, 2018 (Unaudited)		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading:									
Commission rate and cross currency swaps	**612,746**	**573,034**	**21,254,464**	671,122	630,828	20,242,545	744,465	707,084	19,063,898
Commission rate futures and options	**563,234**	**561,707**	**15,508,295**	619,698	617,373	13,189,978	787,560	785,064	14,608,356
Forward foreign exchange and commodity contracts	**33,499**	**10,091**	**4,493,244**	31,059	7,489	4,898,307	38,205	12,139	5,315,522
Currency and commodity options	**329**	**195**	**163,712**	2,383	1,691	134,026	2,570	1,947	218,287
Held as fair value hedges:									
Commission rate swaps	**6,710**	**1,633,090**	**22,664,169**	256,072	34,003	17,150,089	572,957	7,297	17,092,531
Total	**1,216,518**	**2,778,117**	**64,083,884**	1,580,334	1,291,384	55,614,945	2,145,757	1,513,531	56,298,594

Derivatives have been disclosed at gross amounts as at the date of the interim consolidated statement of financial position, and have not been netted off by cash margins placed and received against derivatives, amounting to SAR 2,658.6 million placed (December 31, 2018: SAR 45.6 million received, and September 30, 2018: SAR 469.1 million received).

Amounts in SAR '000

13. Commitments and contingencies

a) Legal proceedings

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

b) Credit related commitments and contingencies

The Group's consolidated credit related commitments and contingencies are as follows:

	September 30 2019 (Unaudited)	December 31 2018 (Audited)	September 30 2018 (Unaudited)
Letters of credit	**4,718,460**	5,090,864	5,376,892
Letters of guarantee	**23,104,196**	22,693,597	23,651,700
Acceptances	**1,090,155**	1,230,059	1,491,717
Irrevocable commitments to extend credit	**2,642,607**	2,654,459	2,799,886
Others	**80,278**	86,030	86,800
Total	**31,635,696**	31,755,009	33,406,995

The unutilized portion of non-firm commitments as at September 30, 2019 which can be revoked unilaterally at any time by the Bank, amounts SAR 17,303 million (December 31, 2018: SAR 13,536 million and September 30, 2018: SAR 12,546 million).

14. Cash and cash equivalents

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

	September 30 2019 (Unaudited)	December 31 2018 (Audited)	September 30 2018 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	**3,076,059**	15,958,457	7,027,833
Due from banks and other financial institutions maturing within 90 days from the acquisition date	**704,629**	1,136,499	809,744
Total	**3,780,688**	17,094,956	7,837,577

15. Zakat and Income Tax

On March 14, 2019, the General Authority of Zakat and Tax (the "GAZT") has issued new zakat rules through Ministerial Decree No. 2215 which provides the basis for the calculation of Zakat for companies engaged in financing activities and licensed by SAMA. The new Zakat regulations are issued pursuant to the Zakat Implementing Regulations and are applicable for the periods from January 1, 2019. Despite providing a new basis for calculating the Zakat base, Zakat liability for the Saudi shareholders will continue to be calculated at 2.5% of the Zakat base.

Zakat for the period ended September 30, 2019 attributable to Saudi Shareholders amounted to approximately SAR 177.2 million (September 30, 2018: SAR 289.8 million). Income tax payable by the non-Saudi Shareholder on the current period's share of net income is SAR 216.5 million (September 30, 2018: SAR 193.2 million). The provision of Zakat and income tax liability is estimated based on the results of operations of the Bank for the nine month period ended and the consolidated financial position at September 30, 2019.

16. Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief executive officer in order to allocate resources to segments and to assess its performance.

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

Retail banking

Deposit, credit and investment products for individuals.

Amounts in SAR '000

16. Operating segments (continued)

Corporate banking

Loans and advances, deposits and other credit products for corporate and institutional customers, small to medium sized businesses, and the Bank's London Branch.

Treasury

Manages the Bank's trading and investment portfolios and the Bank's funding, liquidity, currency and commission rate risks.

Investment and brokerage services

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

Other

Includes income on capital and unallocated costs, assets and liabilities pertaining to the Head Office and other supporting departments.

Transactions between the operating segments are reported as recorded in the Group's transfer pricing system. The basis for determining intersegment operating income/(expense) for the current period are consistent with the basis used for September 30, 2018. Segment assets and liabilities comprise mainly operating assets and liabilities.

The Group's primary business is conducted in the Kingdom of Saudi Arabia with one international branch in London. However, the total assets, liabilities, commitments and results of operations of this branch are not material to the Group's overall interim condensed consolidated financial statements.

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

September 30, 2019 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets	40,608,873	81,369,294	46,993,133	100,581	1,853,552	170,925,433
Investments in associates	-	-	-	-	878,435	878,435
Total liabilities	67,984,330	66,956,734	6,581,229	55,469	1,698,025	143,275,787
Operating income/(expense) from external customers	1,705,803	3,358,601	(80,303)	73,423	46,282	5,103,806
Intersegment operating income/(expense)	345,558	(1,414,874)	857,721	-	211,595	-
Total operating income	2,051,361	1,943,727	777,418	73,423	257,877	5,103,806
Of which:						
Net special commission income	1,794,037	1,584,660	540,782	31,183	262,082	4,212,744
Fees and commission income, net	112,458	349,062	6,074	45,711	(24,153)	489,152
Impairment charges for credit losses and other provisions, net	105,001	440,930	-	-	-	545,931
Impairment charges for other financial assets, net	-	-	23,561	-	-	23,561
Depreciation and amortization	122,960	6,385	872	1,415	61,390	193,022
Total operating expenses	1,092,891	908,468	95,683	47,377	62,487	2,206,906
Share in losses of associates, net	-	-	-	-	(977)	(977)
Net income attributed to equity holders of the Bank	815,810	1,035,258	681,734	26,055	(50,879)	2,507,978
Net income attributed to non-controlling interest	-	-	-	-	(860)	(860)

Amounts in SAR '000

16. Operating segments (continued)

September 30, 2018 (Unaudited)	Retail banking	Corporate banking	Treasury	Investment and brokerage services	Other	Total
Total assets (restated)	38,931,415	84,856,179	42,347,767	1,702,324	2,191,598	170,029,283
Investments in associates	-	-	-	-	623,418	623,418
Total liabilities	66,792,909	67,282,329	7,682,647	94,364	2,713,451	144,565,700
Operating income from external customers	1,528,558	3,037,275	48,715	149,021	99,764	4,863,333
Intersegment operating income/(expense)	235,865	(1,234,135)	815,048	-	183,222	-
Total operating income	1,764,423	1,803,140	863,763	149,021	282,986	4,863,333
Of which:						
Net special commission income	1,591,187	1,485,199	491,728	27,467	192,777	3,788,358
Fees and commission income, net	110,489	351,525	6,856	43,944	11,828	524,642
Impairment charges for credit losses and other provisions, net	148,552	442,489	-	-	-	591,041
Reversal of impairment charges for other financial assets, net	-	-	(7,610)	-	-	(7,610)
Depreciation and amortization	77,326	6,089	1,193	1,588	68,028	154,224
Total operating expenses	1,300,720	762,678	62,865	70,571	38,678	2,235,512
Share in earnings of associates, net	-	-	-	-	196	196
Net income attributed to equity holders of the Bank (restated)	463,703	1,040,462	800,898	78,450	(240,807)	2,142,706
Net income attributed to non-controlling interest	-	-	-	-	2,311	2,311

17. Share capital, bonus shares and earnings per share

As at September 30, 2019, the authorized, issued and fully paid share capital of the Bank consists of 1,500 million shares of SAR 10 each (December 31, 2018 and September 30, 2018: 1,000 million shares of SAR 10 each).

The Board of Directors has proposed a bonus issue of 500 million shares of SAR 10 each, through transfer of SAR 3 billion and SAR 2 billion from statutory reserves and retained earnings respectively, which was approved in the shareholders' extraordinary general assembly meeting, held on March 27, 2019.

Basic and diluted earnings per share for the period ended September 30, 2019 and 2018 is calculated by dividing the net income for the period attributable to the equity holders of the Bank by 1,500 million shares to give a retroactive effect of change in the number of shares increased as a result of the bonus share issue. The diluted earnings per share is the same as the basic earnings per share.

18. Interim Dividend

An interim dividend of SAR 750 million (September 30, 2018 : SAR 650 million) was approved on July 04, 2019 for payment to shareholders. After deducting zakat, this interim dividend resulted in a net payment of SAR 0.50 per share (September 30, 2018 : SAR 0.65 per share) to the Saudi shareholders. The income tax liability of the foreign shareholders for the current and prior period (if any) was deducted from their share of the dividend.

19. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

i) In the accessible principal market for the asset or liability; or
ii) In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in the interim condensed consolidated financial statements.

Amounts in SAR '000

19. Fair values of financial assets and liabilities (continued)

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repacking);

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

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

a. Carrying amounts and fair value

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

Financial assets

September 30, 2019 (Unaudited)	**Carrying value**	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Investments at FVTPL	**535,888**	**-**	**47,762**	**488,126**	**535,888**
Investments at FVOCI	**3,784,681**	**990,036**	**2,792,752**	**1,893**	**3,784,681**
Positive fair value of derivatives	**1,216,518**	**-**	**1,216,518**	**-**	**1,216,518**
Financial assets not measured at fair value					
Due from banks and other financial institutions	**694,459**	**-**	**-**	**-**	**694,459**
Investments at amortised cost	**29,709,790**	**-**	**30,713,726**	**-**	**30,713,726**
Loans and advances	**117,880,257**	**-**	**-**	**122,562,460**	**122,562,460**

December 31, 2018 (Audited)	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Investments at FVTPL	516,663	-	40,480	476,183	516,663
Investments at FVOCI	3,812,426	985,839	2,824,694	1,893	3,812,426
Positive fair value of derivatives	1,580,334	-	1,580,334	-	1,580,334
Financial assets not measured at fair value					
Due from banks and other financial institutions	1,134,048	-	-	-	1,134,048
Investments at amortised cost	23,528,094	-	23,341,740	-	23,341,740
Loans and advances	121,038,239	-	-	122,887,396	122,887,396

Financial Liabilities

September 30, 2019 (Unaudited)	**Carrying value**	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial liabilities measured at fair value					
Negative fair value of derivatives	**2,778,117**	**-**	**2,778,117**	**-**	**2,778,117**
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	**1,734,433**	**-**	**-**	**-**	**1,734,433**
Customer deposits	**130,921,417**	**-**	**-**	**-**	**130,921,417**
Sukuk	**2,042,898**	**-**	**-**	**2,045,186**	**2,045,186**

Amounts in SAR '000

19. Fair values of financial assets and liabilities (continued)

a. Carrying amounts and fair value (continued)

Financial Liabilities (continued)

December 31, 2018 (Audited)	Carrying value	Fair value Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value					
Negative fair value of derivatives	1,291,384	-	1,291,384	-	1,291,384
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	1,536,602	-	-	-	1,536,602
Customer deposits	142,055,608	-	-	-	142,055,608
Sukuk	2,020,491	-	-	1,962,503	1,962,503

b. Measurement of fair values

i. Transfer between levels of the fair value hierarchy

There have been no transfers within levels of the fair value hierarchy during the nine month period ended September 30, 2019 and 2018.

ii. Level 3 fair values

Reconciliation of Level 3 fair values

The following tables show a reconciliation from the opening balances for Level 3 fair values.

Investments at FVTPL	**September 30 2019 (Unaudited)**	September 30 2018 (Unaudited)
Balance at the beginning of the period	**476,183**	-
Transferred from available for sale financial assets at initial application of IFRS 9	**-**	8,823
Total unrealized gain in interim consolidated statement of income	**14,002**	16,122
Settlements	**(2,059)**	(2,366)
Purchases	**-**	450,000
Balance at the end of the period	**488,126**	472,579

Investments at FVOCI:	**September 30 2019 (Unaudited)**	September 30 2018 (Unaudited)
Balance at the beginning of the period	**1,893**	-
Transferred from available for sale financial assets at initial application of IFRS 9	**-**	1,893
Balance at the end of the period	**1,893**	1,893

19. Fair values of financial assets and liabilities (continued)

b. Measurement of fair values (continued)

iii. Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring level 2 and Level 3 fair values at September 30, 2019 and December 31, 2018 as well as the significant unobservable inputs used.

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
FVTPL investments	Fair value is determined based on the investee fund's most recent reported net assets value.	None	Not applicable
FVOCI investments classified as Level 2 include plain vanilla bonds for which market quotes are not available	Fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	None	Not applicable
FVOCI investments classified as Level 3 include Private Equity Funds	Fair value is determined based on the fund's most recent reported net assets value.	None	Not applicable
Derivatives classified as Level 2 are comprised of over the counter special commission rate swaps, currency swaps, special commission rate futures and options, spot and forward foreign exchange contracts, currency and commodity options and other derivative financial instruments	These instruments are fair valued using the Bank's proprietary valuation models that are based on discounted cash flow techniques. The data inputs on these models are based on observable market parameters relevant to the markets in which they are traded and are sourced from widely used market data service providers.	None	Not applicable
Financial assets and liabilities that are disclosed at fair value and classified as Level 2 include investments held at amortized cost	These instruments are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	Additional buffer is added to account for any potential model discrepancy or any stressed market conditions.	Not applicable
Financial assets and liabilities that are disclosed at fair value and classified as Level 3 include loans and advances and debt issuances	These instruments are fair valued using simple discounted cash flow techniques that use observable market data inputs for yield curves and credit spreads.	Additional buffer is added to the credit spreads to account for any potential model discrepancy or any stressed market conditions.	The higher the credit spread, the lower is the valuation; vice versa.

Amounts in SAR '000

20. 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. During the period, the Group has fully complied with regular capital requirements.

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

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III – which are effective starting January 1, 2013. Accordingly, the Group's pillar I consolidated Risk Weighted Assets (RWA), total capital and related ratios are as follows:

	September 30 2019 (Unaudited)	December 31 2018 (Audited)	September 30 2018 (Unaudited)
Credit Risk RWA	**147,230,594**	143,485,274	149,342,121
Operational Risk RWA	**13,615,678**	13,565,927	13,536,670
Market Risk RWA	**2,065,483**	1,174,055	1,843,793
Total Pillar-I RWA	**162,911,755**	158,225,256	164,722,584
Tier I Capital	**27,944,792**	26,046,963	25,166,479
Tier II Capital	**2,958,048**	2,519,304	2,479,389
Total Tier I & II Capital	**30,902,840**	28,566,267	27,645,868
Capital Adequacy Ratio %			
Tier I ratio	**17.15%**	16.46%	15.28%
Tier I + Tier II ratio	**18.97%**	18.05%	16.78%

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the SAMA in supervising the Bank.

21. Comparative figures

Certain prior period figures have been reclassified to conform with current period presentation.

22. Board of Directors' approval

The interim condensed consolidated financial statements were approved by the Board on Rabi Awal 2, 1441 (corresponding to October 30, 2019).