THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the nine month period ended September 30, 2019

(Unaudited)

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Amounts in SAR'000

	Notes	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 Restated (Audited)	Sep. 30, 2018 (Unaudited)
ASSETS				
Cash and balances with SAMA	5	7,216,363	4,871,932	5,149,919
Due from banks and other financial institutions, net	6,18	1,145,273	2,917,697	1,832,914
Investments	7,18	26,119,295	24,638,113	24,694,042
Positive fair values of derivatives	15,18	1,150,412	1,245,243	1,233,414
Loans and advances, net	8,18	57,626,310	59,412,529	59,540,661
Investments in associates	9	982,151	1,012,366	975,940
Other real estate		540,009	718,724	718,724
Property and equipment, net	10	1,148,517	902,889	914,727
Information Technology intangible assets, net	10	250,285	208,207	192,898
Other assets, net	11	119,988	142,208	196,304
Total assets		96,298,603	96,069,908	95,449,543
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions	18	13,386,043	12,620,832	11,798,352
Customers' deposits	12,18	64,963,537	63,689,869	64,018,506
Negative fair values of derivatives	15,18	277,460	500,704	440,215
Term loans	13,18	2,012,800	2,030,371	2,011,369
Subordinated debt	14,18	-	2,005,661	2,025,388
Other liabilities	11,28	1,699,739	1,816,403	870,413
Total liabilities		82,339,579	82,663,840	81,164,243
Equity				
Share capital	25	7,500,000	7,500,000	7,500,000
Statutory reserve		4,928,000	4,928,000	4,563,000
Treasury shares	26	(1,041,067)	(787,536)	(760,536)
Other reserves	7	163,846	(192,056)	218,202
Retained earnings	28	408,245	172,660	1,022,647
Shares held for employee options, net	24	-	-	(43,013)
Shareholders' equity		11,959,024	11,621,068	12,500,300
Tier I Sukuk	23	2,000,000	1,785,000	1,785,000
Total equity	28	13,959,024	13,406,068	14,285,300
Total liabilities and equity		96,298,603	96,069,908	95,449,543

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

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

	Notes	Three month period ended Sep. 30, 2019	Three month period ended Sep. 30, 2018 Restated	Nine month period ended Sep. 30, 2019	Nine month period ended Sep. 30, 2018 Restated
Special commission income		980,766	955,840	2,950,373	2,672,671
Special commission expense		414,636	359,331	1,243,171	938,605
Net special commission income		566,130	596,509	1,707,202	1,734,066
Fee income from banking services, net		78,575	71,379	234,768	234,859
Exchange income, net		47,305	38,097	117,569	106,797
Dividend income		-	-	-	5,254
Unrealized fair value through profit and loss		(6,229)	(6,055)	(10,681)	(28,255)
Realized fair value through profit and loss		330	1,147	2,261	5,724
Gains (losses) on FVOCI debt securities, net		43,525	(457)	43,720	(417)
Other income (loss)		9,710	(30)	9,800	(30)
Total operating income		739,346	700,590	2,104,639	2,057,998
Salaries and employee-related expenses		158,450	160,459	456,738	456,242
Rent and premises related expenses		34,710	43,715	100,073	127,604
Depreciation and amortization		37,022	26,343	106,869	76,086
Other general and administrative expenses	27	67,165	52,759	216,624	162,221
Operating expenses before provisions for credit and other losses		297,347	283,276	880,304	822,153
Provisions for credit and other losses	27	66,146	90,428	894,361	243,181
Total operating expenses		363,493	373,704	1,774,665	1,065,334
Operating income		375,853	326,886	329,974	992,664
Share in earnings of associates	9	25,938	34,690	76,633	91,699
Income before provisions for Zakat and Income Tax		401,791	361,576	406,607	1,084,363
Provisions for Zakat and Income Tax	25,28	89,858	15,846	97,966	55,846
Net income	28	311,933	345,730	308,641	1,028,517
Basic and diluted earnings per share (expressed in SAR per share)	19	0.44	0.44	0.34	1.30

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

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

		Three month period ended		Nine month period ended	
	Notes	Sep. 30, 2019	Sep. 30, 2018 Restated	Sep. 30, 2019	Sep. 30, 2018 Restated
Net income	28	311,933	345,730	308,641	1,028,517
Other comprehensive income					
Items that cannot be reclassified to the interim consolidated statement of income in subsequent periods:					
Net change in fair value of equity investments held at fair value through other comprehensive income		5,344	(54,465)	(15,547)	(50,693)
Actuarial gains on defined benefit plans		-	-	2,584	-
Items that can be reclassified to the interim consolidated statement of income in subsequent periods:					
Net change in fair value of debt securities held at fair value through other comprehensive income		201,223	246,904	413,724	87,626
Fair value (gains) losses transferred to interim consolidated statement of income on disposal of debt securities		(43,525)	457	(43,720)	417
Share in other comprehensive loss of associates	9	(856)	(260)	(1,139)	(827)
Total other comprehensive income		162,186	192,636	355,902	36,523
Total comprehensive income		474,119	538,366	664,543	1,065,040

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

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

		Nine month period ended September 30, 2019 (SAR'000)							
	Notes	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the period as previously reported (Audited)	28	7,500,000	4,928,000	(787,536)	(192,056)	205,268	11,653,676	1,785,000	13,438,676
Retroactive effect of other adjustments	28	-	-	-	-	(32,608)	(32,608)	-	(32,608)
Balances at the beginning of the period as restated	28	7,500,000	4,928,000	(787,536)	(192,056)	172,660	11,621,068	1,785,000	13,406,068
Net income		-	-	-	-	308,641	308,641	-	308,641
Total other comprehensive income		-	-	-	355,902	-	355,902	-	355,902
Total comprehensive income		-	-	-	355,902	308,641	664,543	-	664,543
Treasury shares purchased	26	-	-	(253,531)	-	-	(253,531)	-	(253,531)
Tier I Sukuk proceeds	23	-	-	-	-	-	-	215,000	215,000
Tier I Sukuk costs		-	-	-	-	(73,056)	(73,056)	-	(73,056)
Balances at the end of the period		7,500,000	4,928,000	(1,041,067)	163,846	408,245	11,959,024	2,000,000	13,959,024

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

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

		Nine month period ended September 30, 2018 (SAR'000)								
	Notes	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shares held for employee options, net	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the period (Audited)		7,500,000	4,563,000	-	204,478	1,284,858	(58,269)	13,494,067	785,000	14,279,067
Effect of the adoption of IFRS 9 on January 1, 2018		-	-	-	50,603	(873,159)	-	(822,556)	-	(822,556)
Balances at the beginning of the period as adjusted		7,500,000	4,563,000	-	255,081	411,699	(58,269)	12,671,511	785,000	13,456,511
Net income		-	-	-	-	1,028,517	-	1,028,517	-	1,028,517
Total other comprehensive income		-	-	-	36,523	-	-	36,523	-	36,523
Total comprehensive income		-	-	-	36,523	1,028,517	-	1,065,040	-	1,065,040
Gains on sales of FVOCI equity investments	7	-	-	-	(73,402)	73,402	-	-	-	-
Foreign shareholder Income Tax Reimbursement		-	-	-	-	13,298	-	13,298	-	13,298
Dividends paid	20	-	-	-	-	(450,000)	-	(450,000)	-	(450,000)
Net movement in shares held for employee options	24	-	-	-	-	-	15,256	15,256	-	15,256
Treasury shares purchased	26	-	-	(760,536)	-	-	-	(760,536)	-	(760,536)
Tier I Sukuk proceeds	23	-	-	-	-	-	-	-	1,000,000	1,000,000
Tier I Sukuk costs		-	-	-	-	(54,269)	-	(54,269)	-	(54,269)
Balances at the end of the period		7,500,000	4,563,000	(760,536)	218,202	1,022,647	(43,013)	12,500,300	1,785,000	14,285,300

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
Amounts in SAR'000

	Notes	Nine month period ended Sep. 30, 2019	Nine month period ended Sep. 30, 2018 Restated
OPERATING ACTIVITIES			
Net income	28	308,641	1,028,517
Adjustments to reconcile net income to net cash provided from operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		28,903	34,705
Net change in accrued special commission income		99,388	(60,480)
Net change in accrued special commission expense		30,343	9,749
Net change in deferred loan fees		19,848	(4,168)
(Gains) losses on FVOCI debt securities, net		(43,720)	417
Fair value through profit and loss unrealized gains		10,681	28,255
Fair value through profit and loss realized gains		(2,261)	(5,723)
Depreciation and amortization	17	106,869	76,086
(Gain) loss on sales of property, equipment, and intangibles		(90)	30
Gain on sale of other real estate		(9,710)	-
Provisions for credit and other losses	27	894,361	243,181
Share in earnings of associates	9	(76,633)	(91,699)
Share based provisions	24	-	5,400
		1,366,620	1,264,270
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(230,270)	(77,883)
Due from banks and other financial institutions maturing after three months from acquisition date		61,791	(265,950)
Loans and advances		702,190	(792,397)
Positive fair values of derivatives		87,890	(563,570)
Other real estate		274,804	-
Other assets		(281,405)	2,866
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		764,539	4,185,932
Customers' deposits		1,232,676	(2,896,375)
Negative fair values of derivatives		(235,155)	307,672
Other liabilities		178,583	(81,056)
		3,922,263	1,083,509
Zakat and Income Tax payments, net		(351,984)	(42,548)
Net cash provided from operating activities		3,570,279	1,040,961
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments		1,757,995	1,151,459
Purchases of investments		(2,824,145)	(4,110,159)
Dividends received from associates	9	105,709	108,272
Acquisitions of property, equipment, and intangibles	17	(91,067)	(73,788)
Proceeds from sales of property, equipment, and intangibles		350	6
Net cash used in investing activities		(1,051,158)	(2,924,210)

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS - Continued (Unaudited)
Amounts in SAR'000

	Notes	Nine month period ended Sep. 30, 2019	Sep. 30, 2018 Restated
FINANCING ACTIVITIES			
Sale of shares for employee options, net	24	-	5,909
Dividends paid	20	-	(450,000)
Vesting of employee share options, net	24	-	3,947
Treasury shares purchased	26	(253,531)	(760,536)
Proceeds from Tier I Sukuk	23	215,000	1,000,000
Redemption of Subordinated debt	14	(2,000,000)	-
Tier I Sukuk costs		(73,056)	(54,269)
Net cash used in financing activities		(2,111,587)	(254,949)
Net increase (decrease) in cash and cash equivalents		407,534	(2,138,198)
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		4,503,172	5,444,306
Net increase (decrease) in cash and cash equivalents		407,534	(2,138,198)
Cash and cash equivalents at the end of the period	5	4,910,706	3,306,108
Supplemental special commission information			
Special commission received		3,049,761	2,798,066
Special commission paid		1,215,383	1,208,952
Supplemental non-cash information			
Total other comprehensive income		355,902	36,523
Adoption of IFRS 9 on January 1, 2018		-	(822,556)
Adoption of IFRS 16 on January 1, 2019	4	246,601	-
Other real estate		121,285	-

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
Amounts in SAR'000
For the nine month periods ended September 30, 2019 and 2018

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 ("KSA"). The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 52 branches (December 31, 2018: 52 branches; and September 30, 2018: 51 branches) in KSA. The address of the Bank's Head Office is as follows:

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

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

2. Basis of preparation

These interim condensed consolidated financial statements as of and for the nine month period ended September 30, 2019 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in KSA and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

The consolidated financial statements as of and for the year ended December 31, 2018 and the interim condensed consolidated financial statements until March 31, 2019 were prepared in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and Income tax (relating to the application of IAS 12 Income Taxes and IFRIC 21 Levies in so far as these relate to Zakat and Income Tax) and in compliance with the provisions of the Banking Control Law, the Regulations for Companies in KSA, and the Bank's Articles of Association.

On July 17, 2019, SAMA issued instructions ("the SAMA Instructions") to banks in KSA to account for Zakat and Income Tax in the consolidated statement of income. This aligns with IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in KSA and with the other standards and pronouncements that are issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Group changed its accounting treatment for Zakat and Income tax by retroactively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors, as disclosed in note 4. The effects of this change are disclosed in note 28.

These interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2018.

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

The preparation of these interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and income and expense. Actual results may differ from these estimates. In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the annual consolidated financial statements as of and for the year ended December 31, 2018.

These interim condensed consolidated financial statements were approved by the Bank's Board of Directors on October 27, 2019.

3. Basis of consolidation

These interim condensed 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 interim condensed consolidated financial statements):

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

b) "Saudi Investment Real Estate Company", a limited liability company, which is registered in KSA under commercial registration No.1010268297 issued on 29 Jumada Awwal 1430H (corresponding to May 25, 2009), and is owned 100% by the Bank. The primary objective of the Company is to hold title deeds as collateral on behalf of the Bank for real estate related lending transactions;

c) "Saudi Investment First Company", a limited liability company, which is registered in KSA 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.

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

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the 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 interim condensed consolidated financial statements from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

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

3. Basis of consolidation – (continued)

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 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 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.

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:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes 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.

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried 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 interim condensed consolidated financial statements.

4. Summary of significant accounting policies

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

Zakat and Income Tax

As described in note 2, the basis of preparation was changed from the period ended June 30, 2019 as a result of the SAMA Instructions dated July 17, 2019. Previously, Zakat and Income Tax were recognized in equity as per SAMA circular no 381000074519 dated April 11, 2017. With the issuance of the SAMA Instructions, Zakat and Income tax is required to be recognized in the consolidated statement of income. The Group has accounted for this change in the accounting for Zakat and Income tax retroactively.

4. Summary of significant accounting policies – (continued)

The Group is subject to Zakat and Income Tax in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Provisions for Zakat and Income Tax are charged to the consolidated statement of income.

Management periodically evaluates positions taken in Zakat and Income Tax returns with respect to situations in which applicable Zakat and Income Tax regulations are subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the GAZT. Adjustments arising from final assessments are recorded in the period in which such assessments are made.

Since Zakat is not accounted for similar to Income Tax, no deferred Zakat is calculated.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Upon the retroactive application of the new Zakat and Income Tax policy, the Group also adopted IFRIC Interpretation 23 which addresses the accounting for Income Tax 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 uncertain tax treatments are considered separately;
- The assumptions about the examination of tax treatments by taxation authorities;
- How taxable profit, tax bases, unused tax losses, unused tax credits and tax rates are determined; and
- How changes in facts and circumstances are considered.

The Group determines 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 is followed.

The Group applies judgement in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Group has considered whether it has any uncertain tax positions including transfer pricing. 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 GAZT. The Interpretation did not have an impact on the consolidated financial statements of the Group.

IFRS 16 "Leases"

The Group adopted IFRS 16 'Leases', the standard replacing the previous 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".

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 statement of financial position, unless the term is 12 months or less or the lease is for a low value asset item. 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 of Use 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 of the leased asset.

Amounts in SAR'000

4. Summary of significant accounting policies – (continued)

The Group has opted for the modified retroactive application (Option 2B) permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16, the leased assets were measured at the amount of the lease liability, using an applicable commission rate at the time of first time application.

The following is a reconciliation of the off-balance sheet lease obligations as of December 31, 2018 to the recognized lease liabilities as of January 1, 2019.

Off-balance sheet lease obligations as of December 31, 2018	216,250
Less amounts for those leases with a lease term of 12 months or less and/or low-value leases	(20,696)
Add amounts for reasonably certain extension options	196,834
Net lease obligations as of January 1, 2019	392,388
Discounted lease liabilities due to initial application of IFRS 16 as of January 1, 2019	246,601

On initial recognition, at inception of the contract, the Group assesses 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 leased assets

The Group applies a cost model and therefore measures Right of Use leased assets at cost, less any accumulated depreciation and accumulated impairment losses adjusted for any re-measurement of the lease liabilities for lease modifications.

Under Option 2B, Right of Use leased assets would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, or other expenses, such amounts are added to the Right of Use leased asset value.

Lease Liabilities

On initial recognition, the Group recognizes a discounted lease liability equal to the present value of all remaining payments to the lessor. After initial recognition, the Group measures the lease liability by increasing the carrying amount to reflect special commission on the lease liability, reducing the carrying amount to reflect the lease payments made including prepayments, and re-measuring the carrying amount to reflect any re-assessment or lease modification if applicable.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 applicable from January 1, 2019 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The effect of the amendments to IAS 19 did not have a significant impact on net income for the nine month period ended September 30, 2019.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendments to IFRS 9 applicable from January 1, 2019 address the accounting for prepayment features with negative compensations. The effect of the amendments to IFRS 9 did not have a significant impact on net income for the nine month period ended September 30, 2019.

Other Standards, amendments or interpretations

Other Standards, amendments or interpretations effective for annual periods beginning on or after January 1, 2019, did not have a significant impact on the Group's interim condensed consolidated financial statements.

Amounts in SAR'000

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

Cash and balances with SAMA as of September 30, 2019 and 2018 and as of December 31, 2018 are summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Cash on hand	934,904	736,763	665,047
Reverse repurchase agreements with SAMA	2,922,000	977,000	1,303,464
Other balances with SAMA, net	(88,041)	(59,061)	(228,680)
Cash and balances with SAMA before statutory deposit	3,768,863	1,654,702	1,739,831
Statutory deposit with SAMA	3,447,500	3,217,230	3,410,088
Cash and balances with SAMA	7,216,363	4,871,932	5,149,919

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

Cash and cash equivalents as of September 30, 2019 and 2018 and as of December 31, 2018 are comprised of the following:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	3,768,863	1,654,702	1,739,831
Due from banks and other financial institutions maturing within three months from the date of acquisition	1,141,843	2,848,470	1,566,277
Cash and cash equivalents	4,910,706	4,503,172	3,306,108

6. Due from banks and other financial institutions, net

Due from banks and other financial institutions, net as of September 30, 2019 and 2018 and as of December 31, 2018 are summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Current accounts	346,800	797,185	884,672
Money market placements	800,334	2,123,215	950,701
Total due from banks and other financial institutions	1,147,134	2,920,400	1,835,373
Allowance for credit losses	(1,861)	(2,703)	(2,459)
Due from banks and other financial institutions, net	1,145,273	2,917,697	1,832,914

Amounts in SAR'000

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

The credit quality of due from banks and other financial institutions measured at amortized cost as of September 30, 2019 and 2018 and as of December 31, 2018 is summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Investment grade	1,146,044	2,917,319	1,833,403
Non-investment grade	1,090	3,081	1,970
Total due from banks and other financial institutions	1,147,134	2,920,400	1,835,373

The movement of the allowance for credit losses for the nine month periods ended September 30, 2019 and 2018 and the year ended December 31, 2018 is summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Balances at the beginning of the year/period	2,703	13,564	13,564
Provision for credit losses	(842)	(10,861)	(11,105)
Balances at the end of the year/period	1,861	2,703	2,459

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 nine month periods ended September 30, 2019 and 2018 is summarized as follows:

	Sep. 30, 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	2,336	367	-	2,703
Changes in exposures, re-measurement, and transfers	(605)	(237)	-	(842)
Balances at the end of the period	1,731	130	-	1,861

	Sep. 30, 2018 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	12,667	897	-	13,564
Changes in exposures, re-measurement, and transfers	(10,442)	(663)	-	(11,105)
Balances at the end of the period	2,225	234	-	2,459

Amounts in SAR'000

7. Investments

Investments as of September 30, 2019 and 2018 and as of December 31, 2018 are summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Fixed rate debt securities	22,369,311	20,732,211	20,391,712
Floating rate debt securities	3,338,011	3,470,253	3,989,960
Total debt securities	25,707,322	24,202,464	24,381,672
Equities	245,834	261,381	128,835
Mutual funds	126,445	131,626	139,924
Other securities	39,694	42,642	43,611
Investments	26,119,295	24,638,113	24,694,042

Debt securities and equities are classified at FVOCI, and mutual funds and other securities are classified at FVTPL.

As of September 30, 2019, investments include SAR 10.7 billion (December 31, 2018: SAR 7.8 billion, and September 30, 2018: SAR 7.2 billion) which have been pledged under repurchase agreements with other financial institutions.

The Bank's investments in equities include SAR 8.6 million as of September 30, 2019 (December 31, 2018: SAR 8.6 million, and September 30, 2018: SAR 8.6 million) which the Bank acquired in prior years in connection with the settlement of certain loans and advances. During the nine month period ended September 30, 2018, the Bank sold a portion of the holdings previously held. The fair value of the shares sold totalled SAR 284.3 million, resulting in a realized gain of approximately SAR 73.4 million. The SAR 73.4 million realized gain was subsequently transferred from other reserves to retained earnings during the nine month period ended September 30, 2018.

The Bank also holds additional strategic investments in equities totaling SAR 237.2 million as of September 30, 2019 (December 31, 2018: SAR 250.6 million, and September 30, 2018: SAR 117.1 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.

The credit quality of debt securities at FVOCI as of September 30, 2019 and 2018 and as of December 31, 2018 is summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Grades 1-6	25,702,580	24,198,778	24,380,985
Grades 7-9	4,742	3,686	687
Total debt securities	25,707,322	24,202,464	24,381,672

The movement of the allowance for credit losses for the nine month periods ended September 30, 2019 and 2018 and for the year ended December 31, 2018 included in other reserves is summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Balances at the beginning of the year/period	75,480	64,977	64,977
Provision for credit losses	(37,261)	10,503	6,139
Balances at the end of the year/period	38,219	75,480	71,116

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7. Investments – (continued)

A reconciliation from the opening to the closing balances of the allowance for credit losses for debt investments for the nine month periods ended September 30, 2019 and 2018 is summarized as follows:.

	Sep. 30, 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	71,794	3,686	-	75,480
Changes in exposures, re-measurement, and transfers	(38,317)	1,056	-	(37,261)
Balances at the end of the period	33,477	4,742	-	38,219

	Sep. 30, 2018 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	64,977	-	-	64,977
Changes in exposures, re-measurement, and transfers	5,452	687	-	6,139
Balances at the end of the period	70,429	687	-	71,116

Other reserves classified in shareholders' equity as of September 30, 2019 and 2018 and as of December 31, 2018 are comprised of the following:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Unrealized gains (losses) on revaluation of debt securities at FVOCI before allowance for credit losses	173,674	(228,599)	243,811
Allowance for credit losses on debt securities at FVOCI	38,219	75,480	71,116
Unrealized gains (losses) on revaluation of debt securities at FVOCI after allowance for credit losses	211,893	(153,119)	314,927
Unrealized losses on revaluation of equities held at FVOCI	(49,747)	(39,192)	(96,874)
Actuarial gains on defined benefit plans	2,584	-	-
Share of other comprehensive (loss) income of associates	(884)	255	149
Other reserves	163,846	(192,056)	218,202

Amounts in SAR'000

8. Loans and advances, net

Loans and advances, net classified as held at amortized cost as of September 30, 2019 and 2018 and as of December 31, 2018 and are summarized as follows:

	Sep. 30, 2019 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	36,051,841	1,744,625	13,352,592	51,149,058
Stage 2	4,158,002	713,962	272,436	5,144,400
Stage 3	1,044,955	825,362	2,163	1,872,480
Total performing loans and advances	41,254,798	3,283,949	13,627,191	58,165,938
Non performing loans and advances	659,588	485,485	313,352	1,458,425
Total loans and advances	41,914,386	3,769,434	13,940,543	59,624,363
Allowance for credit losses	(842,817)	(688,485)	(466,751)	(1,998,053)
Loans and advances, net	41,071,569	3,080,949	13,473,792	57,626,310

	Dec. 31, 2018 (Audited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	34,434,670	3,547,689	14,267,187	52,249,546
Stage 2	5,171,573	906,743	189,619	6,267,935
Stage 3	1,190,635	378,987	44,128	1,613,750
Total performing loans and advances	40,796,878	4,833,419	14,500,934	60,131,231
Non performing loans and advances	126,214	704,104	246,556	1,076,874
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

	Sep. 30, 2018 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	33,423,320	3,436,239	15,423,415	52,282,974
Stage 2	4,867,206	1,321,361	164,045	6,352,612
Stage 3	1,128,304	517,797	42,625	1,688,726
Total performing loans and advances	39,418,830	5,275,397	15,630,085	60,324,312
Non performing loans and advances	126,214	667,175	211,937	1,005,326
Total loans and advances	39,545,044	5,942,572	15,842,022	61,329,638
Allowance for credit losses	(699,438)	(672,455)	(417,084)	(1,788,977)
Loans and advances, net	38,845,606	5,270,117	15,424,938	59,540,661

The movement of the allowance for credit losses for loans and advances for the nine month periods ended September 30, 2019 and 2018 and for the year ended December 31, 2018 is summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Balances at the beginning of the year/period	1,795,576	1,718,082	1,718,082
Provision for credit losses	840,964	220,514	209,739
Write-offs, net	(638,487)	(143,020)	(138,844)
Balances at the end of the year/period	1,998,053	1,795,576	1,788,977

Amounts in SAR'000

8. Loans and advances, net – (continued)

A reconciliation from the opening to the closing balance of the allowance for credit losses for the loans and advances for the nine month periods ended September 30, 2019 and 2018 is summarized as follows:

	Sep. 30, 2019 (Unaudited)				
	Performing				
	Stage 1	Stage 2	Stage 3	Non-Performing	Total
Balances at the beginning of the period	339,621	135,456	619,300	701,199	1,795,576
Changes in exposures, re-measurement, and transfers	(9,591)	17,255	51,896	781,404	840,964
Write-offs, net	-	-	-	(638,487)	(638,487)
Balances at the end of the period	330,030	152,711	671,196	844,116	1,998,053

	Sep. 30, 2018 (Unaudited)				
	Performing				
	Stage 1	Stage 2	Stage 3	Non-Performing	Total
Balances at the beginning of the period	294,950	124,378	701,998	596,756	1,718,082
Changes in exposures, re-measurement, and transfers	51,845	13,842	(28,300)	172,352	209,739
Write-offs, net	-	-	-	(138,844)	(138,844)
Balances at the end of the period	346,795	138,220	673,698	630,264	1,788,977

9. Investments in associates

Investments in associates include the Bank's ownership interest in American Express Saudi Arabia (AMEX) of 50%, in Saudi Orix Leasing Company (ORIX) of 38%, and in Amlak International for Finance and Real Estate Development Co. (AMLAK) of 32%. The movement of investments in associates for the nine month periods ended September 30, 2019 and 2018, and for the year ended December 31, 2018, is summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Balance at the beginning of the year / period	1,012,366	993,340	993,340
Share in earnings	76,633	126,145	91,699
Dividends	(105,709)	(108,273)	(108,272)
Share of other comprehensive loss	(1,139)	(722)	(827)
Investments	-	1,876	-
Balance at the end of the year / period	982,151	1,012,366	975,940

Amounts in SAR'000

9. Investments in associates – (continued)

The Bank's share in the associates' assets, liabilities, and equity as of September 30, 2019 and 2018, and in the income and expense for the nine month periods then ended, is summarized as follows:

	Sep. 30, 2019 (Unaudited)			Sep. 30, 2018 (Unaudited)		
	AMEX	ORIX	AMLAK	AMEX	ORIX	AMLAK
Total assets	474,620	431,651	1,032,565	461,980	478,160	1,007,229
Total liabilities	276,879	104,107	678,366	267,476	159,860	641,270
Equity	197,741	327,544	354,199	194,504	318,300	365,959
Total income	153,321	32,214	45,344	149,991	34,609	41,628
Total expenses	106,931	20,109	31,023	92,015	22,503	18,531

The head office of each associate company is located in Riyadh in KSA, with all operations conducted entirely in KSA.

One of the associate companies above has a potential additional Zakat liability as of December 31, 2018. 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 16.9 million.

10. Property and equipment, net and Information Technology intangible assets, net

Property and equipment, net as of September 30, 2019 and 2018 and as of December 31, 2018 is summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Property and equipment, net			
Land and buildings	1,072,952	1,072,952	1,072,952
Leasehold improvements	172,950	159,745	156,304
Furniture, equipment and vehicles	497,586	489,581	485,072
Right of Use leased assets	303,678	-	-
Total cost	2,047,166	1,722,278	1,714,328
Less accumulated depreciation	(902,671)	(824,600)	(804,795)
	1,144,495	897,678	909,533
Projects pending completion	4,022	5,211	5,194
Property and equipment, net	1,148,517	902,889	914,727

Information Technology intangible assets, net as of September 30, 2019 and 2018 and as of December 31, 2018 is summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Information Technology intangible assets, net			
Software and software development costs	381,082	315,901	305,519
Less accumulated amortization	(177,472)	(152,388)	(145,035)
	203,610	163,513	160,484
Projects pending completion	46,675	44,694	32,414
Information Technology intangible assets, net	250,285	208,207	192,898

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11. Other assets, net and other liabilities

Other assets, net as of September 30, 2019 and 2018 and as of December 31, 2018 are summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Customer and other receivables	31,299	40,849	75,628
Prepaid expenses	49,879	69,542	81,912
Others	39,232	32,382	39,226
Total other assets	120,410	142,773	196,766
Less allowance for credit losses	(422)	(565)	(462)
Other assets, net	119,988	142,208	196,304

The movement of the allowance for credit losses for the nine month periods ended September 30, 2019 and 2018 and for the year ended December 31, 2018 is summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Balances at the beginning of the year / period	565	276	276
Provision for credit losses	(143)	289	186
Balances at the end of the year/period	422	565	462

Other liabilities as of September 30, 2019 and 2018 and as of December 31, 2018 are summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 Restated (Audited)	Sep. 30, 2018 (Unaudited)
Accrued Zakat and Income Tax, net (note 28)	669,025	907,171	59,360
Accrued salaries and employee related benefits	211,998	356,807	343,451
Lease liabilities	255,701	-	-
Allowance for credit losses for financial guarantee Contracts (note 16)	222,057	165,320	177,016
Accrued expenses and other reserves	165,786	158,412	162,833
Customer related liabilities	96,225	174,435	77,223
Deferred fee income	13,637	13,422	15,675
Others	65,310	40,836	34,855
Other liabilities	1,699,739	1,816,403	870,413

12. Customers' deposits

Customers' deposits as of September 30, 2019 and 2018 and as of December 31, 2018 are summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Time deposits	35,421,168	37,037,991	35,856,618
Savings deposits	639,629	1,529,185	1,646,449
Total special commission bearing deposits	36,060,797	38,567,176	37,503,067
Demand deposits	27,661,108	24,113,708	25,496,852
Other deposits	1,241,632	1,008,985	1,018,587
Customers' deposits	64,963,537	63,689,869	64,018,506

Amounts in SAR'000

13. Term loans

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

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

14. 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 KSA.

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

Where the original maturity date for the Sukuk was June 5, 2024, the Bank redeemed the Sukuk at the optional dissolution date of June 5, 2019 after receiving all required regulatory approvals.

15. Derivatives

The table below sets out the positive and negative fair values of derivative financial instruments together with their notional amounts as of September 30, 2019 and 2018 and as of December 31, 2018. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period / year, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are not indicative of market risk nor of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives.

	Sep. 30, 2019 (Unaudited)			Dec. 31, 2018 (Audited)			Sep. 30, 2018 (Unaudited)		
	Fair value		Notional	Fair value		Notional	Fair value		Notional
	Positive	Negative	amount	Positive	Negative	amount	Positive	Negative	amount
Held for trading:									
Forward foreign exchange contracts	1,901	2,113	2,680,953	9,781	6,802	2,919,605	18,144	11,000	3,150,169
Foreign exchange options	605	605	1,500,680	4,408	4,408	848,020	99	99	998,820
Commission rate swaps	122,679	121,358	6,728,946	198,425	199,306	9,152,106	210,821	210,821	9,248,156
Commission rate options	287,560	287,552	9,096,699	187,979	187,979	6,896,619	184,896	184,896	6,896,100
Held as fair value hedges:									
Commission rate swaps	-	759,803	12,835,558	242,456	102,209	12,252,404	468,950	33,399	11,591,874
Associated company put option	402,991	-	-	417,991	-	-	410,421	-	-
CSA / EMIR cash margins	334,676	(893,971)	-	184,203	-	-	(59,917)	-	-
Totals	1,150,412	277,460	32,842,836	1,245,243	500,704	32,068,754	1,233,414	440,215	31,885,119

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

Amounts in SAR'000

15. Derivatives – (continued)

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

As of September 30, 2019, the CSA and EMIR net cash collateral amounts held by counterparties totaled SAR 1,228.6 million (December 31, 2018: SAR 184.2 million). As of September 30, 2018, the CSA and EMIR net cash collateral held by the Bank totaled SAR 59.9 million. The EMIR net cash margins include initial margin payments made to counterparties.

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

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

16. Commitments, contingencies, and financial guarantee contracts

The Group's credit-related commitments and contingencies as of September 30, 2019 and 2018 and as of December 31, 2018 are summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Letters of credit	2,461,271	2,190,347	2,307,328
Letters of guarantee	8,890,778	8,948,406	8,387,958
Acceptances	657,371	657,927	648,493
Total financial guarantee contracts	12,009,420	11,796,680	11,343,779
Irrevocable commitments to extend credit	668,402	558,942	470,854
Credit-related commitments and contingencies	12,677,822	12,355,622	11,814,633

The credit quality of financial guarantee contracts as of September 30, 2019 and 2018 and as of December 31, 2018 are summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Stage 1	10,974,848	10,838,500	10,397,464
Stage 2	588,663	622,477	580,785
Stage 3	445,909	335,703	365,530
Total	12,009,420	11,796,680	11,343,779

Amounts in SAR'000

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

The movement of the allowance for credit losses for financial guarantee contracts for the nine month periods ended September 30, 2019 and 2018 and for the year ended December 31, 2018 is summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Balances at the beginning of the year/period	165,320	138,794	138,794
Provision for credit losses	56,737	26,526	38,222
Balances at the end of the year/period	222,057	165,320	177,016

A reconciliation from the opening to the closing balance of the allowance for credit losses for financial guarantee contracts for the nine month periods ended September 30, 2019 and 2018 is summarized as follows:

	Sep. 30, 2019 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	104,039	31,138	30,143	165,320
Changes in exposures, re-measurement, and transfers	(5,803)	(9,825)	72,365	56,737
Balances at the end of the period	98,236	21,313	102,508	222,057

	Sep. 30, 2018 (Unaudited)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the period	98,681	14,676	25,437	138,794
Changes in exposures, re-measurement, and transfers	8,604	13,113	16,505	38,222
Balances at the end of the period	107,285	27,789	41,942	177,016

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

17. Operating segments

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

Transactions between the operating segments are on normal commercial terms and conditions as approved by management. The revenue from external parties reported to the Board is measured in a manner consistent with that in the interim consolidated 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.

Amounts in SAR'000

17. Operating segments – (continued)

There has been no change to the measurement basis for the segment profit or loss. The segment assets, liabilities, and income and expense for September 30, 2018 have been reclassified to conform to changes in the basis of segmentation made during 2019. The Group's reportable segments are as follows:

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

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

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

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

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

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

The segment information provided to the Bank's Board of Directors for the reportable segments for the Group's total assets and liabilities as of September 30, 2019 and 2018, and its total operating income, expenses, and Income before provisions for Zakat and Income Tax for the nine month periods then ended, are as follows:

	Sep. 30, 2019 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	20,953,305	36,858,293	35,712,744	401,680	2,372,581	96,298,603
Total liabilities	19,846,636	6,038,041	55,683,901	15,244	755,757	82,339,579
Net special commission income	563,270	1,390,556	(251,850)	16,480	(11,254)	1,707,202
FTP net transfers	(77,456)	(521,457)	604,768	-	(5,855)	-
Net FTP contribution	485,814	869,099	352,918	16,480	(17,109)	1,707,202
Fee income (loss) from banking services, net	38,875	95,989	65,543	58,736	(24,375)	234,768
Other operating income (loss)	62,983	36,661	164,440	2,956	(104,371)	162,669
Total operating income (loss)	587,672	1,001,749	582,901	78,172	(145,855)	2,104,639
Direct operating expenses	216,927	48,645	27,172	50,803	26,313	369,860
Indirect operating expenses	219,492	102,089	188,863	-	-	510,444
Provisions for credit and other losses	382,544	515,912	(38,894)	(107)	34,906	894,361
Total operating expenses	818,963	666,646	177,141	50,696	61,219	1,774,665
Operating income **(loss)**	(231,291)	335,103	405,760	27,476	(207,074)	329,974
Share in earnings of associates	-	-	76,633	-	-	76,633
Income before provisions for Zakat and Income Tax	(231,291)	335,103	482,393	27,476	(207,074)	406,607
Property, equipment, and intangibles additions	52,734	269	104	51	37,909	91,067
Depreciation and amortization	35,681	490	105	3,803	66,790	106,869

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17. Operating segments – (continued)

	Sep. 30, 2018 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	26,409,298	34,687,935	31,463,155	392,726	2,496,429	95,449,543
Total liabilities	23,109,046	5,242,851	51,826,972	28,236	957,138	81,164,243
Net special commission income	622,036	1,270,100	(172,613)	17,068	(2,525)	1,734,066
FTP net transfers	47,850	(574,538)	533,983	-	(7,295)	-
Net FTP contribution	669,886	695,562	361,370	17,068	(9,820)	1,734,066
Fee income (loss) from banking services, net	112,370	68,082	66,325	52,099	(64,017)	234,859
Other operating income (loss)	51,635	36,833	92,615	(3,964)	(88,046)	89,073
Total operating income (loss)	833,891	800,477	520,310	65,203	(161,883)	2,057,998
Direct operating expenses	294,626	54,520	27,873	53,092	-	430,111
Indirect operating expenses	157,255	85,623	149,164	-	-	392,042
Provisions for credit and other losses	160,975	86,985	(4,966)	187	-	243,181
Total operating expenses	612,856	227,128	172,071	53,279	-	1,065,334
Operating income (loss)	221,035	573,349	348,239	11,924	(161,883)	992,664
Share in earnings of associates	-	-	91,699	-	-	91,699
Income (loss) before provisions for Zakat and Income Tax	221,035	573,349	439,938	11,924	(161,883)	1,084,363
Property, equipment, and intangibles additions	18,392	384	35	157	54,820	73,788
Depreciation and amortization	33,882	817	129	1,916	39,342	76,086

18. Fair values of financial instruments

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

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

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

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

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

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

Amounts in SAR'000

18. Fair values of financial instruments – (continued)

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

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

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

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

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

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

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

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

The following table summarizes the fair values of financial assets and financial liabilities by level of fair value hierarchy for financial instruments carried at fair value as of September 30, 2019 and 2018 and as of December 31, 2018. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Sep. 30, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	747,421	402,991	1,150,412
Investments at FVOCI	18,284,110	7,195,074	473,972	25,953,156
Investments at FVTPL	126,445	-	39,694	166,139
Total	18,410,555	7,942,495	916,657	27,269,707
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	277,460	-	277,460
Total	-	277,460	-	277,460

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18. Fair values of financial instruments – (continued)

	Dec. 31, 2018 (Audited)			
	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	131,626	-	42,642	174,268
Total	16,955,929	7,994,212	933,215	25,883,356
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	500,704	-	500,704
Total	-	500,704	-	500,704

	Sep. 30, 2018 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	822,993	410,421	1,233,414
Investments at FVOCI	16,423,373	7,615,030	472,104	24,510,507
Investments at FVTPL	139,924	-	43,611	183,535
Total	16,563,297	8,438,023	926,136	25,927,456
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	440,215	-	440,215
Total	-	440,215	-	440,215

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

The total amount of the changes in fair value recognized in the September 30, 2019 interim consolidated statement of income, which was estimated using valuation models, is SAR 14.8 million loss (30 September 2018: SAR 25 million loss).

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

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

Amounts in SAR'000

18. Fair values of financial instruments – (continued)

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

Level 3 derivative financial instruments include the embedded derivative put option arising from an existing master agreement entered into by the Bank relating to its investment in an associated company (see note 15). For purposes of determining the fair value of the put option, the Bank uses a well-recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. These other inputs may require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

Should the net effect of significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 90.5 million as of September 30, 2019 (September 30, 2018: SAR 99.1 million and December 31, 2018: SAR 97.7 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 39.4 million as of September 30, 2019 (September 30, 2018: SAR 48.7 million and December 31, 2018: SAR 44.6 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercize of the option, and could increase or decrease by approximately SAR 26.5 million as of September 30, 2019 (September 30, 2018: SAR 29.8 million and December 31, 2018: SAR 27.5 million) due to estimating the fair value of the underlying investment.

In all respects, the Group'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 movement of the Level 3 fair values for the nine month periods ended September 30, 2019 and 2018, and for the year ended December 31, 2018 is summarized as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Fair values at the beginning of the year/period	933,215	948,687	948,687
Net change in fair value	(13,607)	(11,812)	(19,874)
Investments sold	(2,951)	(3,660)	(2,677)
Fair values at the end of the year/period	916,657	933,215	926,136

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18. Fair values of financial instruments – (continued)

The estimated fair values of financial assets and financial liabilities as of September 30, 2019, and 2018 and as of December 31, 2018 that are not carried at fair value in the interim condensed consolidated financial statements, along with the comparative carrying amounts for each are summarized as follows:

	Sep. 30, 2019 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	1,145,273	1,145,273
Loans and advances, net	57,626,310	61,262,992
Total	58,771,583	62,408,265
Financial liabilities:		
Due to banks and other financial institutions	13,386,043	13,386,043
Customers' deposits	64,963,537	64,055,921
Term loans	2,012,800	2,012,800
Total	80,362,380	79,454,764

	Dec. 31, 2018 (Audited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	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

	Sep. 30, 2018 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	1,832,914	1,832,914
Loans and advances, net	59,540,661	61,085,840
Total	61,373,575	62,918,754
Financial liabilities:		
Due to banks and other financial institutions	11,798,352	11,798,352
Customers' deposits	64,018,506	62,711,062
Term loans	2,011,369	2,011,369
Subordinated debt	2,025,388	2,025,388
Total	79,853,615	78,546,171

18. Fair values of financial instruments – (continued)

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

19. Basic and diluted earnings per share

Basic and diluted earnings per share for the three month and nine month periods ended September 30, 2019 is calculated by dividing net income adjusted for Tier I Sukuk costs by 675.0 million and 685.1 million shares respectively representing the weighted average of the issued and outstanding shares after giving effect to the purchase of 56.2 million and 18.7 million Treasury shares on September 27, 2018 and May 28, 2019 respectively.

Basic and diluted earnings per share for the three month and nine month periods ended September 30, 2018 is calculated by dividing net income adjusted for Tier I Sukuk costs by 746.9 million and 748.9 million shares respectively 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.

20. Dividends

In 2018, the Board of Directors proposed a cash dividend of SAR 450 million equal to SAR 0.60 per share. 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 dividends were paid to the Bank's shareholders thereafter.

21. Capital adequacy

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

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

Amounts in SAR'000

21. Capital adequacy – (continued)

The following table summarizes the Bank's Pillar I Risk Weighted Assets (RWA), Tier I and Tier II Capital, and corresponding Capital adequacy ratio percentages as of September 30, 2019 and 2018 and as of December 31, 2018. The Tier I capital amount as of December 31, 2018 presented below has been restated for the retroactive application of the new Zakat and Income Tax Policy as disclosed in notes 2, 4 and 28. The Tier I and Tier I plus Tier II ratios as of December 31, 2018 have also been adjusted accordingly.

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Credit Risk RWA	76,315,801	79,561,316	78,799,575
Operational Risk RWA	4,794,695	4,794,695	4,605,141
Market Risk RWA	1,246,346	2,062,510	1,217,899
Total Pillar- I RWA	82,356,842	86,418,521	84,622,615
Tier I Capital	14,434,263	14,045,818	14,925,050
Tier II Capital	556,393	2,649,509	2,587,710
Total Tier I plus Tier II Capital	14,990,656	16,695,327	17,512,760
Capital Adequacy Ratios:			
Tier I Ratio	17.53%	16.25%	17.64%
Tier I plus Tier II Ratio	18.20%	19.31%	20.70%

The Tier I and Tier II Capital as of September 30, 2019 and 2018 and as of December 31, 2018 is comprised of the following:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Total Equity	13,959,024	13,406,068	14,285,300
IFRS 9 transitional adjustment	493,534	658,045	658,045
Goodwill adjustment	(18,295)	(18,295)	(18,295)
Tier I Capital	14,434,263	14,045,818	14,925,050
Tier II Subordinated debt	-	2,000,000	2,000,000
Qualifying general provisions, net	556,393	649,509	587,710
Tier II Capital	556,393	2,649,509	2,587,710
Tier I plus Tier II Capital	14,990,656	16,695,327	17,512,760

Capital adequacy and the use of Regulatory Capital are regularly monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of Regulatory Capital and maintain a ratio of total Regulatory Capital to Risk Weighted Assets at or above the requirement of 10.5%, which includes additional buffers as required by the Basel Committee on Banking Supervision.

As of September 30, 2019 and 2018, and as of December 31, 2018, 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.

21. Capital adequacy – (continued)

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

- Pillar III, Qualitative disclosures (Annually);
- Pillar III, Quantitative disclosures (Semi-annually);
- Pillar III, Other Quantitative disclosures (Quarterly).

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

22. Related party disclosures

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

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

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

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

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

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

Amounts in SAR'000

22. Related party disclosures – (continued)

The balances as of September 30, 2019 and 2018 and as of December 31, 2018, resulting from such transactions included in the interim condensed consolidated financial statements are as follows:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Management of the Bank and/or members of their immediate family:			
Loans and advances	59,874	97,154	82,789
Customers' deposits	440,252	401,349	205,492
Tier I Sukuk	6,000	2,000	2,000
Commitments and contingencies	4,105	6,067	5,420
Principal shareholders of the Bank and/or members of their immediate family:			
Customers' deposits	5,954,800	5,965,847	6,329,188
Subordinated debt	-	700,000	700,000
Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting:			
Loans and advances	725,673	654,756	452,138
Customers' deposits	239,634	144,669	77,445
Commitments and contingencies	59,800	101,458	101,408
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:			
Customers' deposits and other liabilities	135,803	62,093	150,867

Amounts in SAR'000

22. Related party disclosures – (continued)

Income and expense for the nine month periods ended September 30, 2019 and 2018, pertaining to transactions with related parties included in the interim condensed consolidated financial statements are as follows:

	Sep. 30, 2019 (Unaudited)	Sep. 30, 2018 (Unaudited)
Management of the Bank and / or members of their immediate family:		
Special commission income	49	80
Special commission expense	22	35
Fee income from banking services	38	4
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission income	-	1
Special commission expense	13,864	20,309
Fee income from banking services	1	1
Rent and premises-related expenses (Building rental)	5,740	5,803
Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting:		
Special commission income	22,117	13,572
Special commission expense	3,970	58
Fee income from banking services	2,722	3,649
Board of Directors and other Board Committee member remuneration	5,430	4,772

23. 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 Bank's regulatory authorities and shareholders. The Bank has issued the following Tier I Sukuk securities under the Program as of September 30, 2019 and 2018 and as of December 31, 2018:

	Sep. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
November 16, 2016	500,000	500,000	500,000
June 6, 2017	285,000	285,000	285,000
March 21, 2018	1,000,000	1,000,000	1,000,000
April 15, 2019	215,000	-	-
Total	2,000,000	1,785,000	1,785,000

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.

23. Tier I Sukuk – (continued)

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

24. Shares held for employee options, net

The movement in shares held for employee options, net for the nine month period ended September 30, 2018, and for the year ended December 31, 2018 is summarized as follows:

	Dec. 31, 2018 (Audited)	Sep. 30, 2018 (Unaudited)
Balances at the beginning of the year / period	(58,269)	(58,269)
Shares sold	16,651	5,909
Share based provisions	5,400	5,400
Share based vesting / granting movement, net	36,218	3,947
Balances at the end of the year / period	-	(43,013)

25. Zakat and Income Tax

The Bank's share capital and percentages of ownership as of September 30, 2019 and 2018 and as of December 31, 2018 are summarized as follows in SAR millions. The Bank's Zakat and Income Tax calculations and corresponding accruals and payments of Zakat and Income Tax are based on the below ownership percentages:

	Sep. 30, 2019 (Unaudited)		Dec. 31, 2018 (Audited)		Sep. 30, 2018 (Unaudited)	
	Amount	%	Amount	%	Amount	%
Saudi shareholders	6,750.0	90.0	6,750.0	90.0	6,750.0	90.0
Foreign shareholders:						
Mizuho Corporate Bank Limited	-	-	187.5	2.5	187.5	2.5
Treasury shares (note 26)	750.0	10.0	562.5	7.5	562.5	7.5
Total	7,500.0	100.0	7,500.0	100.0	7,500.0	100.0

The GAZT rules and regulations for calculating Zakat for Banks have changed for the year ending December 31, 2019. The Bank has provided for Zakat for the three month and nine month periods ended September 30, 2019 on the basis of the Bank's preliminary understanding of these changes.

Amounts in SAR'000

25. Zakat and Income Tax – (continued)

As described in notes 2 and 4, the Group retroactively amended its accounting policy relating to Zakat and Income Tax effective June 30, 2019. The new policy requires provisions for Zakat and Income Tax to be recognized in the consolidated statement of income. Provisions for Zakat and Income Tax for the three month and nine month periods ended September 30, 2019 and 2018 is summarized as follows:

	Three month period ended		Nine month period ended	
	Sep. 30, 2019	Sep. 30, 2018	Sep. 30, 2019	Sep. 30, 2018
Provisions for Zakat	89,793	9,281	96,136	33,965
Provisions for Income Tax	65	6,565	1,830	21,881
Provisions for Zakat and Income Tax	89,858	15,846	97,966	55,846

During 2018, the Bank agreed to settle prior year Zakat assessments with the GAZT through 2018 except for the year 2005. The settlement totalled SAR 775 million. The Bank paid approximately SAR 155 million during the nine month period ended September 30, 2019. The remaining balance of approximately SAR 620 million is payable in equal annual instalments on December 1, 2019 and on December 1 of each year thereafter through the year 2023. During the nine month period ended September 30, 2019, the Bank also has paid SAR 39 million for the additional Zakat liability for 2005.

Certain Income Tax and Withholding Tax assessments are outstanding for the years 2005 to 2009. The Bank, in consultation with its professional Tax and Zakat advisors, has filed appeals for the above assessments with the GAZT, and while management is confident of a favorable outcome on the basis of the appeals files, it is awaiting responses and final decisions from the appeal and other available processes. Also refer to note 9 for pending Zakat assessments related to an associate company.

26. 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 purchased include transaction costs and estimated income tax for a total cost of SAR 787.5 million.

On November 29, 2018 the Bank entered into a Share Purchase Agreement with Mizuho Bank Ltd. (Mizuho), to purchase another 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 Bank received all regulatory approvals for the purchase, and the agreement to purchase the shares was approved in an Extraordinary General Assembly Meeting held on 21 Rajab, 1440H, corresponding to March 28, 2019. On May 28, 2019, the Bank completed the purchase. The Treasury shares purchased include transaction costs for a total cost of SAR 253.5 million.

The share capital of the Bank has not been reduced as a result of these transactions with the cost of the shares purchased totaling SAR 1,041.1 million presented as a reduction of shareholders' equity.

Amounts in SAR'000

27. Operating expenses

Provisions for credit and other losses for the three month and nine month periods ended September 30, 2019 and 2018 is summarized as follows:

	Three month period ended		Nine month period ended	
	Sep. 30, 2019	Sep. 30, 2018	Sep. 30, 2019	Sep. 30, 2018
Provisions for credit losses:				
Due from bank and other financial institutions (Note 6)	585	(2,192)	(842)	(11,105)
Investments (Note 7)	1,088	(2,648)	(37,261)	6,139
Loans and advances (Note 8)	66,552	120,424	840,964	209,739
Financial guarantee contracts (Note 16)	(2,167)	(25,032)	56,737	38,222
Other assets (Note 11)	88	(124)	(143)	186
Provisions for credit losses	66,146	90,428	859,455	243,181
Provisions for real estate losses	-	-	34,906	-
Provisions for credit and other losses	66,146	90,428	894,361	243,181

Other general and administrative expenses totalling SAR 216.6 million for the nine month period ended September 30, 2019 include non-recurring expenses totalling approximately SAR 26.3 million.

28. Effect of the retroactive application of the new Zakat and Income Tax Policy and other adjustments

A summary of the net effect of the retroactive application of the new Zakat and Income Tax Policy, as explained in note 4, made to the consolidated statement of income for the three month and nine month periods ended September 30, 2018 is summarized below:

	Three month period ended September 30, 2018	Nine month period ended September 30, 2018
Net income as previously reported	361,576	1,084,363
Less the effect of the retroactive application of the new Zakat and Income Tax Policy	15,846	55,846
Net income as restated	345,730	1,028,517

The basic earnings per share for the three month and nine month periods ended September 30, 2018 as a result of the retroactive application of the new Zakat and Income Tax Policy reduced by SAR 0.02 per share and SAR 0.08 per share respectively.

The change has had no impact on the consolidated statement of financial position as of January 1, 2018 and September 30, 2018 as the impact of deferred tax was not considered significant. No deferred tax was accounted for as of September 30, 2019 due to change in ownership percentages of the Bank during the nine month period ended September 30, 2019 (see note 25).

Amounts in SAR'000

28. Effect of the retroactive application of the new Zakat and Income Tax Policy and other adjustments – (continued)

A summary of the net effect on other liabilities, retained earnings and total equity resulting from the retroactive effect of other adjustments as of December 31, 2018 is summarized below:

	December 31, 2018		
	Other liabilities	Retained earnings	Total equity
Balance as previously reported as of December 31, 2018	1,783,795	205,268	13,438,676
Retroactive effect of other adjustments as of December 31, 2018 (a)	32,608	(32,608)	(32,608)
Balances as restated as of December 31, 2018	1,816,403	172,660	13,406,068

(a) Other liabilities as of December 31, 2018 were adjusted by SAR 32.6 million to reflect the prior year effect of a correction in the calculation of accrued zakat liability for the Group and an adjustment to the zakat liability of an associate company, which was not accounted for as at December 31, 2018, with a corresponding decrease in total equity by the same amount.

The correction of the above adjustments had no impact on the Consolidated Statement of Financial Position as of January 1, 2018 and September 30, 2018.

29. Comparative figures

Certain prior period figures have been reclassified to conform to the current period presentation. These reclassifications did not affect the Group's net income nor total equity.
