THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the six month period ended June 30, 2019

(Unaudited)

THE SAUDI INVESTMENT BANK
(A Saudi joint stock company)

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
Amounts in SAR'000

	Notes	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 Restated (Audited)	Jun. 30, 2018 (Unaudited)
ASSETS				
Cash and balances with SAMA	5	5,198,572	4,871,932	9,689,389
Due from banks and other financial institutions, net	6,18	4,975,688	2,917,697	5,865,624
Investments	7,18	26,574,464	24,638,113	23,006,649
Positive fair values of derivatives	15,18	854,210	1,245,243	1,088,063
Loans and advances, net	8,18	56,927,117	59,412,529	59,330,509
Investments in associates	9	978,818	1,012,366	941,510
Other real estate		773,900	718,724	718,724
Information Technology intangible assets, net	10	241,136	208,207	185,639
Property and equipment, net	10	1,128,736	902,889	924,236
Other assets, net	11	312,125	142,208	202,686
Total assets		97,964,766	96,069,908	101,953,029
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions	18	13,890,315	12,620,832	10,793,140
Customers' deposits	12,18	66,843,790	63,689,869	71,300,751
Negative fair values of derivatives	15,18	88,165	500,704	395,192
Term loans	13,18	2,012,679	2,030,371	2,009,436
Subordinated debt	14,18	-	2,005,661	2,004,261
Other liabilities	11,28	1,629,579	1,816,403	938,396
Total liabilities		84,464,528	82,663,840	87,441,176
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)	-
Other reserves	7	1,660	(192,056)	25,566
Retained earnings	28	111,645	172,660	685,951
Shares held for employee options, net	24	-	-	(47,664)
Shareholders' equity		11,500,238	11,621,068	12,726,853
Tier I Sukuk	23	2,000,000	1,785,000	1,785,000
Total equity	28	13,500,238	13,406,068	14,511,853
Total liabilities and equity		97,964,766	96,069,908	101,953,029

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

		Three month period ended		Six month period ended	
	Notes	Jun. 30, 2019	Jun. 30, 2018 Restated	Jun. 30, 2019	Jun. 30, 2018 Restated
Special commission income		974,569	876,994	1,969,607	1,716,831
Special commission expense		414,573	303,598	828,535	579,274
Net special commission income		559,996	573,396	1,141,072	1,137,557
Fee income from banking services, net		67,464	77,570	156,193	163,480
Exchange income, net		40,838	37,101	70,264	68,700
Dividend income		-	5,254	-	5,254
Unrealized fair value through profit and loss		(6,631)	(24,289)	(4,452)	(22,200)
Realized fair value through profit and loss		1,456	2,052	1,931	4,577
Gains (losses) on FVOCI debt securities, net		(25)	-	195	40
Other income		3	-	90	-
Total operating income		663,101	671,084	1,365,293	1,357,408
Salaries and employee-related expenses		144,288	147,603	298,288	295,783
Rent and premises related expenses		34,528	40,615	65,363	83,889
Depreciation and amortization		35,071	25,618	69,847	49,743
Other general and administrative expenses	27	74,142	59,430	149,459	109,462
Provisions for credit and other losses	27	750,995	64,208	828,215	152,753
Total operating expenses		1,039,024	337,474	1,411,172	691,630
Operating income (loss)		(375,923)	333,610	(45,879)	665,778
Share in earnings of associates	9	29,843	27,944	50,695	57,009
Income (loss) before provisions for Zakat and Income Tax		(346,080)	361,554	4,816	722,787
Provisions (Reversals) for Zakat and Income Tax	25,28	(61,340)	24,776	8,108	40,000
Net income (loss)	28	(284,740)	336,778	(3,292)	682,787
Basic and diluted earnings (losses) per share (expressed in SAR per share)	19	(0.48)	0.40	(0.09)	0.86

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 COMPREHENSIVE INCOME (Unaudited)
Amounts in SAR'000

	Notes	Three month period ended Jun. 30, 2019	Three month period ended Jun. 30, 2018 Restated	Six month period ended Jun. 30, 2019	Six month period ended Jun. 30, 2018 Restated
Net income (loss)	28	(284,740)	336,778	(3,292)	682,787
Other comprehensive income (loss)					
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		(15,115)	57,714	(20,891)	3,772
Actuarial gains on defined benefit plans		633	-	2,584	-
Items that can be reclassified to the interim consolidated statement of income in subsequent periods:					
Net change in fair value of debt instruments held at fair value through other comprehensive income		(6,139)	(50,243)	212,501	(159,278)
Fair value (gains) losses transferred to interim consolidated statement of income on disposal of debt securities		25	-	(195)	(40)
Share in other comprehensive loss of associates	9	-	-	(283)	(567)
Total other comprehensive income (loss)		(20,596)	7,471	193,716	(156,113)
Total comprehensive income (loss)		(305,336)	344,249	190,424	526,674

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

		Six month period ended June 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 loss		-	-	-	-	(3,292)	(3,292)	-	(3,292)
Total other comprehensive income		-	-	-	193,716	-	193,716	-	193,716
Total comprehensive income (loss)		-	-	-	193,716	(3,292)	190,424	-	190,424
Treasury shares purchased	26	-	-	(253,531)	-	-	(253,531)	-	(253,531)
Tier I Sukuk proceeds	23	-	-	-	-	-	-	215,000	215,000
Tier I Sukuk Costs		-	-	-	-	(57,723)	(57,723)	-	(57,723)
Balances at the end of the period		7,500,000	4,928,000	(1,041,067)	1,660	111,645	11,500,238	2,000,000	13,500,238

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)

		Six month period ended June 30, 2018 (SAR'000)							
	Notes	Share capital	Statutory reserve	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		-	-	-	682,787	-	682,787	-	682,787
Total other comprehensive loss		-	-	(156,113)	-	-	(156,113)	-	(156,113)
Total comprehensive income		-	-	(156,113)	682,787	-	526,674	-	526,674
Gains on sales of FVOCI equity investments	7	-	-	(73,402)	73,402	-	-	-	-
Foreign shareholder Income Tax Reimbursement		-	-	-	6,683	-	6,683	-	6,683
Dividends paid	20	-	-	-	(450,000)	-	(450,000)	-	(450,000)
Net movement in shares held for employee options	24	-	-	-	-	10,605	10,605	-	10,605
Tier I Sukuk proceeds	23	-	-	-	-	-	-	1,000,000	1,000,000
Tier I Sukuk Costs		-	-	-	(38,620)	-	(38,620)	-	(38,620)
Balances at the end of the period		7,500,000	4,563,000	25,566	685,951	(47,664)	12,726,853	1,785,000	14,511,853

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 CASH FLOWS (Unaudited)
Amounts in SAR'000

	Notes	Six month period ended June 30, 2019	June 30, 2018 Restated
OPERATING ACTIVITIES			
Net income (loss)	28	(3,292)	682,787
Adjustments to reconcile net income (loss) to net cash provided from operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		21,135	24,024
Net change in accrued special commission income		36,616	(13,802)
Net change in accrued special commission expense		60,814	(24,073)
Net change in deferred loan fees		12,617	(7,245)
Gains on FVOCI debt securities, net		(195)	(40)
Fair value through profit and loss unrealized gains		4,452	22,200
Fair value through profit and loss realized gains		(1,931)	(4,577)
Depreciation and amortization	17	69,847	49,743
Gains on sales of property, equipment, and intangibles		(90)	-
Provisions for credit and other losses	27	828,215	152,753
Share in earnings of associates	9	(50,695)	(57,009)
Share based provisions	24	-	3,600
		977,493	828,361
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(44,297)	32,685
Due from banks and other financial institutions maturing after three months from acquisition date		(22,517)	(255,412)
Loans and advances		1,649,203	(485,587)
Positive fair values of derivatives		388,904	(413,509)
Other assets		(510,714)	10,654
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,243,819	3,182,277
Customers' deposits		3,101,732	4,381,172
Negative fair values of derivatives		(418,853)	276,552
Other liabilities		108,840	(43,743)
		6,473,610	7,513,450
Zakat and Income Tax payments, net		(351,984)	(43,526)
Net cash provided from operating activities		6,121,626	7,469,924
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments		782,434	990,521
Purchases of investments		(2,494,031)	(2,465,019)
Dividends received from associates	9	83,960	108,272
Acquisitions of property, equipment, and intangibles	17	(77,937)	(63,953)
Proceeds from sales of property, equipment, and intangibles		350	-
Net cash used in investing activities		(1,705,224)	(1,430,179)

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	Six month period ended June 30, 2019	June 30, 2018 Restated
FINANCING ACTIVITIES			
Purchases of shares for employee options, net	24	-	3,058
Dividends paid	20	-	(450,000)
Vesting of employee share options, net	24	-	3,947
Treasury shares purchased	26	(253,531)	-
Proceeds from Tier I Sukuk	23	215,000	1,000,000
Redemption of Subordinated debt	14	(2,000,000)	-
Tier I Sukuk costs		(57,723)	(38,620)
Net cash provided from (used in) financing activities		(2,096,254)	518,385
Net increase in cash and cash equivalents		2,320,148	6,558,130
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		4,503,172	5,444,306
Net increase in cash and cash equivalents		2,320,148	6,558,130
Cash and cash equivalents at the end of the period	5	6,823,320	12,002,436
Supplemental special commission information			
Special commission received		2,006,223	1,812,495
Special commission paid		759,031	779,570
Supplemental non-cash information			
Total other comprehensive income (loss)		193,716	(156,113)
Adoption of IFRS 9 on January 1, 2018		-	(822,556)
Adoption of IFRS 16 on January 1, 2019	4	246,601	-

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 six month periods ended June 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 June 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 six month period ended June 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 August 8, 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 has changed for the periods 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 Treatment

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 six month period ended June 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 six month period ended June 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.

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

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Cash on hand	741,643	736,763	928,477
Reverse repurchase agreements with SAMA	1,384,000	977,000	5,673,000
Other balances with SAMA, net	(188,598)	(59,061)	(211,608)
Cash and balances with SAMA before statutory deposit	1,937,045	1,654,702	6,389,869
Statutory deposit with SAMA	3,261,527	3,217,230	3,299,520
Cash and balances with SAMA	5,198,572	4,871,932	9,689,389

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

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Cash and balances with SAMA excluding statutory deposit	1,937,045	1,654,702	6,389,869
Due from banks and other financial institutions maturing within three months from the date of acquisition	4,886,275	2,848,470	5,612,567
Cash and cash equivalents	6,823,320	4,503,172	12,002,436

6. Due from banks and other financial institutions, net

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Current accounts	546,011	797,185	830,028
Money market placements	4,430,953	2,123,215	5,040,247
Total due from banks and other financial institutions	4,976,964	2,920,400	5,870,275
Allowance for credit losses	(1,276)	(2,703)	(4,651)
Due from banks and other financial institutions, net	4,975,688	2,917,697	5,865,624

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 June 30, 2019 and 2018 and as of December 31, 2018 is summarized as follows:

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Investment grade	4,974,968	2,917,319	5,357,671
Non-investment grade	1,996	3,081	512,604
Total due from banks and other financial institutions	4,976,964	2,920,400	5,870,275

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Balances at the beginning of the year/period	2,703	13,564	13,564
Provision for credit losses	(1,427)	(10,861)	(8,913)
Balances at the end of the year/period	1,276	2,703	4,651

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 six month periods ended June 30, 2019 and 2018 is summarized as follows:

	Jun. 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	(1,298)	(129)	-	(1,427)
Balances at the end of the period	1,038	238	-	1,276

	Jun. 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	(8,285)	(628)	-	(8,913)
Balances at the end of the period	4,382	269	-	4,651

Amounts in SAR'000

7. Investments

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Fixed rate debt securities	22,889,649	20,732,211	18,461,269
Floating rate debt securities	3,283,452	3,470,253	4,112,214
Total debt securities	26,173,101	24,202,464	22,573,483
Equities	235,495	261,381	181,773
Mutual funds	125,173	131,626	206,681
Other securities	40,695	42,642	44,712
Investments	26,574,464	24,638,113	23,006,649

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

As of June 30, 2019, investments include SAR 11.1 billion (December 31, 2018: SAR 7.8 billion, and June 30, 2018: SAR 5.4 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 June 30, 2019 (December 31, 2018: SAR 8.6 million, and June 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 six month period ended June 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 six month period ended June 30, 2018.

The Bank also holds additional strategic investments in equities totaling SAR 226.8 million as of June 30, 2019 (December 31, 2018: 250.6 million, and June 30, 2018: SAR 171.8 million) including the Mediterranean and Gulf Cooperative Insurance and Reinsurance Co., SIMAH (Saudi Credit Bureau), and the Saudi Company for Registration of Finance Lease Contracts.

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Grades 1-6	26,169,417	24,198,778	22,572,796
Grades 7-9	3,684	3,686	687
Total debt securities	26,173,101	24,202,464	22,573,483

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Balances at the beginning of the year/period	75,480	64,977	64,977
Provision for credit losses	(38,349)	10,503	8,787
Balances at the end of the year/period	37,131	75,480	73,764

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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 six month periods ended June 30, 2019 and 2018 is summarized as follows:.

	Jun. 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	(38,347)	(2)	-	(38,349)
Balances at the end of the period	33,447	3,684	-	37,131

	Jun. 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	8,100	687	-	8,787
Balances at the end of the period	73,077	687	-	73,764

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Unrealized gains (losses) on revaluation of debt securities at FVOCI before allowance for credit losses	22,056	(228,599)	(6,705)
Allowance for credit losses on debt securities at FVOCI	37,131	75,480	73,764
Unrealized gains (losses) on revaluation of debt securities at FVOCI after allowance for credit losses	59,187	(153,119)	67,059
Unrealized losses on revaluation of equities held at FVOCI	(60,083)	(39,192)	(41,900)
Actuarial gains on defined benefit plans	2,584	-	-
Share of other comprehensive income (loss) of associates	(28)	255	407
Other reserves	1,660	(192,056)	25,566

Amounts in SAR'000

8. Loans and advances, net

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

	Jun. 30, 2019 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	34,024,960	2,066,177	13,774,522	49,865,659
Stage 2	4,082,875	1,131,506	330,212	5,544,593
Stage 3	1,066,509	826,160	2,551	1,895,220
Total performing loans and advances	39,174,344	4,023,843	14,107,285	57,305,472
Non performing loans and advances	659,588	639,456	285,803	1,584,847
Total loans and advances	39,833,932	4,663,299	14,393,088	58,890,319
Allowance for credit losses	(791,653)	(704,864)	(466,685)	(1,963,202)
Loans and advances, net	39,042,279	3,958,435	13,926,403	56,927,117

	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

	Jun. 30, 2018 (Unaudited)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	33,308,482	3,604,567	15,669,952	52,583,001
Stage 2	4,793,704	890,181	117,219	5,801,104
Stage 3	1,107,500	681,192	29,262	1,817,954
Total performing loans and advances	39,209,686	5,175,940	15,816,433	60,202,059
Non performing loans and advances	126,214	546,233	136,825	809,272
Total loans and advances	39,335,900	5,722,173	15,953,258	61,011,331
Allowance for credit losses	(843,823)	(519,012)	(317,987)	(1,680,822)
Loans and advances, net	38,492,077	5,203,161	15,635,271	59,330,509

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Balances at the beginning of the year/period	1,795,576	1,718,082	1,718,082
Provision for credit losses	774,412	220,514	89,315
Write-offs, net	(606,786)	(143,020)	(126,575)
Balances at the end of the year/period	1,963,202	1,795,576	1,680,822

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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 six month periods ended June 30, 2019 and 2018 is summarized as follows:

	Jun. 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	(39,341)	16,383	47,711	749,659	774,412
Write-offs	-	-	-	(606,786)	(606,786)
Balances at the end of the period	300,280	151,839	667,011	844,072	1,963,202

	Jun. 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	18,031	(3,106)	25,362	49,028	89,315
Write-offs	-	-	-	(126,575)	(126,575)
Balances at the end of the period	312,981	121,272	727,360	519,209	1,680,822

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 six month periods ended June 30, 2019 and 2018, and for the year ended December 31, 2018, is summarized as follows:

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Balance at the beginning of the year / period	1,012,366	993,340	993,340
Share in earnings	50,695	126,145	57,009
Dividends	(83,960)	(108,273)	(108,272)
Share of other comprehensive loss	(283)	(722)	(567)
Investments	-	1,876	-
Balance at the end of the year / period	978,818	1,012,366	941,510

Amounts in SAR'000

9. Investments in associates – (continued)

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

	Jun. 30, 2019 (Unaudited)			Jun. 30, 2018 (Unaudited)		
	AMEX	ORIX	AMLAK	AMEX	ORIX	AMLAK
Total assets	452,525	430,143	1,093,413	397,639	478,450	1,009,372
Total liabilities	276,097	103,293	723,494	225,723	165,529	651,053
Equity	176,428	326,850	369,919	171,916	312,921	358,319
Total income	96,065	22,178	28,525	93,585	22,367	27,560
Total expenses	64,882	10,975	13,000	60,850	15,640	12,091

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 June 30, 2019 and 2018 and as of December 31, 2018 is summarized as follows:

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Property and equipment, net			
Land and buildings	1,072,952	1,072,952	1,072,952
Leasehold improvements	167,836	159,745	150,162
Furniture, equipment and vehicles	494,839	489,581	479,760
Right of Use leased assets	265,291	-	-
Total cost	2,000,918	1,722,278	1,702,874
Less accumulated depreciation	(877,109)	(824,600)	(786,408)
	1,123,809	897,678	916,466
Projects pending completion	4,927	5,211	7,770
Property and equipment, net	1,128,736	902,889	924,236

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Information Technology intangible assets, net			
Software and software development costs	353,080	315,901	287,753
Less accumulated amortization	(168,284)	(152,388)	(138,198)
	184,796	163,513	149,555
Projects pending completion	56,340	44,694	36,084
Information Technology intangible assets, net	241,136	208,207	185,639

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11. Other assets, net and other liabilities

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Customer and other receivables	241,831	40,849	27,043
Prepaid expenses	39,921	69,542	56,699
Others	30,707	32,382	119,530
Total other assets	312,459	142,773	203,272
Less allowance for credit losses	(334)	(565)	(586)
Other assets, net	312,125	142,208	202,686

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Balances at the beginning of the year / period	565	276	276
Provision for credit losses	(231)	289	310
Balances at the end of the year/period	334	565	586

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 Restated (Audited)	Jun. 30, 2018 (Unaudited)
Accrued Zakat and Income Tax, net (note 28)	573,873	907,171	55,387
Accrued salaries and employee related benefits	172,231	356,807	309,134
Lease liabilities	232,752	-	-
Allowance for credit losses for financial guarantee Contracts (note 16)	224,224	165,320	202,048
Accrued expenses and other reserves	169,431	158,412	162,926
Customer related liabilities	113,680	174,435	150,565
Deferred fee income	11,503	13,422	15,984
Others	131,885	40,836	42,352
Other liabilities	1,629,579	1,816,403	938,396

12. Customers' deposits

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Time deposits	35,330,212	37,037,991	39,195,832
Savings deposits	1,863,691	1,529,185	3,755,442
Total special commission bearing deposits	37,193,903	38,567,176	42,951,274
Demand deposits	28,506,803	24,113,708	27,295,009
Other deposits	1,143,084	1,008,985	1,054,468
Customers' deposits	66,843,790	63,689,869	71,300,751

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 June 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.

	Jun. 30, 2019 (Unaudited)			Dec. 31, 2018 (Audited)			Jun. 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	2,287	1,627	4,554,852	9,781	6,802	2,919,605	45,284	27,243	4,371,296
Foreign exchange options	287	287	750,040	4,408	4,408	848,020	440	440	1,123,230
Commission rate swaps	149,651	150,888	9,544,812	198,425	199,306	9,152,106	195,623	195,475	9,778,338
Commission rate options	286,376	286,376	9,096,100	187,979	187,979	6,896,619	153,678	153,678	5,596,140
Held as fair value hedges:									
Commission rate swaps	26,089	555,971	13,401,838	242,456	102,209	12,252,404	363,100	18,356	9,829,536
Associated company put option	410,491	-	-	417,991	-	-	410,421	-	-
CSA / EMIR cash margins	(20,971)	(906,984)	-	184,203	-	-	(80,483)	-	-
Totals	854,210	88,165	37,347,642	1,245,243	500,704	32,068,754	1,088,063	395,192	30,698,540

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 June 30, 2019, the CSA and EMIR net cash collateral amounts held by counterparties totaled SAR 886 million (December 31, 2018: SAR 184.2 million). As of June 30, 2018, the CSA and EMIR net cash collateral held by the Bank totaled SAR 80.5 million.

The positive and negative fair values of derivatives including CSA and EMIR cash margins have been netted/offset when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to 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 June 30, 2019 and 2018 and as of December 31, 2018 are summarized as follows:

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Letters of credit	2,193,664	2,190,347	2,119,143
Letters of guarantee	8,737,222	8,948,406	8,233,141
Acceptances	609,941	657,927	697,918
Total financial guarantee contracts	11,540,827	11,796,680	11,050,202
Irrevocable commitments to extend credit	1,023,291	558,942	398,262
Credit-related commitments and contingencies	12,564,118	12,355,622	11,448,464

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Stage 1	10,491,870	10,838,500	10,084,181
Stage 2	601,153	622,477	533,515
Stage 3	447,804	335,703	432,506
Total	11,540,827	11,796,680	11,050,202

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 six month periods ended June 30, 2019 and 2018 and for the year ended December 31, 2018 is summarized as follows:

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Balances at the beginning of the year/period	165,320	138,794	138,794
Provision for credit losses	58,904	26,526	63,254
Balances at the end of the year/period	224,224	165,320	202,048

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

	Jun. 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	(96)	(14,147)	73,147	58,904
Balances at the end of the period	103,943	16,991	103,290	224,224

	Jun. 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	6,504	9,456	47,294	63,254
Balances at the end of the period	105,185	24,132	72,731	202,048

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.

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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 June 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 June 30, 2019 and 2018, and its total operating income, expenses, and net income for the six month periods then ended, are as follows:

	Jun. 30, 2019 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	21,423,785	35,410,319	37,914,626	378,933	2,837,103	97,964,766
Total liabilities	20,163,373	6,129,640	57,254,404	11,041	906,070	84,464,528
Net special commission income	380,614	919,820	(165,163)	11,175	(5,374)	1,141,072
FTP net transfers	(53,189)	(362,195)	419,517	-	(4,133)	-
Net FTP contribution	327,425	557,625	254,354	11,175	(9,507)	1,141,072
Fee income (loss) from banking services, net	27,841	64,895	46,404	25,697	(8,644)	156,193
Other operating income (loss)	35,560	23,814	72,651	2,313	(66,310)	68,028
Total operating income (loss)	390,826	646,334	373,409	39,185	(84,461)	1,365,293
Direct operating expenses	143,731	32,260	17,146	33,196	20,505	246,838
Indirect operating expenses	144,529	67,223	124,367	-	-	336,119
Provisions for credit and other losses	421,919	412,152	(40,565)	(197)	34,906	828,215
Total operating expenses	710,179	511,635	100,948	32,999	55,411	1,411,172
Operating income (loss)	(319,353)	134,699	272,461	6,186	(139,872)	(45,879)
Share in earnings of associates	-	-	50,695	-	-	50,695
Income (loss) before provisions for Zakat and Income Tax	(319,353)	134,699	323,156	6,186	(139,872)	4,816
Property, equipment, and intangibles additions	45,131	230	89	44	32,443	77,937
Depreciation and amortization	23,895	340	72	2,599	42,941	69,847

Amounts in SAR'000

17. Operating segments – (continued)

	Jun. 30, 2018 (Unaudited)					
	Retail Banking	Corporate Banking	Treasury and Investments	Asset Management and Brokerage	Other	Total
Total assets	22,491,151	35,916,856	37,598,658	428,080	5,518,284	101,953,029
Total liabilities	23,688,342	10,590,266	51,221,731	57,334	1,883,503	87,441,176
Net special commission income	399,623	813,482	(85,274)	10,874	(1,148)	1,137,557
FTP net transfers	29,652	(361,717)	337,900	-	(5,835)	-
Net FTP contribution	429,275	451,765	252,626	10,874	(6,983)	1,137,557
Fee income (loss) from banking services, net	78,305	106,564	87,866	35,067	(144,322)	163,480
Other operating income (loss)	32,357	24,465	54,291	2,081	(56,823)	56,371
Total operating income (loss)	539,937	582,794	394,783	48,022	(208,128)	1,357,408
Direct operating expenses	190,969	35,483	18,079	34,525	-	279,056
Indirect operating expenses	104,077	56,745	98,999	-	-	259,821
Provisions for credit and other losses	36,124	116,445	(126)	310	-	152,753
Total operating expenses	331,170	208,673	116,952	34,835	-	691,630
Operating income (loss)	208,767	374,121	277,831	13,187	(208,128)	665,778
Share in earnings of associates	-	-	57,009	-	-	57,009
Income (loss) before provisions for Zakat and Income Tax	208,767	374,121	334,840	13,187	(208,128)	722,787
Property, equipment, and intangibles additions	34,572	193	35	128	29,025	63,953
Depreciation and amortization	22,171	533	82	1,293	25,664	49,743

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 condensed consolidated financial statements 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 June 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.

	Jun. 30, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	443,719	410,491	854,210
Investments at FVOCI	18,936,427	6,999,856	472,313	26,408,596
Investments at FVTPL	125,173	-	40,695	165,868
Total	19,061,600	7,443,575	923,499	27,428,674
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	88,165	-	88,165
Total	-	88,165	-	88,165

Amounts in SAR'000

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	131,625	-	42,643	174,268
Total	16,955,928	7,994,212	933,216	25,883,356
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	500,704	-	500,704
Total	-	500,704	-	500,704

	Jun. 30, 2018 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	677,642	410,421	1,088,063
Investments at FVOCI	14,568,651	7,714,316	472,289	22,755,256
Investments at FVTPL	206,681	-	44,712	251,393
Total	14,775,332	8,391,958	927,422	24,094,712
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	395,192	-	395,192
Total	-	395,192	-	395,192

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 June 30, 2019 interim consolidated statement of income, which was estimated using valuation models, is SAR 7.5 million loss (30 June 2018: SAR 24.9 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 120.5 million as of June 30, 2019 (June 30, 2018: SAR 101.3 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 39.3 million as of June 30, 2019 (June 30, 2018: SAR 49.0 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 25.8 million as of June 30, 2019 (June 30, 2018: SAR 30.5 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 six month periods ended June 30, 2019 and 2018, and for the year ended December 31, 2018 is summarized as follows:

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Fair values at the beginning of the year/period	933,216	948,687	948,687
Net change in fair value	(7,785)	(11,811)	(19,688)
Investments sold	(1,932)	(3,660)	(1,577)
Fair values at the end of the year/period	923,499	933,216	927,422

Amounts in SAR'000

18. Fair values of financial instruments – (continued)

The estimated fair values of financial assets and financial liabilities as of June 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:

	Jun. 30, 2019 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions, net	4,975,688	4,975,688
Loans and advances, net	56,927,117	59,340,407
Total	61,902,805	64,316,095
Financial liabilities:		
Due to banks and other financial institutions	13,890,315	13,890,315
Customers' deposits	66,843,790	65,660,899
Term loans	2,012,679	2,012,679
Total	82,746,784	81,563,893

	Dec. 31, 2018 (Audited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions	2,917,697	2,917,697
Loans and advances, net	59,412,529	60,622,336
Total	62,330,226	63,540,033
Financial liabilities:		
Due to banks and other financial institutions	12,620,832	12,620,832
Customers' deposits	63,689,869	62,332,038
Term loans	2,030,371	2,030,371
Subordinated debt	2,005,661	2,005,661
Total	80,346,733	78,988,902

	Jun. 30, 2018 (Unaudited)	
	Carrying values	Estimated fair values
Financial assets:		
Due from banks and other financial institutions	5,865,624	5,865,624
Loans and advances, net	59,330,509	60,950,659
Total	65,196,133	66,816,283
Financial liabilities:		
Due to banks and other financial institutions	10,793,140	10,793,140
Customers' deposits	71,300,751	69,836,501
Term loans	2,009,436	2,009,436
Subordinated debt	2,004,261	2,004,261
Total	86,107,588	84,643,338

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 six month periods ended June 30, 2019 is calculated by dividing net income adjusted for Tier I Sukuk costs by 686.9 million and 690.3 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 six month periods ended June 30, 2018 is calculated by dividing net income adjusted for Tier I Sukuk costs by 750.0 million shares respectively.

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 June 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.

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Credit Risk RWA	77,473,616	79,561,316	77,133,971
Operational Risk RWA	4,794,695	4,794,695	4,605,140
Market Risk RWA	1,383,373	2,062,510	1,176,187
Total Pillar- I RWA	83,651,684	86,418,521	82,915,298
Tier I Capital	13,975,477	14,045,818	15,151,603
Tier II Capital	540,826	2,649,509	2,514,366
Total Tier I plus Tier II Capital	14,516,303	16,695,327	17,665,969
Capital Adequacy Ratios:			
Tier I Ratio	16.71%	16.25%	18.27%
Tier I plus Tier II Ratio	17.35%	19.31%	21.31%

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

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Total Equity	13,500,238	13,406,068	14,511,853
IFRS 9 transitional adjustment	493,534	658,045	658,045
Goodwill adjustment	(18,295)	(18,295)	(18,295)
Tier I Capital	13,975,477	14,045,818	15,151,603
Tier II Subordinated debt	-	2,000,000	2,000,000
Qualifying general provisions, net	540,826	649,509	514,366
Tier II Capital	540,826	2,649,509	2,514,366
Tier I and Tier II Capital	14,516,303	16,695,327	17,665,969

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 June 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 June 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:

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Management of the Bank and/or members of their immediate family:			
Loans and advances	28,771	97,154	79,713
Customers' deposits	241,861	401,349	201,819
Tier I Sukuk	6,000	2,000	2,000
Commitments and contingencies	100	6,067	3,568
Principal shareholders of the Bank and/or members of their immediate family:			
Due from banks and other financial institutions	-	-	23,557
Loans and advances	-	-	-
Customers' deposits	5,846,371	5,965,847	5,956,289
Subordinated debt	-	700,000	700,000
Commitments and contingencies	-	-	40,121
Treasury shares	787,536	787,536	-
Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting:			
Loans and advances	696,752	654,756	493,923
Customers' deposits	1,831,387	1,485,375	73,387
Commitments and contingencies	164,851	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	2,866	62,093	147,629

Amounts in SAR'000

22. Related party disclosures – (continued)

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

	Jun. 30, 2019 (Unaudited)	Jun. 30, 2018 (Unaudited)
Management of the Bank and/or members of their immediate family:		
Special commission income	188	48
Special commission expense	1,010	28
Fee income from banking services	22	2
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission expense	13,864	12,914
Rent and premises-related expenses (Building rental)	3,826	3,826
Affiliates of the Bank and entities for which the investment is accounted for by the equity method of accounting:		
Special commission income	14,210	7,207
Special commission expense	2,858	58
Fee income from banking services	1,591	2,788
Board of Directors and other Board Committee member remuneration	3,916	3,455

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 June 30, 2019 and 2018 and as of December 31, 2018:

	Jun. 30, 2019 (Unaudited)	Dec. 31, 2018 (Audited)	Jun. 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.

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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 six month period ended June 30, 2018, and for the year ended December 31, 2018 is summarized as follows:

	Dec. 31, 2018 (Audited)	Jun. 30, 2018 (Unaudited)
Balances at the beginning of the year / period	(58,269)	(58,269)
Shares sold	16,651	3,058
Share based provisions	5,400	3,600
Share based vesting / granting movement, net	36,218	3,947
Balances at the end of the year / period	-	(47,664)

25. Zakat and Income Tax

The Bank's share capital and percentages of ownership as of June 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 belo ownership percentages:

	Jun. 30, 2019 (Unaudited)		Dec. 31, 2018 (Audited)		Jun. 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:						
J.P. Morgan International Finance Limited	-	-	-	-	562.5	7.5
Mizuho Corporate Bank Limited	-	-	187.5	2.5	187.5	2.5
Treasury shares (note 26)	750.0	10.0	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 six month periods ended June 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 six month periods ended June 30, 2019 and 2018 is summarized as follows:

	Three month period ended		Six month period ended	
	Jun. 30, 2019	Jun. 30, 2018	Jun. 30, 2019	Jun. 30, 2018
Provisions (Reversals) for Zakat	(62,284)	18,355	6,343	24,684
Provisions for Income Tax	944	6,421	1,765	15,316
Provisions (Reversals) for Zakat and Income Tax	(61,340)	24,776	8,108	40,000

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 six month period ended June 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 six month period ended June 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 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.

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27. Operating expenses

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

	Three month period ended		Six month period ended	
	Jun. 30, 2019	Jun. 30, 2018	Jun. 30, 2019	Jun. 30, 2018
Provisions for credit losses:				
Due from bank and other financial institutions (Note 6)	(885)	(7,077)	(1,427)	(8,913)
Investments (Note 7)	(35,456)	(8,375)	(38,349)	8,787
Loans and advances (Note 8)	752,692	62,371	774,412	89,315
Financial guarantee contracts (Note 16)	34,796	17,269	58,904	63,254
Other assets (Note 11)	(152)	20	(231)	310
Provisions for credit losses	750,995	64,208	793,309	152,753
Provisions for real estate losses	-	-	34,906	-
Provisions for credit and other losses	750,995	64,208	828,215	152,753

Other general and administrative expenses totalling SAR 149.5 million for the six month period ended June 30, 2019 include non-recurring expenses totalling approximately SAR 20.5 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 six month periods ended June 30, 2018 is summarized below:

	Three month period ended June 30, 2018	Six month period ended June 30, 2018
Net income as previously reported	361,554	722,787
Less the effect of the retroactive application of the new Zakat and Income Tax Policy	24,776	40,000
Net income as restated	336,778	682,787

The basic earnings per share for the three month and six month periods ended June 30, 2018 as a result of the retroactive application of the new Zakat and Income Tax Policy reduced by SAR 0.03 per share and SAR 0.05 per share respectively.

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