BANQUE SAUDI FRANSI

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BOLD STRATEGY BACKED WITH A NEW LEADERSHIP TEAM

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STRONG OPERATIONAL PERFORMANCE AND OPERATING PROFIT

Read more on page 44 >>

FOCUS ON BUILDING NEW EXPERIENCES FOR CUSTOMERS

Read more on page 22 >>

Highlights

REVENUE

6,799m

2018	6,799m
2017	6,576m

OPERATING EXPENSES (BEFORE PROVISIONS)

2,291m

2018	2,291m
2017	2,387m

BASIC EARNINGS PER SHARE

2.76

2018	2.76
2017	2.94

PROFIT FOR THE FINANCIAL YEAR

3,307m

2018	3,307m
2017	3,532m

COVERAGE RATIO

112%

2018	112%
2017	100%

NET INTEREST MARGIN

2.7%

2018	2.7%
2017	2.4%

OVERVIEW

Chairman's Statement

BUILDING ON SOLID FOUNDATIONS

I am honoured to present to you the 2018 Annual Report for Banque Saudi Fransi.

In the pages that follow, you will read a story of achievement and success that was accomplished despite a difficult economic environment.

Building on the proud 41-year heritage of the Bank, during 2018 we put the challenges of 2017 behind us and took a number of exciting and important steps as an evolving diversified bank that delivers value every day to our customers, shareholders, employees and partners.

These efforts reflect how our actions – both internally and externally – remain aligned with, and support, Saudi Vision 2030 and the bold agenda the government has set for Saudi Arabia.

During 2018, the new management team and a reorganised operating structure of the Bank delivered solid results. Revenues reached SAR 6.8 billion, up 3% from last year, driven in part by the growth in net interest income and capital gain related to the sale of BSF's stake in Allianz Saudi Fransi, which offset lower fee income. Net-interest income grew by 8%, compared with 2017, driven by interest rate rises and asset price optimisation. As a result, the ratio of net-interest income to non-interest income was 3-to-1.

The Bank had 1% decline in net loans, despite a large increase in Retail Banking net loans, which grew by 24%. This increase was fuelled by a major focus on mortgages. We would have delivered a strong net income result despite the subdued market environment, but for a one-time credit loss impairment charge of SAR 958 million. As a result, for the year, net income declined 6.4% to SAR 3,307 million.

In parallel with the delivery of these results, the Bank took important steps in the areas of risk management and corporate governance. Through new frameworks and structures, we reinforced a culture of risk management across the bank, and set clear policies and procedures concerning the delegation of authority. Complementing these steps was a strengthening of the Bank's audit and compliance capabilities.

One of the most exciting and important outcomes for the year was development of the Bank's new Leap Strategy, a five-year plan that not only helps frame some of the changes mentioned above, but also gives us a roadmap for the future. At its core, Leap looks to build on our strong foundations and spur further revenue growth and diversification. While continuing to expand core strengths such as Corporate Banking, we will add new focus to grow our capabilities and market share in Retail Banking and drive digital transformation for enhanced customer experience.

The success of this strategy will be championed by exceptional leaders across every business unit and department, enabled by our talented people, and supported by a strong and committed Board of Directors.

I would like to close by recognising that every achievement is the result of collaboration. Our success as a Bank, both today and in the future, is a collective effort, and so I offer my thanks, not only to my fellow Board members for their oversight and wisdom, but also to our business partners, shareholders, regulators and employees for their trust in the past, present and future of Banque Saudi Fransi.

"ONE OF THE MOST EXCITING AND IMPORTANT OUTCOMES FOR THE YEAR WAS DEVELOPMENT OF THE BANK'S NEW LEAP STRATEGY, A FIVE-YEAR PLAN THAT NOT ONLY HELPS FRAME SOME OF THE CHANGES MENTIONED ABOVE, BUT ALSO GIVES US A ROADMAP FOR THE FUTURE."

OVERVIEW

At a Glance

PROVIDING UNIVERSAL BANKING SERVICES TO OUR CUSTOMERS

BUILT ON STRENGTH – FIT FOR THE FUTURE

Throughout our 41-year history, Banque Saudi Fransi has been a cornerstone of the Saudi banking sector, providing the financial advisory and services that have been fundamental to the sustained stability and growth of the organisations and individuals at the heart of the Kingdom's economy.

Building on our trusted, long-term customer relationships and our commitment to continuous, customer-focused innovation, we have progressively developed a comprehensive suite of market-leading products and award-winning platforms.

Today, we are never far from our customers, with our 3,027-strong workforce spread across our Riyadh headquarters, regional offices in Jeddah, Riyadh and Al-Khobar, and 86 branches, creating positive change in countless communities across the Kingdom.

With our strengthened leadership team driving our new strategy focused on enhancing our core, while unlocking shareholder value through strategic growth beyond our core and digital transformation for greater efficiency and customer experience, we Leap into the future with purpose and confidence.

OUR MISSION

To become the most modern, innovative and experience focused bank in the region.

OUR VALUES

TRUE TO OURSELVES, ALWAYS

We are honest with one another, even at the risk of temporary disharmony. It is never personal.

US BEFORE ME

We put ideas before ego and leverage the expertise of others.

KEEP IT SIMPLE

We strive to make everything we do as simple as possible. We set our people up for success and then get out of their way. We own it.

WINNING IS FUN

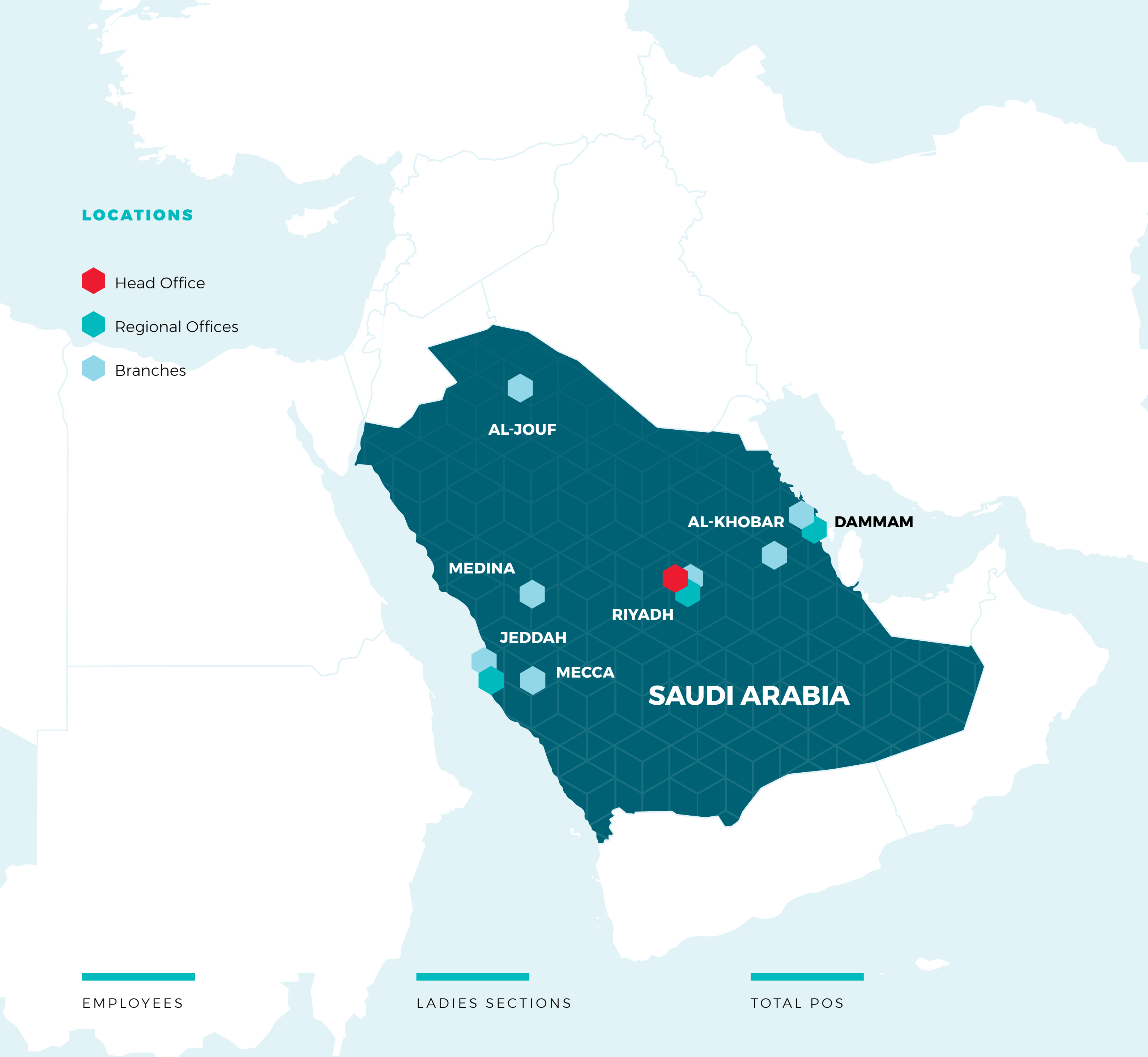
We seek to be number one in the hearts and minds of our people, customers and shareholders. We have limitless ambition and the drive to win.

WE ARE BSF

Always putting the needs of our people, customers, shareholders and society ahead of our own personal agenda. We are a community that we defend and protect, always.

THINK BIG, ACT QUICK

We think long-term in our decisions, but we make them quickly and have a bias towards action.



EMPLOYEES

3,027

LADIES SECTIONS

19

TOTAL POS

18,025

TOTAL ATM NETWORK INCLUDING CASH ACCEPTANCE MACHINES

594

REGIONAL OFFICES

3

FULL-FLEDGED BRANCHES

87

INCLUDING 1 DEDICATED SELF-SERVICE CENTRE

MEASURING OUR SUCCESS

We've defined our strategic drivers around consistently delivering shareholder value, resilience, efficiency, outstanding customer experience, and a gold standard workplace for our employees.

We will track and report them to our shareholders.

Read more about our KPIs on page 16

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MD & CEO's Message

BUILDING ON OUR STRENGTHS

It gives me great pleasure to present you with our 2018 Annual Report, the first since I became MD & CEO of Banque Saudi Fransi – one of the Kingdom's oldest and most important financial institutions.

As this report demonstrates, the Bank's current and future success is built on a strong foundation of effective products and services; unyielding customer service; and longstanding, trusted relationships with clients, employees, government, regulators and partners.

The year 2018 was one of change for our nation and for our Bank. As an organisation, we placed renewed focus on customer experience, strategy and digital enablement to support our growth in our traditional areas of strength, such as Corporate Banking, and promising areas of opportunity, such as Retail Banking.

These are challenging economic times, complicated by a rapidly changing financial landscape at home and abroad that is being shaped by shifting consumer behaviour and the ongoing digital transformation of financial services. Against this background, we have delivered on our plan to carry out a range of significant organisational changes that will drive financial performance, expand our market position and maintain the strength of our balance sheet.

POSITIONED TO 'LEAP'

Guiding these changes is a new five-year strategy called "Leap". In developing Leap, we took a careful look at our business in the context of current market realities and government priorities, as well as future opportunities. Its five strategic pillars reflect where we are now and how we will change. In brief, Leap will see us solidify our leadership position in Corporate Banking, scale up our offerings and expand our reach in Retail Banking, optimise our already leading position in Private Banking, reinforce our ongoing strength in Global Markets, and digitise the operations and customer experience of the Bank.

In order to activate Leap across the organisation, we have put significant thought into what we would like to define BSF (i.e. our Mission). The objective is to have a single and simple sentence that summarises our aspiration as a leading bank in the Kingdom.

We have also developed a new set of values that will drive the delivery of Leap's objectives. These values are both engaging and easy to remember, catering for the Kingdom's young demographics. Creating more immediacy for our employees regarding our values will strengthen our corporate culture, thereby contributing to the softer factors of our strategy, which are as important as our financial targets.

STRUCTURED FOR GROWTH

In 2018, we built on our strengths as one of the largest corporate banks in the Kingdom, bolstering our organisation at every level and charting a path for future growth. With a focus on increasing transparency across our operations, we began implementing major structural changes, which are set to improve efficiency at all levels and support our ongoing business transformation and success. Reflecting the Leap strategy, our reorganisation is designed to support our customer experience goals, including the delivery of integrated services, enhanced customer tools and customer experience measurement.

These steps are most noticeable in two important internal mergers completed this year: incorporating Business Banking into Corporate Banking and combining Wealth Management and High-Net-Worth Banking to form Private Banking. The Bank will achieve operational synergies and cost savings through these steps, but the more significant outcome is to position us to better serve our customers.

We can now enhance our relationship management and improve internal communication to unlock cross-selling opportunities, while delivering a more integrated overall banking experience. Examples of this include ensuring a close alignment between Private Banking and Corporate Banking, and the ability of the new Private Banking team to offer a unified set of specialised services to our high net-worth clients.

Our plan to build on the strong growth in Retail Banking will be achieved by broadening its focus to address the whole retail sector, building capacity, implementing new policies and systems, and adding new segmentation and incentives.

STRATEGIC REPORT

MD & CEO's Message continued

We have also focused on the governance and structure of our subsidiaries by ensuring we have the right level of ownership and representation in these companies. We have solidified our ownership and control in the entities that are directly linked to our core business. We have also captured value by selling an 18% stake in Allianz Saudi Fransi (ASF), thereby recording a meaningful capital gain during the year. Allianz, in return, has taken majority control in ASF, bringing it closer to their core competency as one of the largest insurance companies globally.

DELIVERING STRONG RESULTS

Our numbers help tell this year's positive story, despite the various headwinds we experienced. Our strong client franchise helped drive our record revenue of SAR 6.8 billion, a growth of 3.4% compared to last year's results. This was driven by strong net interest income growth as well as capital gains related to the ASF stake sale, offsetting the lower fee income we experienced during the year.

As we faced some market challenges, particularly in the Corporate Banking business, we have focused our efforts on cost reduction to protect the Bank's profitability. This resulted in year-on-year cost reduction of 4%. We wouldn't have been able to achieve this without cost discipline across the entire organisation.

The strong revenue growth and cost control have resulted in a record operating income before provisions of SAR 4.5 billion, which represents a growth of 7.5% compared to last year. This clearly demonstrates the operating strength of our franchise.

Despite our record operating profit, we recorded a decline in net profit of 6.4%, which was driven by a significant impairment charge related to a single corporate client in the construction contracting sector. In response, we have put in place a well-received strategy to manage such incidents and a robust risk management approach.

Our Corporate Banking business was negatively impacted by subdued demand, including a 1% decline in loans compared to last year. However, we maintained our strong market share and leading role within the segment. This was demonstrated by being a key player in several high-profile transactions in 2018. Similarly, we maintained our Private Banking leadership position by continuing to develop new products that were well-received by our customers.

With the Bank's focus on growing Retail Banking, I'm pleased to note that Retail Banking sales increased by 12.8% and net income jumped 91.8%. These numbers were driven by a 5% growth in personal loans and 56% growth in home loans, while reducing our retail operating expenses by 5%.

Despite the challenges of constrained liquidity and low credit growth in the market, our Global Markets Group maintained its position as the market leader in Saudi Riyal interest rate derivatives and structured solutions. Similarly, while capital markets were relatively weak during the year, our Investment Banking entity, Saudi Fransi Capital, performed well, achieving 7.5% growth in its net profits to SAR 104 million.

Across the Bank as a whole, we delivered a return on equity of 10.7% and a return on assets of 1.7%. We continued to maintain a prudent, well-structured balance sheet that is well capitalised and well equipped for the future. At year-end, we had robust Capital Adequacy Ratios of 19.8% (Tier I + Tier II) and 17.7% (Tier I).

LOOKING TO TOMORROW

At the same time as we were implementing institutional changes, we were also making adjustments at the leadership level. With the appointment of a number of experienced executives to key roles across the Bank, we have introduced fresh perspectives to complement the deep expertise that we already have at all levels and in all divisions of our organisation.

As a result, by the end of 2018, the Bank had assembled the leadership, the knowledge and the capabilities to build on our proud history and take advantage of a resumption in the growth cycle expected in the coming years. Banque Saudi Fransi is entering the next stage of its evolution as a modern, innovative and experience-focused bank. We have a new mission and a renewed commitment to serving the people, the companies and the national goals of Saudi Arabia.

In that context, I am particularly proud of the Saudi identity our leadership carries for the first time at Banque Saudi Fransi. I have great confidence in my team, which, incidentally, has a record percentage of Saudis, and wish to thank them for all their hard work and dedication. I also would like to thank our exceptional Board of Directors for their ongoing guidance and support.

Finally, I would like to thank the regulators and also acknowledge our shareholders and customers, who continue to place their assets and their trust in this organisation. Your confidence energises us every day to fulfil our mission to be a beacon of what a bank can be and to contribute to strengthening the Kingdom's place in the global economy.

Strategic targets

MARKET SHARE
10%

ROA
2.3%

NPS
#1

Business Model

DRIVING OUR BUSINESS GROWTH

OUR FRONTLINE BUSINESSES

Institutional Banking Group

- Corporate Banking
- Private Banking
- Islamic Banking
- Global Transactions Banking
- Financial Institutions

Retail Banking Group

SUPPORTED BY:

- Finance
- HR
- Operations, IT, Premises and Procurement
- Legal

Global Markets Group

Subsidiaries

Saudi Fransi Insurance Agency

Saudi Fransi Capital

Saudi Fransi Leasing

Risk

Internal Audit

Compliance

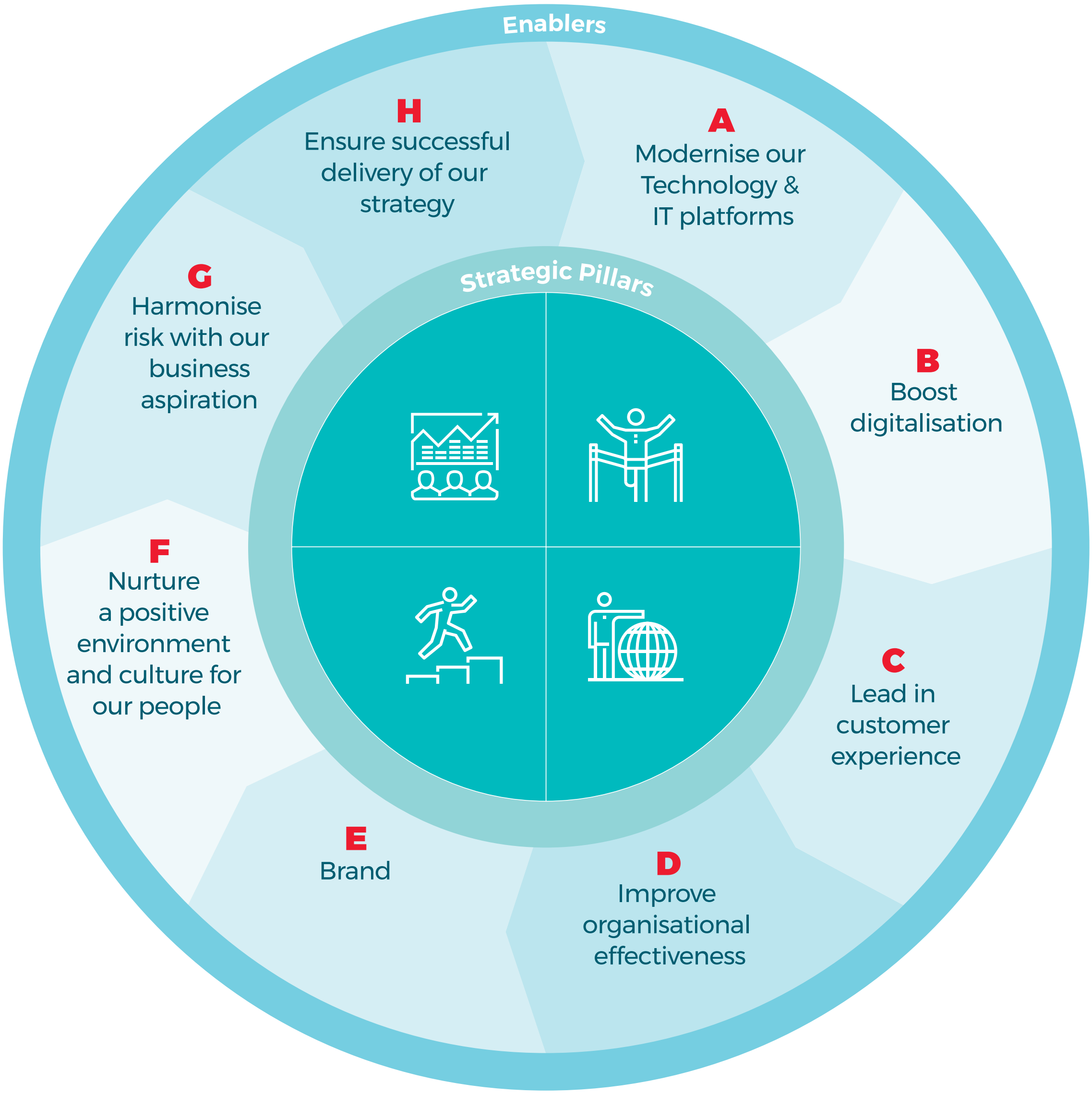
Strategy and Digital, Customer Experience, Change and Marketing

Our Strategy

DRIVING OUR BUSINESS GROWTH

Chief Strategy & Digital Officer
Mike Cunningham

To achieve and sustain 10% market share in the Kingdom by becoming the most modern, innovative and experience focused bank in the region.



OUR STRATEGIC PILLARS	OUR AMBITIONS
Solidify our leadership position in Corporate Banking	- Grow with the market - Protect our market share - Boost our returns and profitability - Be the best in client service and loyalty
Scale up in Retail Banking	- Double down on Affluent, grow the asset base and increase our number of active customers - Become a sizeable player in Mass, grow the asset base 4x and double our active customers - Boost our returns and profitability - Be the best in client service and loyalty - Align our cost-to-income ratio with the market
Optimise our leading position in Private Banking	- Protect our leading position and preserve our market share of liabilities - Double digit increase our customer base - Boost our returns and profitability - Be the best in client service and loyalty - Align our cost-to-income ratio with the market
Reinforce our continued growth of Global Markets	- Sustain top position and increase our market share of assets - Be at the forefront of innovation of new products and solutions

MEASURING SUCCESS

Shareholder darling

Resilience

Efficiency

Best customer experience

Best place to work

To find out about how we measure our strategic progress, turn overleaf for our Key Performance Indicators.

Key Performance Indicators

MEASURING OUR SUCCESS

STRATEGIC DRIVER
Shareholder darling

KPI #1

Total shareholder return (TSR)

Calculated as the growth in share price plus dividends paid to our shareholders during the year.

14.16%

STRATEGIC LINKS

ENABLERS

A B C D E F G H

Return of average equity (ROAE)

Calculated as the profit attributable to our equity shareholders as a percentage of average shareholder's equity. To increase ROAE, we focus on growing our business where risk-adjusted returns are maximised and capital is efficiently deployed.

10.7%

STRATEGIC LINKS

ENABLERS

A B C D E F G H

STRATEGIC DRIVER
Resilience

KPI #2

Basic earning per share (EPS)

Net of our cost of risk, we will deliver consistent bottom line income and returns for our shareholders, with no surprises.

2.76

STRATEGIC LINKS

ENABLERS

A B C D E F G H

Dividend per share (DPS)

DPS is the sum of declared dividends issued by a company for every ordinary share outstanding. The figure is calculated by dividing the total dividends paid out by a business, including interim dividends, over a period of time by the number of outstanding ordinary shares issued.

1.70

STRATEGIC LINKS

ENABLERS

A B C D E F G H

We've defined our strategic drivers around consistently delivering shareholder value, resilience, efficiency, outstanding customer experience, and gold standard workplace for our employees.

We will track and report them to our shareholders.

STRATEGIC DRIVER
Efficiency

KPI #3

Cost-to-income Ratio

Calculated by dividing our operating expenses by our operating income. The more we re-engineer our process, focus on digital, optimise our costs and increase our top line, the better this will become.

33.7%

STRATEGIC LINKS

ENABLERS

A B C D E F G H

STRATEGIC DRIVER
Best Customer Experience

KPI #4

Net Promoter Score (NPS)

NPS is based on the likelihood that customers will recommend BSF to family or a friend. NPS is calculated as the percentage of customers who are promoters, rating BSF a 9 or a 10 on a 0 to 10 point scale, minus the percentage who are detractors, rating us a 6 or lower.

In 2018, BSF created a baseline NPS measurement in order to track customer satisfaction moving forward and ensure that the bank achieves its mission to be the most experience focused bank in the region.

Going forward, we will report the delta from the baseline NPS measurement.

STRATEGIC LINKS

ENABLERS

A B C D E F G H

STRATEGIC DRIVER
Best place to work

KPI #5

Employee Net Promoter Score (ENPS)

ENPS is based on the likelihood that employees will recommend BSF to family or friends as a place to work. ENPS is calculated as the percentage of employees who are promoters, rating BSF a 9 or a 10 on a 0 to 10 point scale, minus the percentage who are detractors, rating us 6 or lower.

In 2018, BSF created a baseline ENPS measurement in order to track employee satisfaction moving forward and ensure that the bank remains a great place to work.

Going forward, we will report the delta from the baseline ENPS measurement.

STRATEGIC LINKS

ENABLERS

A B C D E F G H

Risk

BUILDING ON SOLID RISK MANAGEMENT PRACTICES

Chief Risk Officer
Ravishanker Visvanathan

BSF makes it a priority to protect its reputation, stakeholders and assets by effectively preparing for and mitigating significant risks across our organisation. We adopt contemporary risk management principles issued by the Basel Committee for Banking Supervision (BCBS) of Bank of International Settlements (BIS) and follow all applicable regulations issued by Saudi Arabian Monetary Authority (SAMA).

Our Risk Management Framework was established to ensure strong risk management awareness and culture, and to inculcate these practices in day-to-day business activities and responsibilities. It provides the foundation and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation.

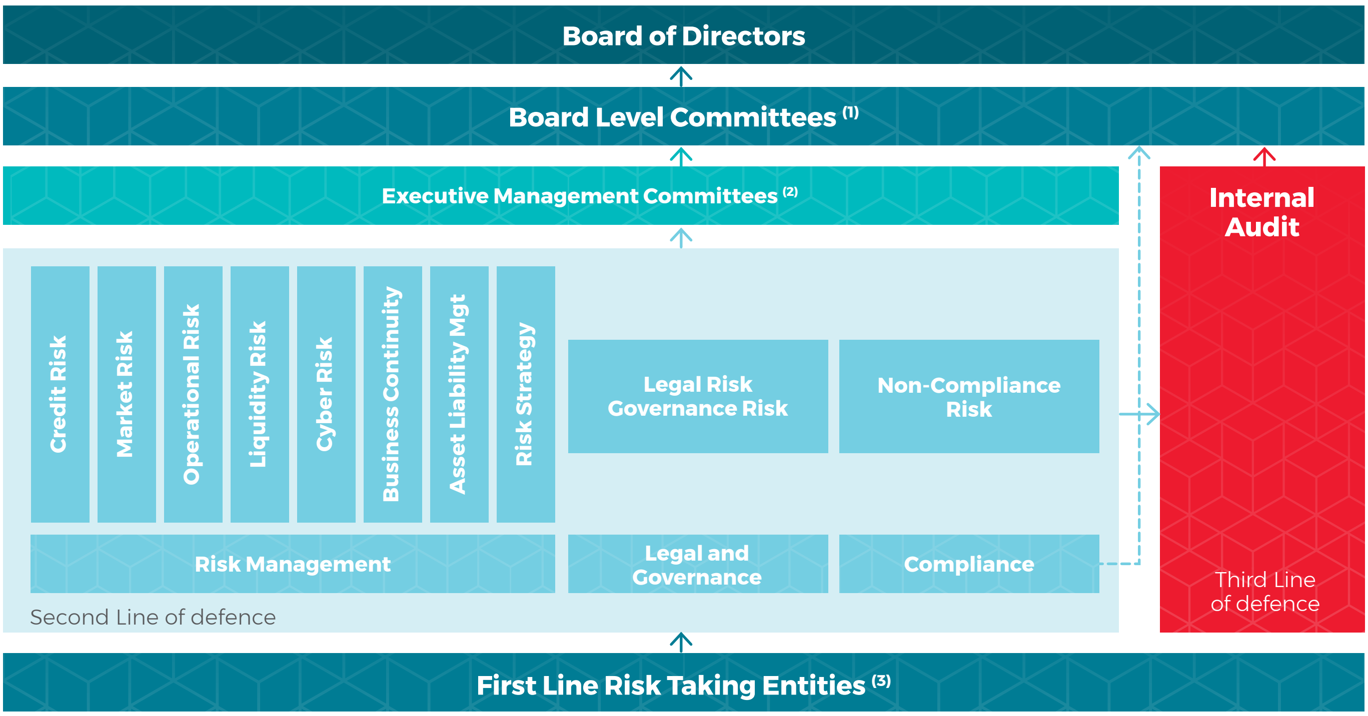
This is further augmented by a range of structured enablers for risk management, using clearly defined risk language and processes, integrated approach and lifecycles, and internal control systems within the organisation.

RISK GOVERNANCE

BSF's approach is to identify, analyse and respond appropriately to all risks. The risk responses selected are determined by the approved appetites and tolerances for various types of risk. These will evolve over time according to the specific business objectives, including strategic, operational and asset protection.

The effectiveness of risk management and control measures is regularly reported to and acted upon by the Board. In addition, periodic independent review on the effectiveness will be conducted. The Risk Governance Framework includes a strong risk culture, adequately developed risk appetite framework articulated through the Risk Appetite Statement, and well-defined responsibilities for risk management and control functions, under the three lines of defence model.

Risk Management at BSF is governed as follows:



BSF's Board of Directors has ultimate responsibility for the Bank's business, strategy and financial soundness, as well as its management and compliance obligations.

The Risk Committee of the Board of Directors is responsible for advising the Board on the Bank's overall current and future risk appetite, overseeing senior management's implementation of the Risk Appetite Statement, reporting on the state of risk culture, interacting with the CRO and overseeing the adequate functioning of the risk management function.

Meanwhile, under the direction of the Board, the Managing Director and senior management carry out and manage the Bank's activities in a manner consistent with the business strategy, risk appetite, incentive compensation and other policies approved by the Board.

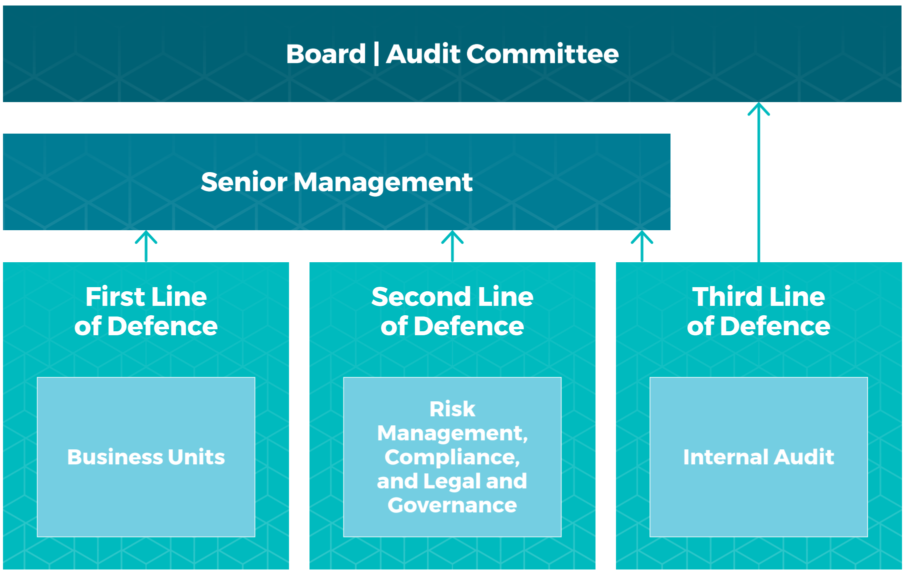
THREE LINES OF DEFENCE

The Board and senior management have the ultimate responsibility for the governance of all risk-taking activities of the Bank.

As the first line of defence, the business units have ownership, responsibility and accountability for assessing, controlling and mitigating risks.

As the second line of defence, the risk management function (and also Compliance & Legal) facilitates and monitors the implementation of effective risk management practices by business and operational management, and assists the risk owners in reporting appropriate risk-related information to the relevant stakeholders. The risk management process includes Risk Identification/Recognition, Risk Assessment (Validation, Measurement and Prioritisation), Risk Monitoring and Risk Mitigation (Controls).

As the third line of defence, the internal audit function, through a risk-based audit approach, provides an independent assurance to the Bank's Board and senior management, on the effectiveness of the risk management process in the Bank, in terms of assessment and management of its risks, including the manner in which the first and second lines of defence operate.



Notes:
1 Board Level Committees – Executive Committee, Board Risk Management Committee, Audit Committee, Nomination & Remuneration Committee and Strategy Committee
2 Executive Management Committees – Asset Liability, Business Continuity, Classification & Impairment, Credit, Fraud Control Liquidity, Information Security Governance, Market Risk, Operational Risk, Treasury Investment
3 First Line – Business Lines (Institutional Banking, Retail Banking, Global Markets) & Support Functions (Finance, Operations, Information Systems, Human Resources)

STRATEGIC REPORT

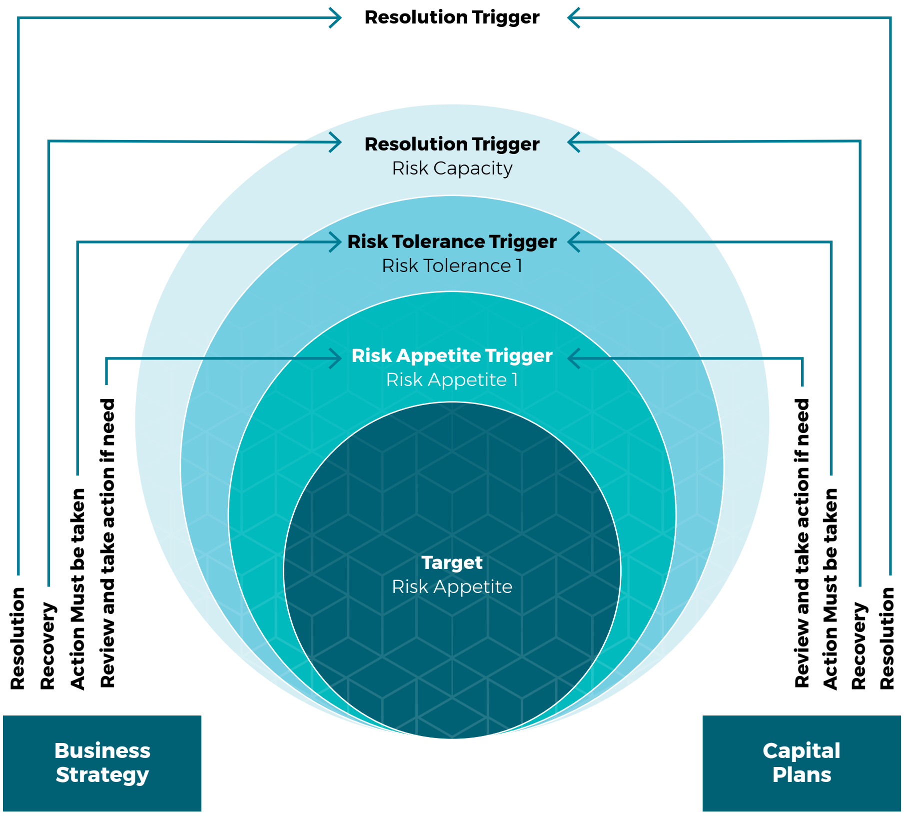
Risk continued

RISK STRATEGY & APPETITE

BSF has established a dedicated Risk Strategy Department under the Risk Management Group, which is responsible for aggregating and developing an enterprise-wide perspective of risks for the purpose of setting risk appetite (with Board approval), risk tolerance for expected losses, and capital and liquidity adequacy, all in the context of the Bank's business strategy and plans (including under stress conditions).

The Risk Appetite Framework sets the governance and main considerations in identification and setting an appetite for risk tolerance. Key risks are identified along with metrics for measurement. The Risk Appetite Statement is developed and refreshed annually after discussions between business lines and risk management, taking into account the business strategy and budget plan.

The Risk Appetite for the year is approved by the Board of Directors at the beginning of the year. The approved risk appetite for the year is cascaded to the different business units, with risk-taking activity and risk levels measured regularly and reported to the Board Risk Committee at quarterly intervals, or earlier if thresholds are breached.



PRINCIPAL RISKS

BSF has identified a range of principal risks that have the potential to cause significant impact to its reputation, operations, financial strength and performance, or key stakeholders. The Bank takes proactive steps to analyse and mitigate these potential threats, which include:

CREDIT RISK

Credit risk is incurred by the Bank in the process of on-balance-sheet lending activity (e.g. loans, overdrafts, etc.) and in offering off-balance-sheet products (e.g. guarantees, letters of credit, derivatives, etc.) to various customer segments, such as business (i.e. corporate) entities, global markets activity (i.e. financial institutions and capital market counterparts), wealth management clients (i.e. high net worth individuals), and retail customers.

BSF's wholesale credit activity (all segments except retail lending) is conducted with origination managed by the respective business units, independent review by Credit Risk Department (under Risk Management Group), and approval at a credit committee. Retail credit activity is managed on a programme basis. Retail lending product development is managed by the Retail Banking Business Unit in coordination with the Retail Risk Department in Risk Management.

Programme risk acceptance criteria for various products are approved and monitored under a governance arrangement with the involvement of both Retail Banking Business Unit and Risk Management.

MARKET RISK

Market risk involves the fair value or future cash flows of financial instruments of the Bank, which fluctuate due to changes in market variables such as interest rates, foreign exchange rates, securities and equity prices.

BSF's Market Risk Department, which reports independently to the Bank's Chief Risk Officer, manages and monitors market risks using various indicators such as Value at Risk (VAR), Stress Testing and Sensitivities analysis. Market Risk activity is governed by the Bank's Market Risk Committee.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk but excluding strategic and reputational risks. Operational Risk Management spans across seven risk event types: Internal Fraud; External Fraud; Employment Practices & Workplace Safety; Clients, Products & Business Practices; Damage to Physical Assets; Business Disruption & system failures; and Execution, Delivery & Process Management.

BSF's Operational Risk Management Department, part of the Risk Management Group, is responsible, as the second line of defence, to develop operational risk management culture, awareness, and risk practices across the Bank to mitigate all potential operational risks.

FRAUD RISK

Fraud risk is defined as any act involving deceit to obtain a direct or indirect financial benefit by the perpetrator or by others with his/her help, causing a loss to the deceived party.

BSF's framework for combating fraud and embezzlement is designed to ensure compliance with regulatory requirements and, moreover, to appropriately mitigate the risk of fraud being conducted on BSF or its customers.

CYBER SECURITY RISK

Cyber security risk is defined as the risk of a failure of preservation of confidentiality, integrity and availability of information in cyberspace. Cyberspace refers to the complex environment resulting from the interaction of people, software and services on the Internet by means of technology devices and networks connected to it, which does not exist in any physical form, according to ISO 27032.

BSF's Corporate Information Security Division designs, implements and maintains a Bank-wide information security programme that protects services, data, people and premises against internal and external security threats.

BUSINESS CONTINUITY RISK

Business Continuity is the process whereby critical operations can continue to function at an acceptable level in the event of a disaster or long-term outage of normal facilities, utilities, systems, and functions.

BSF's business continuity services perform an ongoing process of risk assessment and management with the purpose of ensuring that the business can continue if such risks materialise. The Bank's Business Continuity Charter describes the nature and boundaries of preliminary actions, deliverables and framework of parties involved within the business continuity management practice. It highlights major stakeholders, tasks and measures needed, prepared, implemented, and validated to ensure critical business operations are maintained in the event of disruption.

LIQUIDITY RISK

Liquidity is the ability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable (price) losses. The fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk, both of an institution-specific nature and that which affects markets as a whole.

BSF's Finance Group, under the supervision of the Chief Finance Officer, measures and manages liquidity risk and asset liability maturity gaps. An Internal Liquidity Adequacy Assessment Plan is prepared for regulatory submission annually, and metrics are monitored against the plan and thresholds regularly and duly reported to senior management and the Board Risk Management Committee. The governance for these risks is managed through a Liquidity Committee and Asset Liability Committee (ALCO), which consists of senior management members.

STRATEGIC REPORT

Business Review

INSTITUTIONAL BANKING GROUP

Head of Institutional Banking Group
Mazen Altamimi

INSTITUTIONAL BANKING OVERVIEW

2018 was a successful year of significant change for the Institutional Banking Group, which also delivered some stand-out results despite the subdued economy and market conditions.

The seamless mergers completed during the year within Corporate Banking and Private Banking businesses reflects the executional excellence of these entities, which are both among the largest and most important players in their respective segments. These mergers are already delivering material improvement in customer servicing, operational and bottom-line benefits, while also providing valuable platforms for increased cross-selling between customers of these units.

The mergers also reflect the initial execution of the new five-year Leap Strategy, which includes solidifying our leadership in corporate banking and optimising our position at the top of the private banking industry in the Kingdom.

Corporate banking finished the year with a loan book accounting for 89% of the Bank's loan portfolio and an overall market share of nearly 12%, with results including growth in both revenues and commercial net loans. Private Banking also saw a big jump in revenue.

As it transitioned to a fully-fledged Business Line, Islamic Banking supported the Bank's business lines in the development of new products and developed two programs to build internal and external expertise in Islamic banking. Global Transactions continued to build out both its digital platforms and its POS operations, as it converted major large clients to the Bank's digital platforms and expanded POS terminals by more than 25%.

CORPORATE BANKING REVENUE AFTER LIQUIDITY (SAR)

3.1b

Building on the strength of our relationships

CORPORATE BANKING

Despite a subdued market environment and some credit growth challenges, Corporate Banking achieved notable results during 2018, including an increase in revenues and larger margins. At the same time, they successfully completed a merger of strategic importance between the Bank's Corporate and Business operations. The merger is expected to deliver long-term benefits to both the Bank and its customers.

GROWING REVENUE

For the year, revenue after liquidity costs rose to SAR 3.1 billion, an increase of 3.1% from 2017. This revenue growth is attributable to improved cross-sell and better returns on the liabilities. The assets volumes remained under heavy pressure due to a subdued market growth and the bank's discipline on asset quality.

MERGING TWO MARKET LEADERS

By bringing Corporate and Business Banking under one umbrella, we harmonised and standardised our products and our approach in a manner that ensures we deliver the right solutions to our customers. We now operate using standardised credit criteria, with additional unified support and control functions, and a one-stop front-office and structural upgrade to the entire Corporate Banking offering.

Through this standardisation and integration, cross-selling has been deeply embedded in the business culture. The benefits for customers are clear: comprehensive, integrated solutions to address all the banking and financing requirements they might have.

CORPORATE BANKING

The Corporate Banking Group is one of the largest providers of corporate banking services in the Kingdom. With more than 3,500 customers, Corporate Banking has a relationship-driven focus on serving all our customers' needs. These customers include a commanding share of Saudi Arabia's leading companies. We also serve locally based micro and small and medium sized enterprises. A wide range of products also serve our major international customers who do business in the Kingdom.

OUR SERVICES

Debt Financing Solutions
Term Loans
Working Capital/Short Term Loans
Overdraft
Letters of Credit Post Finance
Conventional/Islamic Financing

Trade Finance Solutions
Letter of Credit/Guarantees
Import/Export Financing.

Structured Finance Solutions
Project Finance
Debt Financial Advisory
Syndicated Loans
Shipping/Aircraft Financing
Acquisition Leveraged Financing
Syndicated Loans Agency Management
Mergers and Acquisitions
IPOs

Cash Management Solutions
Company under Incorporation Account
Operating Account
Term Deposit Account
POS
Virtual accounts and cash collections
BSB business solutions
Payment gateways for online banking

Business Review continued

INSTITUTIONAL BANKING GROUP

CORPORATE BANKING CONTINUED

The segmentation project was finalised, with the allocation of accounts and the focus going forward on improving the customer's experience with day-to-day services such as Trade, Global Markets, and Global Transaction Services, as well as turnaround times.

The effectiveness of these steps was already visible in 2018, as operational and financial synergies of the merger began to show in the form of processes optimisation and cost effectiveness. As we move into 2019 and beyond, the benefits will continue to multiply for the customers and the Bank.

STRUCTURED FINANCE

For institutional and corporate customers, the Bank is a leader in providing sophisticated financing solutions. In 2018, this was reinforced with the Banks' appointment as mandated lead arranger on several multi-billion-dollar and multi-billion-riyal deals for major Saudi companies, including Saudi Electricity Company, Zain KSA, Al Dur IWPP, and the Farabi Petrochemicals Company.

SEGMENTING MSME

In line with the goals of Vision 2030 to support small businesses and Saudi Arabian Monetary Authority (SAMA) mandates, we established the Micro and Small and Medium Enterprises (MSME) business. Focused on entities with a turnover of less than SAR 200 million, MSME reflects our segmentation program to support these customers with features such as dedicated relationship managers and customised banking and financing solutions.

LOOKING AHEAD

Through 2019 and beyond, we will work to execute the Leap Strategy, in part through targeted growth, particularly in sectors highlighted by Saudi Vision 2030 such as trade and manufacturing. We will maintain our market leadership with an eye to institutional, large and mid-sized corporates and MSMEs.

Additional projects to support Leap goals include building out a comprehensive financing portfolio and reinforcing our commitment to transaction banking. New products in this direction include additional structured finance and supply-chain finance solutions. To meet the treasury needs of our corporate customers, we will make the roll-out of new and improved treasury products an equal priority.

The Leap Strategy also is guiding our commitment to deliver the highest standards of customer service and to implement frictionless digital banking solutions that can ensure a fast and hassle-free experience. We aspire to achieve these goals while continuing to improve returns and profitability.

ENHANCEMENT FACILITY – SAUDI ELECTRICITY COMPANY – MANDATED LEAD ARRANGER AND FACILITY AGENT (SAR)

10b

REFINANCING FACILITIES – ZAIN KSA – MANDATED LEAD ARRANGER, GLOBAL COORDINATOR AND INVESTMENT AGENT (USD)

1.76b

REFINANCING – AL DUR IWPP – EXISTING MANDATED LEAD ARRANGER AND IJARA AND MURABAHA INVESTMENT AGENT (USD)

1.3b

COMMERCIAL FINANCING FACILITIES – FARABI YANBU PETROCHEMICAL COMPLEX – MANDATED LEAD ARRANGER AND ACCOUNT BANK (SAR)

2.15b

PRIVATE BANKING

Despite a less-than-optimal economic climate, Private Banking posted exceptional growth in all key areas of the business: deposits, loans and cross-selling, surpassing previous years' revenue figures by a wide margin. It also successfully completed the merger of the previously separate Wealth Management and High Net Worth businesses. The new entity has aligned and consolidated its products and services into a single, seamless offering that sets the unit on a clear path for growth.

DELIVERING BETTER SOLUTIONS AND SERVICE TO CUSTOMERS

We continued to work closely with Saudi Fransi Capital to develop and deliver bespoke valuable and unconventional solutions to our customers for their Wealth Management needs. New international investment solutions were well received, as were several structured, fixed-income products that were developed by the Bank's Global Markets unit. A range of private equity, mutual fund, discretionary portfolio management, cash management, international and local brokerage, and margin trading provided by Saudi Fransi Capital (SFC) also are offered. Reflecting this approach, Private Banking was the largest contributor to SFC's Bonyan REIT Fund, the largest real estate investment trust in Saudi Arabia.

Private Banking is leveraging on BSF's leading Corporate Banking position in KSA. Our expanding client base is also resultant of cross selling from Corporate Banking, the Chairmen, Shareholders and key executives of both local and multinational organizations.

The consolidation of the High Net Worth and Wealth Management banking centres and branches also afforded an opportunity to revamp the look and feel of these offices. Although the broader project is ongoing, during 2018 we upgraded three Private Banking centres – in Khobar (East), Jeddah (West) and Riyadh (Central), and two Private Banking branches – in Jeddah and Riyadh.

BRINGING IT TOGETHER

In the years ahead, we look to grow our leadership position and our client base. We will fuel this through new innovative products and by presenting our products and services in a unified offering to customers. At the same time, we expect to improve the efficiency of our operations to align our cost-to-income ratio with the broader market.

PRIVATE BANKING

Private Banking is one of the largest provider of tailored financial planning, portfolio management and investment advisory solutions in Saudi Arabia. It has achieved this position by helping ultra-high-net-worth, high-net-worth and affluent individuals meet short and long-term investment goals.

Through a commitment to building and managing strong relationships, client trust and loyalty, Private Banking provides solutions that ensure symmetry between income and capital growth, thereby helping clients manage wealth for today and for future generations.

OUR SERVICES

Investments

Non-Commercial-Bearing Deposits
Commercial-Bearing Deposits
Mutual Funds
Structured Products
Third-Party Funds
Local and International Equities
Treasury Products

Credit Facilities

Short- and long-term lending to HNWIs for investment purposes

Business Review continued

INSTITUTIONAL BANKING GROUP

ISLAMIC BANKING

As Islamic Banking developed into a fully functioning department, the unit continued to expand its work with other business lines.

These included the development of a new Islamic legal framework for 17 Institutional Banking Group products. Additionally, it completed a Sukuk audit project and worked with the Bank's legal division to develop legal frameworks for nine new Shari'ah-compliant products. It developed a Shari'ah Scholars Training Program and an Islamic Banking Training Diploma initiative, both of which will launch in the first quarter of 2019.

Overall, Islamic Banking revenue remained largely stable compared with revenue for the prior year.

On an operational level, Islamic Banking developed a client SMS notification system for Murabaha Investment and Tawaruq Finance products, and it automated both call account transactions and the application of Islamic finance penalties. The unit also delivered integration between the Bank's broker platform and the Internal System portal; completed the Murabaha Investment Policies and Procedures for Retail Banking customers; and continued work on developing a Shari'ah-compliant corporate overdraft product.

EXPANDING PRODUCTS

Looking to the future, Islamic Banking will leverage its evolution during 2018 by continuing to help the Bank's business lines introduce Shari'ah-compliant products that meet client and market needs.

ISLAMIC BANKING

Islamic Banking Group helps Banque Saudi Fransi's business lines develop Shari'ah-compliant products and services. It works to execute the Bank's commodity trades that underpin its Shari'ah-compliant financing products. Through consultations and audits of other business lines, Islamic Finance also works to ensure that all the Bank's Shari'ah-compliant products and services remain in compliance with Islamic rules and regulations, and are approved by the Bank's external Shari'ah Board.

OUR SERVICES

Retail Banking
Forward Ijarah + Istisna'
Ijarah Home Finance
Murabaha Home Finance
Tawafoq Credit Cards
Tawaruq Finance
Murabaha Personal Finance

Corporate Banking
Tawaruq Finance
Shari'ah-Compliant call Deposits (Murabaha)
Murabaha Investments
Securitisations
Inventory Finance

Treasury
Islamic Variation Margin
Islamic Swaption

Hedging Products
Wa'ad Strip of Enhanced Forward
Wa'ad Target Redemption Forward
Wa'ad Enhanced Target Redemption Forward
Wa'ad FX Product
Wa'ad FX Product with Flexible Settlement
Wa'ad Profit-Rate Swap
Wa'ad FX Outright

Yield Investment Products
Wa'ad on Benchmarked Murabaha (Yield Enhancement)
Wa'ad on Murabaha Performance
Wa'ad on Fixed-Rate Murabaha
Wa'ad on Cap & Floor Rate with Single Murabaha
Wa'ad on Cap & Floor Rate with Double Murabaha
Wa'ad on Range Accrual Murabaha
Callable Range Accrual Investment Murabaha
Dual-Currency Profit-Rate Structured Product
Profit-Rate Capping Swap
Profit-Rate Collar
Periodic Knock-Out Wa'ad Profit-Rate Swap
Islamic Callable-Range Accrual Swap
Islamic Non-Callable Range Accrual Swap
Islamic Callable Floating-Rate Swap

GLOBAL TRANSACTIONS BUSINESS

Given its central role in helping realise a number of Leap strategy goals, in areas such as digitisation and customer experience, the Global Transaction Business was active during the year in rolling out and expanding its digital channels and POS services.

ENLARGING POS

Banque Saudi Fransi increased its share of POS devices in the market from 6.8% to 7.3% in part by building on key relationships. Transaction volumes increased 27%, while transaction values jumped 10% to SAR 19 billion, representing 8.2% market share.

During the year, we installed 5,525 new terminals, 27% more than were installed last year. This is expected to make a significant contribution to revenues and helped ensure compliance with Saudi Arabian Monetary Authority (SAMA) targets.

GLOBAL TRANSACTION VALUE (SAR)

19b

DELIVERING DIGITAL

During the year, we converted many major corporate customers to our digital platforms. As a result, digital channel use grew by 18%.

POINTING FORWARD

The Leap Strategy identifies digitisation as an important enabler of other key elements of the strategy such as new growth, cross selling and customer experience. As such, Global Transactions will continue to expand and enhance the scale and scope of its digital platforms, manage costs, and grow its POS operations, to serve customers and drive revenue.

BIG NUMBERS FOR FRANSIGLOBAL

- FransiGlobal recorded a year high 112,206 transactions in December 2018.
- A record SAR 2.06 billion in transactions in a single day on 13 December 2018.
- FransiGlobal hit a new record of monthly transactions' value of SAR 18.101 billion in December 2018.

GLOBAL TRANSACTIONS BUSINESS

The Global Transaction Business provides digital banking channels and services to corporate clients. Operating through the three core activities of cash management sales, digital channels development and support, and point-of-sale (POS) operations, we deliver technologically advanced domestic and international payment systems. These systems also support effective cross selling in a manner that deepens the Bank's relationships with its major clients.

OUR SERVICES

Payables Solutions

FransiGlobal
B2B
MA-CUG (Member Administered-Closed User Group)
E-Payroll
Prepaid Cards
Dividends Distribution
Aramco Payment (IPS)
FransiTrade

Receivables Solutions

Fund Collection System
Point of Sale (POS)
SADAD-OLP (Acquirer)
e-Commerce (Fransi e-Pay)
Deposit Only Cards

Business Review continued

RETAIL BANKING GROUP

Head of Retail Banking Group
Mohammed Abdulrahman Alsheikh

RETAIL BANKING OVERVIEW

Retail Banking is one of the Bank's most exciting areas of growth, having achieved strong results across multiple business lines, particularly home finance, affluent banking and personal finance. Customer satisfaction numbers continued to increase, while we earned awards and set the pace for the market with new home finance, digital banking and payment offerings.

OUTSTANDING OPERATING INCOME

Fuelled by a carefully executed strategy, Retail Banking's 2018 operating income increased by 15% and net profits also rose strongly, to SAR 130 million, up from SAR 31 million in 2017.

These results were supported by prudent procurement decisions, which lowered spending by 5.5%, and rising interest rates, which helped increase the net interest margin responsible for 84% of Retail Banking's operating revenue. For the year, operating revenue reached SAR 1.251 billion, up 15% from 2017.

In addition, successes in the card business, digital channels and SADAD services resulted in a 12% increase in fee-based commission income.

HOME FINANCE HIGHLIGHTS

- Home finance portfolio increased by SAR 1.3 billion or 56% from 2017
- One of the first banks to sell the Ministry of Housing's completed and ready-to-occupy units
- Number 1 in sales of the Real Estate Development Fund's (REDF) self-construction product
- Agreements signed or renewed with REDF, the Ministry of Housing's WAFI and various large corporate clients in semi-government and private sector

GROWING ASSET PORTFOLIO

During the year, Retail Banking's assets portfolio expanded SAR 2.3 billion, or 24%, to reach SAR 12 billion. This is largely driven by the bank's growing mortgage business, which supports the Saudi Vision 2030's goal of increasing home ownership to 55% by 2020. Reflecting this success, we sold more of the Real Estate Development Fund's self-construction mortgages than any other bank in the Kingdom and were one of the first Saudi banks to sell the Ministry of Housing's completed and ready-to-occupy homes. By the end of 2018, the home finance portfolio stood at SAR 3.6 billion after rising by SAR 1.3 billion or 56% during the year.

The mortgage business growth was assisted by the launch of a number of new products, including home equity, step-up & step-down, and pensioner products, as well as by a number of agreements formalised with industry partners and government entities. These included an agreement with REDF and the Ministry of Housing's WAFI (Off-plan Sales or Rent

Building on the strength of our retail offerings

Program) regarding off-plan properties. We also launched a programme to help military personnel purchase ready-to-occupy or under-construction homes. In October 2018, the Bank signed a deal with Saudi Real Estate Refinance Company to offer long-term fixed rate mortgages that would enable more Saudis to own a home at a stable rate. Retail Banking also saw growth in its personal finance portfolio, up SAR 357 million, or 5%. Meanwhile, sales production continued its advance, up 8% over last year.

GENERATING CROSS-SELL OPPORTUNITIES

We continually improve our level of cross-selling initiatives by capitalising on the Bank's strength in Corporate Banking. This includes generating new acquisition opportunities for Retail Banking that reinforces its position in the market and by creating consumer mortgage partnerships with large semi-government and private companies that have existing relationships with Corporate Banking.

RETAIL BANKING GROUP

Banque Saudi Fransi's Retail Banking Group offers a wide range of competitive products and services to meet the banking needs of individual clients across the Kingdom.

Through our wide network of branches and ATMs, as well as our award-winning mobile app and digital platforms, we deliver an exemplary customer experience and present products and services to meet the everyday banking needs at each stage of life – whether managing a household, buying a house, preparing for education, raising a family or planning for retirement.

Additionally, we provide an exclusive level of service to our affluent banking customers through dedicated relationship managers, who assist in managing finances and making the most of our banking products and services.

OUR SERVICES

Consumer Assets Products
Home Finance
Personal Finance
Credit Cards

Accounts
Current Accounts
Savings Accounts
Term Deposits
Notice Deposits
MADA Debit Cards
Prepaid Cards

Segmentation Programme
Elite
Privilege
Advance
Classic

Loyalty Programme
JANA

Ladies Banking
ANTEE

Digital Solutions
ATMs, CAMs (Cash Acceptance Machine)
FransiPlus (Retail Internet Banking)
FransiMobile (Mobile Internet Banking)
FransiPhone (IVR Interactive Voice Response)

Services
Local and International Fund Transfers
Account-to-Account Transfers
Standing Orders
SADAD Bill Payment
Government Services Payments
Cash Withdrawals
Cash Deposits
Personal Chequebooks
Cashier Cheques
Demand Draft
Safe Deposit Boxes

STRATEGIC REPORT

Business Review continued

RETAIL BANKING GROUP

ENHANCING DIGITAL BANKING

Reflecting global trends, local consumer preferences and Vision 2030 priorities, the Bank continues to shift its retail services to digital and electronic platforms, and we have put global standards in place to ensure the best possible customer experience. This covers not only FransiPlus and FransiMobile but also FransiPhone and ATMs.

We introduced the new FransiMobile app, which resulted in a 10% jump in mobile app registrations in the months since its launch. The app, which won 'Best Designed App' from the Best Mobile App Awards, is the first mobile app in the Kingdom to offer a virtual credit card and the first to offer services to the visually impaired. In other digital enhancements, we simplified banking for our customers with online ID updating for FransiPlus and FransiPhone, a new convenience that also helps reduce branch traffic. This service will come to FransiMobile in early 2019.

For ATM customers, we further optimised the locations of our machines, looking to expand market coverage; increased their uptime; and enhanced their security features.

PAYMENT INNOVATIONS

As part of these digital enhancements during 2018, we introduced our customers to some of the latest digital payment and mobile wallet solutions. Banque Saudi Fransi was one of the first banks in the Kingdom to implement Mada Pay, a mobile payment service for Android devices that allows customers to make contactless payments linked to their Mada debit or credit cards. We were one of the first three banks to add both Mada Card and Visa Card to the Mada Pay wallet. As well, we partnered with fintech company Halalah, the Kingdom's first digital wallet provider, to offer our customers the convenience of a digital wallet on their phones.

OPERATING INCOME INCREASE

15%

NET PROFIT (SAR)

130m

ASSETS PORTFOLIO VALUE (SAR)

12b

NEW FRANSIMOBILE RAISES THE BAR

- First mobile app in Kingdom to offer Virtual Credit Card
- First mobile app in Kingdom with accessibility to the visually impaired
- Won 'Best Designed App' from the Best Mobile App Awards
- Offline account opening
- Semi-STP on applying and getting pre-approved credit card
- Easy Payment Plan (EPP) conversion, scheduling and termination

LEADING THE REVOLUTION IN MOBILE PAYMENTS

- One of the first banks to implement Mada Pay, a mobile payment service for Android devices that allows customers to make contactless payments linked to their Mada debit or credit cards
- One of the first three banks to add both Mada Card and Visa Card to Mada Pay wallet

EXPANDING PERSONAL OFFERINGS

In support of the role that Saudi women play in our economy's growth, Banque Saudi Fransi is prioritising its women's banking programme 'ANTEE', which enjoys its own identity and branding.

With the diversification and optimisation of our Priority Banking Programme through improved communications and services, we have grown this valuable customer base by 27% since 2017.
In the field of credit cards, we added an Easy Payment Plan for Islamic Cards.

ENRICHING THE LOYALTY EXPERIENCE

A key element of Retail Banking's strategy to keep customers engaged, the loyalty program JANA finished the year with more than 137,000 members, having benefitted in 2018 from an ongoing enrichment process. New features included a dedicated catalogue of Ramadan Iftar/Sohour vouchers at top hotels across the Kingdom; a 'Shop with Your Points' option at Nespresso, which enables JANA members to pay for their purchases by instantly redeeming JANA points; and special offers during the Saudi National Day period. In alignment with the bank's social responsibility priorities, JANA members can now donate their points to two charities: the Charity Committee for Orphan Care (Ensan) and the Saudi Food Bank (Itaam).

We also offered JANA participants many new ways to earn points: through Mada Card local purchases; SADAD account registrations; SADAD bill payments through FransiPhone, FransiPlus and FransiMobile; SADAD bill payments through ATM; and national address registrations.

MEMBERS OF LOYALTY PROGRAMME JANA

137k+

CREATING EXCITED CUSTOMERS

As a result of these efforts, we continued to improve our customer experience ranking and move ahead with confidence that we are on the right path in developing the quality of our products and services. During 2018, the independent KSA Customer Experience Benchmarking survey saw Banque Saudi Fransi significantly enhancing its position, rising to 8th place from 11th.

Meanwhile, our internal surveys showed we attained an average 92% satisfaction rating for the new account opening process, based on 70,000 new account openings, while our Contact Centre's General Service Level reached 94%.

LOOKING AHEAD

Building on our multifaceted efforts in 2018, and inspired by the positive customer feedback, Retail Banking looks to 2019 to further grow our customer base – among both affluent and mass audiences – as well as our consumer assets portfolio. This will be supported by ongoing enhancements to the customer experience and further migrating banking interaction to online and digital. Our mortgage product line will be expanded with the addition of an off-plan product and by enabling a co-borrowers feature. In the area of credit cards, we are preparing to introduce low-limit and multi-currency cards.

Operationally, we are focused on aligning our cost-to-income ratio with the market average and more generally seek to boost both returns and profitability.

STRATEGIC REPORT

Business Review continued

Head of Global Markets Group
Ahmad Hadeed

GLOBAL MARKETS GROUP

GLOBAL MARKETS OVERVIEW

Despite a year characterised by low credit growth and difficult global liquidity, Global Markets not only maintained its position as the market leader in sectors such as Saudi Riyal interest rate derivatives, Shari'ah-compliant derivatives and structured solutions, but also continued to deliver strong overall performance. While foreign exchange volumes were lower because of the subdued domestic economy, Global Markets nevertheless optimised these flows, while focusing on more value-added services, such as capital guaranteed structured deposits and interest rate hedges.

For the year, total revenues decreased by 5% to SAR 1.68 billion, despite a strong sales effort, efficient funding and money market management. Net income dipped slightly by 1.8% to SAR 1.27 billion and there was a 13% decrease in operating expenses that resulted from internal optimisations and system development.

TOTAL REVENUE (SAR)

1.68b

NET INCOME (SAR)

1.27b

REINFORCING GROWTH

As outlined in the Leap Strategy, Global Markets will look to maintain its leadership position in the sector, while increasing its market share in assets. This will be driven by an emphasis on sectors prioritised in Saudi Vision 2030, such as trade and manufacturing, and by special attention to institutional, large corporate, and mid-cap clients.

In addition, our clients will notice an increased commitment to delivering a market-leading customer experience; the continued release of simpler, faster more intuitive digital platforms and services; and easier access to the full range of Bank products and services. These changes are supported by disciplined sales management and cross-selling, which are being enabled through digitisation, and revised internal systems and organisational structures.

GLOBAL MARKETS GROUP

A leader in its sector in Saudi Arabia, Global Markets helps its corporate and high net worth customers manage risks by providing foreign exchange, interest rate and commodities hedging, as well as other derivatives and structured products.

The business connects Banque Saudi Fransi clients with global markets by facilitating trade requirements, and providing market advisory and other tailored solutions, including a range of investment solutions.

Global Markets also supports the Bank's own financing and investment requirements, and plays a critical role in protecting the Bank against foreign exchange and interest rate risks.

OUR SERVICES

Foreign Exchange Products

Spot
Outright Forward
FX Swap
Single currency option

Investment Services

Money Market deposits (short & Long dated)
Capital Guaranteed Structured deposits linked to numerous underlying assets
Local & international bonds/Sukuks

Hedging Services

Range of products designed for specific market conditions, such as:
Foreign exchange structures (combination of several options)
Interest Rate Swap Caps & Floors
Callable floating swaps
Range accrual swaps

Shari'ah-Compliant Services

Profit Rate Swap
Wa'ad on FX Products
Wa'ad on interest rate products
Murabaha

Building on the strength of our global investment solutions

STRATEGIC REPORT

Business Review continued

SUBSIDIARIES

Head of Saudi Fransi Insurance Agency
Mohammed Alroiedy

SAUDI FRANSI INSURANCE AGENCY

2018 was an important year of restructuring and strengthening for Saudi Fransi Insurance Agency (SFIA), during which it introduced new bancassurance products and assured continuous development.

SFIA revised its legal structure and its organisational structure to ensure efficient and streamlined processes and operations that are in compliance with Saudi Arabian Monetary Authority (SAMA) regulations. SFIA took the opportunity afforded by this process to ensure the new structures put in place are positioning the entity for success in the future.

Over the past three years, SFIA generated annual average growth of 22% in Gross Written Premium across all Retail and Corporate bancassurance lines. Correspondingly, the growth in revenues reflected annual average increase of 14%.

To sustain growth and continuous development, SFIA introduced new Bancassurance products, including Motor Insurance and Travel Insurance for Retail; and seven Corporate bancassurance products that add to the existing four Corporate bancassurance products. The new products will address the growing and evolving market demand in these sectors, and reflect SFIA's aim to proactively monitor the market and deliver products to meet customer needs.

Also in 2018, SFIA revised its Distribution Agreements to achieve more profitable and equitable commission sharing and to maximise the commission revenues allowed under SAMA regulation. As with Banque Saudi Fransi itself, SFIA began to develop a new IT infrastructure that will support efficient internal operations and deliver additional benefits and provide e-access to both retail and corporate customers.

BUILDING OUR ORGANISATION AND PRODUCT RANGE IN 2019

In line with the Financial Sector Development Programme of Saudi Vision 2030, SFIA is making it a priority to pioneer new, reliable and flexible bancassurance products and services that also provide the most competitive premium pricing; and to enable 24/7 real-time retail customer service support as part of a broader goal to become a model of customer service for the industry.

To that end, 2019 goals include completing the IT infrastructure development and implementation, finalising and applying SFIA's new business models and processes across the organisation, and rolling out new products. In 2019, these new offerings will include Householders Insurance and Credit Shield Insurance for Retail customers, as well as Premium-Financing Insurance for Corporate clients.

ANNUAL AVERAGE GWP GROWTH

22%

Saudi Fransi Insurance Agency (SFIA), a fully-owned bancassurance subsidiary of BSF, was established in 2010 to promote and sell insurance products to the Bank's existing and prospective customers. SFIA has an exclusive distribution agreement with Allianz Saudi Fransi, a Bank affiliate, to promote and sell its insurance products to Bank customers.

OUR SERVICES

Retail

Protection & Savings:
- Al Ghad (Retirement Protection & Savings Plan)
- Al Anjal (Education Protection & Savings Plan)
- Takaful Al Ghad (Islamic version)
- Takaful Al Anjal (Islamic version)

Motor Insurance:
- Third-Party Liability
- Comprehensive
- Travel Insurance

Corporate
- Marine Cargo Insurance
- Corporate Credit Insurance
- Engineering Insurance
- Property All-Risks Insurance
- Group Medical Health Insurance
- Group Personal Accident Insurance
- Workmen's Compensation
- Motor Fleet Insurance
- Theft/Burglary Insurance
- Money & Fidelity Insurance
- Liability

CEO of Saudi Fransi Capital
Waleed Fatani

SAUDI FRANSI CAPITAL

In a year of market uncertainty, Saudi Fransi Capital (SFC) was in growth mode. Across Investment Banking, Asset Management and Securities Brokerage, SFC extended its market leadership and provided new products to the market. It demonstrated its expertise, whether in underwriting, execution of complex transactions, and development of investment and asset management products.

During 2018, assets under management and institutional brokerage trading continued to build momentum, while we demonstrated to the market what was possible in Saudi Arabia through landmark deals ranging from rights issue offering such as MedGulf to investment products such as the Bonyan REIT.

Following from these accomplishments, the Banque Saudi Fransi subsidiary reported operating revenue of SAR 277.97 million for 2018, up 5% from SAR 263.77 million in 2017, and net income before Zakat and income tax of SAR 111.69 million, up 16% from SAR 96.30 in 2017. Total assets were SAR 2.58 billion in 2018, up 9% from SAR 2.36 billion a year earlier.

With locations across Saudi Arabia, Saudi Fransi Capital is regulated by the Capital Market Authority and is licensed to conduct the full range of investment activities, including dealing, arranging, managing, advising, and custody of securities business.

INVESTMENT BANKING

Investment Banking registered a strong 2018, as it continued to provide industry-leading services to its clients, especially in equity capital markets and mergers and acquisitions. Reflecting this focus, it again captured the top spot in the Equity Capital Markets ranking in Saudi Arabia, with a total of 12 deals valued at SAR 10.6 billion since inception.

This included a number of complex and time-sensitive advisory transactions as financial advisor, underwriter and lead manager, including the MedGulf rights issue. In addition, SFC originated several large equity capital and mergers and acquisitions transactions.

OPERATING REVENUE (SAR)MILLION

278

NET INCOME (SAR) MILLION

112

TOTAL ASSETS (SAR) BILLION

2.58

Saudi Fransi Capital is one of the leading investment banks in the Kingdom, consistently ranked at or near the top of the league tables in equity capital markets, debt capital markets, and mergers and acquisitions – in both advisory and financing.

Investment Banking offers unparalleled execution capabilities for the delivery of complex transactions in challenging circumstances. The business works closely with its clients to identify the best solutions to meet their capital requirements. Clients include local, regional and international corporations, financial institutions, government entities and ultra-high-net-worth individuals.

OUR SERVICES

Equity Capital Markets
Initial Public Offerings
Rights Issue
Private Placements
Cross-Listing for International Firms

Debt Capital Markets
Advising and Arranging Sukuks
Advising and Arranging Bonds
Advising and Arranging Tier II Capital
Advising and Arranging Convertibles

M&A Advisory and Capital Restructuring
Buy-Side Advisory
Sell-Side Advisory

Business Review continued

SUBSIDIARIES

ASSET MANAGEMENT

SFC Asset Management introduced new investment opportunities for its clients, and delivered results that outperformed benchmarks and peers across both Shari'ah-compliant and conventional assets.

Among the highlights of this successful year was the launch of Bonyan REIT with assets of SAR 1.63 billion, the largest real estate investment trust (REIT) in the Saudi market to date. Another important expansion of the product platform through entry into a new segment was the launch of the Saudi Equity Systematic Trading Fund.

BONYAN REIT ASSET VALUE (SAR)

1.63b

SFC Asset Management is one of Saudi Arabia's leading providers of managed investment solutions for individuals, corporations and institutions. Offering a full spectrum of asset classes and geographies, Asset Management facilitates a global investment, open architecture approach for its clients that delivers best-in-breed global investment and advisory solutions.

Asset Management provides in-house managed investment strategies covering local and regional markets, and also works with internationally renowned asset managers to find complementary third-party investment solutions to meet client requirements.

OUR SERVICES

Assets
Equities
Money Markets
Fixed Income
Real Estate
Private Equity
Hedge Funds

Offerings
Public Funds
Private Funds
Discretionary Portfolios
Private Placements

Research and Advisory
Local and Regional Equity
Local and Regional Credit
Global Asset Allocation
External Manager Due Diligence and Selection

SECURITIES BROKERAGE

While maintaining its leading market share in the local securities business, Securities Brokerage made significant progress in growing its institutional business, including in other Gulf Cooperation Council countries. It also substantially increased its base of qualified foreign investor (QFI) clients who are able to trade securities using the newly developed independent custody model function.

For the year, the business not only grew its brokerage market share but also the total value of trades executed at SAR 107.3 billion. Securities Brokerage also signed a number of new custody mandates and increased assets under custody.

During the year, Securities Brokerage supported the Saudi Stock Exchange (Tadawul) in the implementation of new initiatives and participated in regional Tadawul roadshows designed to showcase the attractiveness of the Saudi market. The business also hosted the annual Equities Investment Forum, which was attended by key investors and prominent listed companies.

TOTAL VALUE OF TRADES EXECUTED (SAR)

107.3b

SFC Securities Brokerage is a full-service broker providing superior securities trading and execution services via in-person and digital tools that connect clients with local, regional and international markets. The business is preferred by global financial institutions as their Saudi equities broker of choice. It caters to financial institutions and qualified individuals that require experienced sales trading specialists who provide superior, proactive services, differentiated market insights and real-time execution.

Securities Brokerage provides local and international investors with access to a full range of investment products and services, including conventional margin and Shari'ah-compliant margin lending, research, and seamless securities trading

OUR SERVICES

Securities Brokerage
Saudi Securities
International Securities
Margin Facilities
Fixed Income
Structured Products

Institutional Services
Sales Trading
Fund Administration
Securities Custody
Sukuks, Bonds, and
Pledging Agency
Algorithmic Trading

Equities Research
Daily Reports
Chart Books
Equity Reports
Strategy Reports
Management Summary Notes

CAPITALISING ON FUTURE OPPORTUNITIES

Looking ahead to 2019, Saudi Fransi Capital is committed to growth, as it expands its distribution reach, delivers best-in-class solutions, and implements new capabilities. At the same time, it will keep clients and their needs as its top priority. This client focus will include developing products to meet market demands and providing a one-stop shop where clients can develop optimal portfolios. SFC will look to help its clients benefit from the scheduled inclusion of TASI (Tadawul All Share Index) into the MSCI and FTSE indices during 2019. These goals will be approached, while keeping a clear eye on ensuring that SFC's investment products continue to outperform the market.

As with the rest of the Bank, SFC will continue to roll out industry-leading technologies and digital platforms to improve back-office and operational efficiencies. Technology also will support an improved client experience and enhance the competitive advantage offered by SFC's national reach, strong brands and product diversity. For example, the Securities Brokerage algorithmic trading platform, which will assist institutional clients optimise their orders on the Tadawul, will be launched in 2019.

During the coming years, SFC will move to extend its leadership position by continuing to win landmark mandates, build its share of overall mandates, expand assets under management, and grow its share of local and international securities brokerage. It also will look to launch new products as the market demands, and continue to expand its brokerage and asset management platforms into new segments.

STRATEGIC REPORT

Business Review continued

SUBSIDIARIES

CEO of Saudi Fransi Leasing
Ahmed Al Shammar

SAUDI FRANSI FOR FINANCE LEASING COMPANY

2018 was a very strong year for Saudi Fransi for Finance Leasing Company. It achieved a 27% net profit increase from 2017 to reach SAR 84.4 million on a net portfolio of SAR 2.3 billion, with below 3% non-performing loans, which is well under the industry average.

SFL's strategy during the year was to continue with the consolidation of its income base, strengthening risk management and minimising its risk appetite, while maintaining a quality portfolio with minimal non-performing exposure. While doing so, it continued to enhance customer satisfaction with a focus on the after-sales services that are critical to building long-term relationships with customers.

It also attracted a high number of non-BSF retail customers into BSF's portfolio, which delivered clear opportunities for cross selling and increasing the Bank's retail customer base.

NET PROFIT INCREASE

27%

SAUDI FRANSI FOR FINANCE LEASING COMPANY

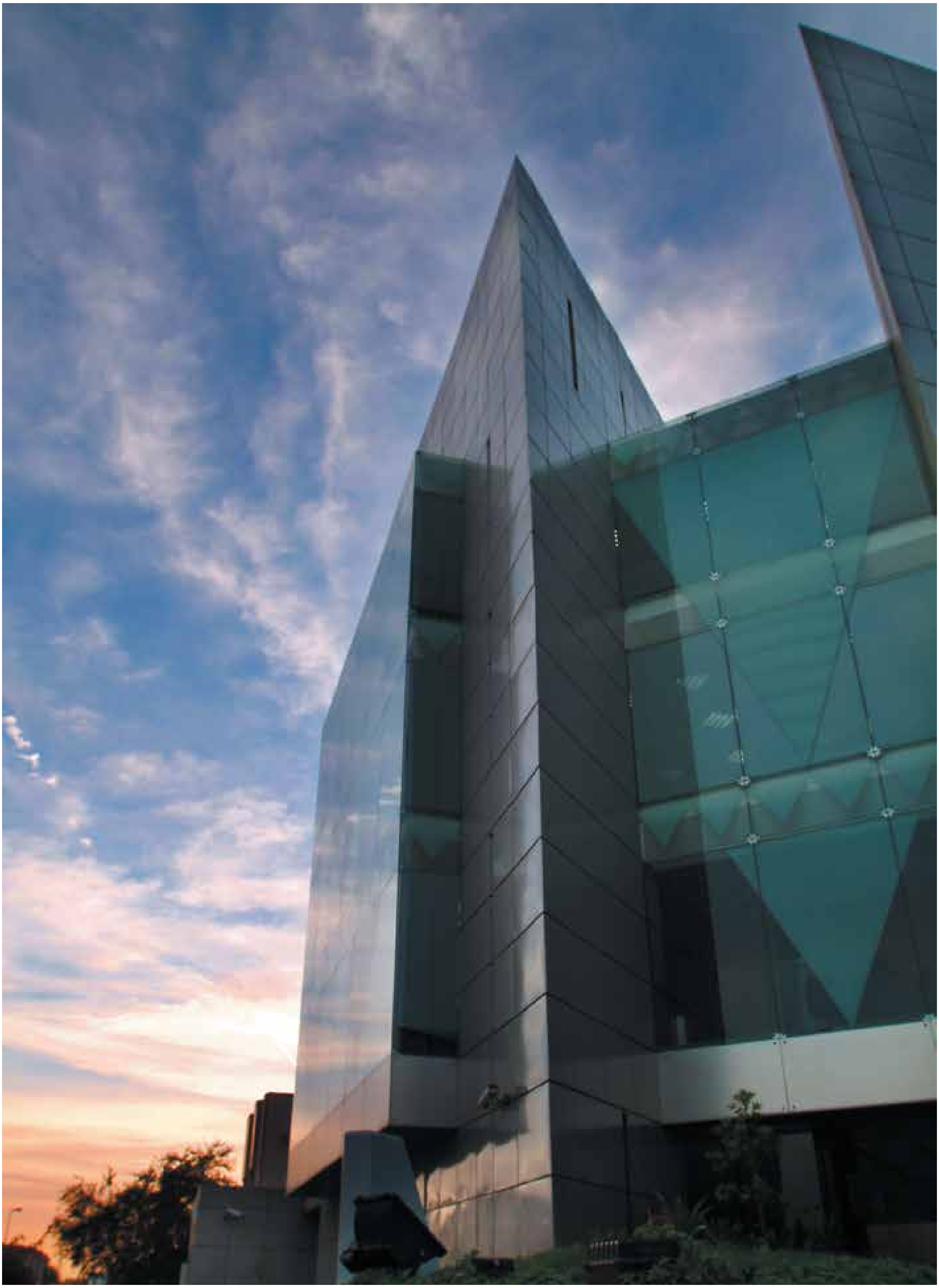
Saudi Fransi for Finance Leasing Company is one of the pioneering companies licensed by SAMA to conduct lease financing activities in the Kingdom, since it was established in 2012 as a wholly owned subsidiary of Banque Saudi Fransi.

The Company carries out its core auto and heavy machinery lease financing business to customers kingdom-wide from its main office in Riyadh as well as two regional branches in Jeddah and Dammam.

SFL SERVICES

The company provides Sharia-compliant finance lease solutions to government, semi-government, individuals, and small and medium size enterprises (SMEs) in sectors ranging from commerce (wholesale & retail), construction and manufacturing to transportation, communication, utilities and health services.

SFL engaged in bilateral business partnerships with all branded car dealers and reputed suppliers to facilitate its increasing finance lease business and to support its expansion plans by extending its business to reach targeted remote areas.



Business Review continued

Chief Operating Officer
Thamer M. Yousef

OUR OPERATIONS

2018 was an important year of accomplishments for Banque Saudi Fransi's operational domains, given the major role they are playing in the Bank's ongoing strategy, including the modernisation of the Bank's IT and technology assets as a key element of the foundation underpinning the Leap Strategy.

Wide-ranging in nature, these efforts included automation, centralisation, and governance enhancements to operations; the completion of more than 60 IT and technology projects, including the launch of an award-winning customer-facing mobile application; implementation of more than a dozen energy-efficiency projects and rationalising facilities management operations that saved significant funds; and making major upgrades to procurement procedures that delivered significant cost savings.

CORPORATE OPERATIONS GROUP

The Corporate Operations Group took wide-ranging steps to improve regulatory controls, efficiencies, and client services for both internal business lines and external bank customers. Credit Administration, Non-Retail Legal Files and Dormancy controls were all new operating units integrated under this group in order to enable better collaboration with other Bank support divisions and business lines.

Specific enhancements included adding three currencies (Turkish Lira, Moroccan Dirham and Chinese Yuan) for clients to transfer, and the introduction of the VISA Claims Resolution system. The Brokerage Operation team concluded eight IPO projects, reflecting the Bank's continued strength in this field; paid dividends verifier 174, distributor 29; and added three new companies to the Company Fund Collection System (ESCROW). Ongoing work to enhance ATM availability brought the Bank's ATM uptime above 96.25%, exceeding the Saudi Arabian Monetary Authority's (SAMA) and the industry's benchmark.

AUGMENTING AUTOMATION

To increase capabilities, reduce turn-around time and costs, and enable process automation, the Corporate Operations Group implemented a number of projects, including one that has enabled full automation and paperless processing of the initiation, authorisation, and management of customer loans and deposits. This was achieved by commissioning the Bank's Authorisation Portal in conjunction with the new release of the Loan and Deposit Sales Portal. The new process helps mitigate operational risks and shorten time to market by using modern workflows integrated with a fully automated tool.

A new Treasury Structured Products Automation system gives the back office a better tool to efficiently process complex client transactions. A new implementation of the Real Estate Escrow Management System (REMS) was released, enabling the Bank to offer proper management of off-plan real estate sales projects in

ATM UPTIME

96.25%

IT AND TECHNOLOGY PROJECTS COMPLETED

60

Building on the strength of our operations

compliance with Saudi Ministry of Housing regulations. In addition, the Off-Plan Real Estate Escrow product unlocks new business opportunities and cross-selling, increases efficiency and controls, and supports digitisation.

Cards services improvements in 2018 included adding Contactless Card Payments, one-time-password enablement on all debit cards for Verified-by-Visa transactions, SMS notifications on debit and credit cards renewals, and SMS notifications for declined transactions. Mada Mobile Wallet and Mada e-Commerce were also added (for details, see Retail Banking).

Using significant automation and new controls, Corporate Operations continued to strengthen its regulatory and compliance enhancements, including implementation of the National Address Initiative, handling the introduction of the Value Added Tax, and addressing Dormancy and Unclaimed Accounts, as mandated by SAMA.

Moreover, automation was used to ensure strong screening, controls, and compliance with sanctions. Similarly, straight-through-processing was used to enable automatic name matching of incoming transfer beneficiaries against account holder names.

Other examples of enhanced efficiencies adopted during 2018 included the region-wide consolidation of the Document Management and Archiving System databases for improved accuracy of data and instant notification to relationship officers regarding client legal file discrepancies. Regarding Collateral Management and Derivatives Clearing, a global reconciliation report was enhanced and is now shared daily with stakeholders, providing sufficient controls and assuring the accuracy of transactions.

Corporate Operations received a 'Straight Through Processing Excellence Award' for the highest rate of automation and efficiency on financial institutions and clients' payments from the Bank's US Dollar correspondent.

INFORMATION SYSTEMS GROUP

For the Information Systems Group (ISG), the year focused on transformation and strategic alignments to deliver best-in-class technology across more than 100 projects and initiatives. The goal was an improved customer experience through improved IT services, greater system stability, regulatory compliance, and faster service. Overall service availability remained a steady 99.69%, while the number of incidents dropped by a substantial 20% to just 51. In addition, ISG successfully concluded an important Business Recovery Process exercise that demonstrated the Bank's IT readiness to meet unforeseen circumstances.

SPARKING RETAIL

ISG supported Retail Banking primarily in the areas of consumer finance and customer relationship management, including enabling instant issuance of credit cards at Bank branches, and for home finance, enabling features linked to the Real Estate Development Fund to help increase the issuance of mortgages. In addition, new IT systems are improving branch operations. To support sales, ISG has delivered retail CRM and campaign management applications.

A range of projects was completed to enhance the digital and technology infrastructure, including developing new digital customer acquisition channels. The system has already obtained SAMA's approval for e-know-your-customer requirements, and the customer journey has been completed.

To improve ATM services, ISG implemented an 'Update ID' feature, and helped launch the award-winning FransiMobile (for details, see Retail Banking). For the Bank's online banking channel, FransiPlus, ISG helped implement new functionalities, including National Address update, customer ID update, POS/eCommerce limit control for debit cards, Citizen Account support, SADAD One-Time Payment, temporary suspension and resumption of credit cards, and additional account opening. ISG also redesigned the corporate website with advanced content management tools and a modern aesthetic that incorporates loans simulators.

Following SAMA initiatives to extend digital payment channels, ISG has enabled digital payments via the MadaPay mobile platform for Android-based mobile phones to customers using the Bank's Mada domestic debit, VISA Electron co-branded debit, and VISA credit cards.

STRATEGIC REPORT

Business Review continued

OUR OPERATIONS

For Investor Relations and in order to modernise the Bank's communication with investors and provide rich information on the Bank's financials, calendars, and announcements, ISG developed FransiIR an application that presents investment reports on mobile devices.

DISASTER RECOVERY AND CYBERSECURITY

For the first time in the Bank's history, during 2018 ISG successfully conducted a complete failover of the critical and mission-critical systems, including security components, to a contingency site with live production data. This Disaster Recovery Exercise involved nearly 100 staff members who moved these services to a disaster recovery site over the weekend and then switched it back.

On the cybersecurity front, ISG has taken steps to secure its data and that of its customers, the continuity of its operations, and the integrity of its systems and information. This work in 2018 included coordinating with data-protection firm CSID to launch several security improvements. Other cybersecurity enhancements included implementing a centralised and automated Identity Access Management System, improving the Bank's security information event management system, and revamping the Security Vulnerability Management System.

IMPROVING INFRASTRUCTURE

Recognising that improved network and IT infrastructure helps deliver business gains and enhance production capacity, major infrastructure modernisations were initiated with a focus on 'simpler, better, faster' – as well as more cost-effective. Examples include replacing legacy backbone switches with today's application-centric infrastructure, simplifying from 11 firewalls to one, migrating to supported server platforms from 85%-obsolete Windows servers, decommissioning more than 100 physical servers and replacing them with new servers accommodated from Hyper-V, and completing more than 50 initiatives to 'evergreen' Bank IT infrastructure.

SIMPLIFYING AND STRENGTHENING COMPLIANCE

ISG delivered a number of initiatives to address regulatory and compliance requirements. To achieve IFRS 9-compliance, ISG developed models for Point-In-Time (PIT) and Expected Credit Loss (ECL) for Wholesale and Retail Banking operations.

Several in-house solutions were developed by ISG during the year, saving the Bank money and speeding deployment. These included a system to capture related-party information in a new database, as required by SAMA. Also developed in-house over a short three-month period was a new Bank-wide system to support VAT, including VAT parameters, customers' tax statements, and tax reporting.

ISG also implemented a new system to integrate SAMA's new Tanfeeth platform, which connects banks in the Kingdom to the Saudi Ministry of Justice. Banque Saudi Fransi was one of the first three banks to receive technical certification on the platform.

PROPERTY MANAGEMENT DIVISION

During 2018, Property Management Division (PMD) delivered many major projects across the bank ahead of schedule. In addition, PMD was able to deliver significant cost savings to the Bank through value engineering, optimisation of maintenance contract and energy savings.

PMD also delivered a range of major CAPEX projects, including five new cash centres, two Direct Sales Team (DST) centres, full renovation of two Retail Banking branches and two Private Banking Branches, facelifts of two Retail Banking branches, renovation of 2nd floor of the BSF Headquarters building, and 123 ATM projects.

PROCUREMENT DIVISION

During 2018, Procurement Division (PD) provided the bank a broad framework for procurement of goods and services and contributed to the Bank's bottom line results by:

- Realigning its activities to support business lines, divisions/groups, and end-users
- Enhancing controls and transparency
- Developing strong partnerships with suppliers
- Enhancement of Operational Efficiencies by upgrading its Policies and Procedures Manual

Among its most visible results were utilising best practice procurement processes to achieve significant cost saving and optimisation. These efforts included a significant transformation whereby PD handles and monitors the Bank's general contracts and agreements region-wide.

PD achieved operational efficiencies, by reducing the average cycle time to issue a purchase order by 30%, and reducing the average cycle time to process an invoice by 50%. Significant cost savings were achieved through negotiations, cost reductions, cost-increase-avoidance, and dis-investment and/or sale of old fixed assets.

The Procurement Management System (PMS) was upgraded with regards to purchase requisition processing, purchase order issuance, invoice processing, budget and cost control monitoring, and lease contracts. Noteworthy to mention, PD completed a region-wide physical inventory of Bank assets, implemented a highly automated fixed-asset inventory system, devised the stable and transparent operation, control and monitoring of logistics; and enhanced the vendor database and records management system.

LOOKING TO TOMORROW

With so many of the Bank's Leap goals linked to the ongoing optimisation, efficiency and technology enhancements from the Operations domain, the accomplishments of 2018 have only set the stage for the continuation of similar advancements in 2019, with a focus on even greater optimisation across operations and looking for new ways to realise further synergies.

STRATEGIC REPORT

Financial Review

Chief Financial Officer
Adel Mallawi

NET INCOME FOR THE YEAR

Net income for the year ended 31 December 2018 reached SAR 3,307 million, a decrease of 6.37% from SAR 3,532 million in 2017, primarily due to a higher level of provision charges, up 81% from the previous year.

However, the bank was able to maintain its growth in core banking income while reinforcing key financial indicators in capital and liquidity.

BALANCE SHEET

Total assets decreased by 1.41% versus 2017 to SAR 190,201 million. This decrease was mainly due to a decline in the loan portfolio of 1.07% to SAR 120,632 million, and a decrease in interbank lending by 15% to SAR 15,939 million.

Total customer deposits stood at SAR 148,368 million, a decrease of 1.71%, while the Bank's loan to deposit ratio is very healthy at around 80%.

REVENUE

Total revenue increased by 3.39% to SAR 6,799 million. This growth in revenue came from a solid increase of net special commission income, by 6.74% to SAR 5,017 million. Meanwhile, non special commission income decreased by 5% to SAR 1,782 million, primarily due to a reduction in trading income, fee and commission income, other operating income, and Fair Value through Other Comprehensive Income (FVOCI) investments, which was partially offset by gains from a partial sale of an investment in one of its associate companies, Allianz Saudi Fransi Cooperative Insurance Company.

RISK PROFILE

Cost of risk increased to 96 bp from 51 bp last year. The impairment charges for credit losses stood at SAR 910 million, while the total provision for impairment of credit losses reached SAR 4,060 million, covering 112% of Non-Performing Loans (NPLs). The level of provision was also affected by the implementation of IFRS 9, which called for a change in provisioning models from the 'incurred credit loss' approach used in the past to an 'expected credit loss' approach.

CAPITAL ADEQUACY RATIO (CAR)

The Board of Directors recommended a distribution of a total net dividend of SAR 1.70 per share, compared to SAR 1.40 per share in 2017. Also, Risk Weighted Assets (RWA) decreased by 1.38% to SAR 179.58 billion as a result of the reduction in the loan portfolio.

Taking all of the previous elements into consideration, in addition to the SAR 1.5 billion Zakat settlement, the Bank managed to maintain solid Capital Adequacy Ratios (CAR) of 19.77% (Tier I + Tier II) and 17.71% (Tier I), providing a strong capital base to pursue the future development of the Bank and delivery of its five-year strategy, Leap.

NET INCOME (SAR)MILLION

3,307

TOTAL OPERATING INCOME (SAR) MILLION

6,799

TOTAL ASSETS (SAR) MILLION

190,201

Building on our solid financial base

Our People

BUILDING ON THE STRENGTH OF OUR PEOPLE

Chief Human Capital Officer
May Al-Hoshan

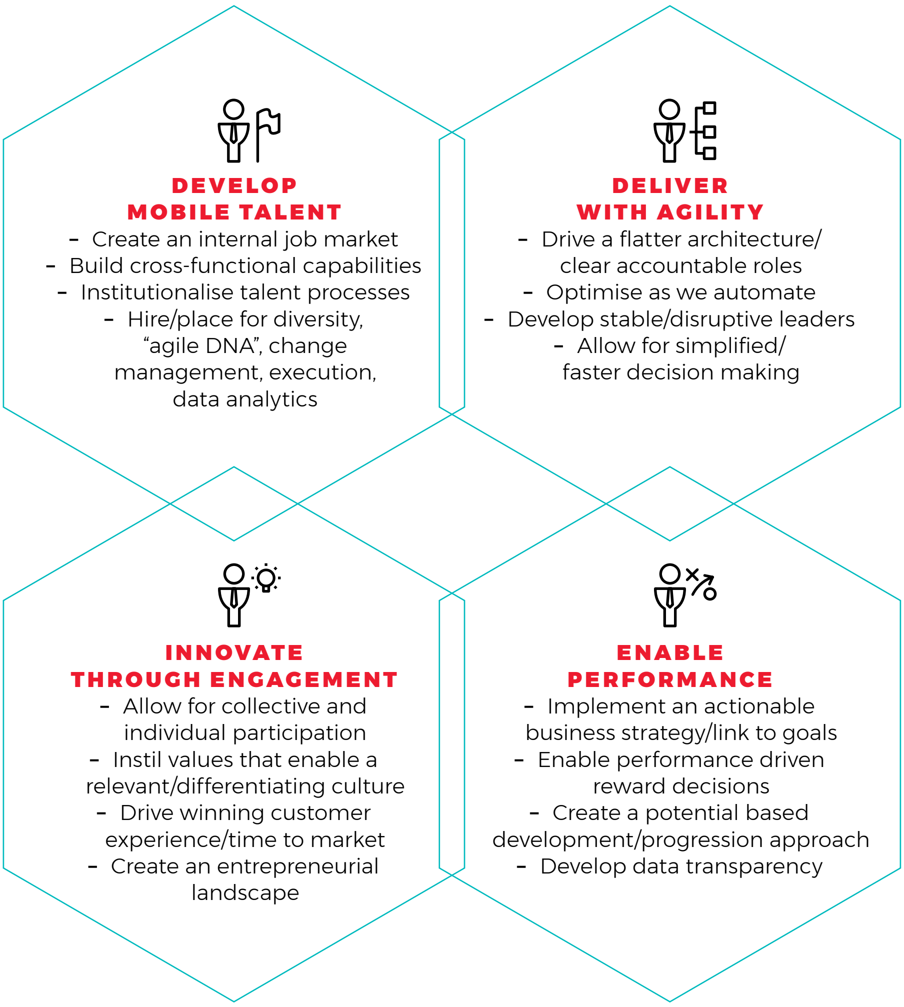
With a committed and dedicated staff of 3,027, a record Saudisation rate, the largest cadre of new female employees and a growing number of people with disabilities, Banque Saudi Fransi is building one of the Kingdom's most attractive banking workplaces. Contributing to this is a corporate social responsibility commitment that reflects the values of the Bank, its employees and the Kingdom, as well as a clear focus on engaging and developing our people, outlined in our new five-year HR strategy.

OUR PEOPLE TAKE A LEAP

The People division is responsible for the recruitment, hiring, training, retention and promotion of all of the Bank's employees. About 1,000 people work across 86 branches, while 2,000 work in the headquarters in Riyadh and regional offices in Jeddah and Al Khobar. The Bank, which has an increasingly young and diverse workforce is seen as one of the top two most attractive banks to work for in the Kingdom, according to the Talent Brand Index.

With our employees and organisation as two key enablers of Banque Saudi Fransi's Leap strategy for the future, one of the People division's biggest accomplishments in the year was the development of its Five-Year Plan. Led by management, this new plan builds on the division's successes and helps the Bank achieve its goals by bringing an effective organisational structure that reflects the skills needed to meet market requirements in an evolving banking sector.

At its heart, the plan puts the Bank's people first by focusing on four areas: developing talent that is flexible, mobile and agile, enabling the organisation itself to be more nimble, nurturing innovation among employees, and structuring incentives and systems that encourage an even higher performing workforce.



HIRING AND SAUDISATION

In 2018, the recruitment of both senior-level and other key positions complemented the new five-year strategy. In particular, the more than 320 new hires reflected the ongoing deepening of the Bank's leadership team and the success in achieving ambitious Saudisation and diversity goals.

Of 12 executive-level hires, three were women, and all were Saudis. Overall, 98.75% of new hires were Saudi nationals and 36% were women. Reflecting the role of youth in realising Saudi Vision 2030, 24% of new hires were fresh graduates and, overall, more than 70% of employees are Millennials. By the end of 2018, overall Saudisation among Banque Saudi Fransi employees reached 90.95%, while the number of women increased to 14%.

Saudisation was supported internally through the ongoing "Banker Leadership Programme", a training opportunity designed and delivered in partnership with INSEAD Business School to help develop the Bank's future Saudi leaders.

Given that most of the Bank's hiring targets are digital natives, we are working to engage people where they are found. As a result, we increased our use of social media, such as LinkedIn and Twitter, to reach new recruits; we bolstered the Bank's career portal to place it at the core of candidate data pooling and improve usability in areas such as search functionality. It's no surprise, then, that the Bank is the second most followed bank on LinkedIn in the Kingdom.

We were active in the real world as well, visiting four university campuses as part of three different career fairs and one university graduation ceremony.

NEW HIRES IN 2018

320

SAUDI NATIONALS

90.95%

FEMALE EMPLOYEES

14%

STRATEGIC REPORT

Our People continued

As well, to continue our strong Saudisation drive, we expanded our partnerships with top universities across the Kingdom, including co-op programmes to support both large-scale hiring and our Associates Programme pipeline. Through Banque Saudi Fransi Academy, we launched the SAIFI Programme, a summer training opportunity that reached 114 university student trainees from several Saudi universities.

RETAINING AND REWARDING THE BEST

We continued to adopt new advanced tools to further empower the People division as part of the five-year plan. This included not only performance management automation, human resource management systems and Orgpublisher, software that provides a dynamic visualisation of the organisational structure. We also worked to enhance our compensation systems, including appointing a global compensation consultant to align our reward practices with our strategy performance indicators to build a robust and well-managed reward structure that is simple, flexible and transparent.

We implemented a new reward philosophy that accounts for pay benchmarking; proposed a new fixed-pay structure (basic, allowances and benefits) and variable-pay structure (bonus, deferral and long-term incentive plan), and made changes to eligibility criteria and pay-outs.

As part of these efforts, we appointed management consultants Deloitte to help us enhance our People policy and procedures to ensure we are aligned with market best practices, regulatory requirements, and the updated Bank's compensation system.

Retention is also about engagement and empowering, as reflected in our 'Idea Wall'. These are whiteboards placed at the entrance to each floor at the corporate headquarters where staff can write down their creative ideas for ways the Bank can make improvements in any sphere.

TRAINING TO BUILD TALENT

With workforce development such a key priority for Saudi Vision 2030, particularly in the banking sector, we are prioritising talent retention. That means training continues to be a top priority, involving thousands of employees participating in a wide range of programmes implemented by the Bank through Banque Saudi Fransi Academy and in collaboration with government and private sector partners. During the year, the Bank offered 7,960 training opportunities that resulted in 3,127 training participants, reflecting that many employees participated in more than one training.

The largest training collaboration was with the Saudi government's Human Resources Development Fund. The Fund provided more than SAR 11 million to the Bank, supporting 65 training agreements. By the end of 2018, the Bank had hired 965 employees from HRDF-funded training programmes in the years since the collaboration began.

From one-day sessions and two-week workshops to four-month programmes, the Bank helped build the skills of its employees across a range of competences. This included a four-month business continuity project that began in December 2018 and ran into the first quarter of 2019, an operational risk management e-learning course, anti-money laundering and compliance modules, and VAT awareness sessions.

There also were functional programmes, ranging from English language classes to Banker Associate, IT Development and Accounting Development courses.

By the end of 2018, 1,023 staff earned the Retail Banking Professional Foundation Certificates, and 1,262 employees had completed 308 e-learning tutorials, out of 2,942 tutorial opportunities.

Banque Saudi Fransi also leveraged its expertise to help train customers and other outside partners. In 2018 this included a two-week training course for government and semi-government employees in partnership with Corporate Banking Group, and a three-day 'Introduction to Saudi Banking' course held in the Eastern, Central and Western regions of the Kingdom for the Bank's Medium and Small and Medium Enterprise (MSME) customers.

RECOGNISING OUR WORK

Reflecting its multifaceted commitment to people with special needs, the Bank received the 'Individuals with Disabilities Award' for its work training people with special needs at the King Salman Center for Disabilities in Riyadh. As well, the Banque Saudi Fransi Academy received ISO 9001:2015 certification, reflecting its ability to consistently deliver quality learning programmes. The Academy also received two recognitions for its work – one from the Ministry of Education and the other from professional development organisation LEORON Institute.

STRENGTHENING OUR COMMUNITIES

Corporate social responsibility is central to our organisation and a point of pride for our employees, so we concluded a number of impactful engagements in 2018 that benefitted the wider Saudi community. We sponsored an important conference – the Riyadh International Humanitarian Forum – which was launched by the King Salman Humanitarian Center in Riyadh. We spoke at an event with Ebsar Foundation to help visually impaired people avoid becoming victims of financial fraud. The Bank also provide its expertise in areas such as mortgages and financial literacy more generally to the Saudi Development Bank's efforts to increase these skills among the population.

Other activities included a breast cancer awareness session for Bank employees, a blood drive with Bank employees held in conjunction with King Fahad Medical City, and, as part of the Bank's broader support to the King Abdulaziz General Library, one of the library's bookmobiles was parked at the Bank's headquarters in Riyadh to encourage reading among employees.

With the introduction of driving licenses for women in the Kingdom, the Bank offered a service to help facilitate the process for its female employees, and to support the Bunyan charity's support to micro entrepreneurs, the Bank headquarters' cafeteria served prepared meals from the Bunyan Chefs programme.

CONSERVING OUR RESOURCES

With sustainability embedded into Saudi Vision 2030, the Bank is doing its part to shrink its environmental footprint. These efforts continued in 2018, with a range of energy and water-saving programmes that also are helping to reduce utility costs. Examples include transitioning to 100% high-efficiency LED lighting across branches and head offices, as well as deploying smart timers in branches and regional offices to control heating, air conditioning and ventilation in alignment with business hours.

Smart building management systems in head offices and a growing number of branches are also reducing costs, as are new low-flow and automatic faucets, window films to reduce solar heat gain, and optimised dynamic temperature settings. A campaign to power down electronics not in use and enhanced maintenance to keep equipment operating efficiently, also help. These ongoing programmes are delivering significant savings in electricity and water bills, reducing maintenance bills, improving employee and customer comfort, and increasing building asset values.

MOVING FORWARD

Looking into 2019, the Bank will continue to nurture a positive environment and culture for its people as part of the Leap plan, with new developments coming in areas such as incentives and reward scheme development, organisational structure, and the further articulation and implementation of Bank culture. We also will build on our CSR commitments, in areas such as support to the families of deceased veterans, people with disabilities, needy Saudis, and relief efforts around the world.

TRAINING OPPORTUNITIES OFFERED

7,960

NEW HIRES THROUGH HUMAN RESOURCES DEVELOPMENT FUND

965

ROBUST GOVERNANCE

CONTINUOUSLY STRENGTHENING GOVERNANCE

Building on a solid foundation of strong governance, we are continuously improving our processes to ensure the highest possible standards in governance and risk mitigation.

New members of the Senior Management team and strengthening certain business functions ensures these standards remain a top priority.

For more information go to www.alfransi.com.sa/english/news >>

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CORPORATE GOVERNANCE

Board of Directors





Mr. Sulaiman Al Gwaiz	**Mr. Abdulrahman Al Rashed**	**Dr. Khalid H. Mutabagani**	**Mr. Mousa Al Omran**	**Mr. Ammar Al AlKhodairy**
Chairman	**Vice Chairman**	**Board Member**	**Board Member**	**Board Member**
Current appointments				
Governor of General Organization for Social Insurance	Member of AlShura Council Executive partner at Rashed Al-Abd Al-Rahman Al-Rashed Company Chairman of Dammam Hotels Company Board of Directors Chairman of UNICOIL – Universal Metal Coating Company Board of Directors	Pediatric Surgery Consultant – Jeddah National Hospital	CEO of Omran AlOmran Co. Ltd.	Managing Director – Amwal Al Khaleej Commercial Investment Co. Ltd
Previous appointments				
Executive Vice President of Riyad Bank (2002-2013) Head of Retail and Corporate Banking at Riyad Bank (1994-2002) Director of Central Region, Riyadh Bank (1992-1994) Head of Public Sector and Commercial Sector, Saudi American Bank SAMBA, (1986-1992)		Paediatric Surgery Consultant, King Faisal Specialist Hospital, Jeddah (2000-2001) Assistant Professor, King Abdulaziz University, Jeddah (2000-2002)	Managing Director of Western Bakeries Company	Acting Managing Director – Banque Saudi Fransi from 15/11/2017 to 15/02/2018 Director of Central region, Banque Saudi Fransi (2001–2004) Chairman of Gulf International Bank (2000–2001)
Qualifications				
Bachelor of Business Administration, University of Portland, 1981	Bachelor of Business Administration, Department of Finance, University of Seattle, 1985	Ph.D – Physiology – Ohio State University, 1999	MBA – University of St. Edward, Austin, 1994	Master of Engineering Management, George Washington University, 1984

				
Mr. Mazin Al Rumaih	**Mr. Bader Al Issa**	**Mr. Jaques Prost**	**Mr. Talal Al Maiman**	**Mr. Rayan Fayez**
Board Member	**Board Member**	**Board Member**	**Board Member**	**Managing Director & Chief Executive Officer**
Current appointments				
CEO – Future Generation Investment Company	Chief Financial Officer of Asilah Investment Company CEO of Amias Holdings	Executive President of wealth management – CA Indosuez	CEO of Kingdom Holding	
Previous appointments				
Member of the Board of Capital Market Authority (2009–2014) General Manager & Chief Executive Officer – Samba Capital & Investment Management Company (Samba Capital) (2008–2009)	Investment Portfolio Manager at HSBC Saudi Arabia Limited (2006-2008) Financial and Marketing Analyst at SABIC America, USA (2002-2004) Financial Analyst at JP Morgan, London (2001-2002)	Executive Vice President, Crédit Agricole Corporate & Investment, France (2013–2018) Head of Project Finance – SFI (2011–2013)	Chairman of BOD and CEO – Kingdom Real Estate Development (2010–2017) CEO – Kingdom Holding company (1996–2016) Director of Computer Department – SAMA (1986 – 1996) Director of Operations & Maintenance – Ministry of Interior (1979 – 1986)	CEO of Savola Group (2016-2018) Managing Director and Senior Country Officer- JP Morgan Chase N.A Riyadh Branch (2013-2016) Chief Executive Officer- JP Morgan Saudi Arabia Limited (2012-2013) CEO Goldman Sachs Saudi Arabia (2009-2012)
Qualifications				
Bachelor of Accounting and Financial Management – University of Buckingham, 1992	MBA Rice University, USA	Bachelor of Finance – University of Paris Dauphine, 1988	Master of Business Administration – University of Liverpool, UK, 2009 Bachelor of Sciences in Electrical Engineering – University of Evansville Indiana, USA, 1979 Executive Management Program – Harvard University, 1986 Diploma at Computer Science Center CSC – Computer Science Center Corporation, Herndon – Virginia, USA, 1981	Bachelor of Mechanical Engineering – Massachusetts Institute of Technology (MIT), 2001

CORPORATE GOVERNANCE

Executive Management

Mazen AlTamimi

Senior Executive Director – Institutional Banking Group

Mazen was appointed Senior Executive Director – Institutional Banking Group in October 2017.

Prior to his current post, Mazen started his career as an Executive Trainee in BSF and became a Corporate Banking Division Officer, Western Region from 1990-1999. He was Corporate Banking Division Manager, Western Region from 1999-2003 and Regional General Manager, Western Region from 2003 to 2017. In addition to the above, he also serves various boards and committees in Saudi Arabia and abroad. Mazen has 29 years of professional banking experience, with a unique blend of managerial and operational expertise in regional management and corporate banking, and with proven ability in building a competent business organisation and employee development.

Mohammed AlSheikh

Head of Retail Banking Group

Mohammed joined Banque Saudi Fransi as Head of Retail Banking Group in July 2018.

He is an accomplished banker with extensive leadership and a wealth of experience in various well-known banks in Saudi Arabia.

Mohammed started his career as an executive trainee in SABB and became the Islamic Banking Specialist, before being appointed Corporate Banking Manager between 2005 to 2008. He moved to ANB as Manager of Islamic Banking Product Development until in 2011 he became Head of the Consumer Credit Administration and then Head of Branch Network position Deputy General Manager – Retail Banking. In 2017, he was Head of Branch Banking Assistant General Manager – Retail Banking at Alrajhi Bank before joining BSF.

With extensive people management skills and ability to drive change while delivering transformational growth, his experience runs across cross Kingdom sales, consumer product development, Islamic banking, retail operations/compliance and customer servicing/experience.

Ahmad Hadeed

Head of Global Market Group

Ahmad was appointed Head of Global Markets Group in 2017.

Ahmad has 26 years of banking experience, split over 3 local banks and one international (DB). He has excellent experience in local and global markets, from developed markets to emerging Markets, and was instrumental in bringing about better management by building strategies and anticipating market trends. Ahmad has sound knowledge across all asset classes (rates, FX, commodity, and equity and Investment portfolios) in risk management and investment.

Ahmad holds a Bachelor's degree in Business Administration and Diploma in Islamic Banking & Insurance.

Adel Mallawi

Chief Financial Officer

Adel was appointed Chief Financial Officer (CFO) of Banque Saudi Fransi in May 2017.

He is also a permanent member of numerous committees within BSF and its affiliating firms. Adel started his career with BSF in 1994 as part of the professional development program. He held various positions and assumed different responsibilities in the field of Treasury and Investment. In 2011, Adel became Head of Global Markets Group and was involved in setting the overall objectives and strategy of the bank.

Adel is a graduate of King Saud University, Saudi Arabia, holding a Bachelor of Science degree.

Thamer M. Yousef

Chief Operating Officer

Thamer was appointed Chief Operating Officer in 2018 and has been an experienced banker for over 24 years.

He has introduced a new core banking system, next-generation internet and mobile banking, new treasury solution covering front-middle-back office systems supporting the branches, and pioneered several digital banking solutions in Saudi Arabia.

Prior to his role, he was Assistant General Manager – Technical Support at SAMBA, Senior Executive – Telecom and Office Automation at SABB as well as Senior Executive – Information Technology and Chief Information Officer & Chief Digital and Data Officer. At BSF, he has held the post of Chief Information Officer, Acting Chief Operating Officer and Board of Director – BSF Markets Limited.

He is an active member of several committees inside and outside the bank. His interest focuses mainly on providing customers with reliable systems and processes from all bank delivery channels and to meet the digital banking services demand of the Saudi market.

May AlHoshan

Chief Human Capital Officer

May joined BSF in August 2018 as Chief Human Capital Officer.

Previously, she was at Alawwal bank as Human Resources General Manager responsible for leading the bank's HR transformation. With extensive experience in the HR field, she has led various change and transformation tracks covering organisational development, performance management and leadership development. Prior to joining Alawwal bank, May was the head of human capital management at NCB Capital and was part of the founding management team since the inception of NCB's investment arm. Her previous roles include managing leadership development, high potential programs, and organisational/human capital strategy.

May serves as a board and NRC member at Care, and as NRC member at Bupa and the National Center for Privatisation.

May holds a bachelor's degree in business administration and organisational behavior from Boston University of Management and a Master's in Engineering Management and Knowledge Management from George Washington University., USA.

Ravishanker Visvanathan

Chief Risk Officer

Ravishanker was appointed Chief Risk Officer in December 2017.

He has more than 30 years in the financial services industry in Saudi Arabia, Bahrain, United Arab Emirates, and India.

He commenced his career with HDFC Ltd., the first mortgage finance provider in India, as a management trainee. He was subsequently in business development roles with Citibank (India) and as ratings analyst with CRISIL, India's first credit rating agency. After his role with Middle East Bank UAE in commercial banking, he joined Banque Saudi Fransi – Corporate Banking Group in 1991. He later served as Head of Credit Risk for 12 years covering all business verticals of the bank. Between 2013 and 2017 he served in senior risk management roles with banks in Bahrain and Saudi Arabia before rejoining Banque Saudi Fransi.

Ravishanker has a Bachelor Degree in Chemistry and a Master's Degree in Business Administration from premier institutions in India.

Abdulaziz AlMolhem

Regional General Manager – Eastern Region

Abdulaziz has held the position of Regional General Manager in Eastern Region at Banque Saudi Fransi for more than 10 years.

With 35 years of diversified and extensive experience in the banking industry, with a focus on banking operations and management. He started his career in BSF under the professional training program in the Khobar Branch and held various positions in the bank, including Retail and Commercial Credit Officer, Corporate Relations Officer, Human Resources Manager-Eastern province, Branch Manager and Network Manager. In 1995, he worked for Saudi Hollandi Bank/AlAwwal Bank, where he held various senior positions and committee memberships, including Head of Personal Banking Group, Regional Manager, Chairman of the Consumer Banking Committee, Acting in-charge for Marketing Department, Acting in-charge for Remote Delivery Channels, Member of the Internal Audit Committee, Member of the new Core Banking System Steering Committee, Member of the Strategic Change Program Committee, Stream Leader of the Strategic Change Program and Member of the Maximum Growth Strategy Committee.

CORPORATE GOVERNANCE

Executive Management continued

Mike Cunningham

Chief Strategy & Digital Officer

Mike joined BSF as Chief Strategy & Digital Officer in 2018.

Mike is a thought leader and digital practitioner of innovation within financial services and has an unmatched global network with the world's leading FinTechs, Accelerators and the established corporates. He mentors new FinTech start-ups at two of the region's leading accelerators in Dubai and Lebanon. Before joining BSF, Mike was the CEO of a digital-only bank called, CLEARLY. Prior to that, in 2008, Mike was Executive Vice President at Abu Dhabi Commercial Bank where he led Group Strategy and Innovation. Before that he worked for Barclays as a Managing Director in Europe, Asia, Africa and the Middle East where he led the de-novo market entry and establishment of Barclays in India, Pakistan and Namibia.

With more than 20 years of financial services experience, Mike has a deep understanding of building and innovating digital financial services in emerging markets with extensive knowledge of customer experience transformation

Abdallah AlShaikh

Head of Legal & Governance

Abdallah was appointed Head of Legal & Governance in 2018.

With more than 15 years of relevant experience, he has worked in the legal division of the bank's regulators (SAMA and CMA) and has also enjoyed international experience through working overseas with both Dentons LLP and Nasdaq OMX Group. Before joining BSF, Abdallah has served as the Head of Legal & Corporate Secretary of both Samba Capital and Samba Financial Group.

Abdallah holds Bachelor's degree of Law from King Saud University, Saudi Arabia, and Master of Law from Harvard Law School, USA.

Abdulmohsen AlRayes

Chief Audit Officer

Abdulmohsen was appointed Chief Audit Officer in Banque Saudi Fransi in August 2017.

With 34 years of experience in the Banking industry, he developed his career from a Branch Manager to his current position. He developed his expertise in Business Development and Banking Operations by working in the Saudi British Bank as the Head of Retail Operations and as Head of Internal Audit Division at Arab National Bank. He has experience in Audit, Banking Operations, Banking Regulations, Retail Banking, Risk Management, Compliance and, in addition, extensive knowledge of International Standards and Best Practices of Internal Auditing. Abdulmohsen started his career in Saudi British Bank as a Branch Manager in 1982 and in 1989 he was promoted to the position of Senior Retail Manager of the Central Region for two years. After that, he moved to the Saudi Industrial Development Fund as the Head of International Recruitment for five years. He spent nearly 20 years at the Arab National Bank, where he held the position of the Regional Manager of the Central Region (1998 – 2001), Head of Retail Operations (2001 – 2003) and Head of Internal Audit Division.

Abdulaziz AlBani

Chief Compliance Officer

Abdulaziz Albani was appointed Chief Compliance Officer at Banque Saudi Fransi in 2017.

His recent activities include establishing the Bank's policies and procedures review, establishing corrective action plans, project management, supervising all communication with external governmental entities (SAMA, CMA, CCHI) and all other activities related to Compliance.

Previously, Abdulaziz Albani worked as a Senior Director – Anti Money Laundering and Terrorism Finance at Al Rajhi Bank where he contributed his knowledge and ability to maintain the organisation's obligation in supervising and reporting any money laundering activities. Abdulaziz also served as Senior Director – Customer acceptance/High Risk Clients in the same organisation during 2016. Between 2013 and 2015, Abdulaziz also worked as Head of Anti Bribery and Corruption/Special Category Clients (PEPs) and Operation at Saudi British Bank, where he focused on the standards on how employees will act to describe and identify bribery and corruption. He also Abdulaziz also worked as Senior Manager Compliance-Corporate and Global Banking before joining Banque Saudi Fransi.

Ismail AlOraini

Secretariat General

Ismail was appointed Secretariat General at Banque Saudi Fransi in 2017.

Ismail has more than 28 years of experience in the banking industry and has been with Banque Saudi Fransi for over 25 years. He has worked in many different areas of the bank including commercial banking, retail banking, credit and secretariat general, giving him a deep understanding and knowledge or not just the industry but the bank itself.

Ismail holds bachelor degree of Finance from Eastern Michigan University, USA.

CORPORATE GOVERNANCE

Board of Directors' Report 2018

Ladies & Gentlemen: Shareholders of Banque Saudi Fransi

Greetings,

Banque Saudi Fransi (BSF) Board members are pleased to present their annual report for the fiscal year 2018.

Banque Saudi Fransi is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977), after taking over the operations of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977). It operates under Commercial Registration Number. 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 86 branches in the Kingdom of Saudi Arabia, with 3,027 employees. The objective of the Bank is to provide a full range of banking services, including Islamic products and services, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at King Saud Road (AlMa'ather previously), AlMuraba' District, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Bank operates mainly in the Kingdom of Saudi Arabia through the following main activities:

A. Retail Banking:
Incorporates Individual customers' demand accounts, loans, saving accounts, deposits, credit and debit cards, consumer loans, foreign currency transactions and auto leasing.

B. Corporate Banking:
Incorporates corporate, medium, small and micro establishment customers' demand accounts and deposits, and includes all financing products such as overdrafts, loans and credit facilities, trade and import products, coordinated finance and long term project finance.

C. Global Markets Group:
Incorporates dealing in exchange markets, supporting bank financing, managing time deposits, investing in securities, dealing in derivatives for the purpose of insurance against money market risks and also for investment.

D. Investment banking and brokerage:
Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investment products, corporate finance and international and local share brokerage services and insurance.

Net income for the 2018 financial year amounted to SAR 3,307 million at 31 December 2018 compared to SAR 3,532 million in 2017, with a decrease of 6.37%.

Net income decreased due to a higher total operating income (including impairment) at SAR 3,494 which represented an increase of 14.48% at the end of year 2018 compared to SAR 3,052 in the same period last year. The increase in operating expenses is due to the increase in net provision for credit losses and provision for other financial assets. This resulted in a decrease in other general and administrative expenses, salaries and expenses related to employees, rent, construction expenses and other operating expenses.

On the other hand, operating income increased to around SAR 6,799 million with a rise of 3.39% compared to the previous year amounting to around SAR 6,576 million as a result of the increase in both the net special commission income and the selling profit of an affiliate. This resulted in a decrease in the earnings on financial instruments acquired at fair value through profit and loss, fee and commission income, other operating income, foreign exchange income, dividend income and increase in fair value losses on comprehensive investment income.

Net special commission income increased to SAR 5,017 million, with an increase of 6.74%, which means an increase of SAR 317 million compared to SAR 4,700 million compared to the previous year. Total assets amounted to SAR 190,201 million at the end of 2018, with a decrease of 1.41% compared to SAR 192.929 million in 2017. The investment portfolio grew by 12.03% to SAR 28,372 million at the end of December 2018 compared to SAR 25,325 million during the previous year. Net loans and advances also decreased by 1.07% to SAR 120,632 million at the end of 2018 compared to SAR 121,940 million for the previous year. Customer deposits decreased by 1.71% to SAR 148,368 million at the end of December 2018 compared to SAR 150,954 million for the previous year.

Banque Saudi Fransi will continue to achieve its strategic objectives to enhance its position in the banking sector, develop its market share and achieve the objectives of the 2030 Vision.

In this report, further information is given on the governance framework of the Board of Directors, its committees and internal controls, major indicators, subsidiaries, activities and disclosures during 2018 as per the regulatory requirements:

(1) NAMES, QUALIFICATIONS, AND EXPERIENCE OF THE BOARD AND COMMITTEES MEMBERS AND EXECUTIVE MANAGEMENT;

(A) BOARD OF DIRECTORS:

Name		Experience		Qualifications
		Current Positions	Previous Positions	
1	Mr. Sulaiman Al Gwaiz	– Governor of General Organization for Social Insurance	– Executive Vice President of Riyad Bank, 2002 – 2013 – Head of Retail and Corporate Banking at Riyad Bank, 1994 – 2002 – Director of Central Region, Riyadh Bank, 1992 – 1994 – Head of Public Sector and Commercial Sector, Saudi American Bank SAMBA, 1986 – 1992	Bachelor of Business Administration, University of Portland, 1981
2	Mr. Abdulrahman Al Rashed	– Member of AlShura Council – Executive partner at Rashed Al-Abd Al-Rahman Al-Rashed Company – Chairman of Dammam Hotels Company Board of Directors – Chairman of UNICOIL – Universal Metal Coating Company Board of Directors		Bachelor of Business Administration, Department of Finance, University of Seattle, 1985
3	Mr. Mousa Al Omran	– CEO of Omran AlOmran Co. Ltd.	– Managing Director of Western Bakeries Company	MBA – University of St. Edward, Austin, 1994
4	Dr. Khalid Mutabagani	– Pediatric Surgery Consultant – Jeddah National Hospital	– Pediatric Surgery Consultant, King Faisal Specialist Hospital, Jeddah, 2000 – 2001 – Assistant Professor, King Abdulaziz University, Jeddah, 2000 – 2002	Ph.D – Physiology – Ohio State University, 1999
5	Mr. Ammar Al AlKhodairy	– Managing Director – Amwal Al Khaleej Commercial Investment Co. Ltd	– Acting Managing Director – Banque Saudi Fransi from 15/11/2017 to 15/02/2018 – Director of Central region, Banque Saudi Fransi, 2001 – 2004 – Chairman of Gulf International Bank, 2000 – 2001	Master of Engineering Management, George Washington University, 1984

(1) NAMES, QUALIFICATIONS, AND EXPERIENCE OF THE BOARD, COMMITTEES' MEMBERS AND EXECUTIVE MANAGEMENT: (CONTINUED)

(A) BOARD OF DIRECTORS: (CONTINUED)

	Name	Experience		Qualifications
		Current Positions	Previous Positions	
6	Mr. Mazin Al Rumaih	– CEO – Future Generation Investment Company	– Member of the Board of Capital Market Authority, 2009 – 2014 – General Manager & Chief Executive Officer – Samba Capital & Investment Management Company (Samba Capital), 2008 – 2009	Bachelor of Accounting and Financial Management – University of Buckingham, 1992
7	Mr. Bader Al Issa	– Chief Financial Officer of Asilah Investment Company – CEO of Amias Holdings	– Investment Portfolio Manager – HSBC Saudi Arabia Limited, 2006 – 2008 – Financial and Marketing Analyst – SABIC America, Houston, Texas, 2002 – 2004 – Financial Analyst – JP Morgan, London, 2001 – 2002	MBA – Rice University, 2006
8	Mr. Jacques Prost	– Executive President of wealth management – CA Indosuez	– Executive Vice President, Crédit Agricole Corporate & Investment, France, 2013 – 2018 – Head of Project Finance – SFI, 2011 – 2013	Bachelor of Finance – University of Paris Dauphine, 1988
9	Mr. Rayan Fayez*	– Managing Director and CEO of Banque Saudi Fransi	– CEO of Savola Group, 2016 – 2018 – Managing Director and Senior Country Officer – JPMorgan Chase N.A Riyadh Branch, 2013 – 2016 – Chief Executive Officer – JP Morgan Saudi Arabia Limited, 2012 – 2013 – CEO – Goldman Sachs, Saudi Arabia, 2009 – 2012	Bachelor of Mechanical Engineering – Massachusetts Institute of Technology (MIT), 2001
10	Mr. Talal Al Maiman**	– CEO of Kingdom Holding	– Chairman of BOD and CEO – Kingdom Real Estate Development, 2010 – 2017 – CEO – Kingdom Holding company, 1996 – 2016 – Director of Computer Department – SAMA, 1986 – 1996 – Director of Operations & Maintenance – Ministry of Interior, 1979 – 1986	Master of Business Administration – University of Liverpool, UK, 2009 Bachelor of Sciences in Electrical Engineering – University of Evansville Indiana, USA, 1979 Executive Management Program – Harvard University, 1986 Diploma at Computer Science Center CSC – Computer Science Center Corporation, Herndon – Virginia, USA, 1981

* Appointed as managing director and CEO as of 18/02/2018.

** Appointed as BOD member as of 28/02/2018.

(B) COMMITTEES' MEMBERS

(B/1) Executive Committee:

	Name	Experience		Qualifications
		Current Positions	Previous Positions	
1	Mr. Sulaiman Al Gwaiz	– Governor of General Organization for Social Insurance	– Executive Vice President of Riyad Bank, 2002 – 2013 – Head of Retail and Corporate Banking at Riyad Bank, 1994 – 2002 – Director of Central Region, Riyadh Bank, 1992 – 1994 – Head of Public Sector and Commercial Sector, Saudi American Bank SAMBA, 1986 – 1992	Bachelor of Business Administration, University of Portland, 1981
2	Mr. Abdulrahman Al Rashed	– Member of AlShura Council – Executive partner at Rashed Al-Abd Al-Rahman Al-Rashed Company – Chairman of Dammam Hotels Company Board of Directors – Chairman of UNICOIL – Universal Metal Coating Company Board of Directors		Bachelor of Business Administration, Department of Finance, University of Seattle, 1985
3	Mr. Mousa Al Omran	– CEO of Omran AlOmran Co. Ltd.	– Managing Director of Western Bakeries Company	MBA – University of St. Edward, Austin, 1994
4	Mr. Ammar Al AlKhodairy	– Managing Director – Amwal Al Khaleej Commercial Investment Co. Ltd	- Acting Managing Director – Banque Saudi Fransi from 15/11/2017 to 15/02/2018 – Director of Central region, Banque Saudi Fransi, 2001 – 2004 – Chairman of Gulf International Bank, 2000 – 2001	Master of Engineering Management, George Washington University, 1984
5	Mr. Rayan Fayez	– Managing Director and CEO of Banque Saudi Fransi	– CEO of Savola Group, 2016 – 2018 – Managing Director and Senior Country Officer – JPMorgan Chase N.A Riyadh Branch, 2013 – 2016 – Chief Executive Officer – JP Morgan Saudi Arabia Limited, 2012 – 2013 – CEO – Goldman Sachs, Saudi Arabia, 2009 – 2012	Bachelor of Mechanical Engineering – Massachusetts Institute of Technology (MIT), 2001

(1) NAMES, QUALIFICATIONS, AND EXPERIENCE OF THE BOARD, COMMITTEES' MEMBERS AND EXECUTIVE MANAGEMENT: (CONTINUED)

(B) COMMITTEES' MEMBERS (CONTINUED)

(B/1) Executive Committee: (continued)

Name		Experience		Qualifications
		Current Positions	Previous Positions	
6	Mr. Mazin Al Rumaih*	– CEO – Future Generation Investment Company	– Member of the Board of Capital Market Authority, 2009 – 2014 – General Manager & Chief Executive Officer – Samba Capital & Investment Management Company (Samba Capital), 2008 – 2009	Bachelor of Accounting and Financial Management – University of Buckingham, 1992
7	Mr. Jacques Prost*	– Executive President of wealth management – CA Indosuez	– Executive Vice President, Crédit Agricole Corporate & Investment, 2013 – 2018 – Head of 6Project Finance –SFI, 2011 – 2013	Bachelor of Finance – University of Paris Dauphine, 1988

* His membership has been terminated as of 21/03/2018 as a result of reducing the number of members of the Committee to five members in accordance with Article 50 of Corporate Governance Regulations issued by the Capital Market Authority.

(B/2) Audit Committee:

Name		Experience		Qualifications
		Current Positions	Previous Positions	
1	Mr. Ammar Al AlKhodairy*	– Managing Director – Amwal Al Khaleej Commercial Investment Co. Ltd	– Acting Managing Director – Banque Saudi Fransi from 15/11/2017 to 15/02/2018 – Director of Central region, Banque Saudi Fransi, 2001 – 2004 – Chairman of Gulf International Bank, 2000 – 2001	Master of Engineering Management, George Washington University, 1984
2	Mr. Bader Al Issa	– Chief Financial Officer of Asilah Investment Company – CEO of Amias Holdings	– Investment Portfolio Manager – HSBC Saudi Arabia Limited, 2006 – 2008 – Financial and Marketing Analyst – SABIC America, Houston, Texas, 2002 – 2004 – Financial Analyst – JP Morgan, London, 2001 – 2002	MBA – Rice University, 2006
3	Mr. Eid Al Shamri	– Chief Executive Officer of Ithraa Capital	– Deputy General Manager of Al Seef Investment Company, 2007 – 2008 – Financial and administrative consultant at Eid Al-Shamri for financial and administrative consulting office, 2005 – 2007 – CEO of Inmaia for Real Estate and Tourism Development and Investment, 2001 – 2005	Bachelor of Science in Industrial Management, King Fahad University of Petroleum and Minerals, 1989 Public accounting 'CPA ', USA, Colorado, 1992

Name		Experience		Qualifications
		Current Positions	Previous Positions	
4	Dr. Muhammad Ali Ekhwan	– Retired	– Advisor to the Minister of Labor, 2010 – 2015 – Vice President, Savola Group for M&A, 2004 – 2009	Ph.D. in Engineering – Economic Systems, Stanford University, 1985 Master of Operations Research – Stanford University, 1976
5	Mr. Arnaud Chubin	– Head of Internal Audit Worldwide for Credit Agricole Corporate & Investment	– Senior Country Officer for UK – Credit Agricole CIB, 2010 – 2016	MBA – ESSEC Business – France, 1977

* Resigned from Audit Committee in 15/11/2017 due to assigning him as Managing Director, then he was re-appointed as Chairman of Audit Committee in 16/02/2018 after obtaining the necessary approvals from the relevant regulatory and supervisory authorities. The Board of Directors of the Bank confirms that in the event of reappointment of Mr. Ammar Al-AlKhodairy as Chairman of the Audit Committee, he did not review or participate in any discussions concerning the work he oversaw during the period of his assignment as Managing Director.

(B/3) Nominations and Remunerations Committee:

Name		Experience		Qualifications
		Current Positions	Previous Positions	
1	Mr. Abdulrahman Al Rashed	– Member of AlShura Council – Executive partner at Rashed Al-Abd Al-Rahman Al-Rashed Company – Chairman of Dammam Hotels Company Board of Directors – Chairman of UNICOIL – Universal Metal Coating Company Board of Directors		Bachelor of Business Administration, Department of Finance, University of Seattle, 1985
2	Mr. Mousa Al Omran*	– CEO of Omran AlOmran Co. Ltd.	– Managing Director of Western Bakeries Company	MBA – University of St. Edward, Austin, 1994
3	Dr. Khalid Mutabagani	– Pediatric Surgery Consultant – Jeddah National Hospital	– Pediatric Surgery Consultant, King Faisal Specialist Hospital, Jeddah, 2000 – 2001 – Assistant Professor, King Abdulaziz University, Jeddah, 2000 – 2002	Ph.D – Physiology – Ohio State University, 1999
4	Dr. Mansour AlMansour	– Vice President for Finance and Operations, King Abdullah Center for Petroleum Studies and Research – 2016	– Deputy General Manager – Human Resources Development Fund (HRDF), 2014 – 2016 – Vice President of Human Resources and Administration at Arabian Pipes Company, 2006 – 2014	Ph.D, Applied Linguistics – Ball State University, USA, 2004 Master of Human Resources – University of Missouri, USA, 1997
5	Mr. Mazin Al Rumaih**	– CEO – Future Generation Investment Company	– Member of the Board of Capital Market Authority, 2009 – 2014 – General Manager & Chief Executive Officer – Samba Capital & Investment Management Company (Samba capital), 2008 – 2009	Bachelor of Accounting and Financial Management – University of Buckingham, 1992

* His membership in the Nominations & Remunerations Committee has been terminated as of 21/03/2018.

** Has been assigned as Committee member as of 21/03/2018.

(1) NAMES, QUALIFICATIONS, AND EXPERIENCE OF THE BOARD, COMMITTEES' MEMBERS AND EXECUTIVE MANAGEMENT: (CONTINUED)

(B) COMMITTEES' MEMBERS (CONTINUED)

(B/4) Board Risk Committee:

Name		Experience		Qualifications
		Current Positions	Previous Positions	
1	Mr. Mazin Al Rumaih	– CEO – Future Generation Investment Company	– Member of the Board of Capital Market Authority 2009 – 2014 – General Manager & Chief Executive Officer – Samba Capital & Investment Management Company (Samba capital), 2008 – 2009	Bachelor of Accounting and Financial Management – University of Buckingham, 1992
2	Mr. Bader Al Issa	– Chief Financial Officer of Asilah Investment Company – CEO of Amias Holdings	– Investment Portfolio Manager – HSBC Saudi Arabia Limited 2006 – 2008 – Financial and Marketing Analyst – SABIC America, Houston, Texas, 2002 – 2004 – Financial Analyst – JP Morgan, London, 2001 – 2002	MBA – Rice University, 2006
3	Mr. Rayan Fayez	– Managing Director and CEO of Banque Saudi Fransi	– CEO of Savola Group 2016 – 2018 – Managing Director and Senior Country Officer – JPMorgan Chase N.A Riyadh Branch, 2013 – 2016 – Chief Executive Officer – JP Morgan Saudi Arabia Limited 2012 – 2013 – CEO – Goldman Sachs, Saudi Arabia, 2009 – 2012	Bachelor of Mechanical Engineering – Massachusetts Institute of Technology (MIT), 2001
4	Mr. Talal AlMaiman*	– CEO of Kingdom Holding	– Chairman of BOD and CEO – Kingdom Real Estate Development, 2010 – 2017 – CEO – Kingdom Holding Company, 1996 – 2016 – Director of Computer Department – SAMA, 1986 – 1996 – Director of Operations & Maintenance – Ministry of Interior, 1979 – 1986	Master of Business Administration – University of Liverpool, UK, 2009 Bachelor of Sciences in Electrical Engineering – University of Evansville Indiana, USA, 1979 Executive Management Program – Harvard University, 1986 Diploma at Computer Science Center CSC – Computer Science Center Corporation, Herndon – Virginia, USA, 1981

	Name	Experience		Qualifications
		Current Positions	Previous Positions	
5	Mr. Jean-François Ballay**	– Director of risk management at Credit Agricole Corporate and Investment, Paris	– Global & EMEA Head of Dept. Optimisation & Distribution – CA-CIB Executive Committee Member, 2012 – 2016 – Global & EMEA Head of GLSG, 2009 – 2012	Master of Economics, University of Lumière Lyon, 1987 Master of Banking and Finance – University of Lumière Lyon, 1988

* Appointed as Committee member as of 28/02/2018.

** Resigned from Committee membership as of 30/03/2018.

(B/5) Corporate Social Responsibility Committee:

	Name	Experience		Qualifications
		Current Positions	Previous Positions	
1	Mr. Abdulrahman Al Rashed	– Member of AlShura Council – Executive partner at Rashed Al-Abd Al-Rahman Al-Rashed Company – Chairman of Dammam Hotels Company Board of Directors – Chairman of UNICOIL – Universal Metal Coating Company Board of Directors		Bachelor of Business Administration, Department of Finance, University of Seattle, 1985
2	Mr. Bader Al Issa	– Chief Financial Officer of Asilah Investment Company – CEO of Amias Holdings	– Investment Portfolio Manager – HSBC Saudi Arabia Limited, 2006 – 2008 – Financial and Marketing Analyst – SABIC America, Houston, Texas, 2002 – 2004 – Financial Analyst – JP Morgan, London, 2001 – 2002	MBA – Rice University 2006
3	Mr. Rayan Fayez	– Managing Director and CEO of Banque Saudi Fransi	– CEO of Savola Group 2016 – 2018 – Managing Director and Senior Country Officer – JPMorgan Chase N.A Riyadh Branch 2013 – 2016 – Chief Executive Officer – JP Morgan Saudi Arabia Limited 2012 – 2013 – CEO – Goldman Sachs, Saudi Arabia 2009 – 2012	Bachelor of Mechanical Engineering – Massachusetts Institute of Technology (MIT), 2001

(1) NAMES, QUALIFICATIONS, AND EXPERIENCE OF THE BOARD, COMMITTEES' MEMBERS AND EXECUTIVE MANAGEMENT: (CONTINUED)

(C) Executive Management:

	Name	Current Position	Previous Position	Qualifications	Experience
1	Mr. Rayan Fayez	– Managing Director and Chief Executive Officer	– Chief Executive Officer of Savola Group	Bachelor of Mechanical Engineering – Massachusetts Institute of Technology (MIT), 2001	17 years of banking experience in several executive positions
2	Mr. Ammar Al AlKhodairy*	– Acting Managing Director – Amwal Al Khaleej Commercial Investment Co. Ltd	– Chairman of Audit committee and BOD member	Master of Engineering Management, George Washington University, 1984	Executive Director and Board Member of several companies
3	Mr. Mazin AlTamimi	– Head of Institutional Banking Group	– Senior Business Executive officer – Banque Saudi Fransi	Bachelor of Computer Science – 1989	31 years of banking experience in several positions at the Bank
4	Mr. Adel Mallawi	– Chief Financial Officer	– Head of Global Markets Group – Banque Saudi Fransi	Bachelor of Chemistry, 1993	25 years of experience in treasury, global markets and finance
5	Mr. Thamer Yousef	– Chief Operating Officer	– Head of Information Systems Department – SABB	Bachelor of Computer Engineering – King Saud University, 1994	24 years of experience in IT & Operations
6	Ms. May AlHoushan	– Head of Human Resources Group	– Director of Human Resources at AlAwwal Bank	Master of Engineering – George Washington University, 2004	15 years of experience in Human Resources
7	Mr. Munier Muhammad Khayat**	– Head of Human Resources Group	– Deputy head of Human Resources Group at NCB	Bachelor – General Management – 1999	18 years of experience in Human Resources and retail banking
8	Mr. Abdullah AlShaikh	– Head of Legal & Governance	– Head of Legal Affairs and Secretary of the Board of Directors – Samba Financial Group	Master – Law – 2008 Harvard University	15 years of legal experience in several positions in the financial sector
9	Mr. Abdulaziz Al Mulhem	– Regional Director for the Eastern Region	– Credit officer of retail banking – regional director – AlAwwal Bank	Bachelor – Business Administration – 1983 Indiana State University	35 years of experience in banking sector
10	Mr. Abdulmohsen Al Rayes	– Chief Executive Officer of Internal Audit Group	– Director of internal audit – ANB	Bachelor of Arabic Grammar – 1981	34 years of experience in banking sector
11	Mr. Abdulaziz Albani	– Chief Compliance Officer	– Director of AML / CFT – General Manager of the Compliance Group – Al Rajhi Bank	Master – Business Administration – 2018 Al Yamamah University	22 years of experience in banking sector
12	Mr. Ravishanker Visvanathan	– Chief Executive Officer of Risk Management Group	– Head of Credit Risk Management – Riyad Bank	Bachelor – Business Administration – 1993 University Of Pune	More than 30 years of experience in financial sector
13	Mr. Ismail AlOrini	– Corporate Secretary	– Retail Banking Group – Relationship Manager – Samba Financial Group	Bachelor – Business Administration – 1990 Eastern Michigan University	28 years of experience in banking sector
14	Mr. Mohammed AlSheikh	– Head of Retail Banking Group	– Head of Branch Network for Retail Banking at Al Rajhi Bank	Bachelor, Industrial Engineering, 2005 King Saud University	14 years experience in Islamic and Retail Banking

	Name	Current Position	Previous Position	Qualifications	Experience
15	Mr. Ahmad Hadeed	– Head of Global Markets Group	– Deputy Director of Treasury – Banque Saudi Fransi	Bachelor – Business Administration – 2013	26 years of banking experience
16	Mr. Sadoun Al Sadoun***	– Chief Executive Officer Banking Operations	– Head of Operations Group – Banque Saudi Fransi	Secondary school – science section – 1983	23 years of experience at Banque Saudi Fransi

* Based on the recommendation of the Nominations and Remuneration Committee, and in light of the transitional period that the Bank has undergone as a result of end of service of the former Managing Director, the Board of Directors decided to assign Mr. Ammar Al Khodairy as a Managing Member for three months from 15/11/2017 to 15/02/2018, after obtaining the approval of the Saudi Arabian Monetary Authority.

** Resigned on 15 July 2018.

*** Resigned on 21 January 2018.

(2) NAMES OF THE COMPANIES INSIDE AND OUTSIDE THE KINGDOM IN WHICH A BOARD MEMBER IS A MEMBER OF THEIR CURRENT OR PREVIOUS BOARD MEMBER OR MANAGER:

	Member's name	Current			Previous		
		Names of companies in which the Board member is a member of its current Board of Directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Names of companies in which the Board member is a member of its previous Board of Directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity
1	Sulaiman Al Gwaiz	Mobily	Inside the Kingdom	Listed Joint Stock Company	Royal Sun Insurance Co. (ME)	Inside the Kingdom	Joint Stock Company
		(Maaden) Saudi Arabian Mining Company	Inside the Kingdom	Listed Joint Stock Company	AJIL financial services company	Inside the Kingdom	Joint Stock Company
		Saudi Industrial Investment Group	Inside the Kingdom	Listed Joint Stock Company	Mastercard International (MEA)	Inside the Kingdom	Joint Stock Company
		Hassana Investment Company	Inside the Kingdom	Closed Joint Stock Company			

(2) NAMES OF THE COMPANIES INSIDE AND OUTSIDE THE KINGDOM IN WHICH A BOARD MEMBER IS A MEMBER OF THEIR CURRENT OR PREVIOUS BOARD MEMBER OR MANAGER: (CONTINUED)

	Member's name	Current			Previous		
		Names of companies in which the Board member is a member of its current Board of Directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Names of companies in which the Board member is a member of its previous Board of Directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity
2	Abdulrahman Al Rashed	Rashed Abdulrahman Al Rashed Company	Inside the Kingdom	General partnership	SAUDIA Saudi Airlines	Inside the Kingdom	Joint Stock Company
		Abdulaziz Rashed Al Rashed Company	Inside the Kingdom	Limited Liability Company	Prince Sultan Rehabilitation Center – PSRC	Inside the Kingdom	Association
		Beit AlTawazun Company	Inside the Kingdom	Limited Liability Company	Chamber of Commerce & Industry – Eastern Province	Inside the Kingdom	Governmental
		Al Awael Holding	Inside the Kingdom	Limited Liability Company			
		Crystal Ice Factory	Inside the Kingdom	Institution			
		Alyamama Investment Company	Inside the Kingdom	Closed Joint Stock Company			
		UNICOIL – Universal Metal Coating Company	Inside the Kingdom	Closed Joint Stock Company			
		Dammam Hotels Company Ltd.	Inside the Kingdom	Closed Joint Stock Company			
		Ettifaq Club	Inside the Kingdom	Sports club			
3	Mousa Al Omran	Almarai	Inside the Kingdom	Listed Joint Stock Company	Savola Group	Inside the Kingdom	Listed Joint Stock Company
		Omran Al Omran Company	Inside the Kingdom	Closed Joint Stock Company	Western Bakeries Company	Inside the Kingdom	Limited Liability Company

	Member's name	Current			Previous		
		Names of companies in which the Board member is a member of its current Board of Directors	**Inside the Kingdom/ Outside the Kingdom**	**Legal Entity**	**Names of companies in which the Board member is a member of its previous Board of Directors**	**Inside the Kingdom/ Outside the Kingdom**	**Legal Entity**
4	Ammar Al AlKhodairy	Ateba'acom Company	Inside the Kingdom	Limited Liability Company	Al Tayyar Travel Group	Inside the Kingdom	Listed Joint Stock Company
		Amwal Al Khaleej Commercial Investment Company	Inside the Kingdom	Limited Liability Company	Arabian Shield Cooperative Insurance Company	Inside the Kingdom	Listed Joint Stock Company
		Al Amwal AlKhaleejiah Company	Inside the Kingdom	Limited Liability Company	Mobile Telecommunications Company Saudi Arabia (Zain)	Inside the Kingdom	Listed Joint Stock Company
		Al – Latifia Company for Plastic Nets	Inside the Kingdom	Limited Liability Company	Savola Group	Inside the Kingdom	Listed Joint Stock Company
		Global Company for Downstream Industries	Inside the Kingdom	Limited Liability Company	Herfy Food Services Company	Inside the Kingdom	Listed Joint Stock Company
		Zuhoor Al Reef Company	Inside the Kingdom	Closed Joint Stock Company	Kingdom Holding Company	Inside the Kingdom	Listed Joint Stock Company
		U – Mark	Inside the Kingdom	Closed Joint Stock Company	Allianz Saudi Fransi Cooperative Insurance	Inside the Kingdom	Listed Joint Stock Company
					Fawaz Abdulaziz Alhokair Co.	Inside the Kingdom	Listed Joint Stock Company
5	Mazin AlRumaih	Future Generation for Investments	Inside the Kingdom	Limited Liability Company	Capital Market Authority	Inside the Kingdom	Governmental
		Sulaiman Al Habeeb Medical Group	Inside the Kingdom	Closed Joint Stock Company	Samba Capital & Investment Management Company	Inside the Kingdom	Joint Stock Company
		Saudi Fransi Capital	Inside the Kingdom	Closed Joint Stock Company	HSBC Saudi Arabia Limited	Inside the Kingdom	Closed Joint Stock Company
		Sada Company	Inside the Kingdom	Limited Liability Company	Al Yamamah Steel Company	Inside the Kingdom	Closed Joint Stock Company
					Food concepts Ltd.	Inside the Kingdom	Limited Liability Company
					Alissa Holding Group	Inside the Kingdom	Closed Joint Stock Company

(2) NAMES OF THE COMPANIES INSIDE AND OUTSIDE THE KINGDOM IN WHICH A BOARD MEMBER IS A MEMBER OF THEIR CURRENT OR PREVIOUS BOARD MEMBER OR MANAGER: (CONTINUED)

	Member's name	Current			Previous		
		Names of companies in which the Board member is a member of its current Board of Directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Names of companies in which the Board member is a member of its previous Board of Directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity
6	Bader Al Issa	Asilah for Investment	Inside the Kingdom	Closed Joint Stock Company	Saudi Fransi Capital	Inside the Kingdom	Closed Joint Stock Company
		Savola Group	Inside the Kingdom	Listed Joint Stock Company	Kinan International for Real Estate Development Company	Inside the Kingdom	Closed Joint Stock Company
		United Sugar Company	Inside the Kingdom	Closed Joint Stock Company	Knowledge Economic City	Inside the Kingdom	Closed Joint Stock Company
		Afia International Company	Inside the Kingdom	Closed Joint Stock Company	Savola Packaging	Inside the Kingdom	Closed Joint Stock Company
		Savola Foods	Inside the Kingdom	Closed Joint Stock Company	AlAqiq for Real Estate Development	Inside the Kingdom	Closed Joint Stock Company
		Dur Hospitality Company	Inside the Kingdom	Listed Joint Stock Company	Sukoon International Company	Inside the Kingdom	Closed Joint Stock Company
		Amias Holdings	Inside the Kingdom	Limited Liability Company			
		Panda Retail Company	Inside the Kingdom	Closed Joint Stock Company			
		Almarai	Inside the Kingdom	Listed Joint Stock Company			

	Member's name	Current			Previous		
		Names of companies in which the Board member is a member of its current Board of Directors	**Inside the Kingdom/ Outside the Kingdom**	**Legal Entity**	**Names of companies in which the Board member is a member of its previous Board of Directors**	**Inside the Kingdom/ Outside the Kingdom**	**Legal Entity**
7	Rayan Fayez	Saudi Fransi Capital	Inside the Kingdom	Closed Joint Stock Company	Savola Group	Inside the Kingdom	Listed Joint Stock Company
		Saudi Agricultural & Livestock Investment Company (SALIC)	Inside the Kingdom	Closed Joint Stock Company	Kinan International Real Estate Development Company	Inside the Kingdom	Closed Joint Stock Company
		Hassana Investment Company	Inside the Kingdom	Closed Joint Stock Company	Knowledge Economic City	Inside the Kingdom	Listed Joint Stock company
		Saudi Stock Exchange (Tadawul)	Inside the Kingdom	Closed Joint Stock Company	Almarai	Inside the Kingdom	Listed Joint Stock Company
		Human Resources Development Fund (HRDF)	Inside the Kingdom	Governmental	Herfy Food Services	Inside the Kingdom	Listed Joint Stock Company
					JP Morgan Chase NA – Riyadh Branch	Inside the Kingdom	Closed Joint Stock Company
					JP Morgan Saudi Arabia Limited	Inside the Kingdom	Limited Liability Company
					Savola Foods	Inside the Kingdom	Closed Joint Stock Company
					Panda Retail Company	Inside the kingdom	Closed Joint Stock Company
					Goldman Sachs, Saudi Arabia	Inside the Kingdom	Closed Joint Stock Company

(2) NAMES OF THE COMPANIES INSIDE AND OUTSIDE THE KINGDOM IN WHICH A BOARD MEMBER IS A MEMBER OF THEIR CURRENT OR PREVIOUS BOARD MEMBER OR MANAGER: (CONTINUED)

	Member's name	Current			Previous		
		Names of companies in which the Board member is a member of its current Board of Directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity	Names of companies in which the Board member is a member of its previous Board of Directors	Inside the Kingdom/ Outside the Kingdom	Legal Entity
8	Jacques Prost	Wealth Management – CA Indosuez	Outside the Kingdom	Joint Stock Company	Agricole Corporate & Investment, France	Outside the Kingdom	Joint Stock Company
		Credit Agricole Payment Service	Outside the Kingdom	Joint Stock Company	FIA NET Europe	Outside the Kingdom	Joint Stock Company
		CA Indosuez – Wealth Management – France	Outside the Kingdom	Joint Stock Company	Credit Agricole Indosuez – Milan – Italy	Outside the Kingdom	Joint Stock Company
		CA Indosuez – Wealth Management – Switzerland	Outside the Kingdom	Joint Stock Company	Credit Agricole Suisse	Outside the Kingdom	Joint Stock Company
					Credit Agricole CIB ZAO Russia	Outside the Kingdom	Joint Stock Company
					Credit Agricole CIB China	Outside the Kingdom	Joint Stock Company
					IMMOFI CACIB	Outside the Kingdom	Joint Stock Company
					Credit Agricole Immobilier	Outside the Kingdom	Joint Stock Company
9	Talal AlMaiman	Kingdom Holding Company	Inside the Kingdom	Listed Joint Stock Company	Savola Group	Inside the Kingdom	Listed Joint Stock Company
		Kingdom Real Estate Development	Inside the Kingdom	Closed Joint Stock Company	SRMJ	Inside the Kingdom	Closed Joint Stock Company
		Der' alreayah Health Company	Inside the Kingdom	Closed Joint Stock Company			
		Tasnee Company	Inside the Kingdom	Closed Joint Stock Company			
		NAS Airlines	Inside the Kingdom	Closed Joint Stock Company			

(3) COMPOSITION OF THE BOARD OF DIRECTORS AND THE CLASSIFICATION OF ITS MEMBERS:

	Member's name	Position	Membership classification
1	Sulaiman Al-Gwaiz	Chairman of the Board	Non-executive
2	Abdulrahman Al Rashed	Vice Chairman of the Board	Non-executive
3	Mousa Al Omran	Member	Independent
4	Dr. Khalid Mutabagani	Member	Independent
5	Ammar AlKhodairy*	Member	Independent
6	Mazin Al Rumaih	Member	Non-executive
7	Bader Al Issa	Member	Independent
8	Rayan Fayez**	Member	Executive
9	Jacques Prost	Member	Non-executive
10	Talal AlMaiman***	Member	Non-executive

* Assigned to the position of Managing Director CEO effective 15/11/2017 to 15/02/2018.

** Appointed as Managing Director and CEO as of 18/02/2018.

*** Appointed as a member of the Board of Directors effective 28/02/2018.

(4) A BRIEF DESCRIPTION OF THE COMPETENCIES AND DUTIES OF THE COMMITTEES, INDICATING THEIR NAMES, NAMES OF THEIR CHAIRMEN, NAMES OF THEIR MEMBERS, THE NUMBER OF THEIR RESPECTIVE MEETINGS, DATES OF THOSE MEETINGS AND THE MEMBERS' ATTENDANCE AT EACH MEETING:

The Board of Directors of Banque Saudi Fransi has formed the following five committees for three-year periods from 01/01/2016 to 31/12/2018: the Executive Committee, the Audit Committee, the Nominations and Remunerations Committee, the Board Risk Committee and the Corporate Social Responsibility Committee. These committees have powers under their own regulations. These committees are as follows:

(4/A) EXECUTIVE COMMITTEE:

The Committee consists of five members and held six meetings during the year 2018, with an attendance rate of 93%, and the Corporate Secretary of the Bank acts as the Secretary of this Committee. The following are the members of the Committee and its meetings during 2018:

	Name	Type of Membership	Dates of meetings					
			First meeting 15/02/2018	Second meeting 11/04/2018	Third meeting 05/06/2018	Fourth meeting 18/09/2018	Fifth meeting 06/11/2018	Sixth meeting 11/12/2018
1	Sulaiman Al-Gwaiz	Chairman	✓	✓	✓	✓	✓	✓
2	Abdulrahman AlRashed	Member	✓	✓	✓	✓	x	✓
3	Mousa AlOmran	Member	✓	✓	✓	✓	✓	✓
4	Ammar AlKhodairy	Member	✓	x	✓	✓	✓	✓
5	Rayan Fayez	Member	✓	✓	✓	✓	✓	✓
6	Jacques Prost*	Member	✓	–	–	–	–	–
7	Mazin Al Rumaih*	Member	✓	–	–	–	–	–

* His membership of the Executive Committee has been terminated as of 21/03/2018 as a result of reducing the number of members of the Committee to five members in accordance with Article 50 of the Corporate Governance Regulations issued by the Capital Market Authority.

The Committee's main responsibilities include, but are not limited to:

- Taking timely decisions on issues on which a delay may have an adverse impact on the reputation and work of the Bank. Decisions requiring Board approval or approval of the other committees will not be made by this Committee;
- Making decisions related to the appointment or termination of consultants in matters relating to the development of strategies and policies, as well as negotiating and approving consultants' fees on such matters;
- Studying and taking decisions on the transactions of related parties within the powers specified in the approved "delegation of authorities table", and making recommendations to the Board regarding transactions that exceed the limits of the Committee's powers (in accordance with the delegation of authority table);

(4) A BRIEF DESCRIPTION OF THE COMPETENCIES AND DUTIES OF THE COMMITTEES, INDICATING THEIR NAMES, NAMES OF THEIR CHAIRMEN, NAMES OF THEIR MEMBERS, THE NUMBER OF THEIR RESPECTIVE MEETINGS, DATES OF THOSE MEETINGS AND THE MEMBERS' ATTENDANCE AT EACH MEETING: (CONTINUED)

(4/A) EXECUTIVE COMMITTEE: (CONTINUED)

- Approving loans and credit facilities for Banque Saudi Fransi's customers as per the Bank's approved delegation of authorities table, in line with SAMA rules and regulations on loans and credit facilities;
- Reviewing the periodic reports of management performance and making recommendations to the Board thereon;
- Reviewing the annual budgets, plans and material differences in the budget (if any) before submitting them to the Board for review;
- Requesting periodic reports from the Audit Committee and Board Risk Committee on the results and any updates related to risks, their evaluation and plans to process them;
- Critically assessing business strategies and plans;
- Monitoring and measuring the long term objectives set by the Board;
- Reviewing and making recommendations to the Board with respect to the Governance documents, such as the Articles of Association;
- Reviewing budget and spending as proposed by the Business Lines and Support Divisions and sending it to the Board for its review and approval.

(4/B) AUDIT COMMITTEE:

The Committee consists of five members, presided by a member of the Board and most of the members are from outside the Board. The members of the Audit Committee have high academic qualifications and high professional experience, including knowledge of accounting standards and the ability to read financial reports, in addition to understanding the laws and regulations issued by the competent authorities. The Audit Committee held 6 meetings during 2018, with an attendance rate of 90%. The following are the members of the Committee and its meetings during 2018:

	Name	Type of Membership	Dates of meetings					
			First meeting 30/01/2018	Second meeting 15/03/2018	Third meeting 18/04/2018	Fourth meeting 25/07/2018	Fifth meeting 16/10/2018	Sixth meeting 17/12/2018
1	Ammar AlKhodairy*	Chairman	–	✓	✓	✓	✓	✓
2	Bader Al Issa	Member	✓	✓	✓	✓	✓	✓
3	Eid AlShamri (from outside the Board)	Member	✓	✓	✓	✓	✓	✓
4	Muhammad Ikhwan (from outside the Board)	Member	✓	✓	x	✓	✓	✓
5	Arnaud Chubin (from outside the Board)	Member	✓	✓	✓	✓	✓	x

* He resigned from the Audit Committee as of 15/11/2017 due to his appointment as Managing Director of the Bank. He returned to the position of Chairman of the Audit Committee on 16/02/2018 after taking the necessary approvals from the relevant regulatory and supervisory authorities. The Board of Directors of the Bank confirms that Mr. Ammar AlKhodairy has not reviewed or participated in any discussions related to the work he oversaw during the period of assuming the functions and responsibilities of the Managing Director after being the Chairman of the Audit Committee.

The Audit Committee's members assist the Bank's Board in fulfilling its oversight responsibility relating to:

- The integrity of BSF's financial statements;
- The overall financial reporting and disclosure controls process within BSF;
- The system of internal accounting and financial controls across BSF;
- The system of internal controls over the operations of BSF;
- The internal audit functions over BSF (including Internal Audit charter, plans, activities, and reporting);
- The annual independent external audit of BSF's financial statements;
- Overseeing the effectiveness of the system for monitoring compliance with laws and regulations;
- Overseeing and evaluating the performance of BSF's external auditors, including a review and evaluation of the external auditors' qualifications and independency;
- Reviewing the audit plan proposed by the external auditors, its scope and approach including the coordination of the audit effort with internal audit;
- Reviewing internal audit plans and activities, including reviewing and approving a risk based internal audit plan and internal audit performance assessment.

(4/C) NOMINATIONS AND REMUNERATIONS COMMITTEE:

The Committee consists of four members comprised of Board Directors and other specialists. The Committee held six meetings during 2018, with an attendance rate of 79%. The Corporate Secretary of the Bank acts as the Secretary of this Committee. The following are the members of the Committee and its meetings during 2018:

	Name	Type of Membership	Dates of meetings					
			First meeting 14/02/2018	Second meeting 10/04/2018	Third meeting 11/09/2018	Fourth meeting 02/10/2018	Fifth meeting 09/12/2018	Sixth meeting 19/12/2018
1	Abdulrahman AlRashed	Chairman	✓	✓	✓	✓	✓	✓
2	Mazin Al Rumaih*	Member	–	✓	✓	✓	✓	✓
3	Dr. Khalid Mutabagani	Member	✓	x	✓	✓	✓	x
4	Mansour Al Mansour	Member	✓	✓	✓	x	✓	✓
5	Mousa Al Omran**	Member	✓	–	–	–	–	–

* Appointed as a member of the Committee as of 21/03/2018.

** His membership of the Nominations and Remunerations Committee has been terminated as of 21/03/2018.

Functions of the Committee include but are not limited to:
- Overseeing the design and execution of the Bank's remunerations system and policy, and their regular review and presentation to the Board for final approval;
- Evaluating the practices under which remunerations are disbursed for potential revenues, of which their timing or likelihood of occurrence remain uncertain;
- Presenting recommendations to the Board on the level and structure of compensation of key executives of the Bank whose appointment is subject to obtaining 'No Objection' from SAMA;
- Determining the total value of remunerations depending on the risk-adjusted earnings of the Bank for payment of performance bonuses;
- Reviewing the compliance of the remunerations policy with the regulatory rules and with the principles and standards of the Financial Stability Board (FSB);
- Identifying weaknesses and strengths of the Board and making recommendations regarding changes that can be made in this respect.

(4/D) BOARD RISK COMMITTEE:

The Board Risk Committee consists of five members, comprised of Board Directors and other specialists. The Committee held five meetings during 2018, with an attendance rate of 85%. The Corporate Secretary of the Bank acts as the Secretary of this Committee. The following are the members and meetings of the Committee during 2018:

	Name	Type of Membership	Dates of meetings				
			First meeting 14/02/2018	Second meeting 10/04/2018	Third meeting 04/06/2018	Fourth meeting 11/09/2018	Fifth meeting 09/12/2018
1	Mazin Al Rumaih	Chairman	✓	✓	✓	✓	✓
2	Bader Al Issa	Member	✓	✓	✓	✓	✓
3	Rayan Fayez	Member	✓	✓	✓	✓	✓
4	Talal AlMaiman*	Member	–	x	x	✓	✓
5	Jean-François Ballay**	Member	x	–	–	–	–

* Appointed as a member of the Committee as of 28/02/2018.

** Resigned from the Committee as of 30/03/2018.

Major duties and responsibilities of the Board Risk Committee include the following:
- Providing recommendations on policies and general guidelines on the extent of the Bank's ability to take risk to enable the Bank to develop specific plans for each business unit/risk category;
- Reviewing and following up risks encountered by the Bank within the context of its ability to take risks as approved by the Board;

(4) A BRIEF DESCRIPTION OF THE COMPETENCIES AND DUTIES OF THE COMMITTEES, INDICATING THEIR NAMES, NAMES OF THEIR CHAIRMEN, NAMES OF THEIR MEMBERS, THE NUMBER OF THEIR RESPECTIVE MEETINGS, DATES OF THOSE MEETINGS AND THE MEMBERS' ATTENDANCE AT EACH MEETING: (CONTINUED)

(4/D) BOARD RISK COMMITTEE: (CONTINUED)

- Ensuring the robustness of the internal capital adequacy process;
- Reviewing, deliberating and making recommendations on the practices of risk management and guidance on the strategies adopted by the Risk Management Group;
- Ensuring the adequacy and effectiveness of risk levels at the Bank, in terms of collecting information on risks, analysis and assessment of risks in addition to benefiting from the results of competitive advantages of the Bank;
- Setting up risk measurement methodologies at the enterprise level in order to measure and evaluate risk management strategy to ensure that it copes with regulatory, operational and legal updates as well as the stated business objectives of the Bank; considering and providing responses to the proposals of the Managing Director and making notes thereon, if needed, regarding the impact of the risks associated with any strategic decision which may be considered by the Bank; and reporting to the Board when strategies being considered by the Managing Director involve a possibility (though weak) that the Bank would go beyond acceptable risk limits;
- Ensuring approval of all changes to the risk policies as stated in the Bank Delegation of Authorities Manual;
- Providing appropriate advice to the management about fulfilling its responsibilities with respect to risk management; submitting periodic (semi-annual) reports to the Board regarding the following matters or if the threat reaches an unacceptable level. Reporting to the Board on risks that exceeded acceptable levels even after they are reinstated to acceptable levels. The Risk Board Committee is also responsible for monitoring credit risk activities in addition to the function of credit risk management in general. The Committee is also in charge of the following tasks related to credit risk management to ensure the implementation of credit risk policies and strategies approved by the Board and the Executive Committee: to follow-up the credit risk of the Bank in general, and to ensure compliance with the limits of the approved risk by a committee of the Board and the Executive Committee; to provide information for the formulation of credit policy of the Bank, especially those related to credit risk, including, for example, setting up the standards for the provision of credit proposals, financial rules, and classification criteria and standards;
- Providing suitable recommendations to the Executive Committee on matters related to delegating authority to approve the credit, and the hedging limits on large credit operations, criteria for loan guarantees, portfolio management, mechanism of loan review, risk concentrations, monitoring and evaluation of the risks and prices of loans, and earmarking of provisions as needed; handling any other issues related to credit risk management; reviewing the Committee's charter on a periodic basis, at least once a year, and recommending to the BoD regarding any amendments as necessary; laying down an annual plan and timetable for the Committee's activities for next year, including periodic meetings of the Committee and meetings with the management, and other activities in light of the Committee's roles and responsibilities as specified in its charter.

(4/E) CORPORATE SOCIAL RESPONSIBILITY COMMITTEE:

The Board of Directors of Banque Saudi Fransi is keen to support the largest possible segment of society in all fields. The committee consists of three members, and the Corporate Social Responsibility Department's Head shall act as a Secretary for this committee. The Committee held one meeting in 2018 with an attendance rate of 100%. The committee's members and the meeting attendance record during 2018 are as follows:

	Name	Type of Membership	Dates of meetings
			08/05/2018
1	Mr. Abdulrahman AlRashed	Chairman	✓
2	Mr. Bader Al Issa	Member	✓
3	Mr. Rayan Fayez	Member	✓

The tasks of the Corporate Social Responsibility Committee include the following:

- Representing and assisting the Board in overseeing the review of recommendations and the credentials of the contributions submitted by the members for consideration;
- Selecting charities with which the Bank is interested setting up partnerships on an annual basis;
- Objectively identifying the needs of charitable partnerships;
- Providing means of communication between members of the Board and selected charities concerning the Committee's activities;
- Contributing to the BSF vision and strategic plan by ensuring that the BSF social contribution strategy is perfectly implemented and supporting the social contribution objectives at the highest level;
- Protecting, enhancing and developing the status of BSF with related parties along with follow up the performance of BSF's social contributions.

(5) THE MEANS USED BY THE BOARD OF DIRECTORS TO ASSESS ITS PERFORMANCE, THE PERFORMANCE OF ITS COMMITTEES AND MEMBERS, AND THE EXTERNAL BODY WHICH CONDUCTED THE ASSESSMENT AND ITS RELATIONSHIP WITH THE BANK, IF ANY:

The Board of Directors of the Bank evaluates its performance and the performance of its committees and members separately on an annual basis. At the end of 2018, the Board assigned the Saudi Governance Center, an independent advisory center specialized in the field of governance and its applications, to evaluate the performance of the Board and its committees. This was done through evaluating the Board's members by the Chairman, self-evaluation by the member, the member evaluating the rest of the members in addition to the evaluation of the Chairman by the members. The evaluation was carried out for the Board and its committees along with evaluating the Secretary by the Board's members.

(6) DISCLOSURE OF THE REMUNERATION OF THE BOARD MEMBERS AND EXECUTIVE MANAGEMENT AS STATED BY THE REGULATIONS:

Members of the Board of Directors receive a certain amount of money as a remuneration for each member in accordance with his performance and the number of meetings he attends, as per the recommendations of the Nominations and Remunerations Committee according to the Companies Law and the laws and controls issued by the Capital Market Authority and the Saudi Arabian Monetary Authority – emphasizing on the absence of any differences between the approved remunerations and what has been approved by the Board of Directors based on the recommendations of the Nominations and Remunerations Committee. In regard to executive management remunerations, they are determined based on performance criteria and approved by the Nominations and Remunerations Committee. Remuneration and compensation of Directors, committee's members and executive management are as follows:

(6/A) BOARD MEMBER REMUNERATION:

Board Member Remuneration (by thousand Riyals)																	
		Fixed Remuneration							Variable Remuneration								
		Certain amount	Allowance for attending Board meetings	Total for attending Committees sessions	Benefits in kinds	A statement of what members of the Board have received as workers, administrative or as a return for technical, administrative or consulting work	The remuneration of the Chairman of the Board, the Managing Director or the Secretary if he is a member	Total	Percentage of profits	Periodic remunerations	Short-term incentive plan	Long-term incentive plans	Granted shares (the value must be inserted)	Total	Leaving indemnity	Sum Total	Expenses allowances
First: Independent members:																	
1	Mousa AlOmran	420	15	21	–	–	–	456	–	–	–	–	–	–	–	456	–
2	Dr. Khalid Mutabagani	420	15	12	–	–	–	447	–	–	–	–	–	–	–	447	–
3	Bader AlIssa	420	18	36	–	–	–	474	–	–	–	–	–	–	–	474	–
4	Ammar Al AlKhodairy	420	15	30	–	–	–	465	–	–	–	–	–	–	–	465	–
Total		1,680	63	99	–	–	–	1,842	–	–	–	–	–	–	–	1,842	–
Second: Non-executive members:																	
1	Sulaiman AlGwaiz	420	18	18	–	–	–	456	–	–	–	–	–	–	–	456	–
2	Abdulrahman AlRashed	420	15	36	–	–	–	471	–	–	–	–	–	–	–	471	–
3	Mazin Al Romaih	420	18	33	–	–	–	471	–	–	–	–	–	–	–	471	–
4	Jacques Prost	420	15	3	–	–	–	438	–	–	–	–	–	–	–	438	–
5	Talal AlMaiman	353	15	6	–	–	–	374	–	–	–	–	–	–	–	374	–
	Total	2,033	81	96	–	–	–	2,210	–	–	–	–	–	–	–	2,210	–
Third: Executive members:																	
1	Rayan Fayez*	420	18	36	–	–	–	474	–	–	–	–	–	–	–	474	–
Total		420	18	36	–	–	–	474	–	–	–	–	–	–	–	474	–

* He was appointed as the CEO and Managing Director as of 18/02/2018. The details of the fixed remunerations and the variable remunerations will be in the following table: Remunerations of five senior executives including CEO and CFO.

(6) DISCLOSURE OF THE REMUNERATION OF THE BOARD MEMBERS AND EXECUTIVE MANAGEMENT AS STATED BY THE REGULATIONS: (CONTINUED)

(6/A) BOARD MEMBER REMUNERATION: (CONTINUED)

Directors' remuneration for any executive, technical, administrative or advisory work or positions			
Name of Board member	**Position**	**Principles and mechanisms for taking the decision**	**Amount for whole period (in thousands of Saudi Riyals)**
Mr. Ammar Al AlKhodairy	Acting Managing Director	Based on the recommendation of the Nominations and Remunerations Committee, and in light of the transitional period that the Bank has undergone as a result of the termination of the former Managing Director, the Board of Directors has decided to assign Mr. Ammar AlKhodairy as a Managing Director for three months from 15/11/2017 to 15/02/2018 after obtaining the approval from Saudi Arabian Monetary Authority. The appropriate remuneration was determined as per the recommendation of the Nominations and Remunerations Committee and the Board's decision, compared to the remunerations of such positions in the labor market and banking sector.	1,200

(6/B) COMMITTEE MEMBERS' REMUNERATION:

Committee Members' remuneration (in thousands of Saudi Riyals)					
		Fixed remunerations (except attending sessions allowance)	**Allowance for attending sessions**	**Total**	**Notes**
Audit Committee Members					
1	Amaar Al AlKhodairy*		15	15	
2	Bader Alissa		18	18	
3	Eid Alshamri	200	18	218	
4	Mohammad Ikhwan	200	15	215	
5	Arnod Chapin	200	15	215	Has waived the full amount of the remuneration
Total		600	81	681	
Nominations and Remunerations Committee Members					
1	Abdulrahman Alrashed		18	18	
2	Mazin Al Rumaih**		15	15	
3	Dr. Khalid Mutabagani		12	12	
4	Mansour Almansour	200	15	215	
5	Mousa Alomran***	–	3	3	
Total		200	63	263	
Board Risk Committee Members					
1	Mazin Al Rumaih		15	15	
2	Bader Alissa		15	15	
3	Rayan Fayez	–	15	15	
4	Talal Almaiman****		6	6	
5	François Palay*****	50	–	50	Has waived the full amount of the remuneration
Total		50	51	101	
Executive Committee Members					
1	Suliman AlGwaiz		18	18	

Committee Members' remuneration (in thousands of Saudi Riyals)					
		Fixed remunerations (except attending sessions allowance)	**Allowance for attending sessions**	**Total**	**Notes**
2	Abdulrahman Alrashed		15	15	
3	Mousa Alomran		18	18	
4	Rayan Fayez		18	18	
5	Amaar Al AlKhodairy*		15	15	
6	Mazin Al Rumaih******		3	3	
7	Jacques Prost******		3	3	
Total			90	90	
Donations and Social Contribution Committee Members					
1	Abdulrahman Alrashed		3	3	
2	Bader Alissa		3	3	
3	Rayan Fayez		3	3	
Total			9	9	

* He resigned from the Audit Committee as of 15/11/2017 due to his appointment as Managing Director of the Bank. He returned to the position as Chairman of the Audit Committee on 16/02/2018 after taking the necessary approvals from the relevant regulatory and supervisory authorities. The Board of Directors of the Bank confirms that Mr. Amaar Al AlKhodairy has not reviewed or participated in any discussions related to the work he supervised during his assignment as a Managing Director after being the Chairman of the Audit Committee.

** Appointed as a member of the Committee as of 21/03/2018.

*** His membership of the Nominations and Remunerations Committee terminated as of 21/03/2018.

**** Was appointed as a member of the Committee as of 28/02/2018.

***** Resigned from membership of the Committee as of 30/03/2018.

****** Their membership of the Executive Committee ended on 21/03/2018 as a result of reducing the number of members of the Committee to five members in accordance with Article 50 of the Corporate Governance Regulation issued by the Capital Market Authority.

(6) DISCLOSURE OF THE REMUNERATION OF THE BOARD MEMBERS AND EXECUTIVE MANAGEMENT AS STATED BY THE REGULATIONS: (CONTINUED)

(6/C) SENIOR EXECUTIVES REMUNERATION:*

Remuneration of five senior executives, including CEO and CFO (thousands of Riyals)												
Fixed Remuneration				**Variable Remuneration**								
Salaries	**Allowances**	**In-kind benefits**	**Total**	**Periodic Remunerations**	**Earnings**	**Short-term incentive plans**	**Long-term incentive plans**	**Shares awarded (value entered)**	**Total**	**Indemnity**	**Total Executives' remuneration for the Board, if any**	**Aggregate**
15,278	327	–	15,605	–	–	16,471	–	4,387	20,858	126	474	37,063

Remuneration of Senior Executives whose appointment requires obtaining no objection of the Saudi Arabian Monetary Authority (thousands of Riyals)												
Fixed Remuneration				**Variable Remuneration**								
Salaries	**Allowances**	**In-kind benefits**	**Total**	**Periodic Remunerations**	**Earnings**	**Short-term incentive plans**	**Long-term incentive plans**	**Shares awarded (value entered)**	**Total**	**Indemnity**	**Total Executives' remuneration for the Board, if any**	**Aggregate**
24,811	548	–	25,359	–	–	26,771	–	4,387	31,158	2,758	474	59,749

* It includes the remuneration of the senior executives who resigned during 2018.

(7) ANY PUNISHMENT, PENALTY, PRECAUTIONARY PROCEDURE OR PREVENTIVE MEASURE IMPOSED ON THE BANK BY THE AUTHORITY OR ANY OTHER SUPERVISORY, REGULATORY OR JUDICIARY AUTHORITY, DESCRIBING THE REASONS FOR NON-COMPLIANCE, THE IMPOSING AUTHORITY AND THE MEASURES UNDERTAKEN TO REMEDY AND AVOID SUCH NON-COMPLIANCE IN THE FUTURE:

A. PENAL DECISIONS OF THE SAUDI ARABIAN MONETARY AUTHORITY:

Subject of the violation	2017		2018		Ways to treat and avoid them in the future
	Number of Penal Decisions	Total Amount of Financial Penalties in Saudi Riyals	Number of Penal Decisions	Total Amount of Financial Penalties in Saudi Riyals	
Violation of SAMA's supervisory instructions	21	93,938,518	6	810,000	The level of control has been increased and the procedures have been improved to ensure compliance with instructions issued by regulatory bodies and to ensure that such violations are not repeated
Violation of SAMA's instructions for protecting customers	None		3	500,000	It has been ensured that the Bank has established appropriate mechanisms to maintain a high level of application to the instructions of the Saudi Arabian Monetary Authority on customer protection
Violation of SAMA's instructions regarding the performance level of the ATMs and point of sale devices	1	102,563	None		
Violation of SAMA's instructions for due diligence in the fight against money laundering and financing of terrorism	1	490,000	None		
Total	23	94,531,081	9	1,310,000	

B. OTHER PENAL DECISIONS:

Penalty / Sanction / Precautions / Restriction	Reasons for the Violation	Violating Body	Ways to treat and avoid them in the future
SAR 200,697	Service suspension due to technical breakdowns and unscheduled maintenance procedures	SADAD Payment Company	Systems have been updated and work procedures have been organized to prevent service failures. A project has been initiated that helps track the performance of SADAD payments to improve the level of service

(7) ANY PUNISHMENT, PENALTY, PRECAUTIONARY PROCEDURE OR PREVENTIVE MEASURE IMPOSED ON THE BANK BY THE AUTHORITY OR ANY OTHER SUPERVISORY, REGULATORY OR JUDICIARY AUTHORITY, DESCRIBING THE REASONS FOR NON-COMPLIANCE, THE IMPOSING AUTHORITY AND THE MEASURES UNDERTAKEN TO REMEDY AND AVOID SUCH NON-COMPLIANCE IN THE FUTURE: (CONTINUED)

B. OTHER PENAL DECISIONS: (CONTINUED)

Penalty / Sanction / Precautions / Restriction	Reasons for the Violation	Violating Body	Ways to treat and avoid them in the future
SAR 5,000	Due to the absence of an operating license from the base of the branch, the transaction has been provided for the issuance of the license. An engineering report was requested for the safety of the building and payment of fees for 11 years of a value over 100 thousand riyals or accepting a fine of 5,000 riyals. This was done during the procedures of issuing the license under the approval of the branch management in the western region at Al Aziziyah Municipality in Mecca	Secretariat of the Holy City of Mecca	It has been corrected and the license has been extracted

(8) RESULTS OF THE ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL PROCEDURES OF THE BANK AND THE OPINION OF THE AUDIT COMMITTEE WITH RESPECT TO THE ADEQUACY OF THE BANK'S INTERNAL CONTROL SYSTEM:

A. INTERNAL CONTROL FRAMEWORK

The Board of Directors is responsible for the internal control system of Banque Saudi Fransi. The overall framework of key policy and procedures approved by the Board of Directors is designed to provide effective internal control within the Bank for risk management within defined risk limits. This framework can provide reasonable assurance about the effectiveness and efficiency of controls within the Bank.

The management of Banque Saudi Fransi is responsible for implementing and reviewing the effectiveness of the internal control environment approved by the Board of Directors. It has adopted an integrated framework for internal controls as directed by Saudi Arabian Monetary Authority (SAMA). The internal control system (which follows the principle of the three lines of defense) is initiated with the senior management of the Bank, whose roles are determined by the Board of Directors and its Committees with the aim of reducing the risks associated with strategy, financial performance, technology, asset and liability management, credit, operations, legal affairs, organizational affairs and information security.

All Bank departments are making efforts to improve the efficiency and effectiveness of the internal control environment at the operational level through ongoing reviews and coordinated and integrated procedures to avoid and correct regulatory deficiencies. Therefore, each department (first line of defense), under the supervision of the senior executive management, is responsible for supervising the amendment of the control deficiencies identified by its own risk and control assessment process and by other control departments (second line of defense), such as Compliance Group, Risk Management Group, Human Resources Group and Financial Group. The Internal and external auditors are responsible for confirmation to the Board of Directors (third line of defense).

B. INTERNAL AUDIT

The Internal Audit Group acts as a “third line of defense” and provides independent confirmations to the senior management and the Board of Directors through the Audit Committee of the Board of Directors. Its role is based on the philosophy of providing added value to improve the Bank’s operations and provides consulting services for various functions at the Bank upon request.

The Internal Audit Group has been established by the Audit Committee, which defines and approves the responsibilities of this Group as part of its supervisory role, and the Chief Audit Executive reviews them in terms of functionality.

The scope of internal audit includes, but is not limited to, examining and evaluating the efficiency and effectiveness of risk management, internal control and governance, as well as the quality of performance in the implementation of responsibilities to achieve the Bank’s strategic objectives and goals.

The Internal Audit Group has full and unrestricted access to all Bank systems, records, physical assets and personnel involved in the execution of any work, but is under strict responsibility regarding the confidentiality and protection of records and information.

The Audit Group submits a report after each field visit to the relevant department and senior management. The report is discussed and the corrective plan for the detected observations and target dates is agreed upon according to the risk-based audit methodology. The Internal Audit Group also submits quarterly reports to the Audit Committee. These reports are discussed during the Committee’s meetings. After each meeting, the Committee shall direct the senior management to take the necessary measures to activate the supervisory role, in addition to ensuring the closure of the detected observations according to the agreed targeted dates.

C. COMPLIANCE GROUP

The Compliance Group is a supervisory group within the Bank’s business system. The Compliance Group has the independence necessary to complete its regulatory work in accordance with the supervisory regulations and instructions. The Compliance Group submits its reports directly to the Audit Committee, as the Audit Committee is one of the main committees of the Bank’s Board of Directors. The Compliance Group performs its regulatory role of verifying the Bank’s compliance in all its work with all supervisory regulations and instructions applicable in the banking sector in the Kingdom of Saudi Arabia. The Compliance Group also contributes to establishing and stabilizing a culture of commitment through continuous communication and training with all business and support sectors at the Bank. The Compliance Group is directly and continuously communicating with all regulatory and supervisory authorities in the banking sector in the Kingdom of Saudi Arabia, through direct communication and reporting necessary to achieve the highest standards of compliance and transparency, especially combating financial crimes, money laundering and terrorist financing crimes. The work of the Compliance Group is reviewed periodically and independently by the Bank’s Internal Audit Group, as provided for by the supervisory regulations and instructions in the Saudi banking sector.

D. RISK MANAGEMENT GROUP

The key function of the Risk Management Group is to effectively oversee internal control at the Bank level, thus contributing to the Bank’s strategic directions, which includes identifying, reducing, controlling and reporting all types of risks, including behavioral risks.

In this regard, the Risk Management Group works closely with all the bank’s internal regulators to ensure an appropriate regulatory system that operates effectively and continuously. Based on the nature of the continuous development of banking services, the Group continuously seeks to close gaps, address risks and strengthen the internal control system.

(8) RESULTS OF THE ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL PROCEDURES OF THE BANK AND THE OPINION OF THE AUDIT COMMITTEE WITH RESPECT TO THE ADEQUACY OF THE BANK'S INTERNAL CONTROL SYSTEM: (CONTINUED)

E. RESULTS OF REVIEWING THE EFFECTIVENESS OF INTERNAL CONTROLS

The Audit Committee reviews the effectiveness of the internal control system and reports to the Board the steps taken in this regard. It also submits a comprehensive annual report to the Board to assist it in reviewing the effectiveness of the Internal Control System after the Audit Committee reviews the reports of the internal control procedures of the Bank, the most important of which are internal audit reports, Risk Management Group and Compliance Group. After meeting with the Executives of these departments to discuss the content of their reports and the performance of their sectors, the Committee submits its findings to the Board of Directors on whether the Bank's internal control cycle reflects the effectiveness of internal control procedures and that the Bank continuously develops them to meet changing business needs and developments. The Bank has contracted with an external company of considerable experience in the field of auditing and control in order to evaluate the internal control system in the Bank and improve the level of the effectiveness and adequacy of control procedures. The report was issued on August 16, 2018. The Internal Audit Department has also monitored the closure of the detected observations according to the targeted dates mentioned in the report.

With regard to the accounting policies applied by the Bank, the Audit Committee continually discusses the impact of instructions issued by the Saudi Arabian Monetary Authority and other regulatory bodies and any changes in accounting policies and the International Financial Reporting Standards (IFRS) with Bank officials and periodically with external auditors to ensure their implementation in accordance with the mentioned instructions.

Based on the results of the continuous evaluation of internal controls carried out by the various regulatory departments of the Bank (Internal Audit Group, Compliance Group and Risk Management Group), the Audit Committee considers that the current control system of the Bank is appropriate and effective. However, the Department is constantly seeking to enhance and strengthen the internal control system.

(9) DETAILS OF THE BANK'S SOCIAL CONTRIBUTIONS:

Banque Saudi Fransi considers corporate social responsibility as a fundamental value that is indispensable. This is based on the Bank's commitment to its national duty to advance development, develop social and economic growth and contribute to the service of the people of this generous country by supporting social and charitable activities and programs and achieving the Saudi Vision 2030.

One of the most important activities that the Bank has sought to accomplish is to participate in the Riyadh International Humanitarian Forum under the patronage of the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz Al Saud, under the title "Humanitarian Action is International Responsibility" organized by the King Salman Humanitarian Aid and Relief Centre in partnership with the United Nations. It is a platform for changing values and finding practical solutions in the humanitarian field that helps to identify the needs of work in this field. It seeks to discuss the main issues related to humanitarian planning and delivery of aid. The Forum aims to promote and market the best standards of humanitarian action.

Banque Saudi Fransi has also contributed to the qualification and development of Saudi competencies of our children with disabilities by launching the program "To be Part of their Future" in its second version. It is an integrated development program for student training by a group of academics of extensive experience in this field in collaboration with the King Salman Center for Disability Research.

As part of the Bank's initiatives for social responsibility in the health sector, and in line with the Bank's interest to spread awareness in conjunction with the Breast Cancer Awareness Month, the Bank has launched the Breast Cancer Awareness Campaign under the name of "Early Detection is Key to Treatment" in cooperation with King Fahad Medical City. The event aims to raise awareness and reduce diseases through the identification of symptoms and treatment.

In line with the Bank's social duty towards the country and the advancement of economic development, the Bank participates in the "Thamarat Exhibition" organized by the Ministry of Labor and Social Development and the Social Development Bank. It is an interactive live platform aimed at integrating the projects of productive families, entrepreneurial, and small enterprises into opportunities to market their projects with service providers and support packages from governmental organizations, strategic partners and providers of supporting solutions.

In conjunction with World Reading Day and the belief of the Bank in the importance of reading and self-enrichment, the Bank has launched a campaign under the name "To Read" in cooperation with the King Abdulaziz Public Library, to support and encourage employees to read.

The Bank has also launched a blood donation campaign in cooperation with the King Fahad Medical City under the name "A Drop of Blood is a Life" with the participation of the staff of the Bank. About 200 employees participated in the campaign for the sake of our brave soldiers stationed on the southern border, believing in the role they play in defending our beloved homeland.

The Bank has participated in raising awareness about financial fraud and ways to prevent it by setting up a workshop under the name "Financial Fraud Patterns and Means of Prevention" for a group of blind people in order to enable care and assistance and to guide those who are blind to a new and bright life, organized by Saudi banks, in cooperation with the Herafia and Ebsar associations, which are concerned with the visually impaired.

Since Banque Saudi Fransi believes in the important role played by security guards and their dedicated efforts to maintain security and safety, the Bank has supported security guards under the slogan "Thank you, Security Guard" which aims to support them and encourage them to achieve their ambitions.

In recognition of their constructive role in maintaining the comfort of employees by providing all relevant services and in appreciation of their role, Banque Saudi Fransi has also celebrated the cleaners and buffet workers under the slogan "Winter Gift".

Under the patronage of His Royal Highness Prince Sultan bin Salman bin Abdulaziz, the Bank organized a symposium entitled "Employing Persons with Disabilities is Inclusion and Equality" in cooperation with King Salman Center for Disability. The Bank was honored as the first bank to train people with special needs.

Finally, the contribution of Banque Saudi Fransi in the areas of social responsibility is a social equation that raises the level of humanitarian contributions to achieve integration commensurate with the society in which the Bank operates.

(10) A LIST OF THE DATES OF THE GENERAL ASSEMBLY MEETINGS HELD DURING THE LAST FISCAL YEAR AND THE NAMES OF THE BOARD MEMBERS WHO ATTENDED THEM:

Name		Attendance Record	
		First Assembly Meeting 19/04/2018	Second Assembly Meeting 11/12/2018
1	Sulaiman Bin Abdulrahman Al-Gwaiz (Chairman of the Executive Committee)	✓	✓
2	Abdulrahman bin Rashed Al Rashed (Chairman of the Nominations and Remunerations Committee, Chairman of the Corporate Social Responsibility Committee)	x	✓
3	Mousa bin Omran Al Omran	x	x
4	Khaled bin Hamed Mutabagani	✓	✓
5	Ammar bin Abdul Wahid AlKhodairy (Chairman of the Audit Committee)	✓	✓
6	Mazen bin Abdul Razzaq Al-Rumaih (Chairman of the Board Risk Committee)	✓	✓
7	Bader bin Abdullah Al Issa	✓	✓
8	Jack Oliver Pierre Prost	x	x
9	Rayan bin Mohammed Fayez	✓	✓
10	Talal bin Ibrahim Al-Maiman	✓	✓

(11) A DESCRIPTION OF THE MAIN SCOPE OF BUSINESS OF THE BANK AND ITS AFFILIATES AND A STATEMENT SHOWING EACH ACTIVITY AND HOW IT AFFECTS THE BANK BUSINESSES AND RESULTS:

The Main Activities of the Bank are as Follows:

a. **Retail Banking** – includes on-demand accounts for customers of private enterprises, overdrafts, loans, saving accounts, deposits, credit cards, debit cards, consumer loans, some Forex products and car rentals;
b. **Corporate banking** – includes on-demand accounts for customers of companies and medium enterprises, deposits, overdrafts, loans and other credit facilities, and financial derivatives;
c. **Treasury** – includes treasury services, trading activities, investment securities, capital markets, bank financing operations and financial derivatives products;
d. **Brokerage and investment Banking** – includes investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investment products, corporate finance, international and domestic brokerage services and insurance.

The Impact of these Major Activities on the Bank's Size and Contribution to the Results is as Follows:

Activity Type	Activity Revenues (in thousand Riyals)	Percentage
Retail Banking	477,674	14%
Corporate Banking	1,456,749	45%
Treasury	1,269,107	38%
Investment Banking and Brokerage	103,524	3%
Total	3,307,054	100%

The Main Activities of Subsidiaries and their Impact on the Bank's Business Volume and its Contribution to the Results are as Follows:

Subsidiary	Activity	Net Income (by thousand Riyals)	Percentage
Saudi Fransi Capital	Acts as principal and agent. and undertake, manage, arrange, advise and file in securities trading	103,524	3.13%
Saudi Fransi for Finance Leasing	Leasing and financing of vehicle assets (cars, motorcycles, trucks) and heavy equipment and machinery, in addition to the purchase and registration of these assets	84,416	2.55%
Saudi Fransi Insurance Agency Co.	Insurance brokerage services	469	0.01%

As for Sakan Real Estate Financing Company, its activity is financing real estate and land through Murabaha, leasing products, buying land and real estate, and investing on behalf of the company and its contribution to the results is very small (less than 0.005%).

(12) A DESCRIPTION OF THE BANK'S SIGNIFICANT PLANS AND DECISIONS (INCLUDING CHANGES TO STRUCTURE, EXPANDING THE BANK'S OPERATIONS OR HALTING THEM) AND FUTURE EXPECTATIONS:

A. FUTURE PLANS:

The Board of Directors reviewed the Bank's future plan in December 2018. The Bank's ambitious new plan is designed to consolidate the Bank's leadership in corporate banking services to enhance the Bank's continued growth in Treasury and to increase the volume of retail banking services. The focus will also be on human capital efficiency, operational efficiency and taking the necessary steps to make the Bank a digital, fast, effective and powerful bank that fully benefits from its size and the extensive experience of its staff.

B. STRATEGY:

The ambition of Banque Saudi Fransi is to achieve a leading market share in the Kingdom. The Bank will be able to achieve that by maintaining its strong position in Corporate and Treasury banking services, while increasing its share in Retail banking. In addition, it will focus on enhancing Return on Average Assets (ROAA) across all sectors, as well as achieving strong customer loyalty. The Bank is committed to enhancing its position through excellence in relationships and regular cross-selling.

During 2018, the Bank continued to implement its transformation agenda. Significant steps have been taken by integrating the Business Banking group and the Corporate Banking group into Institutional Banking Group, integrating the Wealth Management Group and the High-Net-Worth Group into the private banking Group, separating the strategic management from the Financial management to be directly related to the chief executive officer, and the transfer of Governance Department from the Compliance Group to the Legal and Governance Group. These changes will make the organization more clearly aligned with different customer needs, increase customer focus and strengthen implementation capabilities in each of these areas of business.

In order to adapt to the overall changes in the market and the needs of customers, the Bank has embarked on cultural change from the view that no shift in work would succeed without undergoing cultural transformations. Culture must clearly define the identity and vision of the Bank.

Finally, the Bank has set an ambitious goal to be the best in its class in terms of organizational commitment. Focusing on quickly applying the new rules and making them an integral part of its business model is the key to achieving the benefits of commitment-based investments and constitutes a deeper understanding of customer needs and risks.

(13) INFORMATION ON ANY RISKS FACING THE BANK (OPERATIONAL, FINANCING, OR MARKET RELATED) AND THE POLICY OF MANAGING AND MONITORING THESE RISKS:

A. RISK APPETITE FRAMEWORK:

The Risk Appetite framework of the Bank is approved by the Board of Directors, and the Risk Appetite statement is reviewed by the Board of Directors annually , or on significant changes to business strategy. It is the aggregation and types of risk BSF as a bank is willing to accept within its risk capacity to achieve its Strategic Risk Objectives and Business Plan. Its objective is to cascade from the top risk policy directions to the bank's management and providing business lines with guidance regarding the risk profile that the bank is prepared to accept.

By way of risk management limits of the various risk parameters with defined tolerances are articulated covering a range of parameters from solvency, capital adequacy, credit quality, credit concentration, market risk, operational risk and liquidity management.

The Group Chief Risk Officer monitors adherence to the approved risk appetite statement. Deviations, if any, from the acceptable tolerance bands are escalated for further action by Senior Management, or corrective action being initiated. At quarterly intervals, the Executive Committee of the Board reviews the actual position of the risk indicators vis-a-vis the laid down parameters.

B. CREDIT RISK MANAGEMENT:

The Bank aims to maintain a well-diversified and healthy credit portfolio through the mechanism of credit policy guidelines, and limits of concentration of different bank's business lines. Guidance is provided through the Credit Policy (including Lending Guidelines and in line with the Risk Appetite).

The target customers and credit risk acceptance criteria emerge from the confluence of presentations of risk strategies by business line heads, reviewed by Risk Management and approved by the Board Risk Committee.

The credit granting and approval process is performed through credit committees with different levels of credit approval delegation, and the Credit Risk Department being entrusted with the responsibility of providing independent risk opinions on the credit requests emanating from the business lines.

The decision making in the credit committees of the bank is aided by internal credit rating models developed and maintained for different segments of the banking book and subject to re-validation at periodical intervals.

(13) INFORMATION ON ANY RISKS FACING THE BANK (OPERATIONAL, FINANCING, OR MARKET RELATED) AND THE POLICY OF MANAGING AND MONITORING THESE RISKS: (CONTINUED)

C. MARKET RISK MANAGEMENT:

Concerning Market Risk monitoring, the bank has clearly defined policies & procedures related to market risk activities, as well as a comprehensive set of market risk limits (together with loss alerts) which are reviewed at least annually, and independently monitored on a daily basis by a dedicated Market Risk department.

In order to monitor the market risk in the Trading book, the bank applies on a daily basis a VAR methodology based on historical rates evolutions observed in the market and performs also daily Stress Testing in order to estimate the potential economic loss based on a defined set of significant changes in market conditions (i.e. extreme adverse market movements).

D. OPERATIONAL RISK MANAGEMENT:

Operational Risk Management (ORM) aims to effectively mitigate operational risks and enhance the controls across the Bank and its subsidiaries.

It improves the reporting of the operational incidents and losses to ensure full coverage and timely reporting. This was achieved by inculcating sound risk culture, introducing various training programs for staff and creating awareness through regular broadcast.

The Risk and Control Self-Assessment has been enhanced through extensive review of the previously identified risks and related controls leading to more comprehensive risk coverage and control enhancement. Monitoring and escalation of agreed action plans have resulted in rapid resolution of identified gaps.

Development and sharing of risk profiles for all bank domains have improved the risk reporting to management and various committees.

Key Risk Indicator is a metric that works as an early alert of possible exposures with respect to operational risks that help proactively manage risks and improve controls. Various KRIs were reviewed to improve their effectiveness. Additionally automation of some of KRIs has improved their monitoring and reporting.

Technology Risk Management is an essential part of Risk Management since technology and Information Systems are core to financial services industry operations. ORM continues to ensure a proper coverage of technology and digital banking risks and the implementation of controls.

Insurance Risk Management covers an integral part of the Risk Management practices with respect to resilience and threats in the insight of the complex nature of financial markets. The ownership of the bank Insurance Policy has been re-assigned to Operational Risk Management to strengthen the bank insurance program. A revised insurance policy was developed with a secured renewal of the key insurance program.

As the close monitoring of essential Outsourcing Activities is mandated by SAMA, Operational Risk Management has worked closely with stakeholders to set up the related committee. Furthermore, it has ensured proper coverage of all related risks and controls.

E. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS):

In line with SAMA's requirement for banks to implement IFRS 9 regulation by 1st January 2018 under the leadership of the Chief Finance Officer with the assistance of Risk Management and IT department, BSF has continued the work to acknowledge the required policies and operations for IFRS 9.

The implementation efforts covered the following:

- Classification, measurements, and reports, including business model assessment, (SPPI), process for approving new products, application and disclosure requirements.
- Decreasing in capital, adjustment to credit policies and procedures, development and standardization of models, and calculation and documentation of expected credit loss.
- Implementation of information technology to enhance front office management and other system improvements, enrich the data store, prepare the data and data store area, implement the 9 IFRS (Seller's Work Plan) solution, calculate the expected credit loss and loss in addition to disclosure requirements.
- A technology platform for IFRS 9 (provider from a service provider) has been implemented. To calculate expected loss of (ECL), the system addresses the relevant data from the Bank's systems and associates them with the relevant inputs in calculating the expected losses, the (PD), the (LGD) and (EAD).

The Bank has prepared macroeconomic regression models for its loan portfolio using macroeconomic variables in the Kingdom of Saudi Arabia and has been prepared in the expected credit loss engine IFRS 9. "The engine allows for the calculation of expected credit losses and provisions for the full portfolio, including the ability to reduce transactions level.

In order to promote a culture of risk awareness of business people in relation to the IFRS 9 regulations in the Bank, programs for a group of business relations and risk managers have been conducted. The awareness program covers the basic concepts of the IFRS 9 Regulations, Tier 1 concepts, expected credit loss factors, and the obvious increase in credit risk for Tier 2 classification. The adoption of IFRS 9 is expected to provide further support for credit and control standards within the Bank.

(14) CREDIT RATINGS OF BANQUE SAUDI FRANSI GRANTED BY INTERNATIONAL RATING AGENCIES:

Ratings	Standard & Poor's Ratings Services	Moody's Investors Service	Fitch Ratings
Long-term ratings	BBB+	A1	A-
Short-term ratings	A-2	P-1	F2
Outlook / Review	Stable	Stable	Stable
Last published credit opinion	18/09/2018	04/10/2018	05/11/2018

(15) BANK'S ASSETS, LIABILITIES AND FINANCIAL RESULTS IN THE LAST FIVE FINANCIAL YEARS:

In thousands of Saudi Riyals	2018	2017	2016	2015	2014
Total assets	190,200,706	192,928,881	203,428,709	183,724,281	188,776,903
Investments and investments in associates, net	28,381,675	25,400,944	24,187,599	28,524,948	45,201,350
Loans and advances, net	120,631,634	121,940,394	129,457,869	123,769,457	116,540,684
Total liabilities	159,388,327	161,267,500	173,729,706	156,240,480	162,305,566
Customer deposits	148,368,004	150,954,187	158,458,472	141,852,100	145,275,245
Total equity	30,812,379	31,661,381	29,699,003	27,483,801	26,471,337
Total operating income	6,798,644	6,576,207	6,399,714	6,291,498	5,786,036
Total operating expenses	3,494,119	3,051,891	2,896,270	2,262,415	2,270,494
Share in earnings/ (losses) of associates, net	2,529	7,568	6,790	7,361	799
Net income	3,307,054	3,531,884	3,510,234	4,036,444	3,516,341
Net special commission income	5,016,872	4,699,670	4,256,187	4,055,279	3,816,976
Fees from banking services, net	1,095,503	1,119,318	1,363,990	1,327,521	1,291,650
Impairment charge for credit losses and other financial assets, net	1,202,794	664,613	747,394	169,651	366,434
Salaries and employees related expenses	1,364,274	1,384,543	1,392,408	1,249,079	1,062,105
Number of employees	3,027	3,072	3,233	3,207	3,085

CORPORATE GOVERNANCE

(15) BANK'S ASSETS, LIABILITIES AND FINANCIAL RESULTS IN THE LAST FIVE FINANCIAL YEARS: (CONTINUED)

Financial indicators for the last five years:

NET INCOME (SAR MILLION)

2018	3,307
2017	3,532
2016	3,510
2015	4,036
2014	3,516

TOTAL LIABILITIES (SAR MILLION)

2018	159,388
2017	161,268
2016	173,730
2015	156,240
2014	162,306

TOTAL ASSETS (SAR MILLION)

2018	190,201
2017	192,929
2016	203,429
2015	183,724
2014	188,777

TOTAL LOANS AND ADVANCES (SAR MILLION)

2018	120,632
2017	121,940
2016	129,458
2015	123,769
2014	116,541

CUSTOMERS' DEPOSITS (SAR MILLION)

2018	148,368
2017	150,954
2016	158,458
2015	141,852
2014	145,275

TOTAL EQUITY (SAR MILLION)

2018	30,812
2017	31,661
2016	29,699
2015	27,484
2014	26,471

(16) GEOGRAPHICAL ANALYSIS OF THE BANK'S AND ITS AFFILIATES' REVENUES:

The following table shows the income for each region (Eastern, Western, Central, Head Office, and subsidiaries, except Saudi Fransi Capital) for 2018:

Banque Saudi Fransi and its subsidiaries, except Saudi Fransi Capital					
	Western	**Eastern**	**Central**	**Head Office**	**Total**
Total income	1,213,140	1,117,381	1,933,616	2,259,065	6,523,202
Total Expenses (before provisions)	(213,110)	(168,453)	(222,625)	(1,545,190)	(2,149,378)
Provisions	(152,122)	(238,411)	(933,466)	153,705	(1,170,294)
Net income	847,908	710,517	777,525	867,580	3,203,530
Saudi Fransi Capital					
	Western	**Eastern**	**Central**	**Head Office**	**Total**
Total income	11,448	13,894	32,990	219,639	277,971
Total Expenses (before provisions)	(2,113)	(4,384)	(3,240)	(164,710)	(174,447)
Provisions	–	–	–	–	–
Net income	9,335	9,510	29,750	54,929	103,524
Banque Saudi Fransi Group					
	Western	**Eastern**	**Central**	**Head Office**	**Total**
Total income	1,224,588	1,131,275	1,966,606	2,478,704	6,801,173
Total Expenses (before provisions)	(215,223)	(172,837)	(225,865)	(1,709,900)	(2,323,825)
Provisions	(152,122)	(238,411)	(933,466)	153,705	(1,170,294)
Net income	857,243	720,027	807,275	922,509	3,307,054

(17) MATERIAL DIFFERENCES IN THE OPERATIONAL RESULTS COMPARED TO THE PRECEDING YEAR'S RESULTS, ALONG WITH ANY EXPECTATIONS ANNOUNCED BY THE BANK:

(17/A) CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED ON DECEMBER 31, 2018 AND 2017:

In thousands of Saudi Riyals	2018	2017
Special commission income	6,947,576	6,604,506
Special commission expenses	1,930,704	1,904,836
Net special commission income	5,016,872	4,699,670
Fees and commission income	1,402,549	1,422,163
Fees and commission expenses	307,046	302,845
Net fee and commission income	1,095,503	1,119,318
Exchange income, net	347,173	356,131
Trading income, net	194,257	270,837
Dividend income	896	8,078
(Losses)/gains on FVOCI/non-trading investments, net	(23,481)	27,684
Gains on sale of investment in associate	97,310	–
Other operating income	70,114	94,489
Total operating income	6,798,644	6,576,207
Salaries and employee related expenses	1,364,274	1,384,543

(17) MATERIAL DIFFERENCES IN THE OPERATIONAL RESULTS COMPARED TO THE PRECEDING YEAR'S RESULTS, ALONG WITH ANY EXPECTATIONS ANNOUNCED BY THE BANK: (CONTINUED)

(17/A) CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED ON DECEMBER 31, 2018 AND 2017: (CONTINUED)

In thousands of Saudi Riyals	2018	2017
Rent and premises related expenses	167,784	178,819
Depreciation and amortization	154,166	151,123
Other general and administrative expenses	503,046	560,688
Impairment charge for credit losses, net	910,499	497,960
Impairment charge for associate	32,500	–
Impairment charge for investments and other financial assets, net	259,795	166,653
Other operating expenses	102,055	112,105
Total operating expenses	3,494,119	3,051,891
Net operating income	3,304,525	3,524,316
Share in earnings of associates, net	2,529	7,568
Net income for the year	3,307,054	3,531,884
Basic and diluted earnings per share (in SAR)	2.76	2.94

(17/B) SUMMARY OF FINANCIAL RESULTS AS FOLLOWS:

In millions of Saudi Riyals	2018	2017	Changes	%
Net income	3,307	3,532	-225	-6.37
Total operating income	6,799	6,576	223	3.39
Net special commission income	5,017	4,700	317	6.74
Assets	190,201	192,929	-2,728	-1.41
Investments	28,372	25,325	3,047	12.03
Loan and advances portfolio	120,632	121,940	-1,308	-1.07
Customer deposits	148,368	150,954	-2,586	-1.71
Earnings per share	2.76	2.94	-0.18	-6.12

(18) ANY INCONSISTENCY WITH THE STANDARDS APPROVED BY THE SAUDI ORGANISATIONS FOR CERTIFIED PUBLIC ACCOUNTANT:

The consolidated financial statements of the Bank have been prepared;

1. In accordance with 'International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of zakat and income tax' (relating to the application of International Accounting Standard (IAS) 12 "Income Taxes" and IFRIC 21 – "Levies" in so far as these relate to accounting for Saudi Arabian zakat and income tax); and
2. In compliance with the provisions of Banking Control Law, the applicable provisions of Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Bank.

(19) THE NAME OF EACH AFFILIATE, ITS CAPITAL, THE BANK'S OWNERSHIP PERCENTAGE, THE MAIN SCOPE OF BUSINESS, THE COUNTRY OF OPERATION, AND THE COUNTRY OF INCORPORATION:

Company Name	Capital	Equity percentage	Activity	Main State of its operations	State of incorporation
Saudi Fransi Capital	500 million Saudi Riyals	100	Acting as a principal and an agent, undertaking management, arranging, advising, and custody in securities trading	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Fransi for Finance Leasing	500 million Saudi Riyals	100	Leasing and financing of vehicle assets (cars, motorcycles, trucks) and heavy equipment and machinery, in addition to the purchase and registration of these assets	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Sakan Real Estate Company	500 thousand Saudi Riyals	100	Financing real estate and land through Murabaha, leasing products, buying land and real estate, and investing on behalf of the company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Fransi Insurance Agency Co.	500 thousand Saudi Riyals	100	Insurance brokerage services	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia

Banque Saudi Fransi has a share in the Saudi Credit Bureau (SIMAH) by 10.9% of its capital of SAR 20 million. It also owns shares in the Saudi Financial Support Services Company (SANID) (formerly Saudi Traveler Cheques Company) by 5% of its capital of SAR 25 million. The Bank also invests SAR 892,850 in the Saudi Financial Lease Registration Company, and the Saudi Stock Registration Company, which is under liquidation now after it has been transferred to the Capital Market Authority.

All of the companies listed above are established in Saudi Arabia.

In addition, Banque Saudi Fransi Markets Co. Ltd., a limited liability company owned 100% by the Bank with a licensed capital of US $50,000 (equivalent to SAR 187,500), has been established in the Cayman Islands. This company is engaged in trading derivatives and sale recovery activities.

The Bank has investments in other companies, as it owns 27% of the capital of Banque BEMO Saudi Fransi, a Joint Stock Company established in Syria with a capital of SYP 5.5 billion. It commenced operations on 01/04/2004. The Bank also owns 10.33% of Banque BEMO Lebanon, a company incorporated in Lebanon – Beirut on 01/08/2003 with a capital of LBP 62.25 billion. All legal and contractual procedures are being followed to complete the sale of Banque Saudi Fransi's share in Banque BEMO Saudi Fransi – Syria, and Banque BEMO Lebanon based on what was announced on 26/11/2011 through Tadawul that the Board of Directors of Banque Saudi Fransi has unanimously decided to sell its share in Banque BEMO Saudi Fransi – Syria of 27% and its share in Banque BEMO Lebanon of 10.33%. Banque Saudi Fransi is not represented in the boards of Banque BEMO Saudi Fransi – Syria, or Banque BEMO Lebanon as of 26/11/2011, and its main partners in Banque BEMO Lebanon were informed of this decision.

The Bank also owns 2,800,000 shares of Allianz Saudi Fransi Cooperative Insurance Company (20 million shares) i.e. 14% of the company's share capital of SAR 200 million.

During 2018, the Bank lost its control share of one of the subsidiaries, which is Allianz Saudi Fransi Cooperative Insurance Company, where the Bank sold 18.5% (of 3.7 million shares) of its shares with a book value of SAR 46.17 million for returns of SAR 81.27 million (at SAR 22 per share). The remaining shareholding in Allianz Saudi Fransi Cooperative Insurance Company is 14%.

(20) DETAILS OF SHARES AND DEBT INSTRUMENTS ISSUED FOR EACH AFFILIATE COMPANY:

a) No shares or debt instruments issued to subsidiaries during 2018.
b) Loans provided by the Bank to its subsidiaries:
The following table shows the loans made on 31/12/2018 by Banque Saudi Fransi to its subsidiaries:

Name of subsidiary	In thousands of Saudi Riyals
Saudi Fransi Capital*	1,160,829
Saudi Fransi for Finance Leasing**	1,695,000

Saudi Fransi Capital has an overdraft facility and Saudi Fransi for Finance Leasing has a short-term loan from Banque Saudi Fransi. There is no other loan available to the subsidiaries, except for the above loans provided by Banque Saudi Fransi.

* Details of Saudi Fransi Capital loans:

In thousands of Saudi Riyals	2018	2017
Opening balance	1,032,535	893,373
Loan disbursed	5,857,313	1,965,687
Repayment of loans	5,729,019	1,826,525
Closing balance of loans	1,160,829	1,032,535

** Details of loans to Saudi Fransi for Finance Leasing:

In thousands of Saudi Riyals	2018	2017
Opening balance	1,905,000	1,550,000
Loan disbursed	350,000	580,000
Repayment of loans	560,000	225,000
Closing balance of loans	1,695,000	1,905,000

(21) DESCRIPTION OF THE DIVIDEND DISTRIBUTION POLICY:

Cash distribution of dividends by the Bank depends on several factors including assumptions and recommendations of the Board of Directors, based on financial position of the Bank, results of the Bank's operations, current capital adequacy and prospective financial position of the Bank and liquidity requirements in the short and medium term considering the Bank's expansion plans and projects.

The distribution of the annual net profit, after deducting all expenses and other costs, taking the necessary precautions for doubtful debts, investment losses and contingent liabilities as deemed appropriate by the Board in compliance with the provisions of the Banking Control Law, as follows:

1. The amounts required to pay zakat assessed on the Saudi shareholders and the tax assessed on foreign shareholders are calculated in accordance with the applicable laws and regulations in the Kingdom of Saudi Arabia. The Bank shall pay these amounts to the competent authorities. The zakat paid on behalf of Saudi shareholders will be deducted from their share in the net profit and the tax paid on behalf of non-Saudis shareholders will likewise be deducted from their share of the net profit.
2. A minimum of 25% of the net profits remaining after the deduction of zakat and tax as stated above in paragraph (1), shall be transferred to the statutory reserve until the mentioned reserve is equal, at least, to the paid-up capital.
3. From the remaining profits, after the deduction of the statutory reserve, Zakat and tax, a minimum of 5% of the paid-up capital shall be allocated to the Saudi and non-Saudi shareholders to be distributed prorate to the value of paid-up shares of Saudi and non-Saudi shareholders, as recommended by the Board and decided by the General Assembly. If the remaining profits accruing to any Saudi or non-Saudi shareholder is found to be insufficient to pay such dividends to the respective shareholders, such shareholders shall not have the right to demand such distribution from the following year/s' profits. Moreover, the General Assembly shall not be entitled to distribute any dividends that exceed the limit duly recommended by the Board.
4. The remaining profits after the allocation of the amounts mentioned in the aforementioned paragraphs (1), (2), (3), shall be used as recommended by the Board and determined by the General Assembly.

5. The subscription ratio of each Saudi and non-Saudi shareholders must be maintained upon calculation of the allocations needed for the statutory reserve and other reserves from net profits (after zakat and tax). The two shareholding groups shall contribute to those reserves as per their percentage in the capital, and their contributions will be deducted from their shares in the net profits.
6. Cash dividends shall be distributed to shareholders at the place and time determined by the Board of Directors in accordance with applicable regulations.
7. Board may decide not to distribute cash dividends and use such dividends in the settlement of debts, obligations, or commitments of shareholders to the Bank.
8. The Bank may distribute interim dividends for its shareholders semi annually or quarterly, after satisfying the necessary requirements stipulated in the Articles of Association.
9. Shareholders must be informed of this policy during the General Assembly meeting.

Basic and Diluted Earnings Per Share:
Basic and diluted earnings per share for the years ended December 31, 2018 and 2017 are calculated on a weighted average basis by dividing the net income for the year by 1,199 million shares after excluding treasury shares consists of 6 million shares as of 31 December 2018 (31 December 2017: 6 million shares).

Total dividends:
The Board of Directors has proposed final net dividend of SAR 958 million (2017: SAR 355 million) i.e. SAR 0.80 (2017: SAR 0.35) net per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. The Board of Directors has declared an interim net dividend of SAR 1,028 million (2017: SAR 1,141 million) i.e. SAR 0.90 (2017: SAR 1.05) net per share. Total gross dividend to Saudi shareholders was SAR 2,010 million (2017: SAR 1,312 million) and total dividend to foreign shareholders was SAR 352 million (2017: SAR 483 million).

	Dividends distributed during the year		Proposed dividend for the end of 2018	Total for 2018
	06/05/2018 (Final for 2017)	25/07/2018 (Progressive for 2018)		
Amount in thousands Saudi Riyals	355,237	1,028,204	958,081	1,986,285
Ratio	24.96%	50.58%	75.19%	60.06%

(22) A DESCRIPTION OF ANY INTEREST IN A CLASS OF VOTING SHARES HELD BY PERSONS (OTHER THAN THE BANK'S DIRECTORS, SENIOR EXECUTIVES AND THEIR RELATIVES) WHO HAVE NOTIFIED THE BANK OF THEIR HOLDINGS, TOGETHER WITH ANY CHANGE TO SUCH INTERESTS DURING THE LAST FISCAL YEAR:

During the fiscal year 2018, the Bank did not receive any notice from shareholders and related persons regarding the change in their equity in the Bank's shares. The table below shows the equity of the main shareholders in the Bank's shares during the fiscal year 2018:

Main shareholders in the capital of the Bank as at 31/12/2018							
	Shareholder	Number of Shares at the beginning of the year	Equity percentage at the beginning of the year	Number of Shares at the end of the year	Equity percentage at the end of the year	Net change	Change Percentage
1	Kingdom Holding Company	195,267,861	16.20%	195,267,861	16.20%	–	–
2	Crédit Agricole Corporate & Investment Bank	179,732,139	14.91%	179,732,139	14.91%	–	–
3	General Organization for Social Insurance	160,195,361	13.29%	160,195,361	13.29%	–	–
4	Rashed Abdul Rahman Al Rashed & Sons Co.	118,488,534	9.83%	118,488,534	9.83%	–	–

(23) A DESCRIPTION OF ANY INTEREST, CONTRACTUAL SECURITIES OR RIGHTS ISSUE OF THE BOARD MEMBERS, SENIOR EXECUTIVES AND THEIR RELATIVES ON SHARES OR DEBT INSTRUMENTS OF THE BANK OR ITS AFFILIATES, AND ANY CHANGE ON THESE INTEREST OR RIGHTS DURING THE LAST FISCAL YEAR:

Description of any interest, contractual securities and subscription rights of the Board members and their relatives in the Bank's shares or debt instruments							
	Name of those who have interest or contractual securities or subscription rights	Beginning of the year		End of the year		Net change	Change Percentage
		Number of Shares	Debt instruments	Number of Shares	Debt instruments		
1	Abdulrahman Rashed Al-Rashed	312,685	–	312,685	–	–	–
2	Relatives of Abdulrahman Rashid Al-Rashed	437,528	–	155,528	–	(282,000)	(64)
3	Mousa Omran Al-Omran	647,860	–	647,860	–	–	–
4	Relatives Mousa Omran Al-Omran	23,096,064	–	23,096,064	–	–	–
5	Dr. Khaled Hamed Mutabagani	59,624	–	59,624	–	–	–
6	Relatives of Dr. Khaled Hamed Mutabagani	16,750,181	–	16,755,682	–	5,501	0
7	Ammar Abdul Wahid AlKhodairy	1,000	–	1,000	–	–	–
8	Mazen Abdel Razzaq Al-Rumaih	6,000	–	6,000	–	–	–
9	Bader Abdullah Al Issa	1,000	–	1,000	–	–	–
10	Relatives of Bader Abdullah Al Issa	178	–	178	–	–	–
11	Rayan Mohammed Fayez	–	–	10	–	10	100
12	Talal Ibrahim Al-Maiman	150,000	–	150,000	–	–	–

Description of any interest, contractual securities and subscription rights of senior executives and their relatives in the Bank's shares or debt instruments							
	Name of those who have interest	Beginning of the year		End of the year		Net change	Change Percentage
		Number of Shares	Debt instruments	Number of Shares	Debt instruments		
1	Relatives of Mazen Hani Al-Tamimi	1,259,050	–	1,259,050	–	–	–

(24) INFORMATION ON ANY LOANS (PAYABLE UPON REQUEST OR NOT), A STATEMENT OF THE TOTAL INDEBTEDNESS OF THE BANK AND ITS AFFILIATES, ANY AMOUNTS PAID BY THE BANK IN REPAYMENTS OF LOANS DURING THE YEAR, THE AMOUNT OF THE PRINCIPAL DEBTS, THE CREDITOR NAME, THE LOAN TERM AND REMAINING AMOUNT:

A. THERE IS NO LOANS ON THE BANK (LOANS TO SUBSIDIARIES ARE SET OUT IN ITEM 20).

B. DEBT INSTRUMENTS AND SUKUKS.

The Bank also issued a privately placed SAR 2,000 million unsecured subordinated sukuk in June 2014 for a period of 10 years. The sukuk carries effective special commission income at three months' SIBOR plus 140 basis point. The sukuk is settled through Tadawul depository system. However, the Bank has an option to repay the unsecured subordinated sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement. There are no shares or debt instruments for subsidiaries.

Repayment of debt instruments:

A. During the year, there is no matured or repayment of debt securities and sukuk.
B. There is no convertible debt instruments, contractual securities and subscription rights and similar rights issued or granted by the Bank and its subsidiaries during the fiscal year.
C. There is no converting or subscription rights under convertible debt instruments, contractual securities, notes of subscription rights or similar rights issued or granted by the Bank during the fiscal year.
D. There is no redemption, purchase or cancellation by the Bank of any redeemable debt instruments.

(25) THE NUMBER OF BOARD MEETINGS HELD DURING THE LAST FINANCIAL YEAR, THEIR DATES AND THE ATTENDANCE RECORD OF EACH MEETING LISTING THE NAMES OF THE ATTENDEES:

	Member name	Dates of Meetings						
		First meeting 15/02/2018	Second meeting 11/04/2018	Third meeting 01/05/2018	Fourth meeting 05/06/2018	Fifth meeting 18/09/2018	Sixth meeting 11/12/2018	Total
1	Sulaiman Al Gwaiz	✓	✓	✓	✓	✓	✓	6
2	Abdulrahman Al-Rashed	✓	✓	x	✓	✓	✓	5
3	Mousa Al-Omran	✓	✓	x	✓	✓	✓	5
4	Khalid Mutabagani	✓	x	✓	✓	✓	✓	5
5	Ammar AlKhodairy	✓	x	✓	✓	✓	✓	5
6	Mazin Al Rumaih	✓	✓	✓	✓	✓	✓	6
7	Bader Al Issa	✓	✓	✓	✓	✓	✓	6
8	Talal Al-Maiman*	x	✓	✓	✓	✓	✓	5
9	Jacques Prost	✓	✓	✓	x	✓	✓	5
10	Rayan Fayez	✓	✓	✓	✓	✓	✓	6

* Appointed as a member of the Board of Directors as of 28/02/2018.

(26) NUMBERS OF COMPANY'S REQUESTS OF SHAREHOLDERS RECORDS, DATES AND REASONS THEREOF:

	Application Date	Application Reasons
1	31/12/2018	Fourth quarter 2018
2	27/12/2018	Follow-up of shareholder records
3	20/12/2018	Follow-up of shareholder records
4	13/12/2018	Follow-up of shareholder records
5	06/12/2018	Follow-up of shareholder records
6	29/11/2018	Follow-up of shareholder records
7	22/11/2018	Follow-up of shareholder records
8	15/11/2018	Follow-up of shareholder records
9	08/11/2018	Follow-up of shareholder records
10	01/11/2018	Follow-up of shareholder records
11	25/10/2018	Follow-up of shareholder records
12	18/10/2018	Follow-up of shareholder records
13	11/10/2018	Follow-up of shareholder records
14	04/10/2018	Follow-up of shareholder records
15	30/09/2018	Third quarter 2018
16	27/09/2018	Follow-up of shareholder records
17	20/09/2018	Follow-up of shareholder records
18	13/09/2018	Follow-up of shareholder records
19	06/09/2018	Follow-up of shareholder records
20	30/08/2018	Follow-up of shareholder records
21	31/07/2018	Follow-up of shareholder records
22	12/07/2018	Profits file
23	28/06/2018	Second quarter 2018
24	31/05/2018	Follow-up of shareholder records
25	30/04/2018	Follow-up of shareholder records

(26) NUMBERS OF COMPANY'S REQUESTS OF SHAREHOLDERS RECORDS, DATES AND REASONS THEREOF: (CONTINUED)

	Application Date	Application Reasons
26	23/04/2018	Profits file
27	29/03/2018	First quarter 2018
28	19/02/2018	Follow-up of shareholder records
29	16/01/2018	Follow-up of shareholder records

(27) DESCRIPTION OF ANY TRANSACTION BETWEEN THE BANK AND A RELATED PARTY:

The Bank during its normal course of business deals with relevant parties. The management and the Board of Directors consider that transactions with related parties have been made on the same terms with other parties. Transactions with related parties are subject to the ratios stipulated in the Banking Control Law and the instructions issued by the Saudi Arabian Monetary Authority. The balances resulting from these transactions as of 31 December 2018 and 2017 which included in the consolidated financial statements are as follows:

In thousands of Saudi Riyals	2018	2017
CA – CIB Group		
Due from banks, other financial institutions and other assets	1,421,019	185,060
Due to banks and other financial institutions and other liabilities	22,883	91,647
Derivatives at fair value, net	84,695	88,933
Commitments and contingencies	1,167,302	1,416,998
Subsidiaries		
Investments	9,695	76,049
Due to banks and other financial institutions	7,983	7,993
Customer deposits	–	142,501
Commitments and contingencies	–	1,600
Directors, auditors, senior management, other major shareholders' and their affiliates		
Loans and advances	7,347,118	7,184,902
Customer deposits	10,715,976	9,810,397
Derivatives at fair value, net	(4,566)	12,308
Commitments and contingencies	1,241,482	1,418,750
Bank Investment Funds		
Derivatives at fair value, net	–	683
Customer deposits	5,741,676	4,672,706

Major shareholders represent equity shares of more than 5% of the Bank's capital, excluding non-Saudi shareholders. The following table shows the income and expenses of transactions with related parties included in the consolidated financial statements:

In thousands of Saudi Riyals	2018	2017
Special commission income		
CA-CIB Group	7,678	9,785
– Board members, auditors, senior management, other key shareholders and their subsidiaries	289,978	279,584
Bank Investment Funds	12	–
Total special commission income	297,668	289,369

In thousands of Saudi Riyals	2018	2017
Special commission expenses		
CA – CIB Group	1,695	403
– Board members, Auditors, Senior Management, other key shareholders and their subsidiaries	277,060	213,111
– Subsidiaries	100	390
– Bank Investment Funds	5,403	1,815
Total special commission expenses	284,258	215,719
Total fees, commission income, and others	42,152	62,178
Managers' fees	5,174	4,449
Other general and administrative expenses	664	996

(28) CONTRACTS AND TRANSACTIONS MADE WITH THE BANK, IN WHICH THERE IS OR THERE WAS AN INTEREST OF A BOARD MEMBER OF THE BANK OR SENIOR EXECUTIVE OR ANY PERSON RELATED TO ANY OF THEM:

	The nature of business or contract	The amount of business or contract	Start date of the contract	End date of the contract	Contract Status	Name of the member / senior executive or any person related to any of them
1	Rental of a residential villa	247,000	18/01/2017	17/01/2018	Cancelled on 17/01/2017	The residential Complex Kingdom City of the Kingdom Holding Company (a principal shareholder in the Bank's capital)
2	Rental of a residential villa	269,000	01/04/2015	31/03/2018	Cancelled on 01/01/2018	
3	Rental of a residential villa	261,250	01/09/2017	31/08/2018	Cancelled on 28/02/2018	
4	Rental of a residential villa	237,500	01/06/2015	31/05/2018	Cancelled on 30/11/2017	
5	Rental of a residential villa	285,000	15/08/2016	14/08/2018	Cancelled on 14/08/2017	
6	Rental of a residential villa	270,500	15/08/2017	14/08/2018	Cancelled on 14/08/2018	
7	Rental of an ATM site	43,000	01/12/2010	30/11/2020	Valid	The site is owned by the Kingdom Holding Company (a principal shareholder in the Bank's capital)
8	Provision of telecommunication services	5,197,487	Contracts and provision of multiple services based on requests from the Bank's business sectors, such as SMS services for customers, the Internet and others			HE Mr. Sulaiman Al-Gwaiz, Board Member of Mobily Company
9	Rental of an ATM site	35,000	01/04/2009	31/03/2019	Valid under renewal	Owner / Mr. Abdullah Bin Salman Al-Dosari, father of Mr. Faisal Al-Dosari (Head of the Bank's Branch Network)
10	Rental of an ATM site	75,000	01/01/2008	31/12/2019	Valid under renewal	Owner / Arab Markets Co. Ltd., Euromarche / Mr. Amer Othman (Director of Wealth Management at the Bank)
11	Rental of an ATM site	40,000	01/06/2001	31/05/2020	Valid	Owner / Dr. Khalid Mutabagani (Board Member of the Bank)

(29) WAIVER OF REMUNERATION OR DIVIDENDS BY BOARD MEMBERS OR SENIOR EXECUTIVES OR SHAREHOLDERS:

The member of the Audit Committee, Mr. Arnold Chubin, and the member of the Board Risk Committee, Mr. François Palay, have waived their full remuneration. There is no arrangement or agreement whereby other members of the Board of Directors or senior executives waive any remuneration or compensation. There is no arrangement or agreement whereby a shareholder of the Bank waives any rights in profits.

(30) A STATEMENT OF THE VALUE OF ANY PAID AND OUTSTANDING STATUTORY PAYMENT ON ACCOUNT OF ANY ZAKAT, TAXES, FEES OR ANY OTHER CHARGES THAT HAVE NOT BEEN PAID UNTIL THE END OF THE ANNUAL FINANCIAL PERIOD WITH A BRIEF DESCRIPTION AND THE REASONS THEREFOR:

Amount in Saudi Riyals	2018	
	Paid	Due amount
Zakat*		277,000,000
Tax**		99,000,000
General Organization for Social Insurance	92,166,378	-
Costs of visas and passports	283,117	-
Fees of labor office	1,333,170	-

*** Zakat**

Zakat on Saudi shareholders for the year amounted to SAR 277 million (2017: SAR 91 million) and will be deducted from their share in the dividends.

As a major event, the Bank reached a settlement agreement with the General Authority of Zakat and Income during the year to settle Zakat obligations amounting to SAR 1,510.67 million for the previous fiscal years from 2006 to 2017. The Settlement Agreement requires the Bank to settle 20% of the Zakat obligations agreed upon initially, and the remaining must be settled within a period of five years. Therefore, the Bank has amended the Zakat and Income Tax for previous years and until the end of the fiscal year 2017 through retained earnings. As a result of the Settlement Agreement, the Bank has agreed to withdraw all previous objections submitted to the competent authority in respect of Zakat.

**** Income Tax**

The income tax payable by the foreign shareholder CA-CIB in the current year is approximately SAR 99 million (2017: SAR 208 million) and will be deducted from its share in the dividends.

(31) A STATEMENT AS TO THE VALUE OF ANY INVESTMENTS MADE OR ANY RESERVES SET UP FOR THE BENEFIT OF THE EMPLOYEES OF THE BANK:

The Bank is keen to encourage its employees by providing incentive programs and remuneration that enhance their confidence and loyalty to the Bank. The following is a statement of the Employee Takaful Al Ghad Program and the movement it received during 2018:

Balance in Saudi Riyals	Share of Employee	Share of the Bank	Total
Balance as at the beginning of 2018	45,398,425	40,727,055	86,125,480
Amount added during 2018	9,982,567	8,247,908	18,230,475
Amount refunded during 2018	(12,914,339)	(2,503,144)	(15,417,484)
Balance at the end of 2018	42,466,653	46,471,819	88,938,471

32) DECLARATIONS OF THE BOARD OF DIRECTORS:

The Board of Directors of Banque Saudi Fransi declares the following:

a. Proper books of account have been maintained;
b. The system of internal control is sound in design and has been effectively implemented; and
c. There are no significant doubts concerning the Bank's ability to continue its activity.

Transactions with the relevant parties and the information concerning any contracts or acts, in which the Bank is a party or in which there is a material interest to the Chairman and members of the Board of Directors of the Bank, the Chief Executive Officer, the Chief Financial Officer or any person directly related to any of them have been disclosed in Disclosure No. (37) on transactions with related parties in the consolidated financial statements, and Articles (27) and (28) of this report.

(33) AUDITORS' RESERVATIONS TO THE FINANCIAL STATEMENTS:

The audit report did not include any reservations to the annual financial statements.

(34) BOARD OF DIRECTORS' RECOMMENDATIONS TO CHANGE AUDITORS:

The Board of Directors did not recommend that auditors be changed before the end of their terms of office, and there is no conflict between the recommendations of the Committee and the decisions of the Board of Directors.

(35) DISCLOSURE OF DETAILS OF TREASURY SHARES HELD BY THE BANK AND DETAILS OF THE USES OF THESE SHARES:

The Bank has treasury shares within the long-term incentive program (LTI), which provides incentive remuneration to qualified employees.

The main features of the program are as follows:

Nature of Plan	Long-Term Incentive Plan	Long-Term Incentive Plan
Number of outstanding plan	1	1
Grant date	2-Jul-17	15-May-18
Maturity date	1-Jan-19	1-Jan-21
Grant price – SAR	23.096	23.096
Vesting period	1.5 years	2.6 years
Vesting conditions	Retain employees and meet required service criteria	Retain employees and meet required service criteria
Method of settlement	Appreciation in equity	Appreciation in equity
Valuation model	Black-Scholes	Black-Scholes
Fair value per share on grant date – SAR	31.836	33.906

The share performance will be granted under a service condition along with market condition associated with them.
The total amount of expense recognized in these consolidated financial statements in respect of the above share appreciation equity based payment plans for the period is SAR 14.9 million (2016: SAR 10.9 million). Value of the shares as of 31 Dec 2018 SAR 188 million (at the grant date SAR 193 million)

Number of shares granted for appreciation calculation on the grant date	6,000,000
Forfeited Shares	(1,870,000)
Number of shares allocated for appreciation calculation	4,130,000

(36) DISCLOSURES RELATED TO SMALL, MEDIUM AND MICRO ENTERPRISES:

A. QUALITATIVE DISCLOSURES:

Banque Saudi Fransi has established the SME sector in 2014 in the belief of the importance of this sector and providing the best financing solutions and banking facilities for the owners of these establishments. This sector includes more than 60 employees in three regional departments and each region has a director, who supervises the progress of the work plan and reports to the head of the SME sector.

The SME sector is part of the Corporate Banking Group. The head of the sector submits his reports to the Committee of Small, Medium and Micro Enterprises, comprising the CEO and Managing Director, Head of the Institutional Banking Group, Head of Corporate Banking Group, Chief of the Risk Management Group and his deputy, Retail Banking Group, Head of the Compliance Group, and Head of the Small, Medium and Micro Enterprises.

The Bank also serves all its customers in the SME category in the three main cities in the Kingdom and receives customer requests to provide them with services from all branches operating in the Kingdom and spread in all cities and regions. As part of the Bank's interest in this segment, the online application service has been launched through the Bank's website and a dedicated number for this segment has been added.

Number of training days for staff	314
Number of training days for customers	9

B. QUANTITATIVE DISCLOSURES:

In millions of Saudi Riyals	On December 31, 2018				On December 31, 2017			
	Micro	Small	Medium	Total	Micro	Small	Medium	Total
Financing micro, small and medium enterprises – within the budget (in millions of Saudi Riyals)	209	1,472	6,782	8,463	217	1,516	7,179	8,912
Financing micro, small and medium enterprises – outside the budget (in millions of Saudi Riyals)	132	832	3,954	4,918	164	954	4,509	5,627
Ratio of financing micro, small and medium enterprises within the budget, out of the total funding within the budget	0.1%	0.7%	3.1%	3.9%	0.1%	0.8%	3.6%	4.5%
Ratio of financing micro, small and medium enterprises – outside the budget, out of the total of the extra-budgetary funding	0.2%	1.5%	7.3%	9.1%	0.3%	1.6%	7.7%	9.6%
Number of funds (both within and outside the budget)	1,259	945	1,636	3,840	1,321	984	1,746	4,051
Number of customers (funding applicants)	974	618	696	2,288	1,032	699	911	2,642
Number of funds secured by a guarantee program	0	51	5	56	0	78	0	78
Total secured funds by a guarantee program	0	129	25	154	0	87	0	87

* The figures for 2017 have been reclassified based on the modern definition of micro, small and medium enterprises.

** The number of secured funds is the number of guarantees issued. The total of secured funds is the total amount of the facilities in millions of Saudi Riyals.

(37) ETHICAL PRINCIPLES AND PROFESSIONAL FOUNDATIONS OF BANQUE SAUDI FRANSI:

The laws and regulations of Banque Saudi Fransi include rules and regulations governing the work of the Bank, to which all the Bank's representatives are committed directly or indirectly, including:

a) Conduct, public ethics and professional foundations:
- Principles followed at work (e.g. commitment of working hours)
- Reporting actual and potential violations (e.g. fraud or attempted fraud)
- Confidentiality of information, such as customer information
- Avoid conflict of interest, including the provision of gifts and their acceptance and business transactions to related parties
- Use of internal special information (personal investments)
- Compliance with anti-money laundering policy (reporting suspicious activities)
- Protecting the Bank's assets
- Correctness of financial records and reports
- Harassment and intimidation
- Safe and free workplace
- Justice in dealing
- Appropriate products and investments offered to customers.

b) Acceptable use policies for computer services, e-mail, and Internet
Professional foundations:
- Treat others the way you wish to be treated
- Bear personal responsibility resulting from individual actions
- Perform personal work and what is related to work in accordance with applicable laws and regulations
- Be frank in all work issues

Compliance with the ethical principles and professional foundations by the employees of the Bank and its representatives shall be a duty of work and of the legitimate orders to be complied with. Failure to do so shall result in disciplinary proceedings, which may reach the termination of service in accordance with Article (80), paragraph (2) of the Labor law and in accordance with the Bank's work regulations. Violation of these regulations is also a violation of general laws, which may expose the employee and the Bank to penal sanctions.

Penalties shall be applied in consultation with the concerned department, the Legal & Governance Group and the Human Resources Group. The assessment of the penalty depends on the circumstances associated with the violation in accordance with the Labor law.

c) Financial remuneration and incentives:
In the system of financial remuneration and incentive policy, the Bank adopts pioneering practices based on justice, transparency, internal justice and external competitiveness. These systems ensure that the performance of the Bank, departments and employees is linked to the Bank's protection against undiscovered financial risks.

(38) COMMUNICATION WITH SHAREHOLDERS:

In accordance with the instructions issued by the regulatory and supervisory authorities, the Bank is keen to ensure that shareholders fully exercise their rights and urges them to actively participate and submit their inquiries during the General Assemblies. A telephone number and e-mail is also posted on the Bank's home page to receive calls and inquiries from shareholders. The Bank also publishes any significant developments on the Bank through the Tadawul website, in accordance with the instructions issued in this regard. The Bank's representatives continuously participate in meetings and conferences held with the investors and shareholders.

(39) ACTIONS TAKEN BY THE BOARD OF DIRECTORS TO INFORM ITS MEMBERS, ESPECIALLY NON-EXECUTIVES, OF SHAREHOLDERS' PROPOSALS AND OBSERVATIONS ON THE BANK AND ITS PERFORMANCE:

The Board is keen to enable shareholders to exercise their rights and submit their comments and inquiries during the General Assembly meetings. These comments and inquiries shall be recorded in the minutes of the General Assembly meeting. The Bank also allocates means of communication for shareholders (telephone, fax, postal address, e-mail) through which comments and inquiries of shareholders, if any, are received and then submitted to Board members at the first subsequent meeting of the Board of Directors and included in the minutes of the meeting.

(40) IMPLEMENTED AND NON-IMPLEMENTED PROVISIONS OF CMA CG REGULATIONS, AND JUSTIFICATIONS THEREFOR:

The Bank complies with all regulations and instructions issued by regulatory authorities on Governance, such as the main principles of Governance in banks operating in the Kingdom of Saudi Arabia issued by the Saudi Arabian Monetary Authority, the Corporate Governance Regulations issued by the Capital Markets Authority, and the Companies Law issued by the Ministry of Commerce and Investment. The Bank shall update the Articles of Association of the Bank, the regulations of the Board and its committees and the Governance Manual as well as its policies and procedures in accordance with these Regulations and any updates or instructions issued in respect of Governance.

Provisions that have not been applied from the Corporate Governance Regulations issued by the CMA are as follows:

Article / paragraph No.		Article / paragraph text	Reasons for non-application
1	Article (95) Guidance Article	In the event that the Board of Directors formed a Corporate Governance Committee, the Board of Directors shall charge it with the competencies established under Article (94) of these Regulations. The Committee shall follow up any matters relating to the application of governance and provide the Board of Directors, at least annually, with its reports and recommendations.	The Legal and Governance Group shall review all issues related to governance applications and submits its recommendations and reports to the Board of Directors.

In conclusion, the Board of Directors of Banque Saudi Fransi expresses its sincere thanks and appreciation to the Custodian of the Two Holy Mosques, His Highness the Crown Prince and to our nation's government. We extend our thanks to the Ministry of Finance, the Ministry of Commerce and Investment, the Saudi Arabian Monetary Authority and the Capital Market Authority for their continuous help and support towards raising the level of banking services. We also thank our valued shareholders and customers of the Bank for their trust, which is respected and appreciated. The Board of Directors also thanks all employees of the Bank for their sincere efforts.

STRONG BALANCE SHEET

With a strong balance sheet and operating profit, our goal is to achieve and sustain 10% market share in the Kingdom by becoming the most modern, innovative and experience focused bank in the region.

BUILDING ON SOLID FOUNDATIONS

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FINANCIAL STATEMENTS

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

KPMG AL FOZAN & PARTNERS
CERTIFIED PUBLIC ACCOUNTANTS

OPINION
We have audited the consolidated financial statements of Banque Saudi Fransi (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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

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

The key audit matter	How the matter was addressed in our audit
Impairment of loans and advances At 31 December 2018, the gross loans and advances of the Group were SAR 125 billion against which an impairment allowance of SAR 4 billion was maintained. During the year the Group has adopted IFRS 9 – Financial Instruments which introduced a forward looking, expected credit loss "ECL" impairment model. On adoption, the Group has applied modified restrospective approach. The adoption of IFRS 9 resulted in transition adjustment to the Group's equity as at 1 January 2018 of SAR 665 million. The impact of transition are explained in note 3 to the consolidated financial statements.	We have obtained an understanding of management's assessment of impairment of loans and advances including the IFRS 9 implementation process, the Group's internal rating model, the Group's impairment allowance policy and the ECL modelling methodology. We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9. We assessed the design and implementation, and tested the operating effectiveness of controls over: • the modelling process including governance over monitoring of the model and approval of key assumptions; • the classification of borrowers in various stages and timely identification of significant increase in credit risk "SICR" and determination of default or individually impaired exposures; and • integrity of data input into the ECL model.

The key audit matter	How the matter was addressed in our audit
We considered impairment of loans and advances as a key audit matter as the determination of ECL involves significant management judgement and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include: • Categorisation of loans in Stage 1, 2 and 3 based on identification of: (a) exposures with a significant increase in credit risk since their origination; and (b) individually impaired / default exposures. • Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors etc. • The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model. Refer to the significant accounting policies notes 3 to the consolidated financial statements for the adoption of IFRS 9 – Financial Instruments and the significant accounting policy relating to impairment of financial assets, note 2 which contains the disclosure of critical accounting judgement, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7 which contains the disclosure of impairment against loans and advances and note 33-vi for details of credit quality analysis and key assumptions and factors considered in determination of ECL.	We assessed the Group's criteria for determination of significant increase in credit risk and identification of impaired/default exposures and their classification into various stages. For a sample of customers, we assessed: • the internal ratings determined by the management based on Group's internal rating model and ensured that these ratings were in line with the ratings used in the ECL model; • the staging as identified by management; and • management's computations for ECL. We assessed the underlying assumptions including forward looking assumptions used by the Group in ECL calculations. Where management overlays were used, we assessed those overlays and the governance process around such overlays. We checked the completeness of data underlying the ECL calculation. Where relevant, we involved specialists to gain comfort on model design, resultant ECL calculations and data integrity. The above mentioned tasks were performed as of 31 December 2018. Further, as the Group has used the modified restrospective approach for adoption of IFRS 9, we also performed the above mentioned tasks to evaluate management's computation of adjustment to the Group's equity as at 1 January 2018 (as a result of adoption of IFRS 9). We assessed the disclosures included by management in the consolidated financial statements.
Fees and commission income In connection with granting loans / facilities, the Group charges transaction and service fees. Such fees are to be deferred and amortized over the lives of the respective loans / facilities within the consolidated statement of income. However, due to the volume of transactions, such fees, up to a certain threshold, are recognized upfront based on certain judgments and assumptions. We considered this as a key audit matter since the use of management judgments and assumptions could impact fees and commission income and special commission income. Refer to the significant accounting policies note 3(h) to the consolidated financial statements.	We assessed the design and implementation and tested the operating effectiveness of the key controls over the setting of assumptions and judgments and their application. We obtained the management's assessment of the impact of the use of assumptions and judgments on fees and commission income and: • On a test basis, traced the data and information used by the management to the source documents. • Assessed management's estimation of the impact of the use of assumptions and judgments on the recognition of fee and commission income.

Independent Auditors' Report continued

on the Audit of the Consolidated Financial Statements
To the Shareholders of Banque Saudi Fransi (A Saudi Joint Stock Company)

The key audit matter	How the matter was addressed in our audit
Valuation of Derivatives The Group has entered into commission rate swaps (CRS), forward foreign exchange contracts and certain structured derivative contracts. Such derivatives are recorded at fair value within the consolidated financial statements. CRS, forward foreign exchange contracts and structured derivative contracts are over the counter (OTC) derivatives, and hence, the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations. Structured derivatives are fully back to back with no exposure of the Group due to the change in fair value in the consolidated statement of income. These derivatives are held for trading, however, the Group also utilizes certain CRS for cash flow hedge accounting purposes in the consolidated financial statements for hedging the cash flow risks. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements. We considered this as key audit matter as there is complexity and subjectivity involved in determining the fair value of such contracts. Refer to the significant accounting policies note (3) to the consolidated financial statements, and note 11, which explains the derivative positions and the valuation methodology, used by the Group.	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuation of derivatives including the testing of relevant controls covering the fair valuation process for derivatives. We selected a sample of derivatives and: • Tested the accuracy of the particulars of the derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; • Checked the accuracy and appropriateness of the key inputs used in the valuation models; and • Involved valuation specialists to perform an independent valuation of the derivatives and compared the results with management's valuation methodology. We assessed the disclosures included by management in the consolidated financial statements.

OTHER INFORMATION

The Board of Directors of the Bank (the Directors) are responsible for the other information. The other information comprises of the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain jointly responsible for our audit opinion.

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

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

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

FINANCIAL STATEMENTS

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

PricewaterhouseCoopers

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February 7, 2019
(Corresponding to 2 Jumada Al-Akhirah 1440H)

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت: ١٠١٠٣٧١٦٢٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
LICENSE NO. 25
C.R. 1010371622

كي بي إم جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
س.ت رقم: ٤٦
Certified Public Accountants
KPMG Al Fozan & Partners

Consolidated Statement of Financial Position
As at December 31, 2018 and 2017

SAR '000	Notes	2018	2017
ASSETS			
Cash and balances with SAMA	4	**20,925,860**	22,393,237
Due from banks and other financial institutions	5	**15,938,529**	18,758,295
Investments, net	6	**28,371,980**	25,324,895
Positive fair value derivative	11	**1,932,464**	2,032,823
Loans and advances, net	7	**120,631,634**	121,940,394
Investment in associates	8	**9,695**	76,049
Property and equipment, net	9	**690,369**	736,927
Other real estate		**463,509**	504,830
Other assets	10	**1,236,666**	1,161,431
Total assets		**190,200,706**	192,928,881
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12	**2,145,481**	2,963,273
Customers' deposits	13	**148,368,004**	150,954,187
Negative fair value derivative	11	**1,414,128**	1,197,475
Debt securities and sukuks	14	**2,003,340**	2,002,565
Other liabilities	15	**5,457,374**	4,150,000
Total liabilities		**159,388,327**	161,267,500
Equity			
Share capital	16	**12,053,572**	12,053,572
Statutory reserve	17	**12,053,572**	12,053,572
General reserve	17	**982,857**	982,857
Other reserves	18	**(318,304)**	(285,172)
Retained earnings		**5,200,042**	6,628,963
Proposed dividend	28	**958,081**	355,237
Treasury shares	38	**(117,441)**	(127,648)
Total equity		**30,812,379**	31,661,381
Total liabilities and equity		**190,200,706**	192,928,881

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

Consolidated Statement of Income

For the years ended December 31, 2018 and 2017

SAR '000	Notes	2018	2017
Special commission income	20	**6,947,576**	6,604,506
Special commission expense	20	**1,930,704**	1,904,836
Net special commission income		**5,016,872**	4,699,670
Fee and commission income	21	**1,402,549**	1,422,163
Fee and commission expense	21	**307,046**	302,845
Net fee and commission income		**1,095,503**	1,119,318
Exchange income, net		**347,173**	356,131
Trading income, net	22	**194,257**	270,837
Dividend income	23	**896**	8,078
(Losses)/gains on FVOCI/non-trading investments, net	24	**(23,481)**	27,684
Gains on sale of investment in associate	8	**97,310**	–
Other operating income	25	**70,114**	94,489
Total operating income		**6,798,644**	6,576,207
Salaries and employee related expenses	30	**1,364,274**	1,384,543
Rent and premises related expenses		**167,784**	178,819
Depreciation and amortization	9	**154,166**	151,123
Other general and administrative expenses		**503,046**	560,688
Impairment charge for credit losses, net	7	**910,499**	497,960
Impairment charge for associate	8	**32,500**	–
Impairment charge for investments and other financial assets, net	7	**259,795**	166,653
Other operating expenses	26	**102,055**	112,105
Total operating expenses		**3,494,119**	3,051,891
Net operating income		**3,304,525**	3,524,316
Share in earnings of associates, net	8	**2,529**	7,568
Net income for the year		**3,307,054**	3,531,884
Basic and diluted earnings per share (SAR)	27	**2.76**	2.94

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
As at December 31, 2018 and 2017

SAR '000	Notes	2018	2017
Net income for the year		**3,307,054**	3,531,884
Other comprehensive income/(loss):			
Items that cannot be recycled back to consolidated statement of income in subsequent periods			
Fair value through other comprehensive income (FVOCI) equity investments			
Net change in the fair value	18	**(9,330)**	–
Items that can be reclassified to consolidated statement of income in subsequent periods			
Available for sale investments			
Net change in the fair value	18	**-**	6,459
Net amount transferred to consolidated statement of income	18	**-**	(27,684)
Debt instruments at fair value through other comprehensive income (FVOCI)			
Net change in the fair value	18	**(34,055)**	–
Net amount transferred to consolidated statement of income	18	**23,481**	–
Cash flow hedge			
Effective portion of net change in the fair value	18	**58,420**	813,761
Net amount transferred to consolidated statement of income	18	**(71,648)**	(214,124)
Total comprehensive income for the year		**3,273,922**	4,110,296

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

Consolidated Statement of Changes in Equity

For the years ended December 31, 2018 and 2017

SAR '000	Notes	Share capital	Statutory reserve	General reserve	Retained earnings	Other reserves: FVOCI /AFS reserve	Other reserves: Cash flow hedge	Proposed dividend	Treasury shares	Total
2018										
Balance at the beginning of the year		**12,053,572**	**12,053,572**	**982,857**	**6,628,963**	**10,118**	**(295,290)**	**355,237**	**(127,648)**	**31,661,381**
Impact of adopting IFRS 9 as at 01 January 2018		**–**	**–**	**–**	**(862,875)**	**–**	**–**	**–**	**–**	**(862,875)**
Restated balance as at 1 January 2018		**12,053,572**	**12,053,572**	**982,857**	**5,766,088**	**10,118**	**(295,290)**	**355,237**	**(127,648)**	**30,798,506**
Net income for the year		**–**	**–**	**–**	**3,307,054**	**–**	**–**	**–**	**–**	**3,307,054**
Net change in the fair value	18	**–**	**–**	**–**	**–**	**(43,385)**	**58,420**	**–**	**–**	**15,035**
Net amount transferred to consolidated statement of income	18	**–**	**–**	**–**	**–**	**23,481**	**(71,648)**	**–**	**–**	**(48,167)**
Zakat for the prior years	28	**–**	**–**	**–**	**(1,510,669)**	**–**	**–**	**–**	**–**	**(1,510,669)**
Zakat for the current year	28	**–**	**–**	**–**	**(276,804)**	**–**	**–**	**–**	**–**	**(276,804)**
Tax for the current year	28	**–**	**–**	**–**	**(99,342)**	**–**	**–**	**–**	**–**	**(99,342)**
Interim net dividend for 2018	28	**–**	**–**	**–**	**(1,028,204)**	**–**	**–**	**–**	**–**	**(1,028,204)**
Final dividend paid for 2017	28	**–**	**–**	**–**	**–**	**–**	**–**	**(355,237)**	**–**	**(355,237)**
Final proposed dividend for 2018	28	**–**	**–**	**–**	**(958,081)**	**–**	**–**	**958,081**	**–**	**–**
Net change in treasury shares	38	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**10,207**	**10,207**
Balance at the end of the year		**12,053,572**	**12,053,572**	**982,857**	**5,200,042**	**(9,786)**	**(308,518)**	**958,081**	**(117,441)**	**30,812,379**
2017										
Balance at the beginning of the year		12,053,572	11,805,933	**982,857**	5,139,428	31,343	(894,927)	647,995	(67,198)	29,699,003
Net income for the year		–	–	**–**	3,531,884	–	–	–	–	3,531,884
Net change in the fair value	18	–	–	**–**	–	6,459	813,761	–	–	820,220
Net amount transferred to consolidated statement of income	18	–	–	**–**	–	(27,684)	(214,124)	–	–	(241,808)
Transferred to statutory reserves	17	–	247,639	**–**	(247,639)	–	–	–	–	–
Zakat for the current year	28	–	–	**–**	(91,047)	–	–	(32,791)	–	(123,838)
Tax for the current year	28	–	–	**–**	(207,795)	–	–	(84,838)	–	(292,633)
Interim net dividend for 2017	28	–	–	**–**	(1,140,631)	–	–	–	–	(1,140,631)
Final dividend paid for 2016	28	–	–	**–**	–	–	–	(530,366)	–	(530,366)
Final proposed dividend for 2017	28	–	–	**–**	(355,237)	–	–	355,237	–	–
Net change in treasury shares	38	–	–	**–**	–	–	–	–	(60,450)	(60,450)
Balance at the end of the year		12,053,572	12,053,572	**982,857**	6,628,963	10,118	(295,290)	355,237	(127,648)	31,661,381

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the years ended December 31, 2018 and 2017

SAR '000	Note	2018	2017
OPERATING ACTIVITIES			
Net income for the year		**3,307,054**	3,531,884
Adjustments to reconcile net income to net cash from operating activities:			
Accretion of (premium)/discounts on investments not held as FVTPL, net		**(19,967)**	2,189
Gains on sale of investment in associate		**(97,310)**	–
Losses/(gains) on FVOCI/non-trading investments, net		**23,481**	(27,684)
Depreciation and amortization	9	**154,166**	151,123
Gains disposal of property and equipment, net		**(222)**	(247)
Impairment charge for credit losses, net	7	**910,499**	497,960
Impairment charge for investments and other financial assets, net		**259,795**	166,653
Impairment charge for associate	8	**32,500**	–
Share in earnings of associates, net	8	**(2,529)**	(7,568)
Long term incentive scheme provision, net		**14,893**	10,925
Provision on other real estate	26	**40,804**	–
Change in fair value of financial instruments		**(1,677)**	604
Operating income before changes in operating assets and liabilities		**4,621,487**	4,325,839
Net (increase)/decrease in operating assets:			
Statutory deposit with SAMA	4	**485,250**	(89,662)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**73,000**	7,662,000
Investments held as FVTPL/trading investments		**(226,058)**	46,866
Loans and advances		**(331,319)**	7,016,133
Other assets		**53,973**	286,986
Net increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		**(817,792)**	(1,325,259)
Customers' deposits		**(2,586,183)**	(7,504,285)
Other liabilities		**(817,393)**	618,033
Net cash generated from operating activities		**454,965**	11,036,651
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investment not held as FVTPL		**5,127,690**	4,347,322
Purchase of investments not held as FVTPL		**(7,894,452)**	(5,599,195)
Proceeds from sale of investment in associate		**81,269**	–
Acquisition of property and equipment		**(107,707)**	(171,537)
Proceeds from sale of property and equipments		**321**	390
Net cash used in investing activities		**(2,792,879)**	(1,423,020)
FINANCING ACTIVITIES			
Dividends paid	28	**(1,383,441)**	(1,788,626)
Purchase of treasury shares		**(4,686)**	(71,375)
Repayment of debt securities and sukuks		**-**	(4,712,500)
Net cash used in financing activities		**(1,388,127)**	(6,572,501)
(Decrease)/increase in cash and cash equivalents		**(3,726,041)**	3,041,130
Cash and cash equivalents at the beginning of the year		**27,715,920**	24,674,790
Cash and cash equivalents at the end of the year	29	**23,989,879**	27,715,920
Special commission received during the year		**6,830,865**	6,632,361
Special commission paid during the year		**1,784,031**	1,991,129
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated statement of income		**(33,132)**	578,412

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

1. GENERAL
Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 4, 1977). The Bank formally commenced its activities on Muharram 1, 1398H (corresponding to December 11, 1977), by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number 1010073368 dated Safar 4, 1410H (corresponding to September 5, 1989), through its 86 branches (2017: 86 branches) in the Kingdom of Saudi Arabia, employing 3,027 people (2017: 3,072 people).

The objective of the Bank is to provide a full range of banking services, including Islamic products, which are approved and supervised by an independent Shariah Board. The Bank's Head Office is located at King Saud Road, P.O. Box 56006, Riyadh 11554, Kingdom of Saudi Arabia.

The Bank owns a subsidiary, Saudi Fransi Capital (100% share in equity) engaged in brokerage, asset management and corporate finance business. The Bank also owns Saudi Fransi Insurance Agency (SAFIA), Saudi Fransi for Finance Leasing and Sofinco Saudi Fransi having 100% share in equity. The Bank owns 100% (95% direct ownership and 5% indirect ownership through its subsidiary) share in Sakan Real Estate Financing. These subsidiaries are incorporated in the Kingdom of Saudi Arabia.

The Bank also formed a subsidiary, BSF Markets Limited registered in Cayman Islands having 100% share in equity. The objective of this company is derivative trading and Repo activities.

The Bank has investment in associate and owns 27% shareholding in Banque BEMO Saudi Fransi, incorporated in Syria.

2. BASIS OF PREPARATION
A) STATEMENT OF COMPLIANCE
The consolidated financial statements of the Bank have been prepared;

i) in accordance with 'International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of zakat and income tax' (relating to the application of International Accounting Standard (IAS) 12 "Income Taxes" and IFRIC 21 – "Levies" in so far as these relate to accounting for Saudi Arabian zakat and income tax); and

ii) in compliance with the provisions of Banking Control Law, the applicable provisions of Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Bank.

B) BASIS OF MEASUREMENT AND PRESENTATION
These consolidated financial statements are prepared under the cost /amortized cost convention except for the measurement at fair value of derivatives, financial instruments held as Fair Value through Income Statement (FVIS) and financials instruments held as Fair Value through Other Comprehensive Income (FVOCI). In addition, as explained fully in the related notes, financial assets and liabilities that are hedged in a fair value hedging relationship and otherwise are adjusted to record changes in fair value attributable to the risks that are being hedged. The statement of financial position is stated broadly in order of liquidity.

C) FUNCTIONAL AND PRESENTATION CURRENCY
These consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the Bank's functional currency. Except as indicated, financial information presented in SAR has been rounded off to the nearest thousands.

D) CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS
The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities.

It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Such judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

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

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

ii) Fair value Measurement (note 36)

iii) Impairment of FVOCI debt investments (note 33)

iv) Classification of investments at Amortised Cost (note 6)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) CHANGE IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these (consolidated) financial statements are consistent with those used in the preparation of the annual (consolidated) financial statements for the year ended December 31, 2017 except for the adoption of the following new standards and other amendments to existing standards and a new interpretation mentioned below. Except for adoption of IFRS 9 these amendments and adoption has had no material impact on the (consolidated) financial statements of the Group on the current period or prior periods and are expected to have an insignificant effect in future periods. The impact and disclosures pertaining to adoption of IFRS 9 has been illustrated in the later part of these financial statements.

a) Adoption of new standards

Effective 1 January 2018 the Group has adopted two new accounting standards, the impact of the adoption of these standards is explained below:

IFRS 15 Revenue from Contracts with Customers

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

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

The Bank has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in equity. The impact on opening retained earnings and other account balances as at 1 January 2018 is not significant.

IFRS 9 – Financial Instruments

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

As permitted by IFRS 9, the Bank has elected to continue to apply the hedge accounting requirements of IAS 39.

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

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED
A) CHANGE IN ACCOUNTING POLICIES CONTINUED
Classification of financial assets and financial liabilities
IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see respective section of significant accounting policies.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are presented as follows:
- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see respective section of significant accounting policies.

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

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

IFRS 7
To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 3 detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 33.

Reconciliations from opening to closing ECL allowances are presented in note 3 (a), and IFRS 7 also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

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

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

a) Financial assets and financial liabilities

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

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

SAR '000	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
Financial assets				
Cash and balances with SAMA	Amortised cost	Amortised cost	22,393,237	22,393,237
Due from banks and other financial institutions	Amortised cost	Amortised cost	18,758,295	18,757,392
Investments, net	FVTPL/AFS/Amortised cost	FVTPL/FVOCI/Amortised cost	25,324,895	25,267,540
Positive fair value of derivatives	Fair value	Fair value	2,032,823	2,032,823
Loans and advances, net	Amortised cost	Amortised cost	121,940,394	121,275,749
Other assets	Amortised cost	Amortised cost	1,161,431	1,161,194
			191,611,075	**190,887,935**
Financial liabilities				
Due to banks and other financial institutions	Amortised cost	Amortised cost	2,963,273	2,963,273
Customers' deposits	Amortised cost	Amortised cost	150,954,187	150,954,187
Negative fair value of derivatives	Fair value	Fair value	1,197,475	1,197,475
Debt securities and sukuks	Amortised cost	Amortised cost	2,002,565	2,002,565
Other liabilities	Amortised cost	Amortised cost	4,150,000	4,289,735
			161,267,500	**161,407,235**

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED
A) CHANGE IN ACCOUNTING POLICIES CONTINUED
ii) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

SAR '000	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
Financial assets				
Amortized cost				
Cash and balances with SAMA:				
Opening balance	22,393,237	–	–	–
Remeasurement	–	–	–	–
Closing balance	**22,393,237**	**–**	**–**	**22,393,237**
Due from banks and other financial institutions:				
Opening balance	18,758,295	–	–	–
Remeasurement	–	–	(903)	–
Closing balance	**18,758,295**	**–**	**(903)**	**18,757,392**
Investments:				
Opening balance	16,980,120	–	–	–
Remeasurement	–	2,534,783	(47,813)	–
Closing balance	**16,980,120**	**2,534,783**	**(47,813)**	**19,467,090**
Positive fair value of derivatives:				
Opening balance	2,032,823	–	–	–
Remeasurement	–	–	–	–
Closing balance	**2,032,823**	**–**	**–**	**2,032,823**
Loans and advances:				
Opening balance	121,940,394	–	–	–
Remeasurement	–	–	(664,645)	–
Closing balance	**121,940,394**	**–**	**(664,645)**	**121,275,749**
Other assets:				
Opening balance	1,161,431	–	–	–
Remeasurement	–	–	(237)	–
Closing balance	**1,161,431**	**–**	**(237)**	**1,161,194**
Total amortized cost	**183,266,300**	**2,534,783**	**(713,598)**	**185,087,485**

The change of classification from AFS to amortised cost amounting to SAR 2,534,783 is based on the business model assessment performed by the Bank at the adoption of IFRS 9 from January 1, 2018. Also see note 3B.

SAR '000	AS 39 carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
Financial assets				
Available for sale				
Investment:				
Opening balance	8,214,085	–	–	–
Transferred to:				
FVOCI – equity	–	(40,425)	–	–
FVOCI – debt	–	(5,638,877)	–	–
Amortized cost	–	(2,534,783)	–	–
Closing balance	**8,214,085**	**(8,214,085)**	**–**	**–**
FVOCI				
Investment:				
Opening balance	–	–	–	–
From available for sale		5,679,302	(9,542)	–
Total FVOCI	**–**	**5,679,302**	**(9,542)**	**5,669,760**
FVTPL				
Investment:				
Opening balance	–	–	–	–
From available for sale	130,690	–	–	–
Closing balance	**130,690**	**–**	**–**	**130,690**
Total FVTPL	**130,690**	**–**	**–**	**130,690**
Financial liabilities				
At Amortized cost				
Due to banks and other financial institutions	2,963,273	–	–	2,963,273
Customers' deposits	150,954,187	–	–	150,954,187
Negative fair value of derivative	1,197,475	–	–	1,197,475
Debt securities and sukuks	2,002,565	–	–	2,002,565
Other liabilities	4,150,000	–	139,735	4,289,735
Total amortized cost	**161,267,500**	**–**	**139,735**	**161,407,235**

iii) Reconciliation of reclassifications of financial assets and financial liabilities into amortized cost under IFRS 9

The following table shows the effects of the reclassification of financial assets and financial liabilities from IAS 39 categories into the amortized cost category under IFRS 9.

SAR '000	**Dec 31, 2018**
From available for sale financial assets under IAS 39	
Fair value at 31 December 2018	**1,730,478**
Fair value gain/(loss) that would have been recognized during 2018 in OCI if the financial assets had not been reclassified	**(8,579)**

FINANCIAL STATEMENTS

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED
A) CHANGE IN ACCOUNTING POLICIES CONTINUED
iv) Impact on retained earnings and other reserves

SAR '000		Retained earnings
Closing balance under IAS 39 (31 December 2017)		6,628,963
Recognition of expected credit losses under IFRS 9	– On statement of financial assets	(723,140)
	– Commitment and contingencies	(139,735)
Opening balance under IFRS 9 (1 January 2018)		**5,766,088**

The following table reconciles the provision recorded as per the requirements of IAS 39 to that of IFRS 9:
- The closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017; to
- The opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

SAR '000	31 December 2017 (IAS 39/IAS 37)	Reclassification	Re-measurement	**1 January 2018 (IFRS 9)**
Financial assets				
Cash and balances with SAMA	–	–	–	**–**
Due from banks and other financial institutions	–	–	903	**903**
Investments	187,500	–	57,355	**244,855**
Loans and advances	3,424,439	–	664,645	**4,089,084**
Other assets	48,287	–	237	**48,524**
Total	**3,660,226**	**–**	**723,140**	**4,383,366**
Commitments and contingencies	163,153	–	139,735	**302,888**
Total	**3,823,379**	**–**	**862,875**	**4,686,254**

v) The following table provides carrying value of financial assets and financial liabilities in the statement of financial position.

SAR '000	**Dec 31, 2018** Mandatorily at FVTPL	FVTPL	FVOCI – debt instruments	Designated as at FVOCI – equity investments	Amortized cost	Total carrying amount
Financial assets						
Cash and balances with SAMA	–	–	–	–	20,925,860	20,925,860
Due from banks and other financial institutions	–	–	–	–	15,938,529	15,938,529
Investments, net	–	356,748	5,506,373	135,133	22,373,726	28,371,980
Positive fair value of derivatives	1,932,464	–	–	–	–	1,932,464
Loans and advances, net	–	–	–	–	120,631,634	120,631,634
Other assets	–	–	–	–	1,236,666	1,236,666
Total financial assets	**1,932,464**	**356,748**	**5,506,373**	**135,133**	**181,106,415**	**189,037,133**
Financial liabilities						
Due from banks and other financial institutions	–	–	–	–	2,145,481	2,145,481
Customer deposits	–	–	–	–	148,368,004	148,368,004
Negative fair value of derivatives	1,414,128	–	–	–	–	1,414,128
Debt securities and sukuks	–	–	–	–	2,003,340	2,003,340
Other liabilities	–	–	–	–	5,457,374	5,457,374
Total financial liabilities	**1,414,128**	**–**	**–**	**–**	**157,974,199**	**159,388,327**

SAR '000	Dec 31, 2017 Trading	FVTPL	Available for sale investments	Held to maturity	Loans and receivable	Total carrying amount
Financial assets						
Cash and balances with SAMA	–	–	–	–	22,393,237	22,393,237
Due from banks and other financial institutions	–	–	–	–	18,758,295	18,758,295
Investments, net	130,690	–	8,214,085	–	16,980,120	25,324,895
Positive fair value of derivatives	–	2,032,823	–	–	–	2,032,823
Loans and advances, net	–	–	–	–	121,940,394	121,940,394
Other assets	–	–	–	–	1,161,431	1,161,431
Total financial assets	130,690	2,032,823	8,214,085	–	181,233,477	191,611,075
Financial liabilities						
Due from banks and other financial institutions	–	–	–	–	2,963,273	2,963,273
Customer deposits	–	–	–	–	150,954,187	150,954,187
Negative fair value of derivatives	–	1,197,475	–	–	–	1,197,475
Debt securities and sukuks	–	–	–	–	2,002,565	2,002,565
Other liabilities	–	–	–	–	4,150,000	4,150,000
Total financial liabilities	–	1,197,475	–	–	160,070,025	161,267,500

B) POLICIES APPLICABLE FROM 1 JANUARY 2018

Classification of financial assets

On initial recognition, a financial asset is classified into following categories: amortized cost, FVOCI or FVTPL.

Financial asset at amortized cost

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

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

Financial Asset at FVOCI

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

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

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

Equity Instruments: On initial recognition, for an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial asset at FVTPL

All other financial assets are classified as measured at FVTPL (for example: equity held for trading and debt securities not classified either as AC or FVOCI).

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

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

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

B) POLICIES APPLICABLE FROM 1 JANUARY 2018 CONTINUED

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual special commission income, maintaining a particular special commission rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

Assessments whether contractual cash flows are solely payments of principal and special commission rate

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

In assessing whether the contractual cash flows are solely payments of principal and special commission rate, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets(e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money e.g. periodical reset of interest rates.

Designation at fair value through profit or loss

At initial recognition, the Bank has designated certain financial assets at FVTPL. Before 1 January 2018, the Bank also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

i) Classification of financial liabilities

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

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

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

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

Financial guarantees and loan commitments that entities choose to measure at fair value through profit or loss will have all fair value movements recognized in profit or loss. The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR.

ii) Derecognition

Financial assets

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

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

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

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

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

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

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

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

iii) Modifications of financial assets and financial liabilities

a- Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value.

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

b- Financial liabilities

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

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED
B) POLICIES APPLICABLE FROM 1 JANUARY 2018 CONTINUED
iv) Impairment
The Bank recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:
- financial assets that are debt instruments;
- loan and advances;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

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

12-month ECL is the portion of ECL that measures Expected losses resultant from default or transition on a financial instrument within 12 months after the reporting date.

Measurement of ECL
ECL is an unbiased probability-weighted estimate of credit losses. They are measured as follows:
- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is fully drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

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

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective commission rate of the existing financial asset.

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: No loss allowance is recognized in the statement of financial position in respect of these assets, because the carrying amount of these assets is their fair value. Whereas, recognition of an impairment loss is reflected as a debit to profit or loss and a credit to OCI and does not affect carrying amount.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

vi) Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

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

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

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

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

vii) Revenue/expenses recognition

Special commission income and expenses

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

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

B) POLICIES APPLICABLE FROM 1 JANUARY 2018 CONTINUED

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

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

Measurement of amortized cost and special commission income and expense

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

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

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

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

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

viii) Rendering of services

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

The Company recognises revenue under IFRS 15 using the following five steps model:

Step 1: Identify the contract with customer	A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
Step 2: Identify the performance obligations	A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
Step 3: Determine the transaction price	The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
Step 4: Allocate the transaction price	For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
Step 5: Recognise revenue	The Group recognises revenue (or as) it satisfies a performance obligation by transferring a promised good or service to the customer under a contract.

Based on the above five steps the revenue recognition policies for major fee classes of fee and commission income are as follow:

Brokerage income is recognised when the related transactions are executed on behalf of the customers at the price agreed in the contract with the customers, net of discounts and rebates. The performance obligation of the Bank is satisfied when the Bank carries out the transaction, which triggers immediate recognition of the revenue, as the Bank will have no further commitments. Trade finance revenue is recognized in accordance with relevant contract over the period of instrument using the five-step approach to revenue recognition above. Asset management fees are recognised based on a fixed percentage of net assets under management ("asset-based"), or a percentage of returns from net assets ("returns-based") subject to applicable terms and conditions and service contracts with customers and funds. Advisory and investment banking services revenue is recognised based on services rendered under the applicable service contracts using the five-step approach to revenue recognition above.

ix) Customer Loyalty Program

The Bank offers customer loyalty program (reward points/air miles herein referred to as "reward points"), which allows card members to earn points that can be redeemed for certain Partner outlets. The Bank allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative stand alone selling price. The amount of revenue allocated to reward points is deferred and released to the income statement when reward points are redeemed.

The cumulative amount of contract liability related unredeemed reward points are adjusted over time based on actual experience and current trends with respect to redemption.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (the Group) i.e. Saudi Fransi Capital, Saudi Fransi Insurance Agency, Saudi Fransi for Finance Leasing, Sakan real estate financing, Sofinco Saudi Fransi and BSF markets Limited. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Reclassifications have been made wherever necessary to the financial statements of the subsidiaries to bring them in line with the Bank's consolidated financial statements.

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

Control is achieved when the Group 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.

Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights granted by equity instruments such as shares

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:
- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Balances between the Bank and its subsidiaries including any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED
B) POLICIES APPLICABLE FROM 1 JANUARY 2018 CONTINUED
(i) List of significant subsidiaries
The table below provides details of the significant subsidiaries of the Group

Name of the subsidiary	Principal place of business	Ownership interest 2018	Ownership interest 2017
Saudi Fransi Capital	K.S.A	**100%**	100%
Saudi Fransi Insurance Agency	K.S.A	**100%**	100%
Saudi Fransi for Finance Leasing	K.S.A	**100%**	100%
Sakan real estate financing	K.S.A	**100%**	100%

Apart from the above subsidiaries, the Bank also owns BSF Markets Limited having 100% share in equity, incorporated in the Cayman Islands. Sofinco Saudi Fransi has no material impact on the Group financial statements.

(ii) Significant restriction
The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate.

C) INVESTMENT IN ASSOCIATES
Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting.

An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the statement of financial position at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments. The Bank's shares of its associates' post-acquisition profits or losses are recognized in the statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Bank ceases to equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset.

D) SETTLEMENT AND TRADE DATE ACCOUNTING
All regular way purchases and sales of financial assets are recognized and derecognized in the consolidated statement of financial position on the settlement date i.e. the date on which the asset is acquired from or delivered to the counter party. The Bank accounts for any change in fair value which is recognized from the trade date.

Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or follow convention in the market place.

All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

E) DERIVATIVES FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING
Derivative financial instruments including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

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

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

(ii) Embedded derivatives

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

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

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

(iii) Hedge accounting

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

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

In order to qualify for hedge accounting, the hedge should be expected to be highly effective i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting.

A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Prospective testing is performed mainly through matching the critical terms of both hedge item and instrument.

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the income statement in 'Net trading income'. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of income.

Fair value hedges

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and is recognized in the consolidated statement of income. For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the cumulative adjustment to the carrying amount of a hedge item is amortised to the income statement on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

Cash flow hedges

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other comprehensive income, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. However, if the Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the consolidated statement of income as a reclassification adjustment the amount that is not to be recognized.

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

E) DERIVATIVES FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING CONTINUED

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

Hedge accounting is discontinued when the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation then hedge accounting is discontinued prospectively.

At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to consolidated statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the consolidated statement of income, the net cumulative gain or loss recognised in “other comprehensive income” is transferred immediately to the consolidated statement of income for the year.

F) FOREIGN CURRENCIES

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

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

Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income, except for differences arising on the retranslation of available for sale equity instruments and effective cash flow hedges in foreign currencies.

Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment on investment securities available for sale, unless the non-monetary items have an effective hedging strategy. Realized and unrealized gains or losses on exchange are credited or charged to exchange income or deferred in other comprehensive income for qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective.

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated using the exchange rate at the date when the fair value is determined.

G) OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts, and the Group intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

H) REVENUE/EXPENSE RECOGNITION

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

Special commission income and expense

Special commission income and expense for all special commission bearing financial instruments, except for those classified as held for trading or designated as at fair value through income statement, (FVIS) are recognized in the consolidated statement of income using the effective commission rate basis. The effective commission rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective commission rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognised using the original effective yield applied to the new carrying amount.

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

Exchange income/loss

Exchange income/loss is recognised as discussed in foreign currencies policy above.

Fees and commission income

Fees and commissions are recognized when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and, together with the related direct costs, are recognized as an adjustment to the effective yield on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense, which relate mainly to transaction and service fees, are expensed as the services are received.

Dividend income

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

Trading income/(loss)

Results arising from trading activities include all gains and losses from changes in fair values, related special commission income or expense including dividends for financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

Income/(loss) from FVIS financial instruments

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

I) SALE AND REPURCHASE AGREEMENTS

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos), continue to be recognized in the consolidated statement of financial position and are measured in accordance with related accounting policies for investments held as FVIS (held for trading), available for sale, held to maturity and other investments held at amortized cost. The counter-party liability for amounts received under these agreements is included in “Due to banks and other financial institutions” or “Customers’ deposits”, as appropriate.

The difference between sale and repurchase price is treated as special commission expense and is accrued over the life of the repo agreement, on an effective yield basis.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognized in the consolidated statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in “Cash and balances with SAMA”, “Due from banks and other financial institutions” or “Loans and advances”, as appropriate. The difference between purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement, on an effective yield basis.

J) INVESTMENTS

All investment securities are initially recognized at fair value and except for investments held at FVIS, include the acquisition costs associated with the investments. Transaction costs, if any, are not added to fair value measurement at initial recognition of investments held at FVIS. Premiums are amortized and discounts are accreted using the effective yield basis and are taken to special commission income. Amortized cost is calculated by taking into account any discount or premium on acquisition.

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED
J) INVESTMENTS CONTINUED
For securities that are traded in organized financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date without deduction for transaction costs. Fair value of managed assets and investments in mutual funds are determined by reference to declared net assets values which approximate the fair values. For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the security. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Following initial recognition, subsequent transfers between the various categories of investments are not ordinarily permissible. The subsequent period end reporting values for the various categories of investments are determined as follows:

(i) Held as fair value through income statement (FVIS)
Investments held as FVIS are classified as either investment held for trading or those designated as fair value through income statement on initial recognition. Investments classified as trading are acquired principally for the purpose of selling or repurchasing in short term or if designated as such by the management in accordance with criteria laid down in IAS 39. After initial recognition, investments at FVIS are measured at fair value and any change in the fair value is recognised in the consolidated statement of income for the year in which it occurs. Transaction costs, if any, are not added to the fair value measurement at initial recognition of FVIS investments. Special commission income, dividend income and gain or loss incurred on financial assets held as FVIS are reflected as trading income or expense in the consolidated statement of income.

(ii) Available for sale
Available for sale investments are those non-derivative equity and debt securities which are neither classified as Held to maturity investments, loans and receivables nor designated as FVIS, that are intended to be held for an unspecified period of time, which may be sold in response to needs for liquidity or changes in special commission rates, exchange rates or equity prices.

Investments which are classified as “available-for-sale” are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at fair value except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Unrealised gain or loss arising from a change in an investment’s fair value is recognised in other comprehensive income. On de-recognition, any cumulative gain or loss previously recognized in other comprehensive income is included in the consolidated statement of income.

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

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

(iii) Held to maturity
Held to maturity investments are non-derivative financial assets which have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold up to the maturity, other than those classified as “Other investments held at amortised cost”, are classified as ‘held to maturity’ and which are not designated as at FVIS or AFS. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortized cost, less provision for impairment in their value. Amortized cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognized in the consolidated statement of income when the investment is de-recognized or impaired.

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

However, sales and reclassifications in any of the following circumstances would not impact the Group’s ability to use this classification

- Sales or reclassifications that are so close to maturity that the changes in market rate of commission would not have a significant effect on the fair value
- Sales or reclassifications after the Group has collected substantially all the assets’ original principal
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group’s control that could not have been reasonably anticipated.

(iv)Other investments held at amortized cost
Investments with fixed or determinable payments that are not quoted in an active market are classified as 'other investments held at amortized cost'. Other investments held at amortized cost, where the fair value has not been hedged are stated at amortized cost using the effective yield basis, less provision for impairment. Any gain or loss is recognized in the consolidated statement of income when the investment is derecognized or impaired.

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

All loans and advances are initially measured at fair value, plus incremental direct transaction costs and are subsequently measured at amortised cost except when Bank chooses to carry loans as FVIS when the Bank intends to sell immediately or in the near term.

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

(i) Available for sale
Loans and advances which are not part of a hedging relationship and are available for sale, are subsequently measured at fair value and gains or losses arising from changes in fair value are recognized directly in 'other reserves' under shareholders' equity until the loans or advances are de-recognized or impaired, at which time the cumulative gain or loss previously recognized in other reserves is included in the consolidated statement of income for the year.

(ii) Loans and advances held at amortized cost
Loans and advances originated or acquired by the Bank that have not been designated in a fair value hedge, are stated at amortized cost.

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

For presentation purposes, impairment charge for credit losses is deducted as an allowance from loans and advances.

L) DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS
Due from banks and other financial institutions are financial assets which include money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. They are initially measured at cost, being the fair value of the consideration given.

Following the initial recognition, these are stated at cost less any amount written off and provisions for impairment, if any.

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

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. Objective evidence may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in special commission income or principal payments, the probability that it will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment losses recognized based on the present value of future anticipated cash flows for changes in its carrying amounts as follows:

The Bank considers evidence of impairment for loans and advances and held to maturity investments at both a specific asset and collective level.

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

M) IMPAIRMENT OF FINANCIAL ASSETS CONTINUED

i) Impairment of available for sale financial assets

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

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

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

ii) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the carrying amount of the asset is adjusted through the use of an allowance account and the amount of the adjustment is included in the consolidated statement of income.

A loan is classified as performing financial assets that have not significantly deteriorated in credit quality since origination and a loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and special commission income.

Impairment charge for credit losses is based upon the management's judgment of the adequacy of the provisions. Such assessment takes into account the composition and volume of the loans and advances, the general economic conditions and the collectability of the outstanding loans and advances. Considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the required level of provisions. Such estimates are necessarily based on assumptions about several factors and actual results may differ resulting in future changes in such provisions.

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

Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted, and the amount of the loss has been determined. Once a financial asset has been written down to its estimated recoverable amount, special commission income is thereafter recognized based on the rate of special commission that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

When a financial asset is uncollectible, it is written off against the related provision for impairment through allowance for impairment account.

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

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

N) FAIR VALUE MEASUREMENT

The Group measures financial instruments, such as, derivatives and equity instruments and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 36.

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 are available to measure fair value, 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 financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the 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 reporting period.

The Group's valuation committee determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted FVOCI financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation. The valuation committee comprises of the head of the investment properties segment, heads of the Group's internal mergers and acquisition team, the head of the risk management department, chief finance officers and the managers of each property.

External valuers are involved for valuation of significant assets, such as properties and FVOCI financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the valuation committee after discussion with and approval by the Company's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The valuation committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the valuation committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the valuation committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The valuation committee, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the valuation committee and the Group's external valuers present the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

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

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

O) OTHER REAL ESTATE

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

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

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold.

Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

P) PROPERTY AND EQUIPMENT

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

Buildings	33 years
Leasehold improvements	Over the lease period or economic life whichever is shorter
Furniture, equipment and vehicles	4 to 10 years
Software programme and automation project	2 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

Q) FINANCIAL LIABILITIES

All money market deposits, placements, customers' deposits and term loans are initially recognized at cost, being the fair value of the consideration received less transaction costs.

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

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

In the ordinary course of business, the Bank gives financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees.

Fee received is recognised in the consolidated statement of income on a straight line basis over the life of the guarantee.

R) PROVISIONS

Provisions are recognized when the Group has a present legal or constructive obligation arising from past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the costs to settle the obligation can be reliably measured or estimated.

Provisions for liabilities and charges

The Bank receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions.

The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per law.

S) ACCOUNTING FOR LEASES

(i) Where the Bank is the lessee

Leases entered into by the Bank are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

(ii) Where the Bank is the lessor

When assets are sold under a finance lease including assets under Islamic lease arrangement, the present value of the lease payments is recognized as a receivable and is disclosed under loans and advances. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

T) CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA excluding statutory deposit, and due from banks and other financial institutions maturing within ninety days from the date of acquisition.

U) DE-RECOGNITION OF FINANCIAL INSTRUMENTS

A financial asset or a part of financial assets, or a part of group of similar financial assets is derecognized when the contractual rights to the cash flows from the financial asset expires and if the Bank has transferred substantially all the risks and rewards of ownership. Where the Bank has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Bank has not retained control of the financial asset. The Bank recognises separately as assets or liabilities any rights and obligations created or retained in the process. A financial liability or a part of a financial liability can only be derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

V) ZAKAT AND INCOME TAX
Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of net income for the year.

Zakat and income tax are accrued on a quarterly basis and charged to retained earnings in accordance with SAMA guidance on zakat and income tax. Previously, zakat and income tax was deducted from dividends upon payment to the shareholders and was recognized as a liability at that time.

W) INVESTMENT MANAGEMENT, BROKERAGE AND CORPORATE FINANCE SERVICES
The Bank offers investment management, brokerage and corporate finance services to its customers, through its subsidiaries, which include management of certain investment funds in consultation with professional investment advisors and brokerage services. The Bank's share of these funds is included in the available for sale investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the subsidiary and accordingly are not included in the consolidated financial statements.

X) NON-COMMISSION BASED BANKING PRODUCTS
In addition to the conventional banking, the Bank offers its customers certain non-commission based banking products, which are approved by its Shariah Board, as follows:

High level definitions of non-commission based banking products
(i) **Murabaha** is an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

(ii) **Mudarabah** is an agreement between the Bank and a customer whereby the Bank invests in a specific transaction. The Bank is called "rabb-ul-mal" while the management and work is exclusive responsibility of the customer who is called "mudarib". The profit is shared as per the terms of the agreement but the loss is borne by the Bank.

(iii) **Ijarah** is a an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

(iv) **Musharaka** is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

(v) **Tawaraq** is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

All non-commission based banking products other than Mudarabah are included in "loans and advances", whereas mudarabah is included in "investments". These non-commission based banking products are accounted for in accordance with IFRS and are in conformity with the accounting policies described in these consolidated financial statements.

Y) SHORT TERM EMPLOYEE BENEFITS
Short term employee benefits are measured on an undiscounted basis and are expensed as the related services are provided.

A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Z) END OF SERVICE BENEFITS
Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation conducted by an independent actuary, taking into accounts the provision of the Saudi Arabian Labor Law.

The liability recognised in the consolidated statement of financial position in respect of end of service benefits is the present value of the defined benefit obligation at the end of the year. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

AA) LONG TERM INCENTIVE SCHEME

The Long Term Incentives (LTI) plan is appreciation award of BSF share performance to its eligible employees as per Board approved LTI scheme. The criteria of eligible employees will be defined in HRG LTI Policy and procedure. The eligible employees will benefit the appreciation in value of BSF shares over the vesting period.

The employees will have the right to receive the positive variation or profit made from any increase in the price of the shares between the Grant Date and Exercise Date as per the eligibility defined in HRG LTI policy document.

4. CASH AND BALANCES WITH SAMA

SAR '000	2018	2017
Cash on hand	**1,004,106**	975,776
Statutory deposit	**8,150,362**	8,635,612
Current account	**16,392**	8,849
Money market placements with SAMA	**11,755,000**	12,773,000
Total	**20,925,860**	22,393,237

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

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR '000	2018	2017
Current accounts	**6,168,949**	1,259,346
Money market placements	**9,772,432**	17,498,949
Less: impairment	**(2,852)**	–
Total	**15,938,529**	18,758,295

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies.

The following table shows reconciliations from the opening to the closing balance of due from banks and other financial institutions:

DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2018			
SAR '000	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	**900**	**3**	**-**	**903**
Transfer from 12-month ECL	**(2)**	**2**	**-**	**-**
Transfer from lifetime ECL not credit - impaired	**-**	**-**	**-**	**-**
Net charge/(reversal) for the year	**(73)**	**2,022**	**-**	**1,949**
Write-offs	**-**	**-**	**-**	**-**
Balance as at 31 December 2018	**825**	**2,027**	**-**	**2,852**

6. INVESTMENTS, NET

A) THESE COMPRISE THE FOLLOWING:

SAR'000	2018	2017
Investment at amortized cost	**22,596,255**	17,167,620
Investments at FVOCI - Debt instruments	**5,511,719**	-
Investments at FVOCI - Equity/other investments	**135,133**	-
Available for sale investments	**-**	8,214,085
Investment at FVTPL - Debt instruments	**356,748**	130,690
Less: Impairment	**(227,875)**	(187,500)
Total	**28,371,980**	25,324,895

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2018 and 2017

6. INVESTMENTS, NET CONTINUED

B) INVESTMENTS BY TYPE OF SECURITIES

SAR '000	Domestic		International		Total	
	2018	2017	**2018**	2017	**2018**	2017
Fixed-rate securities	**15,891,327**	14,129,133	**1,126,376**	523,791	**17,017,703**	14,652,924
Floating-rate securities	**9,520,068**	8,074,487	**187,500**	202,720	**9,707,568**	8,277,207
Equities	**89,864**	5,885	**38,308**	34,540	**128,172**	40,425
Other	**1,745,731**	2,541,839	**681**	–	**1,746,412**	2,541,839
Less: Impairment	**(39,801)**	–	**(188,074)**	(187,500)	**(227,875)**	(187,500)
Total	**27,207,189**	24,751,344	**1,164,791**	573,551	**28,371,980**	25,324,895

C) THE ANALYSIS OF THE COMPOSITION OF INVESTMENTS IS AS FOLLOWS:

SAR '000	**2018**			2017		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed-rate securities	**2,667,688**	**14,350,015**	**17,017,703**	1,992,350	12,660,574	14,652,924
Floating-rate securities	**1,254,945**	**8,452,623**	**9,707,568**	536,994	7,740,213	8,277,207
Equities	**121,869**	**6,303**	**128,172**	33,243	7,182	40,425
Other	**6,280**	**1,740,132**	**1,746,412**	7,056	2,534,783	2,541,839
	4,050,782	**24,549,073**	**28,599,855**	2,569,643	22,942,752	25,512,395
Allowance for impairment	**(1,377)**	**(226,498)**	**(227,875)**	–	(187,500)	(187,500)
Investments, net	**4,049,405**	**24,322,575**	**28,371,980**	2,569,643	22,755,252	25,324,895

Other investment includes Mudarabah SAR 1,739 million (2017: SAR 2,535 million).

Unquoted investments include Saudi Government Bonds of SAR 19,723 million (2017: SAR 12,420 million).

D) THE RECONCILIATIONS FROM THE OPENING TO THE CLOSING BALANCE OF DEBT INSTRUMENTS CARRIED AT AMORTIZED COST

An analysis of changes is loss allowance for Debt instruments, is as follows:

SAR '000	**December 31, 2018**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Debt instrument investments				
Balance at 1 January	**57,355**	**-**	**187,500**	**244,855**
Transfer from 12-month ECL	**-**	**-**	**-**	**-**
Transfer from lifetime ECL not credit – impaired	**-**	**-**	**-**	**-**
Net charge/(reversal) for the year	**(16,980)**	**-**	**-**	**(16,980)**
Write-offs	**-**	**-**	**-**	**-**
Balance as at 31 December 2018	**40,375**	**-**	**187,500**	**227,875**

An analysis of changes is loss allowance by each class of Debt instruments, is as follows:

Amortized cost

SAR '000	December 31, 2018 12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	**47,813**	**-**	**187,500**	**235,313**
Transfer from 12-month ECL	-	-	-	-
Transfer from lifetime ECL not credit - impaired	-	-	-	-
Net charge/(reversal) for the year	**(12,784)**	-	-	**(12,784)**
Write-offs	-	-	-	-
Balance as at 31 December 2018	**35,029**	**-**	**187,500**	**222,529**

FVOCI

SAR '000	December 31, 2018 12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	**9,542**	-	-	**9,542**
Transfer from 12-month ECL	-	-	-	-
Transfer from lifetime ECL not credit - impaired	-	-	-	-
Net charge/(reversal) for the year	**(4,196)**	-	-	**(4,196)**
Write-offs	-	-	-	-
Balance as at 31 December 2018	**5,346**	-	-	**5,346**

E) THE ANALYSIS OF INVESTMENTS BY COUNTERPARTY IS AS FOLLOWS:

SAR '000	2018	2017
Government and quasi government	**23,400,100**	19,587,569
Corporate	**3,865,937**	5,056,421
Banks and other financial institutions	**1,099,663**	672,953
Other	**6,280**	7,952
Total	**28,371,980**	25,324,895

7. LOANS AND ADVANCES, NET

A) LOANS AND ADVANCES ARE CLASSIFIED AS FOLLOWS:

Loans and advances held at amortised cost

SAR '000	2018 Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Performing loans and advances - gross	**107,544,030**	**456,779**	**13,066,013**	**121,066,822**
Non-performing loans and advances, net	**3,257,188**	**80,568**	**287,410**	**3,625,166**
Total loans and advances	**110,801,218**	**537,347**	**13,353,423**	**124,691,988**
Allowance for impairment	**(3,631,806)**	**(80,775)**	**(347,773)**	**(4,060,354)**
Loans and advances held at amortised cost, net	**107,169,412**	**456,572**	**13,005,650**	**120,631,634**

SAR '000	2017 Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Performing loans and advances - gross	109,827,075	494,050	11,621,667	121,942,792
Non-performing loans and advances, net	3,198,613	55,955	167,473	3,422,041
Total loans and advances	113,025,688	550,005	11,789,140	125,364,833
Allowance for impairment	(3,088,685)	(71,022)	(264,732)	(3,424,439)
Loans and advances held at amortised cost, net	109,937,003	478,983	11,524,408	121,940,394

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7. LOANS AND ADVANCES, NET CONTINUED

B) MOVEMENT IN ALLOWANCE FOR IMPAIRMENT OF CREDIT LOSSES ARE CLASSIFIED AS FOLLOWS:

An analysis of changes in loss allowance for Loans and Advances is, as follows:

	December 31, 2018			
SAR '000	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	**367,969**	**1,608,722**	**2,112,393**	**4,089,084**
Transfer from 12-month ECL	**(26,282)**	**18,051**	**8,231**	**–**
Transfer from lifetime ECL not credit – impaired	**6,874**	**(52,954)**	**46,080**	**–**
Net charge/(reversal) for the year	**308,954**	**(564,165)**	**1,165,710**	**910,499**
Write-offs	**–**	**–**	**(939,229)**	**(939,229)**
Balance as at 31 December 2018	**657,515**	**1,009,654**	**2,393,185**	**4,060,354**

An analysis of changes in loss allowance by each class of financial instrument is, as follows:

Overdraft & Commercial loans

	December 31, 2018			
SAR '000	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	**287,037**	**1,555,285**	**1,934,820**	**3,777,142**
Transfer from 12-month ECL	**(7,926)**	**6,788**	**1,138**	**–**
Transfer from lifetime ECL not credit – impaired	**5,341**	**(36,421)**	**31,080**	**–**
Net charge/(reversal) for the year	**287,242**	**(550,347)**	**984,495**	**721,390**
Write-offs	**–**	**–**	**(866,726)**	**(866,726)**
Balance as at 31 December 2018	**571,694**	**975,305**	**2,084,807**	**3,631,806**

Credit Cards

	December 31, 2018			
SAR '000	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	**16,099**	**18,701**	**42,630**	**77,430**
Transfer from 12-month ECL	**(5,321)**	**2,665**	**2,656**	**–**
Transfer from lifetime ECL not credit – impaired	**382**	**(8,579)**	**8,197**	**–**
Net charge/(reversal) for the year	**6,080**	**(9,509)**	**34,855**	**31,426**
Write-offs	**–**	**–**	**(28,081)**	**(28,081)**
Balance as at 31 December 2018	**17,240**	**3,278**	**60,257**	**80,775**

Consumer Loans

	December 31, 2018			
SAR '000	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	**64,833**	**34,736**	**134,943**	**234,512**
Transfer from 12-month ECL	**(13,035)**	**8,598**	**4,437**	**–**
Transfer from lifetime ECL not credit – impaired	**1,151**	**(7,954)**	**6,803**	**–**
Net charge/(reversal) for the year	**15,632**	**(4,309)**	**146,360**	**157,683**
Write-offs	**–**	**–**	**(44,422)**	**(44,422)**
Balance as at 31 December 2018	**68,581**	**31,071**	**248,121**	**347,773**

The movement in the allowance for impairment of Loans and advances to customers for the year ended 31 December is as follows:

SAR '000	2018	2017
Closing loss allowance as at 31 December 2017 (calculated under IAS 39)	**3,424,439**	
Amounts restated through opening retained earnings	**664,645**	
Opening loss allowance as at 1 January 2018 (calculated under IFRS 9) / 1 January 2017 (calculated under IAS 39)	**4,089,084**	3,004,751
Charge for the year, net	**910,499**	497,960
Bad debts written off against provision	**(939,229)**	(78,272)
Balance at the end of the year	**4,060,354**	3,424,439

The movement in the allowance for impairment charge for investments and other financial assets for the year ended 31 December is as follows:

SAR '000	Note	2018	2017
Impairment charge on due from banks, net	5	**1,949**	–
Impairment charge on off statement of financial position, net	15	**274,842**	163,153
Reversal of impairment charge on amortized cost, net	6 (d)	**(12,784)**	–
Reversal of impairment charge on FVOCI/available for sale, net	6 (d)	**(4,196)**	3,500
Reversal of impairment charge on other assets, net		**(16)**	–
Total		**259,795**	166,653

C) LOANS AND ADVANCES INCLUDE FINANCE LEASE RECEIVABLES, WHICH ARE ANALYZED AS FOLLOWS:

SAR '000	2018	2017
Gross receivable from finance leases:		
Less than 1 year	**996,178**	837,645
1 to 5 years	**3,642,383**	2,840,302
More than 5 years	**6,182,609**	7,468,441
Impairment provision	**(176,744)**	(76,474)
Unearned future finance income on finance lease	**(795,448)**	(756,228)
Net receivable from finance leases	**9,848,978**	10,313,686

8. INVESTMENT IN ASSOCIATES

SAR '000	2018	2017
Opening balance	**76,049**	113,220
Share of earnings	**2,529**	7,568
Impairment charge	**(32,500)**	–
Transferred to FVOCI	**(36,383)**	–
Transferred to held for sale and others	**-**	(44,739)
Closing balance	**9,695**	76,049

Investment in associates represents 27% shareholding in the Banque BEMO Saudi Fransi (2017: 27%).

During the year 2018, the Bank lost the control on one of it associates namely Allianz Saudi Fransi Cooperative Insurance Company. The Bank sold 18.5% of its holding in an associate having a carrying value of SAR 46.17 million against the proceeds of SAR 81.27 million. Upon disposal, the FV of the retained interest amounts to SAR 97.16 million, which was initially recognised as financial asset under FVOCI.

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8. INVESTMENT IN ASSOCIATES CONTINUED

The Bank's share of Banque Bemo Saudi Fransi financial statements:

	Banque Bemo Saudi Fransi – Syria	
SAR '000	**2018**	2017
Total assets	**709,317**	582,957
Total liabilities	**638,452**	518,694
Total equity	**70,865**	64,263
Total income	**25,728**	20,068
Total expenses	**16,190**	14,185

9. PROPERTY AND EQUIPMENT, NET

SAR '000	**Land and buildings**	**Leasehold improvements**	**Furniture, equipment and vehicles**	**Computer and Software**	**2018 Total**	2017 Total
Cost						
Balance at the beginning of the year	**722,384**	**82,691**	**529,834**	**420,845**	**1,755,754**	1,683,464
Additions during the year	**22,393**	**8,729**	**18,066**	**58,519**	**107,707**	171,537
Disposals and retirements	**–**	**(22,520)**	**(3,780)**	**(60,479)**	**(86,779)**	(99,247)
Balance at the end of the year	**744,777**	**68,900**	**544,120**	**418,885**	**1,776,682**	1,755,754
Accumulated depreciation and amortization						
Balance at the beginning of the year	**311,574**	**15,692**	**434,056**	**257,505**	**1,018,827**	966,808
Depreciation and amortization charge	**25,640**	**23,738**	**27,720**	**77,068**	**154,166**	151,123
Disposals and retirements	**(63)**	**(22,717)**	**(3,288)**	**(60,612)**	**(86,680)**	(99,104)
Balance at the end of the year	**337,151**	**16,713**	**458,488**	**273,961**	**1,086,313**	1,018,827
Net book value as at December 31, 2018	**407,626**	**52,187**	**85,632**	**144,924**	**690,369**	
Net book value as at December 31, 2017	410,810	66,999	95,778	163,340		736,927

Leasehold improvements as at December 31, 2018 include work in progress amounting to SAR 17 million (2017: SAR 10 million). Computer and software include software having a net book value of SAR 107 million (2017:SAR 117 million).

10. OTHER ASSETS

SAR '000	**2018**	2017
Accounts receivable	**717,832**	506,355
Investment in associate classified as held for sale	**–**	44,736
Others	**518,834**	610,340
Total	**1,236,666**	1,161,431

11. DERIVATIVES

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and hedging purposes:

A) SWAPS

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For currency rate swaps, fixed and floating commission payments and principal are exchanged in different currencies.

B) FORWARDS AND FUTURES

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over the counter market. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

C) FORWARD RATE AGREEMENTS

Forward rate agreements are individually negotiated commission rate contracts that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

D) OPTIONS

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers, Banks and other financial institutions in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products. The bank also holds structured derivative which are fully back to back in accordance with the bank's risk management strategy.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and the management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to an acceptable level as determined by the Board of Directors in accordance with the guidelines issued by SAMA. The Board of Directors has established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency rate swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Cash flow hedges

The Bank is exposed to variability in future special commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The Bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. Below is the schedule indicating as at 31 December, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

SAR '000	Within 1 year	1-3 years	3-5 years	Over 5 years
2018				
Cash inflows (assets)	**1,569,179**	**1,987,119**	**548,626**	**-**
Cash out flows (liabilities)	**(1,526,039)**	**(1,736,867)**	**(391,249)**	**-**
Net cash inflow/(outflow)	**43,140**	**250,252**	**157,377**	**-**
2017				
Cash inflows (assets)	1,727,325	2,378,178	1,015,121	8,988
Cash out flows (liabilities)	(1,458,764)	(2,240,539)	(869,608)	(3,002)
Net cash inflow/(outflow)	268,561	137,639	145,513	5,986

The net gain on cash flow hedges transferred to the consolidated statement of income during the year was as follows:

SAR '000	**2018**	2017
Special commission income	**1,606,692**	1,670,843
Special commission expense	**(1,535,044)**	(1,456,719)
Net gain on cash flow hedges transferred to consolidated statement of income	**71,648**	214,124

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11. DERIVATIVES CONTINUED

D) OPTIONS CONTINUED

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

				Notional amounts by term to maturity				
Derivative financial instruments SAR '000	**Positive fair value**	**Negative fair value**	**Notional amount total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
2018								
Held for trading								
Commission rate swaps	**1,087,606**	**1,033,434**	**154,889,392**	**8,242,337**	**15,646,638**	**114,112,344**	**16,888,073**	**164,841,985**
Commission rate futures and options	**241,720**	**241,720**	**55,743,725**	**–**	**8,792,435**	**41,982,040**	**4,969,250**	**64,773,996**
Forward foreign exchange contracts	**134,446**	**18,682**	**28,146,685**	**16,780,608**	**7,405,229**	**3,960,848**	**–**	**30,008,059**
Currency options	**1,577**	**1,577**	**694,355**	**274,355**	**420,000**	**–**	**–**	**1,350,143**
Others	**7,791**	**7,791**	**709,920**	**15,797**	**390,403**	**303,720**	**–**	**650,637**
Held as fair value hedges								
Commission rate swaps	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**154,000**
Held as cash flow hedges								
Commission rate swaps	**459,324**	**110,924**	**60,041,236**	**9,380,000**	**9,002,500**	**41,658,736**	**–**	**64,652,205**
Total	**1,932,464**	**1,414,128**	**300,225,313**	**34,693,097**	**41,657,205**	**202,017,688**	**21,857,323**	**326,431,025**

				Notional amounts by term to maturity				
Derivative financial instruments SAR '000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2017								
Held for trading								
Commission rate swaps	1,096,044	963,302	181,680,691	18,090,670	30,301,066	106,336,115	26,952,840	174,242,542
Commission rate futures and options	56,613	47,454	75,712,040	2,625,000	9,020,750	48,665,115	15,401,175	74,211,419
Forward rate agreements	–	–	750,000	750,000	–	–	–	1,125,000
Forward foreign exchange contracts	207,326	50,908	49,999,337	24,131,110	13,653,549	12,214,678	–	51,406,362
Currency options	6,158	6,158	2,636,084	1,250,158	725,926	660,000	–	9,579,315
Others	15,889	15,889	640,021	106,513	8,158	525,350	–	936,173
Held as fair value hedges								
Commission rate swaps	–	1,608	264,000	–	264,000	–	–	967,125
Held as cash flow hedges								
Commission rate swaps	650,793	112,156	73,058,082	3,875,000	13,393,750	55,489,332	300,000	72,907,493
Total	2,032,823	1,197,475	384,740,255	50,828,451	67,367,199	223,890,590	42,654,015	385,375,429

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value.

SAR '000 Description of hedged items	Fair value	Cost	Risk	Hedging instrument	Positive fair value	Negative fair value
2018						
Floating commission rate investments	**4,972,123**	**4,922,736**	Cash flow	Commission rate swap	**54,790**	**5,403**
Floating commission rate loans	**55,417,513**	**55,118,500**	Cash flow	Commission rate swap	**404,534**	**105,521**
Fixed commission rate loans	262,392	264,000	Fair value	Commission rate swap	–	1,608
2017						
Floating commission rate investments	5,454,226	5,380,832	Cash flow	Commission rate swap	77,038	3,644
Floating commission rate loans	68,142,493	67,677,250	Cash flow	Commission rate swap	573,755	108,512

Approximately 77% (2017: 74%) of the net positive fair values of the Bank's derivatives are entered into with financial institutions and less than 12% (2017: 11%) of the net positive fair values of the derivatives are with any single counterpart group at the reporting date. The derivative activities are mainly carried out under Bank's treasury banking segment. The Bank has posted SAR 274 million (2017: SAR 142 million) and received SAR 292 million (2017: SAR 455 million) collaterals under CSA agreements and EMIR.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

SAR '000	2018	2017
Current accounts	**251,940**	395,837
Money market deposits	**1,893,541**	2,567,436
Total	**2,145,481**	2,963,273

13. CUSTOMERS' DEPOSITS

SAR '000	2018	2017
Demand	**67,792,228**	81,474,079
Saving	**547,702**	518,928
Time	**75,682,178**	64,627,605
Other	**4,345,896**	4,333,575
Total	**148,368,004**	150,954,187

Other customers' deposits include SAR 2,748 million (2017: SAR 2,576 million) related to margins held for irrevocable commitments. Time deposits include Islamic related products of SAR 34,817 million (2017: SAR 24,405 million).

CUSTOMERS' DEPOSITS INCLUDE FOREIGN CURRENCY DEPOSITS AS FOLLOWS:

SAR '000	2018	2017
Demand	**7,422,526**	8,283,003
Saving	**15,805**	17,958
Time	**16,452,750**	14,580,592
Other	**1,573,263**	1,358,273
Total	**25,464,344**	24,239,826

Foreign currency deposits mainly include deposits in USD amounting to SAR 22,043 million (2017: SAR 21,280 million).

14. DEBT SECURITIES AND SUKUKS

The Bank issued a privately placed SAR 2,000 million unsecured subordinated sukuk in June 2014 for a period of 10 years. The sukuk carries effective special commission income at three months' SIBOR plus 140 basis point. The sukuk is settled through Tadawul depository system. However, the Bank has an option to repay the unsecured subordinated sukuk after 5 years, subject to prior approval of SAMA and terms and conditions of the agreement.

15. OTHER LIABILITIES

SAR '000	2018	2017
Accounts payable and accrued expenses	**2,109,733**	2,608,464
Zakat liability for prior years	**1,510,669**	–
Others	**1,836,972**	1,541,536
Total	**5,457,374**	4,150,000

Movement of ECL provision on off statement of financial position

	December 31, 2018			
SAR '000	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at 1 January	**73,491**	**62,171**	**167,226**	**302,888**
Transfer from 12-month ECL	**(1,076)**	**731**	**345**	**-**
Transfer from lifetime ECL not credit – impaired	**28**	**(7,137)**	**7,109**	**-**
Net charge/(reversal) for the year	**(28,267)**	**(11,708)**	**314,817**	**274,842**
Write-offs	**-**	**-**	**-**	**-**
Balance as at 31 December 2018	**44,176**	**44,057**	**489,497**	**577,730**

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16. SHARE CAPITAL
The authorised, issued and fully paid share capital of the Bank consists of 1,205 million shares of SAR 10 each (December 31, 2017: 1,205 million shares of SAR 10 each).

The ownership of the Bank's share capital is as follows:

SAR '000	2018 (%)	2017 (%)	2018	2017
Saudi shareholders	**85.1**	85.1	**10,256,251**	10,256,251
Credit Agricole Corporate and Investment Bank (CA-CIB)	**14.9**	14.9	**1,797,321**	1,797,321
Total	**100**	100	**12,053,572**	12,053,572

17. STATUTORY AND GENERAL RESERVE
In accordance with Saudi Arabian Banking Control Law and the Bank's By-Laws, a minimum of 25% of the annual net income s required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank.

An amount of SAR Nil (2017: SAR 248 million) has been transferred from the retained earnings to statutory reserve during the year. This reserve is not available for distribution.

The Bank had appropriated SAR 983 million to general reserve from retained earnings in the prior years.

18. OTHER RESERVES

SAR '000	Cash flow hedges	FVOCI/ available for sale investments	Total
2018			
Balance at beginning of the year	**(295,290)**	**10,118**	**(285,172)**
Net change in fair value	**58,420**	**(43,385)**	**15,035**
Transfer to consolidated statement of income	**(71,648)**	**23,481**	**(48,167)**
Net movement during the year	**(13,228)**	**(19,904)**	**(33,132)**
Balance at the end of the year	**(308,518)**	**(9,786)**	**(318,304)**
2017			
Balance at beginning of the year	(894,927)	31,343	(863,584)
Net change in fair value	813,761	6,459	820,220
Transfer to consolidated statement of income	(214,124)	(27,684)	(241,808)
Net movement during the year	599,637	(21,225)	578,412
Balance at the end of the year	(295,290)	10,118	(285,172)

Other reserves represent the net unrealized revaluation gains/(losses) of cash flow hedges and FVOCI/available for sale investments. These reserves are not available for distribution.

19. COMMITMENTS AND CONTINGENCIES
A) LEGAL PROCEEDINGS
As at December 31, 2018 there were 40 (2017:48) legal proceedings outstanding against the Bank. No material provision has been made as the related legal advice indicates that it is unlikely that any significant loss will arise.

B) CAPITAL COMMITMENTS
As at December 31, 2018 the Bank had capital commitments of SAR 21 million (2017: SAR 65 million) in respect of buildings and equipment purchases.

C) CREDIT RELATED COMMITMENTS AND CONTINGENCIES
The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantees and standby letters of credit, which represent irrecoverable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The contractual maturity structure for the Bank's commitments and contingencies is as follows:

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2018					
Letters of credit	**4,629,719**	**2,609,978**	**678,405**	**–**	**7,918,102**
Letters of guarantee	**10,687,448**	**21,390,018**	**8,706,463**	**505,590**	**41,289,519**
Acceptances	**1,344,643**	**459,631**	**68,553**	**–**	**1,872,827**
Irrevocable commitments to extend credit	**162,115**	**374,331**	**2,007,362**	**271,671**	**2,815,479**
Total	**16,823,925**	**24,833,958**	**11,460,783**	**777,261**	**53,895,927**
2017					
Letters of credit	4,154,493	3,433,853	672,385	–	8,260,731
Letters of guarantee	9,945,646	24,116,841	10,346,446	365,821	44,774,754
Acceptances	1,778,499	704,370	58,241	–	2,541,110
Irrevocable commitments to extend credit	34,850	1,222,442	1,306,067	195,603	2,758,962
Total	15,913,488	29,477,506	12,383,139	561,424	58,335,557

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank as at December 31, 2018 is SAR 85,038 million (2017: SAR 128,143 million).

ii) The analysis of commitments and contingencies by counterparty is as follows:

SAR '000	2018	2017
Government and quasi government	**31,354**	36,805
Corporate	**48,227,844**	52,093,022
Banks and other financial institutions	**5,544,309**	6,042,423
Other	**92,420**	163,307
Total	**53,895,927**	58,335,557

D) OPERATING LEASE COMMITMENTS

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

SAR '000	2018	2017
Less than 1 year	**24,921**	21,575
1 to 5 years	**158,246**	131,007
Over 5 years	**189,794**	203,013
Total	**372,961**	355,595

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20. SPECIAL COMMISSION INCOME AND EXPENSE

SAR '000	**2018**	2017
Special commission income		
Investments		
– FVOCI	**192,047**	–
– Available for sale	**–**	274,795
– Held to maturity	**–**	1,101
– Investments held at amortized cost	**564,485**	399,872
	756,532	675,768
Due from banks and other financial institutions	**485,961**	566,584
Loans and advances	**5,705,083**	5,362,154
Total	**6,947,576**	6,604,506
Special commission expense		
Due to banks and other financial institutions	**60,698**	33,498
Customers' deposits	**1,794,377**	1,717,472
Debt securities and sukuks	**75,629**	153,866
Total	**1,930,704**	1,904,836

21. FEES AND COMMISSION INCOME, NET

SAR '000	**2018**	2017
Fees and commission income		
– Share trading, brokerage, fund management and corporate finance	**271,347**	267,261
– Trade finance	**447,725**	395,533
– Project finance and advisory and corporate loans	**221,232**	325,377
– Card products	**275,157**	268,367
– Other banking services	**187,088**	165,625
Total fees and commission income	**1,402,549**	1,422,163
Fees and commission expense		
– Share trading and brokerage	**53,527**	52,161
– Card products	**230,518**	228,462
– Other banking services	**23,001**	22,222
Total fees and commission expense	**307,046**	302,845
Fees and commission income, net	**1,095,503**	1,119,318

22. FVTPL FINANCIAL INSTRUMENT, NET/TRADING INCOME, NET

SAR '000	**2018**	2017
Derivatives, net	**183,824**	260,879
Securities, net	**10,433**	9,958
Total	**194,257**	270,837

23. DIVIDEND INCOME

SAR '000	2018	2017
FVOCI – equities	**896**	–
Available for sale investments-equities	**–**	8,078
Total	**896**	8,078

24. GAINS ON FVOCI/NON-TRADING INVESTMENTS, NET

SAR '000	2018	2017
FVOCI – realized (loss)	**(23,481)**	–
Available for sale – realized gain	**–**	27,684
Total	**(23,481)**	27,684

25. OTHER OPERATING INCOME

SAR '000	2018	2017
Gains on disposal of property and equipment	**225**	359
Recoveries of written off loans	**66,177**	92,867
Other	**3,712**	1,263
Total	**70,114**	94,489

26. OTHER OPERATING EXPENSES

SAR '000	2018	2017
Loss on disposal of property and equipment	**3**	112
Reinstatement of customer liabilities	**6,579**	92,280
Provision on other real estate	**40,804**	–
Others	**54,669**	19,713
Total	**102,055**	112,105

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2018 and 2017 are calculated on a weighted average basis by dividing the net income for the year by 1,199 million shares after excluding treasury shares consists of 6 million shares as of 31 December 2018 (31 December 2017: 6 million shares).

28. GROSS DIVIDEND, ZAKAT AND INCOME TAX

The Board of Directors has proposed final net dividend of SAR 958 million (2017: SAR 355 million) i.e. SAR 0.80 (2017: SAR 0.35) net per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. The Board of Directors has declared interim net dividend of SAR 1,028 million (2017: SAR 1,141 million) i.e. SAR 0.90 (2017: SAR 1.05) net per share. Total gross dividend to Saudi shareholders was SAR 2,010 million (2017: SAR 1,312 million) and total dividend to foreign shareholders was SAR 352 million (2017: SAR 483 million).

GROSS DIVIDEND

SAR '000	2018	2017
Interim dividend	**1,145,674**	1,324,464
Final proposed gross dividend	**1,216,757**	470,247
Total	**2,362,431**	1,794,711

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28. GROSS DIVIDEND, ZAKAT AND INCOME TAX CONTINUED

The zakat and income tax, attributable to Saudi and foreign shareholders are as follows:

i) Zakat

Zakat attributable to the Saudi shareholders for the year amounted approximately to SAR 277 million (2017: SAR 91 million) which will be deducted from their share of dividend.

During the year the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the Zakat Liability amounting to SAR 1,510.67 million for prior years and until the end of the financial year 2017. The settlement agreement requires the Bank to settle the 20% of the agreed Zakat Liability initially and the remaining to be settled over the period of five years, accordingly the Bank has adjusted Zakat for the previous years and until the end of financial year 2017, through its Retained Earnings. As a result of the settlement agreement, the Bank has agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to Zakat.

Income tax payable in respect of foreign shareholder – CA-CIB's current year's share of income tax is approximately SAR 99 million (2017: SAR 208 million) which will be deducted from their share of dividend.

29. CASH AND CASH EQUIVALENTS

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

SAR '000	**2018**	2017
Cash and balances with SAMA excluding statutory deposit (note 4)	**12,775,498**	13,757,625
Due from banks and other financial institutions maturing within ninety days from the date of acquisition	**11,214,381**	13,958,295
Total	**23,989,879**	27,715,920

Due from banks and other financial institutions maturing after ninety days from the date of acquisition were SAR 4,727 million (2017: SAR 4,800 million).

30. EMPLOYEES COMPENSATION PRACTICES

	2018				
SAR '000 **Categories of employees**	**Number of employees**	**Fixed compensation**	**Variable compensation**	**Total compensation**	**Forms of payment**
Senior executives	**17**	**34,621**	**33,601**	**68,222**	**Cash**
Employees engaged in risk taking activities	**427**	**236,664**	**80,673**	**317,337**	**Cash**
Employees engaged in control functions	**425**	**144,989**	**28,069**	**173,058**	**Cash**
Other employees	**2,158**	**453,542**	**58,829**	**512,371**	**Cash**
Total	**3,027**	**869,816**	**201,172**	**1,070,988**	

	2017				
SAR '000 Categories of employees	Number of employees	Fixed compensation	Variable compensation	Total compensation	Forms of payment
Senior executives	19	38,970	31,115	70,085	Cash
Employees engaged in risk taking activities	385	211,859	79,546	291,405	Cash
Employees engaged in control functions	418	135,102	25,863	160,965	Cash
Other employees	2,250	454,004	51,425	505,429	Cash
Total	3,072	839,935	187,949	1,027,884	

Number of employees represents only the closing balance.

SAR '000	**2018**	2017
Total compensation	**1,070,988**	1,027,884
Other employee related costs	**293,286**	356,659
Total salaries and employee related costs	**1,364,274**	1,384,543

The above table includes deferral variable compensation of SAR 20,114 (2017: SAR 20,575)

There are certain benefits paid to employees under various schemes that are recorded under special commission and fee expenses.

SENIOR EXECUTIVES:

This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank including MD.

EMPLOYEES ENGAGED IN RISK TAKING ACTIVITIES:

This comprises managerial staff within the business lines (Corporate, Retail, Treasury and Investment banking and Brokerage), who are responsible for executing and implementing the business strategy on behalf of the Bank. This includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

EMPLOYEES ENGAGED IN CONTROL FUNCTIONS:

This refers to employees working in divisions that are not involved in risk taking activities but engaged in review functions (Risk Management, Compliance, Corporate Governance, Legal, Internal Audit, Finance and Accounting). These functions are fully independent from risk taking units.

OTHER EMPLOYEES:

This includes all other employees of the Bank, excluding those already reported under the above categories.

GOVERNANCE OF COMPENSATION

The Board of Directors of BSF, through the Nomination and Compensation Committee (NCCOM) is responsible for the overall design and oversight of the compensation and performance management system.

NCCOM: TERMS OF REFERENCE

a. Overseeing the compensation system's design and operation on behalf of the Board of Directors;

b. Preparing the Compensation Policy and placing it before the Board for approval;

c. Periodically reviewing the Compensation Policy on its own or when advised by the Board, and making recommendations to the Board for amending/updating the Policy;

d. Periodically evaluating the adequacy and effectiveness of the Compensation Policy to ensure that its stated objectives are achieved;

e. Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;

f. Making recommendations to the Board on the level and composition of remuneration of key executives of the Bank. The key executives for this purpose will include all those executives whose appointment is subject to no objection by SAMA;

g. Determination of bonus pool based on risk-adjusted profit of the Bank for payment of performance bonus;

h. Reviewing compliance of the Compensation Policy with these Rules and the FSB principles and Standards;

i. Performing any other related tasks to comply with the regulatory requirements.

j. Considering the suitability of candidates for membership of the Board in accordance with the By-Laws of the Bank and approved policies and standards;

k. Undertaking an annual review of the requirement of suitable skills and qualifications for the membership of the Board;

l. Recommending to the Board criteria for the composition of the Board and its Committees, including the number of Board members, and independence of directors;

m. Conducting an annual evaluation of the independent status of each candidate proposed for election at the General Assembly meeting and reporting the results of such evaluation to the Board;

n. Satisfying itself to the Board and its committees, as applicable, are in compliance with all regulatory requirements, including its composition;

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30. EMPLOYEES COMPENSATION PRACTICES CONTINUED

NCCOM: TERMS OF REFERENCE CONTINUED

o. Assisting the Board in reviewing the adequacy of the succession planning process and oversee its implementation;

p. Reviewing the performance and making recommendations to the Board regarding the compensation of the Senior Management of BSF;

q. Reviewing and assessing the adequacy of this Charter every three years and submitting this Charter and any amendments to the Board for approval;

r. Conducting self-evaluation to assess the Committee's contribution and effectiveness in fulfilling its mandate and present it to the Board every three years.

INCENTIVES OVERSIGHT COMMITTEE (IOC): TERMS OF REFERENCE

a) The IOC ensures that all incentive plans are properly balanced for risk and reflective of the Bank's compensation philosophy, policy, strategic objectives and incentive system as determined by the NRC and business unit goals;

b) The IOC is responsible for making recommendations to the NRC on all changes to the existing incentive plans in the bank as well as the addition or removal of any incentive plan. The Board is ultimately responsible for the approval of all incentive plans in the bank which will be based on the recommendation of the NRC;

c) The IOC is responsible for establishing the processes for incentive plan administration and payments; and

d) The IOC monitors incentive plan results against a set defined KRI's on a quarterly basis and alerts management in case of potential disconnects between performance results and planned incentive payments.

SALIENT FEATURES OF THE BSF COMPENSATION POLICY

The bank utilizes 4 key Reward Principles which are aligned to the bank's overall strategic direction. The 4 Rewards Principles underpin the design and execution of the bank's compensation policy and practices:

1st Reward Principle: Pay for Performance:

The bank's policy ensures, through fixed and variable forms of compensation, the recognition of high performance and the differentiation between varying levels of performance at the bank's different levels: individual, group/division and bank-wide, based on the seniority of the role within the bank, whilst also ensuring the independency of the control functions.

2nd Reward Principle: Flexibility:

The bank's compensation policy is flexible enough in order to facilitate an internal job market, and flexible enough in order to cater to the evolving requirements of the bank in an evolving banking industry.

3rd Reward Principle: Competitiveness:

The bank monitors market trends closely and reviews its compensation against a selected peer group of banks. This is to ensure that the bank remains able to attract, engage and retain the required talent.

4th Reward Principle: Risk Alignment:

The bank's compensation policy ensures that the correct risk mitigation measures are applied, such as: variable compensation deferral and clawback arrangements, as appropriate.

31. EMPLOYEE BENEFIT OBLIGATION

GENERAL DESCRIPTION

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation conducted by an independent actuary, taking into accounts the provision of the Saudi Arabian Labor Law. The actuarial gains/losses for the year ended 31 December 2018, are not material to the consolidated financial statements taken as a whole.

MOVEMENT IN THE OBLIGATION DURING THE YEAR BASED ON ITS PRESENT VALUE ARE AS FOLLOWS

SAR '000	2018	2017
Defined benefit obligation at the beginning of the year	**450,594**	427,113
Current service cost	**40,923**	40,643
Interest cost	**15,359**	14,973
Benefits paid	**(48,322)**	(22,576)
Unrecognized actuarial gain	**(5,801)**	(9,559)
Defined benefit obligation at the end of the year	**452,753**	450,594

SAR '000	2018	2017
Charge for the year		
Current service cost	**40,923**	40,643
Interest cost	**15,359**	14,973
Total	**56,282**	55,616

Principal actuarial assumptions (in respect of the employee benefit scheme)	2018	2017
Discount rate	**3.9% p.a**	3.6% p.a
Expected rate of salary increase	**5% p.a**	5% p.a
Normal retirement age	**58 years**	58 years

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

SENSITIVITY OF ACTUARIAL ASSUMPTIONS

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2018 and 2017 to the discount rate, salary escalation rate, withdrawal assumptions and mortality rates.

SAR '000	2018	2017
Discount rate – decrease by 0.5%	**471,828**	469,992
Future salary growth – increase by 0.5%	**471,528**	469,630
Retirement age – increase by one year	**455,749**	454,194

32. OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's Board of Directors in its function as chief decision maker in order to allocate resources to the segments and to assess its performance.

Transactions between operating segments are approved by the management as per agreed terms and are reported according to the Bank's internal transfer pricing policy. These terms are in line with normal commercial terms and conditions. The revenue from external parties report to the Board is measured in a manner consistent with that in the consolidated statement of income.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2017. The Bank's primary business is conducted in the Kingdom of Saudi Arabia.

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2018 and 2017

32. OPERATING SEGMENTS CONTINUED

A) THE BANK'S REPORTABLE SEGMENTS UNDER IFRS 8 ARE AS FOLLOWS:

Retail Banking – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, certain forex products and auto leasing.

Corporate Banking – incorporates corporate and medium establishment customers' demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

Treasury – incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

Investment banking and brokerage – Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, corporate finance and international and local shares brokerage services and insurance.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit as included in the internal management reports that are reviewed by chief decision maker. Segment profit is used to measure performance as the management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The Bank's total assets and liabilities as at December 31, 2018 and 2017, its total operating income and expenses, share in earnings/(losses) of associates and its net income attributable to equity holders of the Bank for the years then ended by operating segments, are as follows:

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
2018					
Total assets	**19,763,892**	**102,522,524**	**66,579,789**	**1,334,501**	**190,200,706**
Investment in associates	**–**	**–**	**9,695**	**–**	**9,695**
Total liabilities	**70,767,490**	**78,633,093**	**8,734,008**	**1,253,736**	**159,388,327**
Total operating income	**1,751,019**	**3,092,645**	**1,677,008**	**277,972**	**6,798,644**
Share in earnings of associates, net	**–**	**–**	**2,529**	**–**	**2,529**
Total operating expenses	**1,273,345**	**1,635,896**	**410,430**	**174,448**	**3,494,119**
Net income for the year	**477,674**	**1,456,749**	**1,269,107**	**103,524**	**3,307,054**
Results					
Net special commission income	**1,430,454**	**2,417,918**	**1,105,062**	**63,438**	**5,016,872**
Fees and commission income, net	**204,655**	**671,157**	**5,157**	**214,534**	**1,095,503**
Exchange income, net	**50,128**	**3,023**	**294,022**	**–**	**347,173**
FVTPL/Trading income, net	**–**	**–**	**194,257**	**–**	**194,257**
Inter-segment revenue	**974,364**	**224,577**	**(1,198,941)**	**–**	**–**
Impairment charges for financial assets, net	**158,108**	**1,014,449**	**30,237**	**–**	**1,202,794**
Depreciation and amortization	**90,167**	**39,869**	**19,500**	**4,630**	**154,166**
2017					
Total assets	17,791,035	107,093,458	66,836,088	1,208,300	192,928,881
Investment in associates	–	–	76,049	–	76,049
Total liabilities	71,996,172	80,341,090	7,844,173	1,086,065	161,267,500
Total operating income	1,552,810	3,000,580	1,759,041	263,776	6,576,207
Share in earnings of associates, net	–	–	7,568	–	7,568
Total operating expenses	1,303,663	1,107,058	473,696	167,474	3,051,891
Net income for the year	249,147	1,893,522	1,292,913	96,302	3,531,884
Results					
Net special commission income	1,226,589	2,272,168	1,153,686	47,227	4,699,670
Fees and commission income, net	184,158	725,513	(6,902)	216,549	1,119,318
Exchange income, net	49,240	2,812	304,079	–	356,131
Trading income, net	–	–	270,837	–	270,837
Inter-segment revenue	856,573	145,755	(1,002,328)	–	–
Impairment charges for financial assets, net	134,080	527,033	3,500	–	664,613
Depreciation and amortization	82,220	45,443	18,653	4,807	151,123

B) THE BANK'S CREDIT EXPOSURE BY OPERATING SEGMENTS IS AS FOLLOWS:

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
2018					
Statement of financial position assets	**18,577,664**	**102,252,269**	**62,776,526**	**1,267,133**	**184,873,592**
Commitments and contingencies	**239,013**	**30,185,530**	**–**	**–**	**30,424,543**
Derivatives	**–**	**–**	**5,738,081**	**–**	**5,738,081**
2017					
Statement of financial position assets	16,516,953	106,941,988	62,918,538	1,139,615	187,517,094
Commitments and contingencies	240,130	32,286,295	–	–	32,526,425
Derivatives	–	–	8,127,552	–	8,127,552

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding cash, property and equipment, positive fair value of derivative, other assets and credit equivalent value of commitments, contingencies and derivatives. The credit equivalent value of commitments, contingencies and derivatives are calculated as per SAMA guidelines.

33. CREDIT RISK

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Board Risk Committee which has the responsibility to monitor the overall risk process within the bank.

The Board Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports on a weekly basis to the Supervisory Board.

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

The Bank assesses the probability of default of counterparties using internal rating tools with an overlay of credit assessment, where necessary. Also the bank uses the external ratings, of the major rating agency, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits.

Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2018 and 2017

33. CREDIT RISK CONTINUED
The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes collateral/security when appropriate. The bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to notes 6 and 7, respectively. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 19. The information on banks maximum credit exposure by business segment is given in note 32.

Before adoption of IFRS 9, until 2017 the Bank reviews its loan portfolio to assess specific impairment on a monthly basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group.

Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A collective component of the total allowance is established for:
- groups of homogeneous loans that are not considered individually significant;
- groups of assets that are individually significant but that were not found to be individually impaired (loss incurred but not reported' or IBNR).

The collective allowance for groups of homogeneous loans is established using statistical methods such as scorecard model to determine the probability of default for non-retail obligors. In assessing the need for collective loss allowance for non-retail loans management considers factors such as credit quality as reflected by the internal rating model. The internal rating is in turn based on qualitative parameters (economic environment, market position of borrower client, quality of financial statements, management) and quantitative financial ratios (leverage, profitability, debt servicing, and liquidity).

The collective provision is the product of EAD * PD*LGD
Where EAD = Exposure at default
PD = Probability of default
LGD = Loss given default

The collective impairment model relies on the ratings sourced from the internal rating models and the associated probability of default.

GEOGRAPHICAL CONCENTRATION

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

SAR '000	Saudi Arabia	Middle East	Europe	North America	Other Countries	Total
2018 Assets						
Cash and balances with SAMA						
Cash in hand	1,004,106	-	-	-	-	1,004,106
Balances with SAMA	19,921,754	-	-	-	-	19,921,754
Due from banks and other financial institutions						
Current account	-	141,523	3,366,923	2,611,998	48,172	6,168,616
Money market placements	6,329,565	2,479,011	862,533	98,804	-	9,769,913
Investments, net						
Held as FVTPL	38,357	281,002	37,389	-	-	356,748
FVOCI	4,795,105	732,528	113,873	-	-	5,641,506
Investments held at amortised cost	22,373,726	-	-	-	-	22,373,726
Investment in associates	-	9,695	-	-	-	9,695
Positive fair value of derivatives						
Held for FVTPL	280,701	161,640	960,663	70,136	-	1,473,140
Held as cash flow hedges	62,800	47,378	336,769	12,377	-	459,324
Loans and advances, net						
Over draft and commercial loans	105,553,640	671,836	499,008	-	444,928	107,169,412
Credit cards	456,541	-	-	-	31	456,572
Consumer loans	13,005,650	-	-	-	-	13,005,650
Property and equipment, net	690,369	-	-	-	-	690,369
Other assets and other real estate	1,391,712	-	253,252	55,211	-	1,700,175
Total assets	175,904,026	4,524,613	6,430,410	2,848,526	493,131	190,200,706
2018 Liabilities						
Due to banks and other financial institutions						
Current accounts	14	102,211	105,911	35,383	8,421	251,940
Money market deposits	638,252	1,139,247	-	-	116,042	1,893,541
Customers' deposits						
Demand	67,381,526	219,833	8,280	6,225	176,364	67,792,228
Time	75,471,338	18,799	-	-	192,041	75,682,178
Saving	547,698	-	-	-	4	547,702
Other	4,341,435	4,388	73	-	-	4,345,896
Negative fair value of derivatives						
Held for trading	433,969	71,876	753,696	42,870	793	1,303,204
Held as cash flow hedges	7,447	11,977	90,473	1,027	-	110,924
Debt securities and sukuks	2,003,340	-	-	-	-	2,003,340
Other liabilities	5,127,262	23,651	89,914	216,547		5,457,374
Total	155,952,281	1,591,982	1,048,347	302,052	493,665	159,388,327
Commitments and contingencies						
Letters of credit	7,038,224	205,643	190,662	86,313	397,260	7,918,102
Letters of guarantee	36,644,343	707,796	2,653,666	252,158	1,031,556	41,289,519
Acceptances	1,803,376	6,571	-	-	62,880	1,872,827
Irrevocable commitments to extend credit	2,768,812	-	46,667	-	-	2,815,479
Total	48,254,755	920,010	2,890,995	338,471	1,491,696	53,895,927
Maximum Credit exposure (stated at credit equivalent amounts)						
Derivatives	2,289,784	531,086	2,518,285	398,926	-	5,738,081
Total	2,289,784	531,086	2,518,285	398,926	-	5,738,081
Commitments and contingencies						
Letters of credit	3,077,663	41,129	38,132	17,263	79,452	3,253,639
Letters of guarantee	21,699,287	366,801	1,330,490	138,346	568,652	24,103,576
Acceptances	1,803,376	-	6,571	-	62,881	1,872,828
Irrevocable commitments to extend credit	1,185,167	-	9,333	-	-	1,194,500
Total	27,765,493	407,930	1,384,526	155,609	710,985	30,424,543

FINANCIAL STATEMENTS

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33. CREDIT RISK CONTINUED
GEOGRAPHICAL CONCENTRATION CONTINUED

SAR '000	Saudi Arabia	Middle East	Europe	North America	Other Countries	Total
2017 Assets						
Cash and balances with SAMA						
Cash in hand	913,623	6,451	27,051	28,651	–	975,776
Balances with SAMA	21,417,461	–	–	–	–	21,417,461
Due from banks and other financial institutions						
Current account	–	248,680	325,613	668,250	16,803	1,259,346
Money market placements	9,180,343	4,924,038	2,906,945	–	487,623	17,498,949
Investments, net						
Held as FVIS	3,037	127,653	–	–	–	130,690
Available for sale	7,768,188	383,703	62,194	–	–	8,214,085
Other investments held at amortised cost	16,980,120	–	–	–	–	16,980,120
Investment in associates	33,854	42,195	–	–	–	76,049
Positive fair value of derivatives						
Held for trading	292,800	173,312	870,349	4,220	41,349	1,382,030
Held as cash flow hedges	82,339	60,270	494,227	–	13,957	650,793
Loans and advances, net						
Over draft and commercial loans	108,369,117	543,803	530,156	–	493,927	109,937,003
Credit cards	478,952	–	–	–	31	478,983
Consumer loans	11,524,408	–	–	–	–	11,524,408
Property and equipment, net	736,927	–	–	–	–	736,927
Other assets and other real estate	1,536,235	–	130,026	–	–	1,666,261
Total assets	179,317,404	6,510,105	5,346,561	701,121	1,053,690	192,928,881
2017 Liabilities						
Due to banks and other financial institutions						
Current accounts	5	261,924	107,628	23,448	2,832	395,837
Money market deposits	1,576,289	991,147	–	–	–	2,567,436
Customers' deposits						
Demand	81,236,614	120,115	12,624	3,465	101,261	81,474,079
Time	62,391,484	2,160,910	75,211	–	–	64,627,605
Saving	518,928	–	–	–	–	518,928
Other	4,325,772	4,237	1,314	–	2,252	4,333,575
Negative fair value of derivatives						
Held for trading	462,774	100,599	515,740	–	4,598	1,083,711
Held as fair value hedges	–	–	1,608	–	–	1,608
Held as cash flow hedges	9,240	13,773	88,551	–	592	112,156
Debt securities and sukuks	2,002,565	–	–	–	–	2,002,565
Other liabilities	3,709,804	35,370	220,812	141,413	42,601	4,150,000
Total	156,233,475	3,688,075	1,023,488	168,326	154,136	161,267,500
Commitments and contingencies						
Letters of credit	7,916,855	199,893	95,456	–	48,527	8,260,731
Letters of guarantee	39,100,071	770,921	3,939,683	346,816	617,263	44,774,754
Acceptances	2,432,507	6,204	25,965	–	76,434	2,541,110
Irrevocable commitments to extend credit	2,677,962	–	81,000	–	–	2,758,962
Total	52,127,395	977,018	4,142,104	346,816	742,224	58,335,557
Maximum Credit exposure (stated at credit equivalent amounts)						
Derivatives	2,694,701	685,309	3,149,059	1,257,621	340,862	8,127,552
Total	2,694,701	685,309	3,149,059	1,257,621	340,862	8,127,552
Commitments and contingencies						
Letters of credit	3,276,677	39,979	19,091	–	9,705	3,345,452
Letters of guarantee	22,748,597	412,636	2,000,234	179,938	326,915	25,668,320
Acceptances	2,432,507	6,205	25,964	–	76,434	2,541,110
Irrevocable commitments to extend credit	931,043	–	40,500	–	–	971,543
Total	29,388,824	458,820	2,085,789	179,938	413,054	32,526,425

Credit equivalent amounts reflect the amounts that result from translating the Bank's credit related commitments and contingencies and derivatives liabilities into the risk equivalent of loans using credit conversion factors prescribed by SAMA. Credit conversion factor is meant to capture the potential credit risk related to the exercise of the commitment.

b) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost, FVOCI debt investments (2018) and available for sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	December 31, 2018			
SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Due from Bank and Other financial institutions				
Investment grade	15,746,425	-	-	15,746,425
Non-investment grade	2,659	192,297	-	194,956
Unrated	-	-	-	-
Carrying amount	**15,749,084**	**192,297**	**-**	**15,941,381**

	December 31, 2018			
SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost				
Very strong quality including sovereign (A+ to B)	22,266,954	74,496	-	22,341,450
Good quality (C+ to C)	42,255,239	851,543	-	43,106,782
Satisfactory quality (C- to E +)	42,138,856	6,233,794	-	48,372,650
Special mention (E to E -)	1,054,697	6,191,243	-	7,245,940
Impaired	-	-	3,625,166	3,625,166
Carrying amount	**107,715,746**	**13,351,076**	**3,625,166**	**124,691,988**

c) The following table sets out information about the credit quality of Loans and advances to customers at amortized cost on a product basis.

	December 31, 2018			
SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost: Overdraft & Commercial loans				
Very strong quality including sovereign (A+ to B)	21,708,512	46,778	-	21,755,290
Good quality (C+ to C)	41,026,116	570,026	-	41,596,142
Satisfactory quality (C- to E +)	32,368,426	4,628,922	-	36,997,348
Special mention (E to E -)	1,025,823	6,169,427	-	7,195,250
Impaired	-	-	3,257,188	3,257,188
Carrying amount	**96,128,877**	**11,415,153**	**3,257,188**	**110,801,218**

	December 31, 2018			
SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost: Credit Cards				
Very strong quality including sovereign (A+ to B)	2,455	165	-	2,620
Good quality (C+ to C)	16,417	2,419	-	18,836
Satisfactory quality (C- to E +)	330,910	102,760	-	433,670
Special mention (E to E -)	713	940	-	1,653
Impaired	-	-	80,568	80,568
Carrying amount	**350,495**	**106,284**	**80,568**	**537,347**

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For the years ended December 31, 2018 and 2017

33. CREDIT RISK CONTINUED
GEOGRAPHICAL CONCENTRATION CONTINUED

SAR '000	December 31, 2018 12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost: Consumer Loans				
Very strong quality including sovereign (A+ to B)	555,987	27,553	-	583,540
Good quality (C+ to C)	1,212,706	279,098	-	1,491,804
Satisfactory quality (C- to E +)	9,439,520	1,502,112	-	10,941,632
Special mention (E to E -)	28,161	20,876	-	49,037
Impaired	-	-	287,410	287,410
Carrying amount	11,236,374	1,829,639	287,410	13,353,423

Very strong quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are excellent.

Good quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are good.

Satisfactory quality: Facilities require regular monitoring due to financial risk factors. Ability to repay remains at a satisfactory level.

Special mention: Facilities require close attention of management due to deterioration in the borrowers' financial condition. However, repayment is currently protected.

SAR '000	December 31, 2018 12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at amortized cost (2017: Held to maturity)				
Investment grade	20,669,304	-	-	20,669,304
Non-investment grade	-	-	-	-
Unrated	1,739,451	-	-	1,739,451
Individually impaired	-	-	187,500	187,500
Carrying amount	22,408,755	-	187,500	22,596,255

SAR '000	December 31, 2018 12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at FVOCI (2017: available for sale)				
Investment grade	1,789,095	-	-	1,789,095
Non-investment grade	-	-	-	-
Unrated	3,722,624	-	-	3,722,624
Carrying amount	5,511,719	-	-	5,511,719

SAR '000	December 31, 2018 12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Commitments and contingencies				
Very strong quality including sovereign (A+ to B)	9,082,542	5,897	-	9,088,439
Good quality (C+ to C)	5,947,901	175,173	-	6,123,074
Satisfactory quality (C- to E +)	11,660,345	441,925	-	12,102,270
Special mention (E to E -)	-	977,408	-	977,408
Impaired	-	-	1,668,067	1,668,067
Carrying amount	26,690,788	1,600,403	1,668,067	29,959,258

The following table sets out the credit analysis for trading financial assets measured at FVTPL.

SAR '000	2018
Investment securities	
Investment grade	**339,573**
Non-investment grade	**–**
Unrated	**17,175**
Total carrying amount	**356,748**

d) Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- Defining an absolute threshold rating for stage 2 assets
- Days past due count
- Slippage in rating notches
- Change in PD % since origination for Retail assets.

CREDIT RISK GRADES

The Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the Lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The bank records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

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

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

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For the years ended December 31, 2018 and 2017

33. CREDIT RISK CONTINUED

CREDIT RISK GRADES CONTINUED

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes • Data from credit reference agencies, press articles, changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data and customer behavior – e.g. utilization of credit card facilities • Affordability metrics • External data from credit reference agencies including industry-standard credit scores	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilization of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

i) Generating the term structure of PD

Credit Risk grades mapped to probabilities, Credit transition probabilities and Macroeconomic inputs determine the term structure of Probability of Default. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information derived from external credit reference agencies is also used.

The Bank employs analytical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. Forward looking predictions of key macro-economic indicators e.g. GDP growth, inflation, unemployment or CDS spreads are translated analytically into the impact on Risk Factors, especially PD.

Based on advice from the Bank Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

ii) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

This is assessed by defining an absolute threshold rating for stage 2 assets,days past due count, slippage in rating notches, change in PD % since origination for Retail assets and qualitative measures specific to each exposure class, which is enshrined in the Board approved Staging Policy.

Using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

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

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

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

iii) Modified financial assets

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

The Bank computes the gross carrying amounts using Cash-flows for both the pre-modified Terms and post-modification terms with original Interest Rate as EIR. If the difference in the gross carrying amounts is more than the set Threshold, the asset will be de-recognised and will be re-recognised as POCI (assuming that the modification is being undertaken in connection with forbearance or a defaulted exposure).

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

The revised terms usually include extending the maturity, changing the timing of special commission income payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect special commission income and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL in case of assets with significant increase in credit risk.

iv) Definition of 'Default'

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

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

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

v) Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly by its view on the future evolving macroeconomic environment. Based on advice from the Bank Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

Notes to the Consolidated Financial Statements continued
For the years ended December 31, 2018 and 2017

33. CREDIT RISK CONTINUED
CREDIT RISK GRADES CONTINUED
The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2018 included the following ranges of key indicators:
- Investment as percent of GDP
- National Savings as percent of GDP
- Inflation
- Gross Government debt
- Credit default spreads etc.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

vi) Measurement of ECL
The key inputs into the measurement of ECL are the term structure of the following variables:
I. probability of default (PD);
II. loss given default (LGD);
III. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models, regulatory inputs (e.g. in case of LGD) and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on analytical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These analytical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties.

If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates for Retail personal finance exposures.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective commission rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts or Regulatory guidelines.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options for indeterminate maturity products) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits. Cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms. The portfolios for which external benchmark information represents a significant input into measurement of ECL is Non Retail portfolio where the Bank has used LGD estimates as per BASEL guidelines.

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The Banking is subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2018 included the following ranges of key indicators.

Economic Indicators	2018
Gross National Savings % of GDP	**Upside 24.7** **Base case 33.4** **Downside 42.3**
Current Account Balance % of GDP	**Upside 16.7** **Base case 5.4** **Downside -5.9**
Inflation – Avg Consumer Price % change	**Upside 1.8** **Base case 3.7** **Downside 5.6**
Volume of Import of Goods & Services % change	**Upside -8.6** **Base case 2.3** **Downside 13.2**
Total Investment % of GDP	**Upside 32.7** **Base case 28** **Downside 23.4**
General Government Gross Debt – National currency Billions	**Upside 367.3** **Base case 560.3** **Downside 753.3**
General Government Net Lending / Borrowing – National currency Billions	**Upside -481.1** **Base case -205.2** **Downside -686.3**

Notes to the Consolidated Financial Statements continued

For the years ended December 31, 2018 and 2017

33. CREDIT RISK CONTINUED

CREDIT RISK GRADES CONTINUED

The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by Bank

SAR '000	Due from bank and other financial institutions	Debt instrument at AC	Debt instrument at FVOCI	Loans and advances	Off statement of financial position	Total
2018						
Most likely (Base case)	**2,852**	**222,529**	**5,346**	**4,000,889**	**577,605**	**4,809,221**
More optimistic (Upside)	**2,852**	**222,529**	**5,346**	**3,968,218**	**577,076**	**4,776,021**
More pessimistic (Downside)	**2,852**	**222,529**	**5,346**	**4,058,167**	**578,551**	**4,867,445**
Closing provision	**2,852**	**222,529**	**5,346**	**4,060,354**	**577,730**	**4,868,811**

Ageing of loans and advances (past due but not impaired)

SAR '000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
2018				
From 1 day to 30 days	**309,816**	**43,656**	**1,098,981**	**1,452,453**
From 31 days to 90 days	**294,247**	**17,147**	**423,323**	**734,717**
From 91 days to 180 days	**28,848**	**–**	**–**	**28,848**
More than 180 days	**176,360**	**–**	**–**	**176,360**
Total	**809,271**	**60,803**	**1,522,304**	**2,392,378**

SAR '000	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
2017				
From 1 day to 30 days	321,645	51,801	663,625	1,037,071
From 31 days to 90 days	411,344	20,066	174,797	606,207
From 91 days to 180 days	50,096	–	–	50,096
More than 180 days	2,960	–	–	2,960
Total	786,045	71,867	838,422	1,696,334

e) Economic sector risk concentrations for the loans and advances and allowance for impairment losses are as follows:

SAR '000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
2018				
Government and quasi Government	**4,831,553**	**–**	**–**	**4,831,553**
Banks and other financial institutions	**2,803,820**	**3,379**	**(19,160)**	**2,788,039**
Agriculture and fishing	**2,300,281**	**72,055**	**(94,884)**	**2,277,452**
Manufacturing	**20,350,388**	**685,035**	**(661,679)**	**20,373,744**
Mining and quarrying	**2,398,659**	**–**	**(44,713)**	**2,353,946**
Electricity, water, gas and health services	**7,362,128**	**21,684**	**(48,082)**	**7,335,730**
Building and construction	**8,950,847**	**1,290,298**	**(1,159,459)**	**9,081,686**
Commerce	**26,621,705**	**752,682**	**(1,150,270)**	**26,224,117**
Transportation and communication	**6,103,442**	**16,332**	**(50,234)**	**6,069,540**
Services	**13,431,898**	**151,784**	**(282,968)**	**13,300,714**
Consumer loans and credit cards	**13,522,792**	**367,978**	**(428,548)**	**13,462,222**
Others	**12,389,309**	**263,939**	**(120,357)**	**12,532,891**
Total	**121,066,822**	**3,625,166**	**(4,060,354)**	**120,631,634**
2017				
Government and quasi Government	4,668,498	–	–	4,668,498
Banks and other financial institutions	3,865,112	3,389	(27,566)	3,840,935
Agriculture and fishing	1,791,433	21,594	(15,609)	1,797,418
Manufacturing	20,483,027	520,974	(465,177)	20,538,824
Mining and quarrying	2,809,250	–	(20,325)	2,788,925
Electricity, water, gas and health services	9,874,352	21,684	(20,608)	9,875,428
Building and construction	11,467,925	931,899	(1,187,947)	11,211,877
Commerce	26,924,177	791,543	(759,965)	26,955,755
Transportation and communication	4,429,200	18,198	(74,459)	4,372,939
Services	12,542,862	360,894	(360,108)	12,543,648
Consumer loans and credit cards	12,115,717	223,428	(335,754)	12,003,391
Others	10,971,239	528,438	(156,921)	11,342,756
Total	121,942,792	3,422,041	(3,424,439)	121,940,394

Loans and advances include Islamic related products of SAR 73,159 million (2017: SAR 70,574 million).

f) Collateral

The banks in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time and demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

The amount of collateral held as security for loans that are credit-impaired as at 31 December 2018 are as follows:

SAR '000	2018
Less than 50%	**3,020,322**
51-70%	**49,573**
More than 70%	**555,271**
Total	**3,625,166**

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34. MARKET RISK
Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as Interest rates, Foreign Exchange rates and Equity prices. The Bank classifies Market Risk exposures into either Trading or non-trading or Banking Book.

Market Risk within Trading & Banking Book is managed and monitored using various indicators such as Value at Risk, Stress Testing and Sensitivities analysis.

A) MARKET RISK – TRADING BOOK
The Board has set limits for the acceptable level of risks in managing the Trading Book. In order to manage the Market Risk in Trading Book, the Bank applies on a daily basis a VAR methodology in order to assess the Market Risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VAR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days. A specific process of VAR back testing is in this regard performed on a daily basis.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VAR limitations mentioned above, the Bank also carries out Stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under Stress test conditions are reported regularly to the Bank's ALM and Market Risk committees for their review.

The Bank's VaR related information for the year ended December 31, 2018 and 2017 are follows:

SAR '000	Foreign exchange rate	Special commission rate risk	Overall Trading
2018			
VaR as at December 31, 2018	**29**	**2,720**	**2,703**
Average VaR for 2018	**96**	**2,961**	**2,963**
Maximum VaR for 2018	**419**	**5,324**	**5,274**
Minimum VaR for 2018	**9**	**1,454**	**1,450**
2017			
VaR as at December 31, 2017	174	5,345	5,291
Average VaR for 2017	108	4,357	4,355
Maximum VaR for 2017	583	6,878	6,907
Minimum VaR for 2017	9	1,903	1,907

Overall Trading VaR incorporates compensation effect of positions coming from realized P&L in foreign currencies.

B) MARKET RISK NON-TRADING BOOK
Market risk on non-trading book mainly arises from the special commission rate, foreign currency exposures and equity price changes.

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

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the special commission income is the effect of the assumed changes in special commission rates with a lowest level at 0%, on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2018, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate FVOCI/available for sale financial assets, including the effect of any associated hedges as at December 31, 2018 for the effect of assumed changes in special commission rate. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

2018

			Sensitivity of Equity				
SAR '000 Currency	**BPS change**	**Sensitivity of special commission income**	**6 months or less**	**Over 6 months to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Total**
USD	**+100**	**(67,179)**	**(232)**	**(347)**	**(5,835)**	**(32)**	**(6,446)**
	-100	**67,175**	**232**	**347**	**5,835**	**32**	**6,446**
SAR	**+100**	**135,951**	**(9,084)**	**(5,190)**	**(234,155)**	**(206)**	**(248,635)**
	-100	**(136,045)**	**9,084**	**5,190**	**234,155**	**206**	**248,635**

2017

			Sensitivity of Equity				
SAR '000 Currency	BPS change	Sensitivity of special commission income	6 months or less	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
USD	+100	17,732	(183)	(381)	(5,851)	–	(6,415)
	-100	(19,636)	183	381	5,851	–	6,415
SAR	+100	41,252	(9,628)	(7,158)	(193,899)	(30,822)	(241,507)
	-100	(42,242)	9,628	7,158	193,899	30,822	241,507

Special commission rate sensitivity of assets, liabilities and derivatives

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Board sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored daily by the Bank's Treasury.

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

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

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For the years ended December 31, 2018 and 2017

34. MARKET RISK CONTINUED

B) MARKET RISK NON-TRADING BOOK CONTINUED

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
2018 Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	1,004,106	1,004,106
Balances with SAMA	11,755,000	–	–	–	8,166,754	19,921,754
Due from banks and other financial institutions						
Current account	–	–	–	–	6,168,616	6,168,616
Money market placements	8,520,036	1,249,877	–	–	–	9,769,913
Investments, net						
Held as FVTPL	76,498	194,115	67,532	18,603	–	356,748
Held as FVOCI	910,016	3,266,074	743,363	586,920	135,133	5,641,506
Held at amortised cost	3,586,879	1,584,965	17,201,882	–	–	22,373,726
Investment in associates	–	–	–	–	9,695	9,695
Positive fair value of derivatives						
Held for trading	–	–	–	–	1,473,140	1,473,140
Held as cash flow hedges	–	–	–	–	459,324	459,324
Loans and advances, net						
Credit cards	436,261	–	–	–	20,311	456,572
Consumer loans	89	412,401	8,616,525	3,937,346	39,289	13,005,650
Over draft and commercial loans	58,031,637	28,193,458	15,121,118	4,650,818	1,172,381	107,169,412
Property and equipment, net	–	–	–	–	690,369	690,369
Other assets and real estate	–	–	–	–	1,700,175	1,700,175
Total assets	83,316,416	34,900,890	41,750,420	9,193,687	21,039,293	190,200,706

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
2018						
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	251,940	251,940
Money market deposits	1,362,541	531,000	–	–	–	1,893,541
Customers' deposits						
Demand	1,953,272	–	–	–	65,838,956	67,792,228
Saving	–	–	8,137	–	539,565	547,702
Time	44,801,383	24,424,463	6,310,453	–	145,879	75,682,178
Other	–	–	–	–	4,345,896	4,345,896
Debt securities and sukuks	2,003,340	–	–	–	–	2,003,340
Negative fair value of derivatives						
Held for trading	–	–	–	–	1,303,204	1,303,204
Held as cash flow hedges	–	–	–	–	110,924	110,924
Other liabilities	–	–	–	–	5,457,374	5,457,374
Shareholders' equity	–	–	–	–	30,812,379	30,812,379
Total liabilities and shareholders' equity	50,120,536	24,955,463	6,318,590	–	108,806,117	190,200,706
commission rate sensitivity – On statement of financial position	33,195,880	9,945,427	35,431,830	9,193,687	(87,766,824)	–
commission rate sensitivity – Off statement of financial position	(40,198,066)	1,614,153	39,171,272	(587,359)	–	–
Total commission rate sensitivity gap	(7,002,186)	11,559,580	74,603,102	8,606,328	(87,766,824)	–
Cumulative commission rate sensitivity gap	(7,002,186)	4,557,394	79,160,496	87,766,824	–	–

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
2017 **Assets**						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	975,776	975,776
Balances with SAMA	12,773,000	–	–	–	8,644,461	21,417,461
Due from banks and other financial institutions						
Current account	–	–	–	–	1,259,346	1,259,346
Money market placements	16,698,949	800,000	–	–	–	17,498,949
Investments, net						
Held as FVIS	62,980	60,150	7,560	–	–	130,690
Available for sale	1,121,049	3,856,024	3,129,838	59,694	47,480	8,214,085
Held to maturity	–	–	–	–	–	–
Other investments held at amortised cost	3,560,619	–	11,331,751	2,087,750	–	16,980,120
Investment in associates	–	–	–	–	76,049	76,049
Positive fair value of derivatives						
Held for trading	–	–	–	–	1,382,030	1,382,030
Held as cash flow hedges	–	–	–	–	650,793	650,793
Loans and advances, net						
Credit cards	455,716	–	–	–	23,267	478,983
Consumer loans	131,960	513,855	8,473,312	2,331,839	73,442	11,524,408
Over draft and commercial loans	58,272,950	21,391,527	13,626,503	15,327,189	1,318,834	109,937,003
Property and equipment, net	–	–	–	–	736,927	736,927
Other assets and real estate	–	–	–	–	1,666,261	1,666,261
Total assets	93,077,223	26,621,556	36,568,964	19,806,472	16,854,666	192,928,881

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
2017						
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	395,837	395,837
Money market deposits	2,567,436	–	–	–	–	2,567,436
Customers' deposits						
Demand	8,262,185	–	–	–	73,211,894	81,474,079
Saving	–	–	–	–	518,928	518,928
Time	42,987,039	21,235,202	252,800	–	152,564	64,627,605
Other					4,333,575	4,333,575
Debt securities and sukuks	2,002,565	–	–	–	–	2,002,565
Negative fair value of derivatives						
Held for trading	–	–	–	–	1,083,711	1,083,711
Held as fair value hedges	–	–	–	–	1,608	1,608
Held as cash flow hedges	–	–	–	–	112,156	112,156
Other liabilities	–	–	–	–	4,150,000	4,150,000
Shareholders' equity	–	–	–	–	31,661,381	31,661,381
Total liabilities and shareholders' equity	55,819,225	21,235,202	252,800	–	115,621,654	192,928,881
commission rate sensitivity						
– On statement of financial position	37,257,998	5,386,354	36,316,164	19,806,472	(98,766,988)	
commission rate sensitivity						
– Off statement of financial position	(58,790,489)	7,512,250	50,900,397	377,842	–	
Total commission rate sensitivity gap	(21,532,491)	12,898,604	87,216,561	20,184,314	(98,766,988)	
Cumulative commission rate sensitivity gap	(21,532,491)	(8,633,887)	78,582,674	98,766,988	–	

Net gap between derivative financial instruments represents the net notional amounts of these financial instruments, which are used to manage the special commission rate risk.

The effective special commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

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34. MARKET RISK CONTINUED
B) MARKET RISK NON-TRADING BOOK CONTINUED
ii) Currency Risk
Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2018 and 2017 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of commission rate swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in the consolidated statement of income or equity.

	2018			2017		
SAR '000 Currency Exposures	**Change in Currency Rate in %**	**Effect on Net Income**	**Effect on Equity**	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
USD	**+5**	**1,450**	**(213)**	+5	(1,622)	344
EUR	**-3**	**(368)**	**–**	-3	(7)	–

There is no material impact on equity and net income due to change in other foreign currencies.

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

SAR '000	**2018 Long**	2017 Long/(short)
US Dollar	**299,152**	94,434
Euro	**12,262**	245
Pound Sterling	**1,265**	(2,160)
Other	**13,304**	(7,398)
Total	**325,983**	85,121

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

The effect on the Bank's equity investments held as FVOCI due to reasonable possible change in equity indices, with all other variables held constant is as follows:

	2018		2017	
SAR '000 Market Indices	**Change in equity Price %**	**Effect on market value**	Change in equity Price %	Effect on market value
Tadawul	**+5**	**4,207**	–	–
Tadawul	**-5**	**(4,207)**	–	–

There is no material impact on market value due to change in prices of listed international securities.

35. LIQUIDITY RISK
Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents, and readily marketable securities.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total customers' demand deposits, and 4% of due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), saving deposits, time deposits, margins of letters of credit and guarantee, excluding all type of repo deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities up to 75% of the nominal value of securities.

A) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarizes the maturity profile of the Bank's assets and liabilities. The expected maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained. For presentation purposes all demand, saving and other deposit balances have been shown in no fixed maturity.

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2018						
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	1,004,106	1,004,106
Balances with SAMA	11,755,000	–	–	–	8,166,754	19,921,754
Due from banks and other financial institutions						
Current account	–	–	–	–	6,168,616	6,168,616
Money market placements	8,520,036	1,249,877	–	–	–	9,769,913
Investments, net						
Held as FVTPL	59,415	206,156	72,574	18,603	–	356,748
Held as FVOCI	41,661	436,622	1,720,940	3,307,150	135,133	5,641,506
Held at amortised cost	1,215,808	1,206,323	17,181,637	2,769,958	–	22,373,726
Investment in associates	–	–	–	–	9,695	9,695
Positive fair value of derivatives						
Held for trading	–	–	–	–	1,473,140	1,473,140
Held as cash flow hedges	–	–	–	–	459,324	459,324
Loans and advances, net						
Credit cards	–	–	–	–	456,572	456,572
Consumer loans	89	412,401	8,616,525	3,937,346	39,289	13,005,650
Over draft and commercial loans	45,841,172	15,613,612	24,301,282	15,900,312	5,513,034	107,169,412
Property and equipment, net	–	–	–	–	690,369	690,369
Other assets and real estate	–	–	–	–	1,700,175	1,700,175
Total assets	**67,433,181**	**19,124,991**	**51,892,958**	**25,933,369**	**25,816,207**	**190,200,706**

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2018						
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	251,940	251,940
Money market deposits	1,362,541	531,000	–	–	–	1,893,541
Customers' deposits						
Demand	–	–	–	–	67,792,228	67,792,228
Saving	–	–	8,137	–	539,565	547,702
Time	43,479,102	20,089,283	11,967,914	–	145,879	75,682,178
Other	–	–	–	–	4,345,896	4,345,896
Negative fair value of derivatives						
Held for trading	–	–	–	–	1,303,204	1,303,204
Held as cash flow hedges	–	–	–	–	110,924	110,924
Debt securities and sukuks	3,340	–	–	2,000,000	–	2,003,340
Other liabilities	–	–	–	–	5,457,374	5,457,374
Shareholders' equity	–	–	–	–	30,812,379	30,812,379
Total liabilities and shareholders' equity	**44,844,983**	**20,620,283**	**11,976,051**	**2,000,000**	**110,759,389**	**190,200,706**

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35. LIQUIDITY RISK CONTINUED

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2017						
Assets						
Cash and balances with SAMA						
Cash in hand	–	–	–	–	975,776	975,776
Balances with SAMA	12,773,000	–	–	–	8,644,461	21,417,461
Due from banks and other financial institutions						
Current account	–	–	–	–	1,259,346	1,259,346
Money market placements	16,698,949	800,000	–	–	–	17,498,949
Investments, net						
Held as FVIS	44,822	60,150	25,718	–	–	130,690
Available for sale	267,945	588,364	4,596,708	2,713,588	47,480	8,214,085
Held to maturity	–	–	–	–	–	–
Other investments held at amortised cost	90,617	–	11,731,753	5,157,750	–	16,980,120
Investment in associates	–	–	–	–	76,049	76,049
Positive fair value of derivatives						
Held for trading	–	–	–	–	1,382,030	1,382,030
Held as cash flow hedges	–	–	–	–	650,793	650,793
Loans and advances, net						
Credit cards	455,716	–	–	–	23,267	478,983
Consumer loans	131,960	513,855	8,473,312	2,331,839	73,442	11,524,408
Over draft and commercial loans	39,917,438	16,377,743	27,498,460	24,082,894	2,060,468	109,937,003
Property and equipment, net	–	–	–	–	736,927	736,927
Other assets	–	–	–	–	1,666,261	1,666,261
Total assets	70,380,447	18,340,112	52,325,951	34,286,071	17,596,300	192,928,881

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2017						
Liabilities and shareholders' equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	395,837	395,837
Money market deposits	2,567,436	–	–	–	–	2,567,436
Customers' deposits						
Demand	–	–	–	–	81,474,079	81,474,079
Saving	–	–	–	–	518,928	518,928
Time	41,049,485	13,223,460	6,702,096	3,500,000	152,564	64,627,605
Other	–	–	–	–	4,333,575	4,333,575
Negative fair value of derivatives						
Held for trading	–	–	–	–	1,083,711	1,083,711
Held as fair value hedges	–	–	–	–	1,608	1,608
Held as cash flow hedges	–	–	–	–	112,156	112,156
Debt securities and sukuks	2,565	–	–	2,000,000	–	2,002,565
Other liabilities	–	–	–	–	4,150,000	4,150,000
Shareholders' equity	–	–	–	–	31,661,381	31,661,381
Total liabilities and shareholders' equity	43,619,486	13,223,460	6,702,096	5,500,000	123,883,839	192,928,881

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The cumulative maturities of commitments & contingencies are given in note 19(i) of the financial statements.

B) ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING UNDISCOUNTED CONTRACTUAL MATURITIES

The table below summarizes the maturity profile of the Bank's financial liabilities as at December 31, 2018 and 2017 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2018						
Due to banks and other financial institutions						
Current accounts	**–**	**–**	**–**	**–**	**251,940**	**251,940**
Money market deposits	**1,362,131**	**546,063**	**–**	**–**	**–**	**1,908,194**
Customers' deposits						
Demand	**–**	**–**	**–**	**–**	**67,792,228**	**67,792,228**
Saving	**–**	**–**	**8,137**	**–**	**539,565**	**547,702**
Time	**43,189,003**	**20,359,361**	**12,500,057**	**–**	**145,879**	**76,194,300**
Other	**–**	**–**	**–**	**–**	**4,345,896**	**4,345,896**
Debt securities and Sukuks	**21,468**	**–**	**–**	**2,000,000**	**–**	**2,021,468**
Total	**44,572,602**	**20,905,424**	**12,508,194**	**2,000,000**	**73,075,508**	**153,061,728**
2017						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	395,837	395,837
Money market deposits	2,573,084	–	–	–	–	2,573,084
Customers' deposits						
Demand	–	–	–	–	81,474,079	81,474,079
Saving	–	–	–	–	518,928	518,928
Time	41,237,829	13,509,280	6,770,432	3,534,844	152,564	65,204,949
Other	–	–	–	–	4,333,575	4,333,575
Debt securities and Sukuks	18,513	–	–	2,000,000	–	2,018,513
Total	43,829,426	13,509,280	6,770,432	5,534,844	86,874,983	156,518,965

36. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

VALUATION MODELS

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments.

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36. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

VALUATION MODELS CONTINUED

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values aims also to reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

VALUATION FRAMEWORK

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Market Risk Department, which is independent of Front Office management and reports to the Chief Risk Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving Risk Division;
- back-testing of models against observed market transactions and analysis and investigation of significant daily valuation movements.

When third party information, such as broker quotes or pricing services, is used to measure fair value, Market Risk Department assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

Any significant valuation issue is reported at a regular frequency (in addition to whenever deemed necessary) to the Bank Market Risk Committee in order to take appropriate actions accordingly.

DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

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.

SAR '000	Level 1	Level 2	Level 3	Total
2018				
Financial assets				
Derivative financial instruments	**–**	**1,932,464**	**–**	**1,932,464**
Financial investments designated at FVTPL				
–Fixed rate securities	**336,521**	**–**	**–**	**336,521**
–Floating rate securities	**–**	**20,227**	**–**	**20,227**
Total	**336,521**	**20,227**	**–**	**356,748**
Financial investments at FVOCI				
–Fixed rate securities	**1,384,171**	**75,455**	**–**	**1,459,626**
–Floating rate securities	**–**	**4,046,747**	**–**	**4,046,747**
–Equity	**84,140**	**37,729**	**6,303**	**128,172**
–Others		**6,280**	**681**	**6,961**
Total	**1,468,311**	**4,166,211**	**6,984**	**5,641,506**
Total	**1,804,832**	**6,118,902**	**6,984**	**7,930,718**
Financial Liabilities				
Derivative financial instruments negative fair value	**–**	**1,414,128**	**–**	**1,414,128**
Total	**–**	**1,414,128**	**–**	**1,414,128**
2017				
Financial assets				
Derivative financial instruments	–	2,032,823	–	2,032,823
Financial investments designated at FVIS (trading)				
–Fixed rate securities	112,434	–	–	112,434
–Floating rate securities	15,220	3,036	–	18,256
Total	127,654	3,036	–	130,690
Financial investments available for sale				
–Fixed rate securities	1,037,217	–	–	1,037,217
–Floating rate securities	–	4,594,604	–	4,594,604
–Equity	–	–	40,425	40,425
–Others	–	7,056	2,534,783	2,541,839
Total	1,037,217	4,601,660	2,575,208	8,214,085
Total	1,164,871	6,637,519	2,575,208	10,377,598
Financial Liabilities				
Derivative financial instruments negative fair value	–	1,197,475	–	1,197,475
Total	–	1,197,475	–	1,197,475

During the year there have been no transfers in between level 1, level 2 and level 3.

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy:

FINANCIAL INVESTMENTS CLASSIFIED AS FVOCI/AVAILABLE FOR SALE (AFS)

SAR '000	2018	2017
Balance at the beginning of the year	**2,575,208**	3,182,119
Reclassified to amortized cost	**(2,534,783)**	–
Transfer out of level 3	**(33,243)**	–
Disposal during the year	**(161)**	–
Issues and purchase	**–**	953,786
Settlements and sale	**–**	(1,566,951)
Change in the value	**(37)**	6,254
Balance at the end of the year	**6,984**	2,575,208

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36. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

FINANCIAL INVESTMENTS CLASSIFIED AS FVOCI/AVAILABLE FOR SALE (AFS) CONTINUED

The fair values of on-statement of financial position financial instruments, except for loans and advances, financial instruments held at amortized cost are not significantly different from the carrying values included in the consolidated financial statements. The fair values of commission bearing customers' deposits, debt securities, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of due from and due to banks. . An active market for these instruments is not available and the Bank intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

The estimated fair values of the investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

Derivative products valued using a valuation technique with market observable inputs are mainly commission rate swaps and options, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates and commission rate curves. Other investments in level 2 are valued based on market observable date including broker rates etc.

The fair values of investments held at amortized cost are SAR 22,085 million (December 31, 2017: 16,786 million against carrying value of SAR 22,374 million (December 31, 2017: 16,980 million).

The Bank uses the discounted cash flow method using current yield curve to arrive at the fair value of loans and advances (level 3 instruments) after adjusting internal credit spread which is SAR 122,432 million (December 31, 2017: SAR 123,602 million). The carrying values of those loans and advances are SAR 120,632 million (December 31, 2017: SAR 121,940 million).

37. RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are carried out on an arm's length basis. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA. The balances as at December 31, 2018 and 2017 resulting from such transactions included in the consolidated financial statements are as follows:

SAR '000	2018	2017
CA-CIB Group		
Due from banks and other financial institutions and other assets	**1,421,019**	185,060
Due to banks and other financial institutions and other liabilities	**22,883**	91,647
Derivatives at fair value, net	**84,695**	88,933
Commitments and contingencies	**1,167,302**	1,416,998
Associates		
Investments	**9,695**	76,049
Due to banks and other financial institutions	**7,983**	7,993
Customers' deposits	**-**	142,501
Commitments and contingencies	**-**	1,600
Directors, auditors, senior management ,other major shareholders' and their affiliates		
Loans and advances	**7,347,118**	7,184,902
Customers' deposits	**10,715,976**	9,810,397
Derivatives at fair value, net	**(4,566)**	12,308
Commitments and contingencies	**1,241,482**	1,418,750
Bank's mutual funds		
Derivatives at fair value, net	**-**	683
Customers' deposits	**5,741,676**	4,672,706

Other major shareholders represent shareholdings excluding the foreign shareholder of more than 5% of the Bank's share capital. Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

SAR '000	2018	2017
Special commission income		
– CA-CIB group	**7,678**	9,785
– Directors, auditors, senior management, other major shareholders' and their affiliates	**289,978**	279,584
– Bank's mutual funds	**12**	–
Total Special commission income	**297,668**	289,369
Special commission expense		
– CA-CIB group	**1,695**	403
– Directors, auditors, senior management, other major shareholders' and their affiliates	**277,060**	213,111
– Associates	**100**	390
– Bank's mutual funds	**5,403**	1,815
Total Special commission expense	**284,258**	215,719
Fees, commission income and others, net	**42,152**	62,178
Directors' fees	**5,174**	4,449
Other general and administrative expenses	**664**	996

The total amount of salaries and employee related benefits to senior management personnel are as follows.

SAR '000	2018	2017
Short term benefit	**58,376**	60,205
Long term benefit (deferral bonus)	**9,846**	9,880
Long term incentive plan	**14,893**	10,925
Termination benefit	**7,845**	14,427
Total	**90,960**	95,437

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

38. TREASURY SHARES

The Bank initiated a plan to acquire treasury shares as authorised by the Board under its Long Term Incentive (LTI) plan which will grant the appreciation award of the Bank share performance to eligible employees as per LTI plan. The eligible employees will benefit from the appreciation in value of the Bank shares over the vesting period. The LTI plan has been commenced on grant date.

The Bank settles the appreciation value of the share performance in equity. The significant features of this plan are as follows:

Nature of Plan	Long Term Incentive Plan	Long Term Incentive Plan
Number of outstanding plan	1	1
Grant date	02 July 2017	15 May 2018
Maturity date	01 January 2019	01 January 2021
Grant price – SAR	23.096	23.096
Vesting period	1.5 years	2.6 years
Vesting conditions	Employees remain in service and meets required service criteria	Employees remain in service and meets required service criteria
Method of settlement	Appreciation in equity	Appreciation in equity
Valuation model	Black-Sholes	Black-Sholes
Fair value per share on grant date – SAR	31.836	33.906

The share performance will be granted under a service condition along with market condition associated with them. The total amount of expense recognized in these consolidated financial statements in respect of the above share appreciation equity based payment plans for the year is SAR 14.9 million (2017: SAR 10.9 million). Value of the shares as of 31 Dec 2018 SAR 188 million (at the grant date SAR 193 millions).

Number of shares granted for appreciation calculation on the grant date	6,000,000
Forfeited Shares	(1,870,000)
Number of shares allocated for appreciation calculation	4,130,000

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39. CAPITAL ADEQUACY
The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset (RWA) at or above the agreed minimum of 8%.

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III – which are effective from January 1, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated group basis, calculated under the Basel III framework.

The RWAs, total capital and related ratios as at December 31, 2018 and 2017 are calculated using the framework and the methodologies defined under the Basel III framework.

SAR '000	**2018**	2017
Credit Risk RWA	**165,236,811**	167,323,175
Operational Risk RWA	**12,481,250**	12,222,300
Market Risk RWA	**1,863,538**	2,542,165
Total RWA	**179,581,599**	182,087,640
Tier I Capital	**31,811,197**	31,897,613
Tier II Capital	**3,685,383**	3,417,941
Total Tier I & II Capital	**35,496,580**	35,315,554
Capital Adequacy Ratio %		
Tier I ratio	**17.71%**	17.52%
Tier I + Tier II ratio	**19.77%**	19.39%

40. INVESTMENT MANAGEMENT, BROKERAGE AND CORPORATE FINANCE SERVICES
The Bank offers investment services to its customers through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors as well as brokerage services. Income from the subsidiaries is included in the consolidated statement of income under fees and commission income, net. Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the Fund (comprising of its investments, any carried profit and expected management fees) and the investors' rights to remove the Fund Manager.

As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. However, the Bank's share of these funds is included in the FVOCI/available for sale investments and fees earned are disclosed under related party transactions.

The value of the mutual funds and other private investment portfolio managed by the Bank through its subsidiary was SAR 3,522 million (2017: SAR 4,187 million).The Bank through its subsidiary offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, having net asset values as of December 31, 2018 totalling SAR 2,358 million (2017: SAR 2,880 million).

41. PROSPECTIVE CHANGES IN INTERNATIONAL FINANCIAL REPORTING FRAMEWORK
The Bank has chosen not to early adopt the following amendments to existing standards and newly issued standards but not yet effective for the Bank's accounting years beginning on or after 1 January 2019 and is currently assessing their impact.

i) IFRS 16 – "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model.

The Bank plans to adopt IFRS 16 retrospectively to each prior reporting period presented. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Bank has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

During 2018, the Bank has performed a detailed impact assessment of IFRS 16. The impact of IFRS 16 adoption is not material to the consolidated financial statements taken as a whole.

Due to the adoption of IFRS 16, the Bank's operating profit will improve/deteriorate, while its interest expense will increase/decrease. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement, applicable for the period beginning on or after 1 January 2019. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period.

For other Standards, amendments or interpretations effective for annual periods beginning on or after 1 January 2019, the Bank does not anticipate that these will have a material impact on the Bank's consolidated financial statements.

42. COMPARATIVE FIGURES
Certain prior period figures have been reclassified to conform to the current period's presentation.

43. BOARD OF DIRECTORS APPROVAL
The consolidated financial statements were approved by the Board of Directors on 30 January, 2019 corresponding to 24 Jumada Al Awwal 1440H.

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