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**BANK ALBILAD**  
(A Saudi Joint Stock Company)

**Consolidated Financial Statements**  
**For the year ended December 31, 2019**

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KPMG Al Fozan & Partners  
Certified Public Accountants

## **Independent auditors' report to the shareholders of Bank Albilad (A Saudi Joint Stock Company)**

### **Report on the audit of the consolidated financial statements**

#### **Opinion**

We have audited the consolidated financial statements of Bank Albilad ("the Bank") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA") (collectively referred to as "the IFRS as endorsed in the Kingdom of Saudi Arabia").

#### **Basis for opinion**

We conducted our audit in accordance with the International Standards on Auditing 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 as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key audit matters**

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

## Independent auditors' report to the shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)

### Report on the audit of the consolidated financial statements (continued)

#### Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment of financing</b></p> <p>As at 31 December 2019, the gross financing of the Group amounted to SAR 61.3 billion against which an expected credit loss ("ECL") allowance of SAR 1.9 billion was maintained.</p> <p>We considered this as a key audit matter, as the determination of ECL involves significant management judgement, and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include:</p> <ol style="list-style-type: none"> <li>1. Categorisation of financing into Stages 1, 2 and 3 based on the identification of: <ol style="list-style-type: none"> <li>(a) exposures with significant deterioration in credit quality since their origination; and</li> <li>(b) individually impaired / defaulted exposures.</li> </ol> </li> <li>2. Assumptions used in the ECL model such as financial condition of the counterparty, expected future cash flows, forward looking macroeconomic factors, etc.</li> <li>3. The need to apply additional overlays to reflect current or future external factors that might not be captured by the ECL model.</li> </ol> <p><i>Refer to the summary of significant accounting policy note [3(a)] for the impairment of financial assets; note [2(d)(i)] which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note [8] which contains the disclosure of impairment against financing; and note [29] for details of credit quality analysis and key assumptions and factors considered in the determination of ECL.</i></p>	<ul style="list-style-type: none"> <li>• We have obtained an understanding of management's assessment of impairment of financing including the Group's internal rating model, impairment allowance policy and ECL modelling methodology.</li> <li>• We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9, and assessed the underlying assumptions and the data inputs used.</li> <li>• We assessed the design and implementation, and tested the operating effectiveness of the key controls over: <ul style="list-style-type: none"> <li>- the modelling process, including governance over the monitoring of the model and approval of key assumptions;</li> <li>- the classification of borrowers into various stages and timely identification of significant increase in credit risk ("SICR"); and</li> <li>- the integrity of data inputs into the ECL model.</li> </ul> </li> <li>• For a sample of customers, we assessed: <ul style="list-style-type: none"> <li>- the internal ratings determined by management based on the Group's internal rating model;</li> <li>- the staging as identified by management; and</li> <li>- management's computations for ECL.</li> </ul> </li> <li>• We checked the appropriateness of the Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into the relevant stages. Furthermore, for a sample of exposures, we assessed the appropriateness of the Group's staging categorisation.</li> <li>• We assessed the reasonableness of the forward looking assumptions used by the Group in the ECL calculations.</li> <li>• Where management overlays were used, we assessed those overlays and the governance process around such overlays.</li> <li>• We checked the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2019.</li> <li>• Where relevant, we involved specialists to assist us in reviewing model calculations and data integrity.</li> <li>• We assessed the adequacy of the disclosures in the consolidated financial statements.</li> </ul>

## **Independent auditors' report to the shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)**

### **Report on the audit of the consolidated financial statements (continued)**

#### **Other information included in the Group's 2019 annual report**

Management is responsible for the other information. Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

#### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia, applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is 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 management 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 the International Standards on Auditing that are 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.

## **Independent auditors' report to the shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)**

### **Report on the audit of the consolidated financial statements (continued)**

#### **Auditors' responsibilities for the audit of the consolidated financial statements (continued)**

As part of an audit in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 management.
- Conclude on the appropriateness of management's 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 solely responsible for our audit opinion.

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

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





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**Independent auditors' report to the shareholders of Bank Albilad (A Saudi Joint Stock Company) (continued)**

**Report on the audit of the consolidated financial statements (continued)**

**Auditors' responsibilities for the audit of the consolidated financial statements (continued)**

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 year 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.

**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.

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**18 Jamad Thani 1441H  
(12 February 2020)**



**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2019 AND 2018**

	<u>Note</u>	<u>2019</u> <u>SAR' 000</u>	<u>2018</u> <u>SAR' 000</u>
<b>ASSETS</b>			
Cash and balances with SAMA	5	<b>7,915,852</b>	6,438,201
Due from banks and other financial institutions, net	6	<b>4,041,751</b>	8,334,284
Investments, net	7	<b>10,987,123</b>	6,465,710
Financing, net	8	<b>59,362,536</b>	50,588,115
Property and equipment, net	9	<b>1,866,329</b>	1,146,848
Other assets	10	<b>1,901,840</b>	662,968
<b>Total assets</b>		<b>86,075,431</b>	73,636,126
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Due to banks and other financial institutions	11	<b>645,120</b>	3,100,791
Customers' deposits	12	<b>66,797,565</b>	57,175,594
Sukuk	13	<b>2,007,768</b>	2,008,587
Other liabilities	14	<b>7,199,055</b>	3,518,205
<b>Total liabilities</b>		<b>76,649,508</b>	65,803,177
<b>Equity</b>			
Share capital	15	<b>7,500,000</b>	6,000,000
Statutory reserve	16	<b>310,935</b>	-
Other reserves	18	<b>568,280</b>	(69,832)
Retained earnings		<b>1,118,890</b>	483,441
Proposed issuance of bonus shares	15	-	1,500,000
Treasury shares		<b>(80,660)</b>	(90,780)
Employees' share plan reserve	24	<b>8,478</b>	10,120
<b>Total equity</b>		<b>9,425,923</b>	7,832,949
<b>Total liabilities and equity</b>		<b>86,075,431</b>	73,636,126

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements

**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF INCOME**

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Note	2019 SAR' 000	2018 SAR' 000 Restated
<b>INCOME:</b>			
Income from investing and financing assets	20	3,355,200	2,723,748
Return on deposits and financial liabilities	21	(638,229)	(559,515)
<b>Income from investing and financing assets, net</b>		<b>2,716,971</b>	<b>2,164,233</b>
Fee and commission, net	22	804,474	842,900
Exchange income, net		313,788	315,693
Dividend income		23,004	22,611
Gain on fair value through profit or loss (FVTPL) investments, net		54,496	43,838
Other operating income		32,614	26,745
<b>Total operating income</b>		<b>3,945,347</b>	<b>3,416,020</b>
<b>EXPENSES:</b>			
Salaries and employee related expenses	24	1,146,785	1,052,360
Rent and premises related expenses		103,775	248,106
Depreciation and amortisation	9	248,924	108,092
Other general and administrative expenses		523,517	406,499
Impairment charge for credit and other financial assets, net		535,623	490,453
<b>Total operating expenses</b>		<b>2,558,624</b>	<b>2,305,510</b>
<b>Net income for the year before zakat</b>		<b>1,386,723</b>	<b>1,110,510</b>
Zakat for the year	23	142,983	497,817
<b>Net income for the year after zakat</b>		<b>1,243,740</b>	<b>612,693</b>
<b>Basic and diluted earnings per share (attributable to ordinary equity holders of the Bank) (Saudi Riyals)</b>	25	<b>1.67</b>	<b>0.82</b>

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.



**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Note</u>	<b>2019</b> <b>SAR' 000</b>	<b>2018</b> <b>SAR' 000</b> <b>Restated</b>
<b>Net income for the year after zakat</b>		<b>1,243,740</b>	612,693
<b>Other comprehensive income:</b>			
<b>Items that cannot be reclassified to consolidated statement of income in subsequent periods</b>			
- Fair Value through Other Comprehensive Income (FVOCI) equity investments:			
• Net change in fair value		<b>33,686</b>	(20,121)
- Actuarial gains (losses) on defined benefit pension plans	27	<b>3,486</b>	-
<b>Items that can be reclassified to consolidated statement of income in subsequent periods</b>			
- Debt instrument at Fair Value through Other Comprehensive Income (FVOCI):			
• Net changes in fair value		<b>600,940</b>	(42,848)
Total other comprehensive income / (loss) for the year		<b>638,112</b>	(62,969)
<b>Total comprehensive income for the year</b>		<b>1,881,852</b>	549,724

The accompanying notes 1 to 37 form integral part of these consolidated financial statements.

**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

<b>2019</b> <b>SAR' 000</b>	<b>Note</b>	<b>Share capital</b>	<b>Statutory reserve</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Proposed issuance of bonus shares</b>	<b>Treasury shares</b>	<b>Employees' share plan reserve</b>	<b>Total equity</b>
<b>Balance at the beginning of the year</b>		<b>6,000,000</b>	<b>-</b>	<b>(69,832)</b>	<b>483,441</b>	<b>1,500,000</b>	<b>(90,780)</b>	<b>10,120</b>	<b>7,832,949</b>
Net changes in fair value of FVOCI equity instruments				<b>33,686</b>					<b>33,686</b>
Actuarial gains (losses) on defined benefit pension plans	27			<b>3,486</b>					<b>3,486</b>
Net changes in fair value of FVOCI debt instruments				<b>600,940</b>					<b>600,940</b>
<b>Total other comprehensive income</b>				<b>638,112</b>					<b>638,112</b>
<b>Net income for the year after zakat</b>					<b>1,243,740</b>				<b>1,243,740</b>
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>638,112</b>	<b>1,243,740</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,881,852</b>
Realized gain from sale of FVOCI investments					<b>2,644</b>				<b>2,644</b>
Treasury shares							<b>10,120</b>		<b>10,120</b>
Employees' share plan reserve								<b>(1,642)</b>	<b>(1,642)</b>
Cash dividend	17				<b>(300,000)</b>				<b>(300,000)</b>
Issuance of bonus shares	15	<b>1,500,000</b>				<b>(1,500,000)</b>			<b>-</b>
Transfer to statutory reserve	16		<b>310,935</b>		<b>(310,935)</b>				<b>-</b>
<b>Balance at end of the year</b>		<b>7,500,000</b>	<b>310,935</b>	<b>568,280</b>	<b>1,118,890</b>	<b>-</b>	<b>(80,660)</b>	<b>8,478</b>	<b>9,425,923</b>

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

<u>2018</u> SAR' 000	<u>Note</u>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Proposed cash dividend</u>	<u>Proposed issuance of bonus shares</u>	<u>Treasury shares</u>	<u>Employees' share plan</u>	<u>Total equity</u>
<b>Balance at the beginning of the year - as previously reported</b>		6,000,000	866,508	47,420	530,805	240,000	-	(104,575)	8,635	7,588,793
Impact of adoption of new standards at 1 January 2018				(54,283)	(26,345)					(80,628)
<b>Restated balance at 1 January 2018</b>		6,000,000	866,508	(6,863)	504,460	240,000	-	(104,575)	8,635	7,508,165
<b>Changes in the equity for the year</b>										
Net movement in fair value reserve (equity instruments) / realized losses				(20,121)	(220)					(20,341)
Net movement in FVOCI reserve for investments				(42,848)						(42,848)
<b>Total other comprehensive loss</b>				(62,969)	(220)					(63,189)
<b>Net income for the year after zakat (restated)</b>	23				612,693					612,693
<b>Total comprehensive income for the year (restated)</b>		-	-	(62,969)	612,473	-	-	-	-	549,504
Treasury shares								13,795		13,795
Employees' share plan reserve									1,485	1,485
Cash dividend	17					(240,000)				(240,000)
Proposed issuance of bonus shares	15		(1,144,135)		(355,865)		1,500,000			-
Transfer to statutory reserve	16		277,627		(277,627)					-
<b>Balance at end of the year</b>		6,000,000	-	(69,832)	483,441	-	1,500,000	(90,780)	10,120	7,832,949

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

**BANK ALBILAD**

(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<b>Note</b>	<b>2019 SAR' 000</b>	<b>2018 SAR' 000</b>
<b>OPERATING ACTIVITIES</b>			
<b>Net income before zakat for the year</b>		<b>1,386,723</b>	1,110,510
<b>Adjustments to reconcile net income to net cash from / (used in) operating activities:</b>			
Profit on sukuk	21	<b>95,391</b>	86,780
Realized gains on FVTPL investments, net		<b>(53,950)</b>	(43,838)
Loss/ (gains) from disposal of property and equipment, net		<b>3,365</b>	(214)
Depreciation and amortization	9	<b>248,924</b>	108,092
Impairment charge for expected credit losses, net		<b>535,623</b>	490,453
Employees' share plan		<b>8,478</b>	15,280
<b>Net (increase) / decrease in operating assets:</b>			
Statutory deposit with SAMA		<b>(402,071)</b>	(416,044)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		<b>(300,091)</b>	(452,790)
Commodity murabaha with SAMA maturing after ninety days from the date of acquisition		<b>(299,746)</b>	298,314
Financing		<b>(9,306,307)</b>	(7,689,673)
Other assets		<b>(1,238,872)</b>	(313,475)
<b>Net increase / (decrease) in operating liabilities:</b>			
Due to SAMA		-	(2,012,518)
Due to banks and other financial institutions		<b>(2,455,671)</b>	1,351,854
Customers' deposits		<b>9,621,971</b>	9,392,635
Other liabilities		<b>3,005,401</b>	1,253,112
<b>Net cash generated from operating activities</b>		<b>849,168</b>	3,178,478
<b>INVESTING ACTIVITIES</b>			
Proceeds from sales and maturities of investments held as FVOCI		<b>298,618</b>	60,193
Purchase of investments held as FVOCI		<b>(2,916,869)</b>	(2,364,314)
Proceeds from sales and maturities of investments held as FVTPL		<b>30,224</b>	614,934
Purchase of investments held as FVTPL		<b>(441,391)</b>	(274,881)
Purchase of investments held as amortized cost		<b>(801,330)</b>	-
Proceeds from sale of property and equipment		<b>28,299</b>	280
Purchase of property and equipment		<b>(314,631)</b>	(379,582)
<b>Net cash used in investing activities</b>		<b>(4,117,080)</b>	(2,343,370)
<b>FINANCING ACTIVITIES</b>			
Distributed Sukuk profit		<b>(96,210)</b>	(84,768)
Dividend paid	17	<b>(300,000)</b>	(240,000)
Cash payment for principle portion of lease liability		<b>(152,972)</b>	-
<b>Net cash used in financing activities</b>		<b>(549,182)</b>	(324,768)
<b>Net change in cash and cash equivalents</b>		<b>(3,817,094)</b>	510,340
Cash and cash equivalents at the beginning of the year		<b>9,574,966</b>	9,064,626
<b>Cash and cash equivalents at the end of the year</b>	26	<b>5,757,872</b>	9,574,966
<b>Supplemental information</b>			
Income received from investing and financing assets		<b>3,262,870</b>	2,451,402
Return paid on deposits and financial liabilities		<b>632,116</b>	561,975
Total other comprehensive income/ (loss)		<b>638,112</b>	(62,969)

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**1. GENERAL**

**a) Incorporation and operation**

Bank Albilad (“the Bank”), a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, was formed and licensed pursuant to Royal Decree No. M/48 dated 21 Ramadan 1425H (corresponding to November 4, 2004) in accordance with the Counsel of Ministers’ resolution No. 258 dated 18 Ramadan 1425H (corresponding to November 1, 2004). The Bank operates under Commercial Registration No.1010208295 dated 10 Rabi Al Awal 1426H (corresponding to April 19, 2005). The Bank provides these services through 110 banking branches (December 31, 2018: 111) and 179 exchange and remittance centers (December 31, 2018: 180) in the Kingdom of Saudi Arabia.

The address of the Bank's head office is as follows:

**Bank Albilad**  
**P.O. Box 140**  
**Riyadh 11411**  
**Kingdom of Saudi Arabia**

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, “Albilad Investment Company” and “Albilad Real Estate Company” (collectively referred to as “the Group”). Albilad Investment Company and Albilad Real Estate Company are 100% owned by the Bank. All subsidiaries are incorporated in the Kingdom of Saudi Arabia.

The Group’s objective is to provide full range of banking and investment services and conduct, financing and investing activities through various Islamic instruments. The activities of the Bank are conducted in compliance with Islamic Shariah and within the provisions of the By-laws and the Banking Control Law.

**b) Shariah Authority**

The Bank has established a Shariah Authority (“the Authority”). It ascertains that all the Bank’s activities are subject to its approval and control.

**2. BASIS OF PREPARATION**

**a) Statement of Compliance**

The consolidated financial statements of the Group have been prepared:

- in accordance with the ‘International Financial Reporting Standards (IFRS)’ as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA); and
- in compliance with the provisions of the Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Bank.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

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

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

Accordingly, beginning period ended June 30, 2019, the Group changed its accounting treatment for zakat by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors and the effects of this change are disclosed in note 23 to the consolidated financial statements.

The Bank has adopted IFRS 16 Leases from 1 January 2019. The change in accounting policies due to this new standard and treatment of zakat are disclosed in the Note 3.

**b) Basis of measurement and presentation**

The consolidated financial statements are prepared under the historical cost convention except for the financial instruments held at Fair Value through Profit or Loss (FVTPL), Fair Value through Other Comprehensive Income (FVOCI) investments, liabilities for cash-settled-share based payments and defined benefit obligations recorded at the present value.

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. Financial information presented in SAR has been rounded off to the nearest thousand.

**d) Critical accounting judgements, estimates and assumptions**

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

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

i- Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 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:

- a) The Bank's internal credit grading model, which assigns Probability of default (PD) to the individual grades;
- b) 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;
- c) The segmentation of financial assets when their ECL is assessed on a collective basis;
- d) Development of ECL models, including the various formulas and the choice of inputs;
- e) Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- f) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

- ii- Fair value measurement (note 32)
- iii- Impairment of FVOCI debt investments (note 7)
- iv- Classification of investments at amortised cost (note 3)
- v- Determination of control over investees (note 3)
- vi- Depreciation and amortization (note 9)
- vii- Defined benefit plan (note 24)



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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**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 Group's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of the following new standard and other amendments to the accounting treatment of zakat mentioned below. Except for adoption of new accounting treatment of zakat and adoption of IFRS 16, these amendments and adoption have had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods.

• **Adoption of New Standards**

Effective from January 1, 2019, the Group has adopted one new accounting standard and an amendment to the accounting treatment for Zakat, the impact of the adoption of these standards is explained below:

**IFRS 16 Leases**

Prior to January 1, 2019, the Bank applied the following policy for the accounting of leases:

(i) Where the Bank is the lessee

Leases that do not transfer to the Group substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Group are 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.

(ii) Where the Bank is the lessor

When assets are transferred under the Ijara Muntahia Bittamleek contract, the present value of the lease payments is recognized as a receivable and disclosed under "Financing". 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.

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

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

The Bank has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability.

The Bank applied the weighted average incremental borrowing rate to lease liabilities recognized in the statement of financial position at the date of initial application.

- **Change in the accounting for zakat**

As mentioned above, the basis of preparation has been changed beginning the period ended June 30, 2019 as a result of the issuance of latest instructions from SAMA dated July 17, 2019. Previously, zakat was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. With the latest instructions issued by SAMA dated July 17, 2019, zakat is recognized in the consolidated statement of income. The Group has accounted for this change in the accounting for zakat retrospectively and the effects of the change to the consolidated financial statements are disclosed below. The change has resulted in reduction of reported income of the Group, while the change has had no impact on the statement of cash flows for the year ended December 31, 2018.

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

- **Classification of financial assets**

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

**Financial Asset at amortised 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 profit on the principal amount outstanding.

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**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 profit 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. Profit 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 instrument-by-instrument (i.e. share-by-share) basis.

**Financial Asset at FVTPL**

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI or 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.

**Business model assessment**

The Group assesses 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;
- 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

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- 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 changes the classification of the remaining financial assets held in that business model.

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 SPPI**

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic financing risks associated with the principal amount outstanding during a particular period and other basic financing 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 profit, 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 profit rates.

**Designation at fair value through profit or loss**

At initial recognition, the Bank has irrevocably designated certain financial assets at FVTPL. Before January 1, 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.

- **Classification of financial liabilities**

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost.

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- **Derecognition**

- **Financial assets**

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognised, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognised if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognised only if the Group has not retained control of the financial asset. The Group recognises separately as assets or liabilities any rights and obligations created or retained in the process.

On derecognition, any cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is included in the consolidated statement of income for the period. 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 rather it is transferred directly from other reserves to retained earnings.

- **Financial liabilities**

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

- **Modifications of financial assets and financial liabilities**

- **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 case the modification of asset does not result in de-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash-flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognised in statement of income for Asset Modification.

- **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 consolidated statement of income.

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**- Impairment**

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

- Financial assets that are measured at amortised cost;
- Debt instruments assets measured at FVOCI;
- Financial guarantee contracts issued; and
- Financing 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.

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

**Measurement of ECL**

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn financing commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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**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 the ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, and 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 profit rate of the existing financial asset.

**Credit-impaired financial assets**

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of financing 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.

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

- The rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance; and
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.



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**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;
- Financing 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 financing 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 because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve. Impairment losses are recognised in profit and loss and changes between the amortised cost of the assets and their fair value are recognised in OCI.

**Write-off**

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

• **Financial guarantees and financing 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. 'Financing commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received.

The Bank has issued no loan commitments that are measured at FVTPL, and for other loan commitments the Bank recognizes loss allowance.

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- **Rendering of services**

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

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

- **Customer Loyalty Program**

The Bank offers customer loyalty program (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 is adjusted over time based on actual experience and current trends with respect to redemption.

#### **4. BASIS OF CONSOLIDATION**

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as set forth in note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which the control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank.

Inter-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

- **Foreign currencies**

The Group's consolidated financial statements are presented in SAR, which is also the Bank's and group companies' functional currency.

Transactions in foreign currencies are translated into SAR at exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the reporting date.

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Realized and unrealized gains or losses on exchange are credited or charged to the consolidated statement of income.

- **Revenue / expenses recognition**

- **Income on investing and financing assets, and return on financial liabilities**

Income on investing and financing assets, and return on financing liabilities is recognized in the consolidated statement of income using the effective yield method on the outstanding balance over the term of the contract.

The calculation of effective yield takes into account all contractual terms of the financial instruments including all fees, transaction costs, discounts that are integral part of the effective yield method but does not include the future financing loss. Transactional costs are incremental costs that are directly attributable to acquisition of financing assets and financial liabilities.

- **Fees and commission income**

Fees and commission income that are integral to the effective yield rate are included in the measurement of the relevant assets.

Fees and commission income that are not integral part of the effective yield calculation on a financial asset or liability are recognized when the related service is provided as follows:

- Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.
- Fee 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.
- Performance linked fees or fee components are recognized when the performance criteria are fulfilled.
- Financing commitment fees for financing that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective yield on the financing. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognized on a straight-line basis over the commitment period.
- Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the transaction is completed or the service, is received.

- **Exchange income / (loss)**

Exchange income/ (loss) is recognized as detailed in foreign currencies policy above.

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**- Dividend income**

Dividend income from investment is recognized when the Group's right to receive the dividend is established.

**Fair value measurement**

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

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

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

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is 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 consolidated 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 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.

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**Collateral valuation**

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. 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. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's quarterly reporting schedule. However, some collateral, for example, cash or securities is valued daily.

The Bank's accounting policy for collateral assigned to it through its lending arrangements are inline with the requirements of IFRS 9. 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.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, audited financial statements, and other independent sources.

**Collateral repossessed**

The Bank's accounting policy for collateral repossession is inline with the requirements of IFRS 9. 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 consumer 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 statement of financial position.

• **Property and equipment**

Property and equipment is stated at cost less accumulated depreciation, and impairment, if any. The cost of property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Building	33 years
Leasehold improvements	Over lease period or economic life (10 years), whichever is shorter
Equipment and furniture and motor vehicles	4 to 6 years
Computer hardware	5 years

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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 amounts and are included in the consolidated statement of income.

All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

- **Provisions for liabilities and charges**

The Group receives legal claims against it in the normal course of business. Management has exercised 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.

- **Accounting for leases**

- **Right of Use ("RoU") Asset / Lease liability**

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

- **Right of Use Asset**

The Bank applies cost model and measures the right of use asset at cost:

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

Generally, the RoU asset would equate the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transactions etc. these need to be added to the RoU asset value.

- **Lease liability**

On initial recognition, the lease liability is the present value of all remaining payments to the lessor.

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After the commencement date, the Bank measures the lease liability by:

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

• **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash in hand, balances and murabaha with SAMA excluding statutory deposit, and due from banks and other financial institutions with original maturities of three months or less from the date of acquisition which is subject to insignificant changes in their fair value.

• **Treasury shares**

Treasury shares are recorded at cost and presented as a deduction from the equity as adjusted for any transaction costs, dividends and gains or losses on sale of such stocks. Subsequent to their acquisition, these shares are carried at the amount equal to the consideration paid.

These shares are acquired by the Bank with the approval of SAMA, primarily for discharging its obligation under its share-based payment plans.

• **Employees' share plan**

The Bank offers its eligible employees an equity-settled share-based payment plan as approved by SAMA. As per the plan, eligible employees of the Bank are offered stocks to be withheld out of their annual bonus payments.

The cost of the plan is measured by reference to the fair value at the date on which the stocks are granted.

The cost of the plan is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the stock option ('the vesting date'). The cumulative expense recognized for the plan at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a year represents the movement in cumulative expense recognized as at the beginning and end of that year.

The Bank, with the approval from SAMA, has entered into an agreement with an independent third-party for custody of the shares under the plan, plus any benefits accrued there-on.



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- **Defined benefit plan**

The Bank operates an end of service benefit plan for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit method in accordance with the periodic actuarial valuation.

- **Zakat and withholding tax**

As mentioned in note 2, the basis of preparation has been changed beginning the period ended June 30, 2019 as a result of the issuance of latest instructions from SAMA dated July 17, 2019. Previously, zakat was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. With the latest instructions issued by SAMA dated July 17, 2019, zakat is recognized in the consolidated statement of income.

The Group has accounted for this change in the accounting for zakat retrospectively and the effects of the change to the consolidated financial statements are disclosed in note 23. The change has resulted in reduction of reported income of the Group, while the change has had no impact on the statement of cash flows for the year ended December 31, 2018.

The Group is subject to zakat in accordance with the regulations of GAZT. Zakat expense is charged to the statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

Withholding tax is withheld from payments made to non-resident vendors for services rendered and goods purchased according to the tax law applicable in Saudi Arabia and are directly paid to the GAZT on a monthly basis.

- **Going concern**

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

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**5. CASH AND BALANCES WITH SAMA**

	Note	<b>2019</b> <b>SAR' 000</b>	<b>2018</b> <b>SAR' 000</b>
Statutory deposit	<b>5.1</b>	<b>3,553,372</b>	3,151,301
Cash in hand		<b>1,669,426</b>	1,702,065
Other balances	<b>5.2</b>	<b>2,693,054</b>	1,584,835
<b>Total</b>		<b>7,915,852</b>	<b>6,438,201</b>

**5.1** In accordance with the Banking Control Law and Regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, saving, time and other deposits, calculated based on end of day monthly average balance. 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.

**5.2** This includes mainly cash management account with SAMA.

**6. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET**

	<b>2019</b> <b>SAR' 000</b>	<b>2018</b> <b>SAR' 000</b>
Demand	<b>210,763</b>	188,592
Commodity murabaha - performing	<b>3,832,058</b>	8,147,578
Commodity murabaha - non performing	-	90,923
	<b>3,832,058</b>	8,238,501
Less : ECL allowance	<b>(1,070)</b>	(92,809)
<b>Total</b>	<b>4,041,751</b>	<b>8,334,284</b>

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An analysis of changes in loss allowance for Due from banks and other financial institutions is, as follows:

<b>31<sup>st</sup> December 2019</b> <b>SAR in '000'</b>	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>Loss allowance as at 1 January 2019</b>	<b>1,886</b>	<b>-</b>	<b>90,923</b>	<b>92,809</b>
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net reversal for the year	<b>(816)</b>	<b>-</b>	<b>-</b>	<b>(816)</b>
Write-offs	-	-	<b>(90,923)</b>	<b>(90,923)</b>
<b>Loss allowance as at 31 December 2019</b>	<b>1,070</b>	<b>-</b>	<b>-</b>	<b>1,070</b>

  

<b>31<sup>st</sup> December 2018</b> <b>SAR in '000'</b>	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>Loss allowance as at 1 January 2018</b>	<b>2,590</b>	<b>6</b>	<b>90,923</b>	<b>93,519</b>
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net reversal for the year	<b>(704)</b>	<b>(6)</b>	<b>-</b>	<b>(710)</b>
Write-offs	-	-	-	-
<b>Loss allowance as at 31 December 2018</b>	<b>1,886</b>	<b>-</b>	<b>90,923</b>	<b>92,809</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. INVESTMENTS, NET**

a) Investments as at December 31 comprise the following:

	2019				
	Domestic		International		Total
	Quoted <u>SAR' 000</u>	Unquoted <u>SAR' 000</u>	Quoted <u>SAR' 000</u>	Unquoted <u>SAR' 000</u>	<u>SAR' 000</u>
<b>Fair Value Through Other Comprehensive Income (FVOCI)</b>					
Equities	290,447	165,876	-	-	456,323
Sukuk	623,339	6,627,199	72,030	248,933	7,571,501
	913,786	6,793,075	72,030	248,933	8,027,824
<b>Fair value through profit or loss (FVTPL)</b>					
Mutual funds	326,443	395,170	-	144,679	866,292
<b>Amortized Cost</b>					
Commodity Murabaha with SAMA	-	1,292,796	-	-	1,292,796
Sukuk	280,825	332,071	187,315	-	800,211
	280,825	1,624,867	187,315	-	2,093,007
<b>Total</b>	<b>1,521,054</b>	<b>8,813,112</b>	<b>259,345</b>	<b>393,612</b>	<b>10,987,123</b>
2018					
	Domestic		International		Total
	Quoted <u>SAR' 000</u>	Unquoted <u>SAR' 000</u>	Quoted <u>SAR' 000</u>	Unquoted <u>SAR' 000</u>	<u>SAR' 000</u>
<b>Fair Value Through Other Comprehensive Income (FVOCI)</b>					
Equities	215,619	165,893	-	-	381,512
Sukuk	760,373	3,367,461	14,685	248,332	4,390,851
	975,992	3,533,354	14,685	248,332	4,772,363
<b>Fair value through profit or loss (FVTPL)</b>					
Mutual funds	21,509	360,489	-	18,085	400,083
<b>Amortized Cost</b>					
Commodity Murabaha with SAMA	-	1,293,264	-	-	1,293,264
<b>Total</b>	<b>997,501</b>	<b>5,187,107</b>	<b>14,685</b>	<b>266,417</b>	<b>6,465,710</b>

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**b) The analysis of investments by counterparty is as follows:**

	<b>2019</b>	2018
	<b><u>SAR' 000</u></b>	<b><u>SAR' 000</u></b>
Government and quasi government	<b>7,708,424</b>	4,611,162
Corporate	<b>3,278,699</b>	1,854,548
<b>Total</b>	<b><u>10,987,123</u></b>	<u>6,465,710</u>

- c) Equities include unquoted shares of SAR 165.9 million (2018: SAR 165.9 million) carried at cost as management believes that cost of such investments approximate their fair value. Management also believes cost of commodity murabaha with SAMA and unquoted sukuk approximates its fair value.

An analysis of changes in loss allowance for Debt instruments carried at FVOCI and amortized cost, is as follows:

31 <sup>st</sup> December 2019 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
<b>Loss allowance as at 1 January 2018</b>	<b>10,909</b>	-	-	<b>10,909</b>
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	<b>3,450</b>	-	-	<b>3,450</b>
Write-offs	-	-	-	-
<b>Loss allowance as at 31 December 2019</b>	<b>14,359</b>	-	-	<b>14,359</b>

31 <sup>st</sup> December 2018 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2018	5,927	-	-	5,927
Transfers to 12 month ECL	-	-	-	-
Transfers to Life time ECL not credit impaired	-	-	-	-
Transfers to Life time ECL credit impaired	-	-	-	-
Net charge for the year	4,982	-	-	4,982
Write-offs	-	-	-	-
Loss allowance as at 31 December 2018	10,909	-	-	10,909

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**8. FINANCING, NET**

**a) Held at amortized cost**

**2019**

**SAR' 000**

	<b><u>Commercial</u></b>	<b><u>Consumer</u></b>	<b><u>Total</u></b>
<b>Performing</b>	32,229,091	28,311,232	<b>60,540,323</b>
<b>Non-performing</b>	452,224	283,689	<b>735,913</b>
<b>Total</b>	<b>32,681,315</b>	<b>28,594,921</b>	<b>61,276,236</b>
<b>Allowance for impairment</b>	(1,507,344)	(406,356)	<b>(1,913,700)</b>
<b>Financing, net</b>	<b>31,173,971</b>	<b>28,188,565</b>	<b>59,362,536</b>

**2018**

**SAR' 000**

	<b><u>Commercial</u></b>	<b><u>Consumer</u></b>	<b><u>Total</u></b>
<b>Performing</b>	30,235,333	21,339,772	51,575,105
<b>Non-performing</b>	563,618	165,008	728,626
<b>Total</b>	<b>30,798,951</b>	<b>21,504,780</b>	<b>52,303,731</b>
<b>Allowance for impairment</b>	(1,352,102)	(363,514)	<b>(1,715,616)</b>
<b>Financing, net</b>	<b>29,446,849</b>	<b>21,141,266</b>	<b>50,588,115</b>

An analysis of changes in loss allowance for Financing is, as follows:

<b>31<sup>st</sup> December 2019</b> <b>SAR in '000'</b>	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>Loss allowance as at 1 January 2019</b>	<b>359,313</b>	<b>549,426</b>	<b>806,877</b>	<b>1,715,616</b>
Transfers to 12 month ECL	112,953	(84,158)	(28,795)	-
Transfers to Life time ECL not credit impaired	(50,357)	53,722	(3,365)	-
Transfers to Life time ECL credit impaired	(117,030)	(94,261)	211,291	-
Net charge / (reversal) for the year	(87,687)	523,311	96,262	<b>531,886</b>
Write-offs	-	-	(333,802)	<b>(333,802)</b>
<b>Loss allowance as at 31 December 2019</b>	<b>217,192</b>	<b>948,040</b>	<b>748,468</b>	<b>1,913,700</b>

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31 <sup>st</sup> December 2018 SAR in '000'	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2018	467,969	314,648	529,140	1,311,757
Transfers to 12 month ECL	6,665	(6,665)	-	-
Transfers to Life time ECL not credit impaired	(302,568)	304,778	(2,210)	-
Transfers to Life time ECL credit impaired	(111,428)	(116,073)	227,501	-
Net charge for the year	298,675	52,738	134,768	486,181
Write-offs	-	-	(82,322)	(82,322)
Loss allowance as at 31 December 2018	359,313	549,426	806,877	1,715,616

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2019 and that are still subject to enforcement activity is SAR 334 million (2018: SAR 82 million).

**b) Financing include finance lease receivables, which are as follows:**

	<b>2019</b> <b>SAR'000</b>		<b>2018</b> <b>SAR'000</b>	
	<b>Consumer</b>	<b>Commercial</b>	<b>Consumer</b>	<b>Commercial</b>
<b>Gross receivables from ijarah financing :</b>				
Less than 1 year	580,044	-	409,036	-
1 to 5 years	776,363	464,647	904,861	209,917
Over 5 years	163,146	-	108,032	-
	<u>1,519,553</u>	<u>464,647</u>	<u>1,421,929</u>	<u>209,917</u>
Unearned finance income on ijarah financing	(330,157)	422	(319,521)	(3,540)
<b>Net receivables from ijarah financing</b>	<u>1,189,396</u>	<u>465,069</u>	<u>1,102,408</u>	<u>206,377</u>

	<b>2019</b> <b>SAR'000</b>		<b>2018</b> <b>SAR'000</b>	
	<b>Consumer</b>	<b>Commercial</b>	<b>Consumer</b>	<b>Commercial</b>
<b>Net receivables from ijarah receivables:</b>				
Less than 1 year	465,984	-	332,911	-
1 to 5 years	609,631	465,069	704,798	206,377
Over 5 years	113,781	-	64,699	-
	<u>1,189,396</u>	<u>465,069</u>	<u>1,102,408</u>	<u>206,377</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**9. PROPERTY AND EQUIPMENT, NET**

SAR' 000	Land and building	Leasehold improvements	Equipment, furniture and motor vehicles	Computer hardware	Right of Use (ROU) Asset	Total 2019	Total 2018
<b>Cost:</b>							
As at the beginning of the year	691,536	712,474	416,110	441,027	-	2,261,147	1,882,546
Additions during the year	189,934	22,066	47,665	54,966	685,438	1,000,069	379,582
Disposals	(31,323)	(155)	(709)	(8,244)	-	(40,431)	(981)
<b>As at December 31</b>	<b>850,147</b>	<b>734,385</b>	<b>463,066</b>	<b>487,749</b>	<b>685,438</b>	<b>3,220,785</b>	<b>2,261,147</b>
<b>Accumulated depreciation:</b>							
At the beginning of the year	11,810	451,340	292,088	359,061	-	1,114,299	1,007,122
Charge for the year	15,655	28,292	48,575	41,993	114,409	248,924	108,092
Disposals	(16)	-	(709)	(8,042)	-	(8,767)	(915)
<b>As at December 31</b>	<b>27,449</b>	<b>479,632</b>	<b>339,954</b>	<b>393,012</b>	<b>114,409</b>	<b>1,354,456</b>	<b>1,114,299</b>
<b>Net book value:</b>							
<b>As at December 31, 2019</b>	<u><b>822,698</b></u>	<u><b>254,753</b></u>	<u><b>123,112</b></u>	<u><b>94,737</b></u>	<u><b>571,029</b></u>	<u><b>1,866,329</b></u>	
As at December 31, 2018	<u>679,726</u>	<u>261,134</u>	<u>124,022</u>	<u>81,966</u>	<u>-</u>		<u>1,146,848</u>

Leasehold improvements include work in progress as at December 31, 2019 amounting to SAR 21.3 million (2018: SAR 18.1 million).

**Movement in right-of-use-assets (ROU):**

SAR' 000	Land & Building	Leasehold improvements	Equipment, furniture and motor vehicles	Computer hardware
Balance at beginning of the year	-	-	-	-
Add: Additions	676,954	-	8,484	-
Depreciation/amortization	(112,712)	-	(1,697)	-
Balance at the end of the year	<u>564,242</u>	<u>-</u>	<u>6,787</u>	<u>-</u>

**10. OTHER ASSETS**

	2019 SAR' 000	2018 SAR' 000
Prepaid expenses and advances to suppliers	87,735	120,233
Management fee receivable	120,217	63,379
Assets in transit subject to financing	593,814	207,530
Others	1,100,074	271,826
<b>Total</b>	<u><b>1,901,840</b></u>	<u><b>662,968</b></u>

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**11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

	2019	2018
	SAR' 000	SAR' 000
Demand	212,045	278,675
Direct investment	433,075	2,822,116
<b>Total</b>	<b>645,120</b>	<b>3,100,791</b>

**12. CUSTOMERS' DEPOSITS**

	2019	2018
	SAR' 000	SAR' 000
Demand	33,669,863	29,290,547
Direct investment	12,456,218	11,023,615
Albilad account (Mudarabah)	19,315,147	15,781,512
Others	1,356,337	1,079,920
<b>Total</b>	<b>66,797,565</b>	<b>57,175,594</b>

The above include foreign currency deposits as follows:

	2019	2018
	SAR' 000	SAR' 000
Demand	494,939	469,169
Direct investment	1,722,333	401,896
Albilad account (Mudarabah)	81,900	-
Others	48,120	48,533
<b>Total</b>	<b>2,347,292</b>	<b>919,598</b>

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**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**13. SUKUK**

On August 30, 2016, the Bank issued 2,000 Sukuk Certificates (Sukuk) of SR 1 million each, payable quarterly in arrears on February 28, May 30, August 30, November 30 each year until August 30, 2026, on which Sukuk will be redeemed. The Bank has a call option which can be exercised on or after August 30, 2021, upon meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. The Bank has not defaulted on any of payments (profit / principal) due during the year. The expected profit distribution on the sukuk is the base rate for three months in addition to the profit margin of 2%.

**14. OTHER LIABILITIES**

	<b>2019</b>	<b>2018</b>
	<b>SAR' 000</b>	<b>SAR' 000</b>
Accounts payable	<b>3,544,777</b>	999,615
Accrued expenses	<b>747,190</b>	619,270
Lease liability	<b>532,465</b>	-
Others	<b>2,374,623</b>	1,899,320
<b>Total</b>	<b>7,199,055</b>	3,518,205

**15. SHARE CAPITAL**

The authorized, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (December 31, 2018: 600 million shares of SAR 10 each).

The Board of Directors recommended in its meeting held on December 17, 2018, to the Extra-ordinary General Assembly an issuance of bonus shares of one share for every four shares held, thus increasing the Bank's capital from SAR 6,000 million to SAR 7,500 million, which was approved in the Extraordinary General Assembly meeting held on April 9, 2019.

The increase was done through capitalization of SAR 1,144 million and SAR 356 million from the statutory reserve and the retained earnings, respectively. The number of shares outstanding after the bonus issuance has increased from 600 million shares to 750 million shares.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**16. STATUTORY RESERVE**

In accordance with Article 13 of the Banking Control Law, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 311 million (2018: SAR 278 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

The statutory reserve has been utilized for the issuance of bonus shares during the year ended 31 December 2018 as detailed in note 15.

**17. DIVIDENDS**

On July 18, 2019, the Board of Directors resolved on the distribution of cash dividend of SAR 300 million (SAR 0.4 per share). This was paid on August 8, 2019.

**18. OTHER RESERVES**

	<b>FVOCI (Sukuk) SAR' 000</b>	<b>FVOCI (Equity) SAR' 000</b>	<b>Defined Benefit (EOSB) SAR' 000</b>	<b>Total SAR' 000</b>
<b><u>2019</u></b>				
Balance at beginning of the year	(47,050)	(22,782)	-	<b>(69,832)</b>
Net movement during the year	600,940	33,686	3,486	<b>638,112</b>
<b>Balance at end of the year</b>	<b>553,890</b>	<b>10,904</b>	<b>3,486</b>	<b>568,280</b>
	<b>FVOCI (Sukuk) SAR' 000</b>	<b>FVOCI (Equity) SAR' 000</b>	<b>Defined Benefit (EOSB) SAR' 000</b>	<b>Total SAR' 000</b>
<b><u>2018</u></b>				
Restated balance at beginning of the year	(4,202)	(2,661)	-	<b>(6,863)</b>
Net movement during the year	(42,848)	(20,121)	-	<b>(62,969)</b>
Balance at end of the year	(47,050)	(22,782)	-	<b>(69,832)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**19. COMMITMENTS AND CONTINGENCIES**

**a) Legal proceedings**

As at December 31, 2019 and 2018, there were legal proceedings outstanding against the Bank. Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisers.

**b) Capital commitments**

As at December 31, 2019, the Bank had capital commitments of SAR 63 million (2018: SAR 124 million) relating to leasehold improvements and equipment purchases.

**c) Credit related commitments and contingencies**

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantee and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as financing. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group 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 Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent unused portions of authorization to extend credit, principally in the form of financing, guarantees or letters of credit. With respect to credit risk relating to commitments to extend credit, the Group is potentially exposed to a loss in an amount which is equal to the total unused commitments. The amount of any related loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**(i) Contractual maturity structure of the Group's commitments and contingencies:**

<b>2019 (SAR' 000)</b>	<b>Less than 3 months</b>	<b>From 3 months to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Letters of credit	567,280	608,662	23,999	-	1,199,941
Letters of guarantee*	713,390	2,159,162	2,144,167	479,957	5,496,676
Acceptances	319,594	34,085	-	-	353,679
Irrevocable commitments to extend credit	120,471	-	-	1,029,495	1,149,966
<b>Total</b>	<b>1,720,735</b>	<b>2,801,909</b>	<b>2,168,166</b>	<b>1,509,452</b>	<b>8,200,262</b>

  

<b>2018 (SAR' 000)</b>	<b>Less than 3months</b>	<b>From 3 months to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Letters of credit	469,188	321,070	35,640	-	825,898
Letters of guarantee	707,086	2,177,617	1,199,203	192,251	4,276,157
Acceptances	417,740	36,309	362	-	454,411
Irrevocable commitments to extend credit	-	-	496,104	-	496,104
<b>Total</b>	<b>1,594,014</b>	<b>2,534,996</b>	<b>1,731,309</b>	<b>192,251</b>	<b>6,052,570</b>

The outstanding unused portion of commitments as at December 31, 2019 which can be revoked unilaterally at any time by the Group amounts to SAR 11.4 billion (2018: SAR 7.7 billion).

\* This is as per contractual period of the guarantee and in event of default may be payable on demand and therefore current in nature.

**(ii) Commitments and contingencies by counterparty:**

	<b>2019 SAR' 000</b>	<b>2018 SAR' 000</b>
Corporate	6,656,231	4,571,693
Financial institutions	1,462,649	1,392,324
Others	81,382	88,553
<b>Total</b>	<b>8,200,262</b>	<b>6,052,570</b>

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**20. INCOME FROM INVESTING AND FINANCING ASSETS**

	<b>2019</b>	2018
	<u><b>SAR' 000</b></u>	<u>SAR' 000</u>
<b>Income from investments and due from banks and other financial institutions</b>		
Income from commodity murabaha with:		
SAMA	<b>50,842</b>	53,883
Banks and other financial institutions	<b>160,257</b>	189,261
Income from sukuk	<b>242,403</b>	118,302
<b>Income from financing</b>	<b>2,901,698</b>	2,362,302
<b>Total</b>	<u><b>3,355,200</b></u>	<u>2,723,748</u>

**21. RETURN ON DEPOSITS AND FINANCIAL LIABILITIES**

	<b>2019</b>	2018
	<u><b>SAR' 000</b></u>	<u>SAR' 000</u>
Return on:		
Due to banks and other financial institutions	<b>19,502</b>	61,130
Deposits	<b>523,336</b>	411,605
Sukuk	<b>95,391</b>	86,780
<b>Total</b>	<u><b>638,229</b></u>	<u>559,515</u>

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FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

**22. FEES AND COMMISSION INCOME, NET**

	2019 SAR' 000	2018 SAR' 000
<b>Fees and commission income</b>		
Remittance	454,656	453,171
ATM and point of sale	274,583	247,362
Facilities management fee	73,516	100,798
Letters of credit and guarantee	48,337	44,060
Management fee (mutual fund and others)	84,181	81,162
Brokerage income	53,747	51,769
Documentation fee	110,275	89,713
Others	57,491	75,599
<b>Total fees and commission income</b>	<b>1,156,786</b>	<b>1,143,634</b>
<b>Fees and commission expenses</b>		
ATM and point of sale	182,797	183,166
Brokerage expenses	21,066	23,314
Remittance	10,733	7,435
Others	137,716	86,819
<b>Total fees and commission expenses</b>	<b>352,312</b>	<b>300,734</b>
<b>Fees and commission income, net</b>	<b>804,474</b>	<b>842,900</b>

**23. ZAKAT EXPENSE**

23.1 During the year 2018, the Group reached an agreement with the General Authority of Zakat and Tax on the settlement of zakat claims for the prior years from 2006 up to the end of the fiscal year of 2017, the settlement amount is SR 392.8 million.

23.2 The change in the accounting treatment for zakat (as explained in note 3) has the following impact on the line items of the statements of income, statement of financial position and changes in equity:

Financial statement impacted	Account	Before the restatement for the year ended December 31, 2018	Effect of restatement	Effect of issuance of bonus shares	As restated as at and for the year ended December 31, 2018:
Statement of changes in equity	Provision for zakat (retained earnings)	497,817	(497,817)	-	-
Statement of income	Zakat expense	-	497,817	-	497,817
Statement of income	Earnings per share	1.85	(0.82)	(0.21)	0.82



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**24. SALARIES AND EMPLOYEE RELATED BENEFITS**

The following table summarizes compensation practices and includes total of fixed and variable compensation paid to employees during the year ended December 31, 2019 and 2018, and the form of such payments:

**2019**

	Number of employees	Fixed compensation SAR 000	Variable compensation paid		Total
			Cash	Shares SAR' 000	
Senior executives requiring SAMA no objection	9	16,213	11,658	3,832	15,490
Employees engaged in risk taking activities	254	91,103	27,319	1,490	28,809
Employees engaged in control functions	303	85,832	14,617	1,200	15,817
Other employees	3,053	457,806	61,263	3,253	64,516
Outsourced employees	761	107,104	-	-	-
<b>Total</b>	<b>4,380</b>	<b>758,058</b>	<b>114,857</b>	<b>9,775</b>	<b>124,632</b>
Variable compensation accrued		124,423			
Other employee related benefits		264,304			
<b>Total salaries and employee related expenses</b>		<b>1,146,785</b>			

**2018**

	Number of employees	Fixed compensation SAR 000	Variable compensation paid		Total
			Cash	Shares SAR' 000	
Senior executives requiring SAMA no objection	9	14,385	9,285	3,110	12,395
Employees engaged in risk taking activities	267	88,567	19,305	1,171	20,476
Employees engaged in control functions	278	80,272	11,066	1,590	12,656
Other employees	2,998	440,576	61,596	3,237	64,833
Outsourced employees	680	93,269	64	-	64
<b>Total</b>	<b>4,232</b>	<b>717,069</b>	<b>101,316</b>	<b>9,108</b>	<b>110,424</b>
Variable compensation accrued		124,826			
Other employee related benefits		210,465			
<b>Total salaries and employee related expenses</b>		<b>1,052,360</b>			

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Employees Compensation and Benefits**

**1. Quantitative Disclosure:**

This disclosure has to be bifurcated between the following categories, whereby the meaning of each category is mentioned below:

**(i) Senior executive requiring SAMA no objection:**

Members of Management Committee whom appointment is subject to approval of SAMA, such as: CEO, CFO (EVP Finance), COO (EVP Operations Management), CRO (EVP Risk Management), EVP Retail Banking, EVP Human Resource, etc.

**(ii) Employees engaged in risk taking activities:**

This comprises of management staff within various business lines i.e. corporate, retail, treasury, trade services, private banking etc. who are responsible for executing and implementing the business strategy of the bank.

**(iii) Employees engaged in control functions:**

This comprises of employees working in divisions that are not involved in risk taking activities but engaged in review functions i.e. risk management, compliance, internal audit, treasury operations, finance and accounting, etc.

**(iv) Other employees:**

All regular employees other than those mentioned in (a) to (c) above.

**(v) Outsourced employees:**

This includes staff employed by various agencies who supply services to the Bank on a full time basis in non-critical roles. None of these roles require risk undertaking or control.

**2. Qualitative Disclosure:**

The Bank has developed a Compensation Policy based on the 'Rules on Compensation Practices' issued by SAMA as well as the guidelines provided by the Financial Stability Board and the Basel Committee on Banking Supervision in this respect.

The Compensation Policy has been approved by the Board of Directors (BOD). The BOD have also established a Nominations and Remuneration Committee to oversee the implementation of the Policy.

The mandate of the Committee is to oversee the compensation system design and operation, prepare and periodically review the Compensation Policy and evaluate its effectiveness in line with the industry practice.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Policy Objectives**

The policy sets guidelines for determination of both fixed and variable compensation to be paid to the employees of the Group. The scope of the Policy includes all compensation elements, approval and reporting process, stock options, bonus and its deferral, etc.

The objective of the Policy is to ensure that the compensation is governed by the financial performance evaluation and is linked to the various risks associated, at an overall level. Key staff members of the Bank are eligible to variable compensation which is derived from Risk Adjusted Net Income of the Bank which accounts for significant existing and potential risks in order to protect the Bank's Capital Adequacy and to mitigate the risk of potential future losses.

**Compensation Structure**

The compensation structure of the Bank is based on appropriate industry benchmarking and includes both fixed and variable components. The variable component is designed to ensure key employee retention and is based on three year vesting period.

- **Fix Components:**

Provide a competitive salaries or wage according to annual market alignment. Including (Basic, Housing, Transportation and Fix allowance) which is written in the employee's contract.

- **Variable Components:**

Taking into account the risk associated with the Bank's performance & individual performance appraisal, all these factors are assessed on periodical basis and the results are shared with the stakeholders based on which the incentive is announced at the close of each accounting period. Including (LTIP and deferral bonus & STIP as Incentives scheme and Annual Bonus).

**Performance Management System**

The performance of all employees is measured by way of a balance score card methodology taking into consideration, financial, customer, process and people factors with appropriate weightage to each factor based on the respective assignments.

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The Bank has following share-based payment plans outstanding at the end of the year. Significant features of these plans are as follows:

	<b>2019</b>	<b>2018</b>
Grant date	<b>3 Mar 2019</b>	29 Apr 2018
Maturity Date	<b>25% 1 Jan 2020</b> <b>25% 1 Jan 2021</b> <b>50% 1 Jan 2022</b>	25% 1 Jan 2019 25% 1 Jan 2020 50% 1 Jan 2021
Number of shares offered on the grant date	<b>482,698</b>	475,319
Share price on the grant date (SAR)	<b>24.63</b>	19.20
Value of shares offered on grant date (SAR' 000)	<b>11,889</b>	9,126
Vesting period	<b>3 years</b>	3 years
Vesting condition	<b>Employees to be in service</b>	Employees to be in service
Method of settlement	<b>Equity</b>	Equity
	<b>2019</b>	<b>2018</b>

**The movement in the number of shares, during the year, under employees' share plan is as follows:**

Beginning of the year	<b>1,139,410</b>	1,117,089
Granted during the year	<b>603,401</b>	475,319
Forfeited	<b>(138,337)</b>	(40,179)
Exercised	<b>(466,024)</b>	(412,819)
After capital increase conducted in 2019	<b>168,387</b>	-
End of the year	<b>1,306,837</b>	1,139,410

The shares are granted only under service condition with no market condition associated with them.

## **25. BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share for the years ended December 31, 2019 and 2018 is calculated by dividing the net income for the period attributable to the equity holders by the weighted average number of outstanding shares 2019: 746 million shares (2018: 746 million shares) during the period adjusted for treasury shares. Also see note 23.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**26. CASH AND CASH EQUIVALENTS**

	Note	2019 SAR' 000	2018 SAR' 000
Cash and balances with SAMA (excluding statutory deposit)	5	4,362,480	3,286,900
Due from banks and other financial institutions (maturing within ninety days from acquisition)		1,395,392	5,988,016
Held at amortized cost (maturing within ninety days from acquisition)		-	300,050
<b>Total</b>		<b>5,757,872</b>	<b>9,574,966</b>

**27. EMPLOYEE BENEFIT OBLIGATION**

**a. General description**

The Bank operates an End of Service Benefit Plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made in accordance with the actuarial valuation under projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

**b. The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:**

	2019 SAR' 000	2018 SAR' 000
Defined benefit obligation at the beginning of the year	223,590	201,316
Current service cost	36,707	34,658
Finance cost	12,565	8,902
Benefits paid	(22,641)	(21,286)
Unrecognized actuarial loss / (gain)	(3,486)	-
Defined benefit obligation at the end of the year	246,735	223,590

**c. Charge /(reversal) for the year**

	2019 SAR' 000	2018 SAR' 000
Current service cost	37,611	34,634
Past service cost	(904)	24
	36,707	34,658

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**d. Principal actuarial assumptions (in respect of the employee benefit scheme)**

	<b>2019</b> <b>SAR' 000</b>	<b>2018</b> <b>SAR' 000</b>
Discount rate	<b>4.60%</b>	4.90%
Expected rate of salary increase	<b>4.50%</b>	4.50%
Normal retirement age		
• Male	<b>60 years</b>	60 years
• Female	<b>55 years</b>	55 years

Assumptions regarding future mortality are set based on actuarial advice in accordance with the published statistics and experience in the region.

**e. Sensitivity of actuarial assumptions**

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2019 and 2018 to the discount rate 4.60% (2018: 4.90%), salary escalation rate 4.5% (2018: 4.50%), withdrawal assumptions and mortality rates.

	<b>SAR' 000</b>		
<b>2019</b>	<b>Impact on defined benefit obligation – Increase / (Decrease)</b>		
Base Scenario	<b>Change in assumption</b>	<b>Increase in assumption</b>	<b>Decrease in assumption</b>
Discount rate	1%	(27,333)	32,655
Expected rate of salary increase	1%	32,350	(27,599)
Normal retirement age	20%	3,850	3,786

	<b>SAR' 000</b>		
<b>2018</b>	<b>Impact on defined benefit obligation – Increase / (Decrease)</b>		
Base Scenario	<b>Change in assumption</b>	<b>Increase in assumption</b>	<b>Decrease in assumption</b>
Discount rate	1%	(21,995)	32,694
Expected rate of salary increase	1%	32,509	(22,303)
Normal retirement age	20%	166	5,519

The above sensitivity analyses are based on a change in an assumption keeping all other assumptions constant.

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**28. SEGMENTAL INFORMATION**

Operating segments, based on customer groups are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Assets and Liabilities Committee (ALCO) in order to allocate resources to the segments and to assess its performance. The Group's main business is conducted in the Kingdom of Saudi Arabia.

There has been no change to the basis of segmentation or the measurements basis for the segment profit or loss since December 31, 2018.

For management purposes, the Group is divided into the following five operating segments:

**Retail banking**

Services and products to individuals, including deposits, financing, remittances and currency exchange.

**Corporate banking**

Services and products to corporate customers including deposits, financing and trade services.

**Treasury**

Money market and treasury services.

**Investment banking and brokerage**

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

Transactions between the above operating segments are under the terms and conditions of the approved Fund Transfer Pricing (FTP) system. The support segments and Head Office expenses are allocated to other operating segments, based on an approved criteria.

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**a) The Group total assets and liabilities, together with its total operating income and expenses, and net income /(loss), for the years ended December 31, 2019 and 2018 for each segment are as follows:**

<b>2019</b>	<b>Retail</b>	<b>Corporate</b>	<b>Treasury</b>	<b>Investment</b>	<b>Total</b>
<b>SAR' 000</b>	<b>banking</b>	<b>banking</b>		<b>banking and</b>	
				<b>brokerage</b>	
<b>Total assets</b>	<b>36,097,504</b>	<b>30,556,136</b>	<b>18,623,502</b>	<b>798,289</b>	<b>86,075,431</b>
<b>Total liabilities</b>	<b>52,405,238</b>	<b>12,866,552</b>	<b>11,175,488</b>	<b>202,230</b>	<b>76,649,508</b>
<b>Net income from investing and financing assets</b>	<b>1,517,395</b>	<b>922,037</b>	<b>263,710</b>	<b>13,829</b>	<b>2,716,971</b>
<b>Fee, commission and other income, net</b>	<b>764,422</b>	<b>134,995</b>	<b>162,882</b>	<b>166,077</b>	<b>1,228,376</b>
<b>Total operating income</b>	<b>2,281,817</b>	<b>1,057,032</b>	<b>426,592</b>	<b>179,906</b>	<b>3,945,347</b>
<b>Impairment charge for credit and other financial assets, net</b>	<b>159,547</b>	<b>372,360</b>	<b>3,020</b>	<b>696</b>	<b>535,623</b>
<b>Depreciation and amortization</b>	<b>190,221</b>	<b>48,966</b>	<b>6,503</b>	<b>3,234</b>	<b>248,924</b>
<b>Total operating expenses</b>	<b>1,706,099</b>	<b>683,932</b>	<b>77,302</b>	<b>91,291</b>	<b>2,558,624</b>
<b>Net income for the year before zakat</b>	<b>575,718</b>	<b>373,100</b>	<b>349,290</b>	<b>88,615</b>	<b>1,386,723</b>
<b>2018</b>	<b>Retail</b>	<b>Corporate</b>	<b>Treasury</b>	<b>Investment</b>	<b>Total</b>
<b>SAR' 000</b>	<b>banking</b>	<b>banking</b>		<b>banking and</b>	
				<b>brokerage</b>	
<b>Total assets</b>	<b>28,182,812</b>	<b>27,273,497</b>	<b>17,316,949</b>	<b>862,868</b>	<b>73,636,126</b>
<b>Total liabilities</b>	<b>41,433,181</b>	<b>11,755,989</b>	<b>12,268,513</b>	<b>345,494</b>	<b>65,803,177</b>
<b>Net income from investing and financing assets</b>	<b>1,081,276</b>	<b>842,301</b>	<b>225,270</b>	<b>15,386</b>	<b>2,164,233</b>
<b>Fee, commission and other income, net</b>	<b>815,228</b>	<b>120,556</b>	<b>164,528</b>	<b>151,475</b>	<b>1,251,787</b>
<b>Total operating income</b>	<b>1,896,504</b>	<b>962,857</b>	<b>389,798</b>	<b>166,861</b>	<b>3,416,020</b>
<b>Impairment charge for credit and other financial assets, net</b>	<b>222,248</b>	<b>263,934</b>	<b>3,738</b>	<b>533</b>	<b>490,453</b>
<b>Depreciation and amortization</b>	<b>94,366</b>	<b>8,522</b>	<b>2,596</b>	<b>2,608</b>	<b>108,092</b>
<b>Total operating expenses</b>	<b>1,577,615</b>	<b>554,310</b>	<b>78,437</b>	<b>95,148</b>	<b>2,305,510</b>
<b>Net income for the year before zakat</b>	<b>318,889</b>	<b>408,547</b>	<b>311,361</b>	<b>71,713</b>	<b>1,110,510</b>



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**b) Credit exposure by operating segments is as follows:**

<b>2019</b>				
<b><u>SAR' 000</u></b>				
	<b>Retail</b>	<b>Corporate</b>	<b>Treasury</b>	<b>Total</b>
<b>Total assets</b>	<b>28,188,565</b>	<b>31,173,971</b>	<b>13,706,259</b>	<b>73,068,795</b>
<b>Commitments and contingencies</b>	<b>-</b>	<b>3,525,780</b>	<b>-</b>	<b>3,525,780</b>
<b>2018</b>				
<b><u>SAR' 000</u></b>				
	<b>Retail</b>	<b>Corporate</b>	<b>Treasury</b>	<b>Total</b>
<b>Total assets</b>	<b>21,146,184</b>	<b>29,446,849</b>	<b>14,018,980</b>	<b>64,612,013</b>
<b>Commitments and contingencies</b>	<b>-</b>	<b>2,720,263</b>	<b>-</b>	<b>2,720,263</b>

Group credit exposure is comprised of due from bank and other financial institutions, investments and financing. The credit equivalent value of commitments and contingencies are included in credit exposure as calculated in accordance with SAMA regulations.

## **29. FINANCIAL RISK MANAGEMENT**

### **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 Risk Committee which has the responsibility to monitor the overall risk process within the bank.

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, limits and review of the policies.

The Group 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 arrive principally in financing and investment activities. There is also credit risk in off-balance sheet financial instruments, such as letters of credit, letter of guarantees and financing commitments.

The Group assesses the probability of default of counterparties using internal rating tools. In addition, the Group uses external ratings from major rating agencies, where available.

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The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify, 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 Group 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.

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 the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

The Group seeks to manage its credit risk exposure through diversification and managing undue concentration of risks with individuals or groups of customers in specific locations or businesses. It also takes security when appropriate. The Group also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant facilities.

Management 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 of financings.

The Group regularly reviews its risk management policies and systems to reflect changes in market products and emerging best practice.

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**Concentration of risks of financial assets with credit risk exposure and financial liabilities.**

**a) Geographical concentration**

**The geographical distribution of assets, liabilities, commitments and contingencies and credit risk exposure as of December 31:**

<b>2019</b> <b>SAR' 000</b>	<b>Kingdom</b> <b>of Saudi</b> <b>Arabia</b>	<b>Other GCC</b> <b>and Middle</b> <b>East</b>	<b>Europe</b>	<b>North</b> <b>America</b>	<b>South</b> <b>East Asia</b>	<b>Other</b> <b>countries</b>	<b>Total</b>
<b><u>Assets</u></b>							
<b>Cash and balances with SAMA</b>	<b>7,835,872</b>	<b>10,521</b>	<b>4,064</b>	<b>64,986</b>	<b>284</b>	<b>125</b>	<b>7,915,852</b>
Cash in hand	1,589,446	10,521	4,064	64,986	284	125	1,669,426
Balances with SAMA	6,246,426	-	-	-	-	-	6,246,426
<b>Due from Banks and other financial institutions</b>	<b>2,373,518</b>	<b>509,765</b>	<b>1,052,284</b>	<b>18</b>	<b>57,143</b>	<b>49,023</b>	<b>4,041,751</b>
Demand	-	65,000	39,567	18	57,143	49,023	210,751
Commodity murabaha	2,373,518	444,765	1,012,717	-	-	-	3,831,000
<b>Investments, net</b>	<b>10,334,624</b>	<b>628,783</b>	<b>-</b>	<b>23,716</b>	<b>-</b>	<b>-</b>	<b>10,987,123</b>
FVOCI	7,706,861	320,963	-	-	-	-	8,027,824
FVTPL	721,613	120,963	-	23,716	-	-	866,292
Amortized cost	1,906,150	186,857	-	-	-	-	2,093,007
<b>Financing, net</b>	<b>59,362,536</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,362,536</b>
Consumer	28,188,565	-	-	-	-	-	28,188,565
Commercial	31,173,971	-	-	-	-	-	31,173,971
<b>Other assets</b>	<b>1,719,493</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,719,493</b>
<b>Total</b>	<b>81,626,043</b>	<b>1,149,069</b>	<b>1,056,348</b>	<b>88,720</b>	<b>57,427</b>	<b>49,148</b>	<b>84,026,755</b>
<b><u>Liabilities</u></b>							
<b>Due to banks and other financial institutions</b>	<b>26,395</b>	<b>368,326</b>	<b>-</b>	<b>1,394</b>	<b>189,953</b>	<b>59,052</b>	<b>645,120</b>
Demand	-	140,331	-	1,394	11,268	59,052	212,045
Direct investment	26,395	227,995	-	-	178,685	-	433,075
<b>Customer deposits</b>	<b>66,797,565</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>66,797,565</b>
Demand	33,669,863	-	-	-	-	-	33,669,863
Direct investment	12,456,218	-	-	-	-	-	12,456,218
Albilad account (Mudarabah)	19,315,147	-	-	-	-	-	19,315,147
Other	1,356,337	-	-	-	-	-	1,356,337
<b>Sukuk</b>	<b>2,007,768</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,007,768</b>
<b>Other liabilities</b>	<b>6,428,090</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,428,090</b>
<b>Total</b>	<b>75,259,818</b>	<b>368,326</b>	<b>-</b>	<b>1,394</b>	<b>189,953</b>	<b>59,052</b>	<b>75,878,543</b>
<b><u>Commitments and contingencies</u></b>							
Letters of credit	1,199,941	-	-	-	-	-	1,199,941
Letter of guarantee	5,496,676	-	-	-	-	-	5,496,676
Acceptances	353,679	-	-	-	-	-	353,679
Irrevocable commitments to extend credit	1,149,966	-	-	-	-	-	1,149,966
	<b>8,200,262</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,200,262</b>
<b>Credit risk (stated at credit equivalent amounts) on commitments and contingencies</b>	<b>3,525,780</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,525,780</b>

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<u>Assets</u>							
Cash and balances with SAMA	6,372,971	7,404	3,953	53,205	548	120	6,438,201
Cash in hand	1,636,835	7,404	3,953	53,205	548	120	1,702,065
Balances with SAMA	4,736,136	-	-	-	-	-	4,736,136
Due from Banks and other financial institutions	6,302,702	732,851	1,177,377	43,936	36,746	40,672	8,334,284
Demand	-	40,016	27,174	43,936	36,746	40,672	188,544
Commodity murabaha	6,302,702	692,835	1,150,203	-	-	-	8,145,740
Investments, net	6,184,143	263,482	-	18,085	-	-	6,465,710
FVOCI	4,508,881	263,482	-	-	-	-	4,772,363
FVTPL	381,998	-	-	18,085	-	-	400,083
Amortized cost	1,293,264	-	-	-	-	-	1,293,264
Financing, net	50,588,115	-	-	-	-	-	50,588,115
Consumer	21,141,266	-	-	-	-	-	21,141,266
Commercial	29,446,849	-	-	-	-	-	29,446,849
Other assets	463,666	-	-	-	-	-	463,666
<b>Total</b>	<b>69,911,597</b>	<b>1,003,737</b>	<b>1,181,330</b>	<b>115,226</b>	<b>37,294</b>	<b>40,792</b>	<b>72,289,976</b>
<u>Liabilities</u>							
Due to banks and other financial institutions	2,714,499	364,705	762	-	4,069	16,756	3,100,791
Demand	-	257,088	762	-	4,069	16,756	278,675
Direct investment	2,714,499	107,617	-	-	-	-	2,822,116
Customer deposits	57,175,594	-	-	-	-	-	57,175,594
Demand	29,290,547	-	-	-	-	-	29,290,547
Direct investment	11,023,615	-	-	-	-	-	11,023,615
Albilad account (Mudarabah)	15,781,512	-	-	-	-	-	15,781,512
Other	1,079,920	-	-	-	-	-	1,079,920
Sukuk	2,008,587	-	-	-	-	-	2,008,587
Other liabilities	3,225,575	-	-	-	-	-	3,225,575
<b>Total</b>	<b>65,124,255</b>	<b>364,705</b>	<b>762</b>	<b>-</b>	<b>4,069</b>	<b>16,756</b>	<b>65,510,547</b>
<u>Commitments and contingencies</u>							
Letters of credit	825,898	-	-	-	-	-	825,898
Letter of guarantee	4,276,157	-	-	-	-	-	4,276,157
Acceptances	454,411	-	-	-	-	-	454,411
Irrevocable commitments to extend credit	496,104	-	-	-	-	-	496,104
	<u>6,052,570</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,052,570</u>
<u>Credit risk (stated at credit equivalent amounts) on commitments and contingencies</u>							
	<u>2,720,263</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,720,263</u>

Credit equivalent amounts reflect the amounts that result from translating the Group's commitments and contingencies into the risk equivalent of financing facilities using credit conversion factors prescribed by SAMA. Credit conversion factor is used to capture the potential credit risk resulting from the Group meeting its commitments.

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**b) The geographical distribution of the impaired financial assets and the allowance for impairment is set out as below:**

<u>2019</u> SAR' 000	<u>Kingdom</u> <u>of Saudi</u> <u>Arabia</u>	<u>Other GCC</u> <u>and Middle</u> <u>East</u>	<u>Europe</u>	<u>North</u> <u>America</u>	<u>South</u> <u>East</u> <u>Asia</u>	<u>Other</u> <u>countries</u>	<u>Total</u>
Non-Performing financing	735,913	-	-	-	-	-	735,913
Allowance for financing impairment	1,913,700	-	-	-	-	-	1,913,700
Impaired other financial assets	-	-	-	-	-	-	-
Allowance for impairment for other financial assets	16,010	516	-	1	5	-	16,532
<u>2018</u> SAR' 000							
Non-Performing financing	728,626	-	-	-	-	-	728,626
Allowance for financing impairment	1,715,616	-	-	-	-	-	1,715,616
Impaired available for sale investments and commodity murabaha	-	90,923	-	-	-	-	90,923
Allowance for impairment for other financial assets	11,227	91,652	802	5	12	20	103,718

**Credit quality analysis**

The following table sets out information about the credit quality of financial assets measured at amortized cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

<u>31 December 2019</u> <u>SAR in '000'</u>	<u>12 month ECL</u>	<u>Life time ECL not</u> <u>credit impaired</u>	<u>Lifetime ECL credit</u> <u>impaired</u>	<u>Total</u>
<b>Due from bank and other financial institutions</b>				
Investment grade	3,935,200	-	-	3,935,200
Non-investment grade	48,908	-	-	48,908
Unrated	58,713	-	-	58,713
<b>Carrying amount</b>	<b>4,042,821</b>	<b>-</b>	<b>-</b>	<b>4,042,821</b>
<u>31 December 2018</u> <u>SAR in '000'</u>	<u>12 month ECL</u>	<u>Life time ECL not</u> <u>credit impaired</u>	<u>Lifetime ECL credit</u> <u>impaired</u>	<u>Total</u>
Due from bank and other financial institutions				
Investment grade	8,287,166	-	90,923	8,378,089
Non-investment grade	33,685	-	-	33,685
Unrated	15,318	-	-	15,318
<b>Carrying amount</b>	<b>8,336,169</b>	<b>-</b>	<b>90,923</b>	<b>8,427,092</b>

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<b>31 December 2019</b> <b>SAR in '000'</b>	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>Financing to customers at amortized cost</b>				
<b>Commercial</b>				
Grades 1-15: Low – fair risk	22,323,028	4,709,859	-	<b>27,032,887</b>
Grades 16-20: Watch list	1,415,215	3,780,988	-	<b>5,196,203</b>
Grades 21: Substandard	-	-	45,428	<b>45,428</b>
Grades 22: Doubtful	-	-	57,206	<b>57,206</b>
Grades 23: Loss	-	-	349,591	<b>349,591</b>
<b>Consumer</b>				
Unrated	28,146,891	164,341	283,689	<b>28,594,921</b>
<b>Carrying amount</b>	<b>51,885,134</b>	<b>8,655,188</b>	<b>735,914</b>	<b>61,276,236</b>

<b>31 December 2018</b> <b>SAR in '000'</b>	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>Financing to customers at amortized cost</b>				
<b>Commercial</b>				
Grades 1-15: Low – fair risk	20,949,078	5,371,121	-	26,320,199
Grades 16-20: Watch list	1,520,627	2,394,507	100,174	4,015,308
Grades 21: Substandard	-	-	58,023	58,023
Grades 22: Doubtful	-	-	40,696	40,696
Grades 23: Loss	-	-	364,726	364,726
<b>Consumer</b>				
Unrated	21,128,920	152,129	228,648	21,509,697
<b>Carrying amount</b>	<b>43,598,625</b>	<b>7,917,757</b>	<b>792,267</b>	<b>52,308,649</b>

<b>31 December 2019</b> <b>SAR in '000'</b>	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>Debt investment securities at amortized cost</b>				
Investment grade	2,095,448	-	-	<b>2,095,448</b>
<b>Carrying amount</b>	<b>2,095,448</b>	<b>-</b>	<b>-</b>	<b>2,095,448</b>

<b>31 December 2018</b> <b>SAR in '000'</b>	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>Debt investment securities at amortized cost</b>				
Investment grade	1,294,422	-	-	1,294,422
<b>Carrying amount</b>	<b>1,294,422</b>	<b>-</b>	<b>-</b>	<b>1,294,422</b>

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<b>31 December 2019</b> <i>SAR in '000'</i>	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>Debt investment securities at FVOCI</b>				
Investment grade	7,366,097	-	-	<b>7,366,097</b>
Unrated	217,322	-	-	<b>217,322</b>
<b>Carrying amount</b>	<b>7,583,419</b>	-	-	<b>7,583,419</b>

<b>31 December 2018</b> <i>SAR in '000'</i>	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>Debt investment securities at FVOCI</b>				
Investment grade	4,049,487	-	-	4,049,487
Unrated	351,116	-	-	351,116
<b>Carrying amount</b>	<b>4,400,603</b>	-	-	<b>4,400,603</b>

<b>31 December 2019</b> <i>SAR in '000'</i>	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>Commitments and contingencies</b>				
Grades 1-15: Low – fair risk	7,168,044	300,298	-	<b>7,468,342</b>
Grades 16-20: Watch list	114,527	468,901	-	<b>583,428</b>
Grades 21: Substandard	-	-	1,800	<b>1,800</b>
Grades 22: Doubtful	-	-	48,315	<b>48,315</b>
Grades 23: Loss	-	-	98,377	<b>98,377</b>
<b>Carrying amount</b>	<b>7,282,571</b>	<b>769,199</b>	<b>148,492</b>	<b>8,200,262</b>

<b>31 December 2018</b> <i>SAR in '000'</i>	<b>12 month ECL</b>	<b>Life time ECL not credit impaired</b>	<b>Lifetime ECL credit impaired</b>	<b>Total</b>
<b>Commitments and contingencies</b>				
Grades 1-15: Low – fair risk	5,008,057	387,135	-	5,395,192
Grades 16-20: Watch list	208,540	341,170	-	549,710
Grades 21: Substandard	-	-	23,304	23,304
Grades 22: Doubtful	-	-	-	-
Grades 23: Loss	-	-	84,364	84,364
<b>Carrying amount</b>	<b>5,216,597</b>	<b>728,305</b>	<b>107,668</b>	<b>6,052,570</b>

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**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:

- The point in time PD at the reporting date; with
- The Point in time PD estimated at the time of initial recognition of the exposure.

In addition to the above, other major quantitative consideration include days past due and rating of customer.

**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.

The assessment of significant increase in credit risk, is assessed taking on account of:

- Days past due;
- Change in risk of default occurring since initial recognition;
- Expected life of the financial instrument; and
- Reasonable and supportable information, that is available without undue cost or effort that may affect credit risk.

Lifetime expected credit losses are recognized against any material facility which has experienced significant increase in credit risk since initial recognition. Recognition of lifetime expected credit losses will be made if any facility is past due for more than 30 days.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).



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**Credit risk grades**

For the wholesale portfolio, the bank allocates each exposure (either through reliance on internal rating or external rating agencies) 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 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 typically involves use of the following data.

<b>Commercial exposures</b>	<b>All exposures</b>
<ul style="list-style-type: none"><li>• 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, and compliance with covenants, quality management, and senior management changes.</li><li>• Data from credit reference agencies, press articles, changes in external credit ratings</li><li>• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities</li><li>• Business analysis of the borrower, including business risk, management, financial document and support, stability and behavior.</li><li>• Industry analysis in which the borrower is operating, including the phase of industry growth and industry failure rate.</li></ul>	<ul style="list-style-type: none"><li>• Payment record – this includes overdue status as well as a range of variables about payment ratios</li><li>• Utilization of the granted limit</li><li>• Requests for and granting of forbearance</li><li>• Existing and forecast changes in business, financial and economic conditions</li></ul>

**Generating the term structure of PD**

Credit risk grades (or the four aforementioned bucket created for consumer portfolio) are a primary input into the determination of the term structure of PD for exposures.

Using the realized default data for each grade or bucket, the bank employs statistical models to generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

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The Bank employs following steps in order to generated term structure of the PD:

The Bank first calculates the observed default rates for its portfolios which involves monitoring customer behavior over next 12 months, then classifying default, which is then forecasted using acceptable actuarial method and thereafter adjusted for macroeconomic outlook (see below).

The Bank factors in forward looking information in its PD calibration through macroeconomic models for each portfolio. The impact of macroeconomic variables on default rates has been calculated using a multiple scenario-based modeling framework which factors upturn, downturn and baseline scenarios' forecast in to the probability of default. This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors. The forecast is used to estimate the impact on the PD over the upcoming years.

The "Point in Time" PD, and later adjusted for macroeconomic overly to make it forward looking. Transition matrix approach is used to forecast grade wise PDs over the upcoming years transition matrix. This provide the grade wise PD over the upcoming years, thus the term structure of the PD.

**Definition of 'Default'**

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group 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.

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; and
- 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.

**Modified financial assets**

The contractual terms of a financing 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 financing whose terms have been modified may be derecognized and the renegotiated financing recognized as a new financing at fair value in accordance with the accounting policy.

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When the terms of the financial assets are modified that does not result into de-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognized in statement of income for asset modification.

To measure the Significant Increase in Credit Risk (for financial assets not de-recognized during the course of modification), the Bank will compare the risk of default occurring at the reporting date based on modified contract terms and the default risk occurring at initial recognition based on original and unmodified contract terms. Appropriate ECL will be recorded according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3.

The Bank renegotiates financing 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, financing 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 profit payments and amending the terms of financing covenants. Both consumer and commercial financing are subject to the forbearance policy.

The asset will be provided appropriate treatment according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3. No Asset Modification to be considered if the same were not driven by Credit Distress situation of Obligor.

During the period, no material losses were recognized on modification or restructuring of any facility.

**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 since its initial recognition and its measurement of ECL.

For the purpose of ECL measurement with respect to the consumer and commercial (including SME) portfolios, this is done through application of macroeconomic models which have been developed for the various portfolios of the banks. Through the macroeconomic models the banks assesses the impact of the macroeconomic variables on the default rates. The forecasts of the variables is gathered from the external sources.

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.

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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.

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.

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 8 to 10 years.

With respect to the listed, sovereign and Financial Institutions, the bank utilizes a Credit Default Swap based methodology, which incorporates the market's forward looking view in order to arrive at the ECL.

**Measurement of ECL**

For Consumer and Commercial (including SME exposures), the key inputs into the measurement of ECL are the term structure of the following variables:

- a) Probability of default (PD);
- b) Loss given default (LGD); and
- c) Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models 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 statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. 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.

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. LGD is calculated on a discounted cash flow basis using the contractual profit 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.

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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 over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance, terminate a financing commitment, or guarantee.

For consumer overdrafts and credit card facilities that include both a financing and an undrawn commitment component, the Bank measures ECL over a period of contractual maturity, as the bank considers that it has the contractual ability to demand repayment and cancel the undrawn commitment. Although these facilities do not have a fixed term or repayment structure and are managed on a collective basis, there is an annual review of the limits, where these can be cancelled.

For portfolios, such as listed exposures, Sovereign and FI exposures, in respect of which the Bank has limited historical data, credit default swap spreads are utilized to determine the Expected Credit Loss amount.

- **Economic Sector risk concentration for the financing and allowance for impairment are as follows**

SAR, 000'	2019				2018			
	Performing	Credit-impaired	Allowance for impairment	Financing, net	Performing	Credit-impaired	Allowance for impairment	Financing, net
Commercial	4,444,231	150,721	(540,373)	4,054,579	4,633,522	283,649	(426,887)	4,490,284
Industrial	5,611,212	82,256	(218,691)	5,474,777	5,639,354	104,174	(224,377)	5,519,151
Building and construction*	12,462,784	36,534	(340,702)	12,158,616	10,872,621	73,853	(307,470)	10,639,004
Transportation and communication	1,581,507	144	(20,344)	1,561,307	1,570,853	144	(5,700)	1,565,297
Electricity, water, gas & health services	572,582	1,402	(15,830)	558,154	1,172,915	2,125	(3,956)	1,171,084
Services	2,146,330	19,520	(128,804)	2,037,046	1,423,689	19,259	(77,458)	1,365,490
Agriculture and fishing	1,262,881	-	(4,342)	1,258,539	759,342	-	(14,106)	745,236
Mining & Quarrying	1,025,127	-	(1,351)	1,023,776	32,420	-	(125)	32,295
Consumer	28,311,232	283,689	(406,356)	28,188,565	21,339,772	165,007	(363,514)	21,141,265
Other	3,122,437	161,647	(236,907)	3,047,177	4,130,617	80,415	(292,023)	3,919,009
<b>Total</b>	<b>60,540,323</b>	<b>735,913</b>	<b>(1,913,700)</b>	<b>59,362,536</b>	<b>51,575,105</b>	<b>728,626</b>	<b>(1,715,616)</b>	<b>50,588,115</b>

\* The building and construction economic sector includes concentration for the financing and allowance for impairment real estate and rental.

- **Collateral**

The banks in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the financing. These collaterals mostly include time, 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 financing 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.

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The amount of commercial collateral held as security for financing that are credit-impaired as at 31 December 2019 are as follows:

<b>SAR ‘000</b>	<b>2019</b>	<b>2018</b>
Total amount of collateral	<b>31,770,287</b>	29,817,363

**30. MARKET RISK**

Market risk is the risk that the fair value to future cash flows of the financial instruments will fluctuate due to changes in market variables such as profit rate, foreign exchange rates and equity prices.

**a. Profit rate risk**

Cash flow profit rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market profit rates. The Group does not have any significant exposure to the effects of fluctuations in prevailing level of market profit rates on its future cash flows as a significant portion of profit earning financial assets and profit bearing liabilities are at fixed rates and are carried in the consolidated financial statements at amortized cost. In addition to this, a substantial portion of the Group’s financial liabilities are non-profit bearing.

**b. Foreign exchange rate risk**

Foreign exchange rate risk represents the risk of change in the value of financial instruments due to change in exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on both its financial position and on its cash flows. The Group’s management sets limits on the level of exposure by individual currency and in total for intra day positions, which are monitored daily.

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The Group had the following summarized exposure to foreign currency exchange rate risk as at December 31:

	<b>2019</b>		<b>2018</b>	
	<b>Saudi Riyal SAR' 000</b>	<b>Foreign currency SAR' 000</b>	<b>Saudi Riyal SAR' 000</b>	<b>Foreign currency SAR' 000</b>
<b><u>Assets</u></b>				
Cash and balances with SAMA	<b>7,835,872</b>	<b>79,980</b>	6,372,968	65,233
Due from banks and other financial institutions, net	<b>3,642,538</b>	<b>399,213</b>	7,957,037	377,247
Investments, net	<b>9,658,094</b>	<b>1,329,029</b>	5,802,294	663,416
Financing, net	<b>58,628,406</b>	<b>734,130</b>	50,330,280	257,835
Other assets	<b>1,829,093</b>	<b>72,747</b>	638,273	24,695
<b><u>Liabilities and equity</u></b>				
Due to banks and other financial institutions	<b>135,909</b>	<b>509,211</b>	2,477,006	623,785
Customer deposits	<b>64,450,273</b>	<b>2,347,292</b>	56,255,996	919,598
Sukuk	<b>2,007,768</b>	-	2,008,587	-
Other liabilities	<b>7,188,079</b>	<b>10,979</b>	3,513,164	5,041
Equity	<b>9,373,859</b>	<b>52,064</b>	7,841,066	(8,117)

A substantial portion of the net foreign currency exposure to the Group is in US Dollars, where SAR is pegged to US Dollar. The other currency exposures are not considered significant to the Group's foreign exchange rate risks and as a result the Group is not exposed to major foreign exchange rate risks.

The Bank has performed a sensitivity analysis over one year time horizon for the probability of changes in foreign exchange rates, other than US Dollars, using historical average exchange rates and has determined that there is no significant impact on its net foreign currency exposures.

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**Currency position**

At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	<b>2019</b> <b>SAR' 000</b> <b>Long/(short)</b>	<b>2018</b> <b>SAR' 000</b> <b>Long/(short)</b>
US Dollars	<b>(345,234)</b>	(172,436)
Kuwaiti Dinars	<b>5,390</b>	4,198
Pakistani Rupees	<b>60,665</b>	26,423
Euro	<b>(50,188)</b>	(43,709)
UAE Dirhams	<b>13,965</b>	28,351
Bangladeshi Takas	<b>9,499</b>	(4,118)
Others	<b>1,456</b>	9,410
<b>Total</b>	<b>(304,447)</b>	<b>(151,881)</b>

**c. Investment price risk**

Investment risk refers to the risk of decrease in fair values of equities, mutual funds and sukuk in the Group's FVOCI investment portfolio as a result of possible changes in levels of market indices and the value of individual stocks.

The effect on the Group's investments due to reasonable possible change in market indices, with all other variables held constant is as follows:

	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
<b>Security types</b>	<b>Change in investment price %</b>	<b>Effect in SAR' 000</b>	<b>Change in investment price %</b>	<b>Effect in SAR' 000</b>
<b>Equity</b>				
Quoted	±10	<b>29,045</b>	±10	21,562
Unquoted	±2	<b>3,318</b>	±2	3,318
<b>Mutual Funds</b>				
Quoted	±10	<b>32,644</b>	±10	2,151
Unquoted	±2	<b>10,797</b>	±2	7,571
<b>Sukuk</b>				
Quoted	±10	<b>116,351</b>	±10	77,506
Unquoted	±2	<b>144,164</b>	±2	72,316



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**31. LIQUIDITY RISK**

Liquidity risk is the risk that the Group will not be able 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 dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Assets Liability Committee (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 Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2018: 7%) of total monthly average demand deposits and 4% (2018: 4%) of monthly average time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its total deposits, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through special investment arrangements facilities with SAMA.

**- Analysis of discounted financial assets and financial liabilities by expected maturities**

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

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<b><u>2019</u></b> <b><u>SAR' 000</u></b>	<b>Within 3</b> <b>Months</b>	<b>3 months</b> <b>to 1 year</b>	<b>Over one</b> <b>year to 5</b> <b>years</b>	<b>Over 5</b> <b>years</b>	<b>No fixed</b> <b>maturity</b>	<b>Total</b>
<b><u>Assets</u></b>						
<b>Cash and balances with SAMA</b>	<b>4,362,480</b>	-	-	-	<b>3,553,372</b>	<b>7,915,852</b>
Cash in hand	1,669,426	-	-	-	-	1,669,426
Balances with SAMA	2,693,054	-	-	-	3,553,372	6,246,426
<b>Due from Banks and other financial institutions</b>	<b>2,964,680</b>	<b>505,371</b>	<b>571,700</b>	-	-	<b>4,041,751</b>
Demand	210,751	-	-	-	-	210,751
Commodity murabaha	2,753,929	505,371	571,700	-	-	3,831,000
<b>Investments, net</b>	-	<b>248,933</b>	<b>981,728</b>	<b>8,433,847</b>	<b>1,322,615</b>	<b>10,987,123</b>
FVOCI	-	248,933	981,728	6,340,840	456,323	8,027,824
FVTPL	-	-	-	-	866,292	866,292
Amortized cost	-	-	-	2,093,007	-	2,093,007
<b>Financing, net</b>	<b>7,566,426</b>	<b>10,653,513</b>	<b>27,066,150</b>	<b>14,076,447</b>	-	<b>59,362,536</b>
Consumer	1,125,074	3,335,214	13,281,670	10,446,607	-	28,188,565
Commercial	6,441,352	7,318,299	13,784,480	3,629,840	-	31,173,971
<b>Other assets</b>	-	-	-	-	<b>1,719,493</b>	<b>1,719,493</b>
<b>Total assets</b>	<b>14,893,586</b>	<b>11,407,817</b>	<b>28,619,578</b>	<b>22,510,294</b>	<b>6,595,480</b>	<b>84,026,755</b>
<b><u>Liabilities</u></b>						
<b>Due to banks and other financial institutions</b>	<b>645,120</b>	-	-	-	-	<b>645,120</b>
Demand	212,045	-	-	-	-	212,045
Direct investment	433,075	-	-	-	-	433,075
<b>Customer deposits</b>	<b>10,127,326</b>	<b>2,328,892</b>	-	-	<b>54,341,347</b>	<b>66,797,565</b>
Demand	-	-	-	-	33,669,863	33,669,863
Direct investment	10,127,326	2,328,892	-	-	-	12,456,218
Albilad account (Mudarabah)	-	-	-	-	19,315,147	19,315,147
Other	-	-	-	-	1,356,337	1,356,337
<b>Sukuk</b>	-	-	-	<b>2,007,768</b>	-	<b>2,007,768</b>
<b>Other liabilities</b>	-	-	-	-	<b>6,428,090</b>	<b>6,428,090</b>
<b>Total Liabilities</b>	<b>10,772,446</b>	<b>2,328,892</b>	-	<b>2,007,768</b>	<b>60,769,437</b>	<b>75,878,543</b>
<b>Commitments &amp; contingencies</b>	<b>1,720,735</b>	<b>2,801,909</b>	<b>2,168,166</b>	<b>1,509,452</b>	-	<b>8,200,262</b>

The cumulative maturities of commitments & contingencies are given in note 19 of the financial statements

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<u>2018</u> <u>SAR' 000</u>	Within 3 Months	3 months to 1 year	Over one year to 5 years	Over 5 years	No fixed maturity	Total
<u>Assets</u>						
Cash and balances with SAMA	3,286,900	-	-	-	3,151,301	6,438,201
Cash in hand	1,702,065	-	-	-	-	1,702,065
Balances with SAMA	1,584,835	-	-	-	3,151,301	4,736,136
Due from Banks and other financial institutions	6,885,787	75,261	1,373,236	-	-	8,334,284
Demand	188,544	-	-	-	-	188,544
Commodity murabaha	6,697,243	75,261	1,373,236	-	-	8,145,740
Investments, net	-	248,811	706,647	4,728,657	781,595	6,465,710
FVOCI	-	248,811	706,647	3,435,393	381,512	4,772,363
FVTPL	-	-	-	-	400,083	400,083
Amortized cost	-	-	-	1,293,264	-	1,293,264
Financing, net	12,270,364	10,796,460	22,200,108	5,321,183	-	50,588,115
Consumer	1,397,947	3,860,325	11,709,970	4,173,023	-	21,141,265
Commercial	10,872,417	6,936,135	10,490,138	1,148,160	-	29,446,850
Other assets	-	-	-	-	463,666	463,666
Total assets	<u>22,443,051</u>	<u>11,120,532</u>	<u>24,279,991</u>	<u>10,049,840</u>	<u>4,396,562</u>	<u>72,289,976</u>
<u>Liabilities</u>						
Due to banks and other financial institutions	2,912,798	187,993	-	-	-	3,100,791
Demand	278,675	-	-	-	-	278,675
Direct investment	2,634,123	187,993	-	-	-	2,822,116
Customer deposits	9,309,766	1,713,849	-	-	46,151,979	57,175,594
Demand	-	-	-	-	29,290,547	29,290,547
Direct investment	9,309,766	1,713,849	-	-	-	11,023,615
Albilad account (Mudarabah)	-	-	-	-	15,781,512	15,781,512
Other	-	-	-	-	1,079,920	1,079,920
Sukuk	-	-	-	2,008,587	-	2,008,587
Other liabilities	-	-	-	-	3,225,575	3,225,575
Total Liabilities	<u>12,222,564</u>	<u>1,901,842</u>	<u>-</u>	<u>2,008,587</u>	<u>49,377,554</u>	<u>65,510,547</u>
Commitments & contingencies	1,594,015	2,534,995	1,731,309	192,251	-	6,052,570

The cumulative maturities of commitments & contingencies are given in note 19 of the financial statements

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**a. Analysis of financial liabilities by the remaining undiscounted contractual maturities as at December 31, are as follows:**

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2019 and 2018 based on contractual undiscounted repayment obligations whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

As investment and financing profit payments up to contractual maturity are included in the table, totals do not match with the statement of financial position.

<b><u>2019</u></b> <b>SAR' 000</b>	<b>Within 3 Months</b>	<b>3 months to 1 year</b>	<b>Over one year to 5 years</b>	<b>Over 5 Years</b>	<b>No fixed Maturity</b>	<b>Total</b>
<b>Financial liabilities</b>						
Due to banks and other financial institutions	<b>645,617</b>	-	-	-	-	<b>645,617</b>
Customers' deposits	<b>10,177,569</b>	<b>2,411,922</b>	-	-	<b>54,341,347</b>	<b>66,930,838</b>
 <b><u>2018</u></b> <b>SAR' 000</b>						
<b>Financial liabilities</b>						
Due to banks and other financial institutions	2,914,620	190,903	-	-	-	3,105,523
Customers' deposits	9,324,034	1,737,470	-	-	46,151,979	57,213,483

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**32. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

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

- **Determination of fair value and fair value hierarchy**

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

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.

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

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	<u>Carrying value</u>	<u>Fair value</u>			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>SAR' 000</b>					
<b>December 31, 2019</b>					
<b>Financial assets measured at fair value</b>					
Held as FVTPL	866,292	326,443	539,849	-	866,292
Held as FVOCI	8,027,824	985,816	-	7,042,008	8,027,824
<b>Financial assets not measured at fair value</b>					
Due from banks and other financial institutions, net	4,041,751	-	-	4,041,751	4,041,751
Investments held at amortized cost	2,093,007	468,140	-	1,624,867	2,093,007
Financing, net	59,362,536	-	-	59,268,946	59,268,946
	<u>Carrying value</u>	<u>Fair value</u>			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>SAR' 000</b>					
<b>December 31, 2018</b>					
<b>Financial assets measured at fair value</b>					
Held as FVTPL	400,083	21,509	378,574	-	400,083
Held as FVOCI	4,772,363	990,676	-	3,781,687	4,772,363
<b>Financial assets not measured at fair value</b>					
Due from banks and other financial institutions, net	8,334,284	-	-	8,334,284	8,334,284
Investments held at amortized cost	1,293,264	-	-	1,293,264	1,293,264
Financing, net	50,588,115	-	-	50,014,077	50,014,077

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		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
SAR' 000					
December 31, 2019					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	645,120	-	-	645,120	645,120
Customers' deposits	66,797,565	-	-	66,797,565	66,797,565
Sukuk	2,007,768	-	-	2,007,768	2,007,768
	Carrying value	Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
SAR' 000					
December 31, 2018					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	3,100,791	-	-	3,100,791	3,100,791
Customers' deposits	57,175,594	-	-	57,175,594	57,175,594
Sukuk	2,008,587	-	-	2,008,587	2,008,587

The fair values of financial instruments which are not measured at fair value in these consolidated financial statements are not significantly different from the carrying values included in the consolidated financial statements.

Cash and balances with SAMA, due from banks with maturity of less than 90 days and other short-term receivable are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature.

The fair values, of profit bearing customer deposits, held at amortized cost investment, due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since either the current market profit rates for similar financial instruments are not significantly different from the contracted rates, or for the short duration of certain financial instruments particularly due from and due to banks and other financial institutions or a combination of both. An active market for these instruments is not available and the Group intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

Financing classified as level 3 have been valued using expected cash flows discounted at relevant SIBOR.

Fair Value Through Other Comprehensive Income (FVOCI) investments classified as level 3 include unlisted sukuk which have been measured by the management at fair value using broker quotes or estimating present value by discounting cash flows using adjusted discount rate. The adjusted discount rate is calculated using CDS of a similar entity using publicly available information. The valuation method has been approved by ALCO.

During the current year, no financial assets / liabilities have been transferred between level 1 and / or level 2 fair value hierarchy.

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• **Reconciliation of level 3 fair values held as FVOCI**

	December 31, 2019 SAR' 000	December 31, 2018 SAR' 000
Balance at the beginning of the year	3,781,687	1,714,107
Purchase	3,354,947	2,086,171
<b>Gain / (loss) included in OCI</b>		
Net changes in fair value (unrealised)	(94,625)	(18,591)
<b>Total</b>	<b>7,042,009</b>	<b>3,781,687</b>

**33. RELATED PARTY BALANCES AND TRANSACTIONS**

In the ordinary course of activities, the Group transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

The nature and balances of transactions with the related parties for the years ended December 31 are as follows:

	2019 <u>SAR' 000</u>	2018 <u>SAR' 000</u>
<b>a) Directors, Key management personnel, other major shareholders and their affiliates balances:</b>		
• Financing	3,230,862	2,274,067
• Commitments and contingencies	122,549	78,726
• Deposits	271,235	227,408

	2019 <u>SAR' 000</u>	2018 <u>SAR' 000</u>
<b>b) Group's mutual funds:</b>		

These are the outstanding balances with Group's mutual funds as of December 31:

• Customers' deposits	32,954	8,758
• Investments – units	428,552	221,307



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**c) Income and expense:**

**Directors, Key management personnel, other major shareholders and their affiliates and mutual funds managed by the Group:**

	<b>2019</b>	<b>2018</b>
	<b><u>SAR' 000</u></b>	<b><u>SAR' 000</u></b>
• Income	<b>242,665</b>	114,106
• Expenses	<b>10,936</b>	15,683

**d) The total amount of compensation paid to key management personal during the year is as follows:**

	<b>2019</b>	<b>2018</b>
	<b><u>SAR' 000</u></b>	<b><u>SAR' 000</u></b>
• Employee benefits	<b>75,802</b>	76,300

**34. CAPITAL ADEQUACY**

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

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

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

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The following table summarizes the Group's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios.

	<b>2019</b> <b><u>SAR' 000</u></b>	<b>2018</b> <b><u>SAR' 000</u></b>
Credit Risk RWA	<b>63,300,773</b>	55,268,406
Operational Risk RWA	<b>6,384,244</b>	5,572,623
Market Risk RWA	<b>414,729</b>	231,436
<b>Total Pillar-I RWA</b>	<b><u>70,099,746</u></b>	<u>61,072,465</u>
Tier I Capital	<b>9,473,031</b>	7,890,012
Tier II Capital	<b>2,791,260</b>	2,690,855
<b>Total Tier I &amp; II Capital</b>	<b><u>12,264,291</u></b>	<u>10,580,867</u>
<b><u>Capital Adequacy Ratio %</u></b>		
Tier I ratio	<b>13.51%</b>	12.92%
Tier I + Tier II ratio	<b>17.50%</b>	17.33%

### **35. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES**

The Bank offers investment management services to its customers through its subsidiary, AlBilad Investment Company. These services include the management of nine public mutual funds (2018: seven public mutual funds) with assets under management (AUM) totaling SAR 1,995 million (2018: SAR 1,053 million). Al Bilad Investment acts as the fund manager of these funds. All of these funds comply with Shariah rules and are subject to Shariah controls on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors.

The Group also manages private investment portfolios on behalf of its customers amounting to SAR 1,994 million (2018: SAR 1,240 million). The financial statements of these funds and private portfolios are not included in the consolidated financial statements of the Group. However, the transactions between the Group and the funds are disclosed under related party transactions (see note 33).

### **36. COMPARATIVE FIGURES**

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

### **37. BOARD OF DIRECTORS' APPROVAL**

The consolidated financial statements were authorized for issue by the Board of Directors on 12 Jumada " Al Thani 1441H (corresponding to 06 February, 2020).