



BANQUE SAUDI FRANSI
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED
SEPTEMBER 30, 2020

INDEPENDENT AUDITORS' REPORT ON REVIEW OF
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO: The Shareholders of Banque Saudi Fransi
(A Saudi Joint Stock Company)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Banque Saudi Fransi (“the Bank”) and its subsidiaries (collectively referred to as “the Group”) as at 30 September 2020, and the related interim consolidated statements of income and comprehensive income for the three and nine month periods then ended, and the related interim consolidated statements of changes in equity and cash flows for the nine month period then ended and other explanatory notes (collectively referred to as “the interim condensed consolidated financial statements”).

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34: “*Interim Financial Reporting*” (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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



KPMG Al Fozan & Partners
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other regulatory matters

As required by Saudi Arabian Monetary Authority ("SAMA"), certain capital adequacy information has been disclosed in note 19 to the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 19 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

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23 Rabi' Al Awwal 1442H
9 November 2020



BANQUE SAUDI FRANSI
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at

Page 1

SAR '000	Notes	Sep 30, 2020 (Unaudited)	Dec 31, 2019 (Audited)	Sep 30, 2019 (Unaudited)
ASSETS				
Cash and balances with SAMA	6	9,478,176	9,117,336	15,914,052
Due from banks and other financial institutions	7	3,718,503	3,742,090	5,600,192
Investments, net	8	37,900,807	31,453,779	32,385,518
Positive fair value of derivatives	12	7,235,804	4,606,551	5,029,900
Loans and advances, net	9	134,355,742	125,725,096	123,438,906
Investment in associate		9,695	9,695	9,695
Property and equipment, net		1,416,486	1,324,567	1,329,559
Other real estate		388,023	406,151	423,509
Deferred Tax		36,815	42,937	41,647
Other assets		2,904,757	1,720,375	2,192,300
Total assets		197,444,808	178,148,577	186,365,278
LIABILITIES AND EQUITY				
Liabilities				
Due to banks and other financial institutions	10	16,451,975	2,372,140	1,651,590
Customers' deposits	11	135,654,647	132,837,502	141,898,066
Negative fair value of derivatives	12	5,449,331	3,069,406	3,474,083
Other liabilities		6,206,239	6,922,811	6,729,443
Total liabilities		163,762,192	145,201,859	153,753,182
Equity				
Share capital		12,053,572	12,053,572	12,053,572
Statutory reserve		12,053,572	12,053,572	12,053,572
General reserve		982,857	982,857	982,857
Other reserves		1,270,307	812,222	996,021
Retained earnings		7,398,144	5,945,881	6,632,254
Proposed dividend		-	1,199,679	-
Treasury shares		(75,836)	(101,065)	(106,180)
Total equity		33,682,616	32,946,718	32,612,096
Total liabilities and equity		197,444,808	178,148,577	186,365,278

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

Abdullah Alkhalifa



Chief Financial Officer

Rayan Fayez



Managing Director & CEO

SAR '000	For the three months ended		For the nine months ended	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
Special commission income	1,569,057	1,871,145	4,860,134	5,586,102
Special commission expense	194,019	527,236	901,035	1,671,728
Net special commission income	1,375,038	1,343,909	3,959,099	3,914,374
Fee and commission income	361,123	347,524	1,064,490	1,106,923
Fee and commission expense	111,469	75,285	306,946	247,795
Net fee and commission income	249,654	272,239	757,544	859,128
Exchange income, net	84,881	87,267	296,610	252,553
Trading income, net	25,740	6,799	106,478	76,594
Dividend income	291	484	871	2,152
Gain on FVOCI / non-trading investments, net	-	8,780	7,027	13,982
Other operating income	15,148	18,236	140,088	48,043
Total operating income	1,750,752	1,737,714	5,267,717	5,166,826
Salaries and employee related expenses	353,177	342,449	1,049,957	966,114
Rent and premises related expenses	17,469	20,544	50,855	56,099
Depreciation and amortization	54,568	53,512	156,308	158,709
Other operating and general and administrative expenses	151,038	139,711	435,220	420,271
Total operating expenses before impairment charges	576,252	556,216	1,692,340	1,601,193
Impairment charge for credit losses, net	930,449	226,217	1,962,332	570,703
Impairment reversal for investments, financial assets and others, net	(179,697)	(9,528)	(163,987)	(51,433)
Total operating expenses, net	1,327,004	772,905	3,490,685	2,120,463
Net income for the period before zakat and income tax	423,748	964,809	1,777,032	3,046,363
Zakat and income tax for the period	90,358	84,810	324,769	445,905
Net income for the period after zakat and income tax	333,390	879,999	1,452,263	2,600,458
Basic and diluted earnings per share for the period after zakat and income tax (SAR)	0.28	0.73	1.21	2.17

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

Abdullah Alkhalifa



Chief Financial Officer

Rayan Fayez



Managing Director & CEO

SAR '000	For the three months ended		For the nine months ended	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
Net income for the period after zakat and income tax	333,390	879,999	1,452,263	2,600,458
Other comprehensive income / (loss):				
Items that cannot be recycled back to consolidated statement of income in subsequent periods				
<u>Movement in fair value reserve (equity instruments)</u>				
Net change in the fair value	58,150	14,304	66,289	(4,470)
Items that can be recycled back to consolidated statement of income in subsequent periods				
<u>Debt instruments at fair value through other comprehensive income</u>				
Net change in the fair value	(147,636)	25,657	3,578	108,398
Income transferred to interim consolidated statement of income	-	(8,653)	(7,027)	(13,982)
<u>Cash flow hedge</u>				
Net change in the fair value	(69,708)	242,181	776,758	1,138,849
(Income) / loss transferred to interim consolidated statement of income	(178,276)	6,180	(381,513)	85,530
Other comprehensive income / (loss) for the period	(337,470)	279,669	458,085	1,314,325
Total comprehensive income / (loss) for the period after zakat and income tax	(4,080)	1,159,668	1,910,348	3,914,783

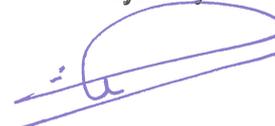
The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Abdullah Alkhalifa



Chief Financial Officer

Rayan Fayez



Managing Director & CEO

BANQUE SAUDI FRANSI
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Unaudited

Page 4

SAR '000	Share capital	Statutory reserve	General reserve	Retained earnings	Other reserves		Proposed dividend	Treasury shares	Total
					FVOCI	Cash flow hedge			
	12,053,572	12,053,572	982,857	5,945,881	68,138	744,084	1,199,679	(101,065)	32,946,718
For the nine months period ended September 30, 2020									
Balance at the beginning of the period	-	-	-	1,452,263	-	-	-	-	1,452,263
Net income for the period after zakat and income tax	-	-	-	-	69,867	776,758	-	-	846,625
Net change in the fair value	-	-	-	-	(7,027)	(381,513)	-	-	(388,540)
Net amount transferred to consolidated statement of income	-	-	-	-	62,840	395,245	-	-	1,910,348
Total comprehensive income for the period	-	-	-	1,452,263	-	-	-	-	(1,199,679)
Final dividend paid for 2019	-	-	-	-	-	-	(1,199,679)	-	25,229
Net change in treasury shares	-	-	-	-	-	-	-	25,229	(75,836)
Balance at the end of the period	12,053,572	12,053,572	982,857	7,398,144	130,978	1,139,329	-	(75,836)	33,682,616
	12,053,572	12,053,572	982,857	5,200,042	(9,786)	(308,518)	958,081	(117,441)	30,812,379
For the nine months period ended September 30, 2019									
Balance at the beginning of the period	-	-	-	(62,666)	-	-	-	-	(62,666)
Impact of adopting IFRS 16 as at 01 January 2019	-	-	-	49,571	-	-	-	-	49,571
Impact of adopting IAS 12 as at 01 January 2019	-	-	-	-	-	-	-	-	-
Restated balance as at 1 January 2019	12,053,572	12,053,572	982,857	5,186,947	(9,786)	(308,518)	958,081	(117,441)	30,799,284
Net income for the period after zakat and income tax	-	-	-	2,600,458	-	-	-	-	2,600,458
Net change in the fair value	-	-	-	-	103,928	1,138,849	-	-	1,242,777
Net amount transferred to consolidated statement of income	-	-	-	-	(13,982)	85,530	-	-	71,548
Total comprehensive income for the period	-	-	-	2,600,458	89,946	1,224,379	-	-	3,914,783
Interim dividend paid for 2019	-	-	-	(1,155,151)	-	-	-	-	(1,155,151)
Final dividend paid for 2018	-	-	-	-	-	-	(958,081)	-	(958,081)
Net change in treasury shares	-	-	-	-	-	-	-	11,261	11,261
Balance at the end of the period	12,053,572	12,053,572	982,857	6,632,254	80,160	915,861	-	(106,180)	32,612,096

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

Abdullah Alkhalifa



Chief Financial Officer

Rayan Fayed



Managing Director & CEO

SAR '000	Note	For the nine months ended	
		Sep 30, 2020	Sep 30, 2019
OPERATING ACTIVITIES			
Net income for the period before zakat and income tax		1,777,032	3,046,363
Adjustments to reconcile net income before zakat and income tax to net cash from / (used in) operating activities:			
Accretion of discounts / (premium) on investments not held as FVIS, net		23,835	(111,217)
Gains on FVOCI		(7,027)	(13,982)
Depreciation and amortization		156,308	158,709
Gains on disposal of property and equipment, net		(272)	(425)
Impairment charge for credit losses, net	9	1,962,332	570,703
Impairment reversal for investments, financial assets and others, net		(163,987)	(51,433)
Long term incentive scheme provision		25,229	11,261
Provision on other real estate		(2,841)	40,000
Operating income before changes in operating assets and liabilities		3,770,609	3,649,979
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA ("Saudi Arabian Monetary Authority")		(252,326)	68,539
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		1,350,000	2,477,000
Investments held as FVIS, trading		(171,036)	263,993
Loans and advances		(10,592,978)	(3,377,975)
Other assets		(3,393,751)	(2,779,854)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		14,079,835	(493,891)
Customers' deposits		2,817,145	(6,469,938)
Other liabilities		1,884,509	2,789,559
Zakat and income tax paid		9,492,007	(3,872,588)
		(429,753)	(654,367)
Net cash generated from / (used in) operating activities		9,062,254	(4,526,955)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investment not held as FVIS		17,624,481	5,963,903
Purchase of investments not held as FVIS		(23,838,731)	(10,006,680)
Purchases of property and equipment		(213,670)	(126,157)
Proceeds from sale of property and equipment		272	1,100
Net cash used in investing activities		(6,427,648)	(4,167,834)
FINANCING ACTIVITIES			
Dividends paid		(1,199,679)	(2,109,232)
Repayment of debt securities		-	(2,000,000)
Net cash used in financing activities		(1,199,679)	(4,109,232)
Increase / (decrease) in cash and cash equivalents		1,434,927	(12,804,021)
Cash and cash equivalents at the beginning of the period		3,662,506	23,989,879
Cash and cash equivalents at the end of the period	14	5,097,433	11,185,858
Special commission received during the period		4,733,031	5,498,542
Special commission paid during the period		1,226,451	1,629,708
Supplemental non-cash information			
Net changes in fair value and transfers to interim consolidated statement of income		458,085	1,314,325

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

Abdullah Alkhalifa



Chief Financial Officer

Rayan Fayez



Managing Director & CEO

1. General

Banque Saudi Fransi (the Bank) is a Saudi Joint Stock Company established by Royal Decree No. M/23 dated Jumada Al Thani 17, 1397H (corresponding to June 04, 1977). The Bank formally commenced its activities on Muharram 01, 1398H (corresponding to December 11, 1977), by taking over the branches of the Banque de l'Indochine et de Suez in the Kingdom of Saudi Arabia. The Bank operates under Commercial Registration Number 1010073368 dated Safar 04, 1410H (corresponding to September 05, 1989), through its 87 branches (September 30, 2019: 87 branches) in the Kingdom of Saudi Arabia, employing 2,883 people (September 30, 2019: 2,972 people).

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

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

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

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

2. Basis of preparation

The interim condensed consolidated financial statements of the Group as at and for the period ended September 30, 2020 and September 30, 2019 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organisation for Certified Public Accountants ("SOCPA"). The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group annual consolidated financial statements as at December 31, 2019.

The consolidated financial statements of the Group as at and for the year ended December 31, 2019, were prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the SOCPA.

3. Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Bank and its subsidiaries; Saudi Fransi Capital, Saudi Fransi Insurance Agency, Saudi Fransi for Finance Leasing, Sofinco Saudi Fransi, Sakan Real Estate Financing and BSF Markets Limited. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Adjustments are made wherever necessary in the financial statements of the subsidiaries to align with the Bank's interim condensed consolidated financial statements.

Subsidiaries are the entities that are controlled by the Bank. The Bank controls an entity when it is exposed, or has a right, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

3. Basis of consolidation (continued)

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed during the period, if any, are consolidated in the interim condensed consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

Balances between the Bank and its subsidiaries, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4. Significant Accounting Policies

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2019 except for the policies explained below:

Government grant:

The Bank recognizes a government grant related to income, if there is a reasonable assurance that it will be received and the Bank will comply with the conditions associated with the grant. The benefit of a government deposit at a below-market rate of profit is treated as a government grant related to income. The below-market rate deposit is recognized and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below-market rate of interest is measured as the difference between the initial fair value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. The government grant is recognised in the statement of income on a systematic basis over the period in which the Bank recognises as expenses the related costs for which the grant is intended to compensate. The grant income is only recognised when the ultimate beneficiary is the Bank. Where the customer is the ultimate beneficiary, the Bank only records the respective receivable and payable amounts.

Impact of changes in accounting policies due to adoption of new standards:

The below are amended accounting standards that become applicable for annual reporting periods commencing on January 01, 2020:

- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Amendments to References to the Conceptual Framework in IFRS Standards.

The above amendments to IFRS do not have material impact on the accompanying interim condensed consolidated financial statements of the Bank.

IBOR Transition (Interest Rate Benchmark Reforms):

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.

Phase 1 – The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from January 01, 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

4. Significant Accounting Policies (continued)

Phase 2 – The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after January 01, 2021 and early application is permitted. Now that the Phase 2 Amendments have been finalised, the Bank will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programmes to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement, the Bank needs to ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Bank will have to assess and implement required updates in the financial reporting systems and processes to gather and present the information required.

Management is running a project on the Group's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

5. Impact of COVID-19 on Expected Credit Losses (“ECL”) and SAMA programs

The Coronavirus (“COVID-19”) pandemic continues to disrupt global markets as many geographies are beginning to experience a “second wave” of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia (“the Government”) however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Bank continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

The prevailing economic conditions do require the Bank to continue to revise certain inputs and assumptions used for the determination of expected credit losses (“ECL”). These primarily revolve around either adjusting macroeconomic factors used by the Bank in the estimation of ECL or revisions to the scenario probabilities currently being used by the Bank. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. Accordingly, management’s ECL assessment includes sector-based analysis depending on the impacted portfolios and macroeconomic analysis. The Bank has therefore recognised overlays of SAR 325 million as at September 30, 2020. The Bank will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods.

SAMA support programs and initiativesPrivate Sector Financing Support Program (“PSFSP”)

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises (“MSME”) as per the definition issued by SAMA via Circular No. 381000064902 dated Jumada II 16, 1438H. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Funding for lending program;
- Facility guarantee program; and
- Point of sale (“POS”) and e-commerce service fee support program.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

5. Impact of COVID-19 on Expected Credit Losses (“ECL”) and SAMA programs (continued)

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for six months on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by deferring the instalments falling due within the period from March 14, 2020 to September 14, 2020 for a period of six months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of net special commission income. The Bank continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk.

Further to the above, on September 01, 2020 SAMA extended the deferred payments program by allowing additional three months payment deferrals for eligible MSMEs until December 14, 2020. The Bank has affected the payment reliefs by deferring the instalments falling due within the period from September 15, 2020 to December 14, 2020 for a period of additional three months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of the arrangement. This resulted in the Bank recognising an additional modification loss of SAR 18 million during the period ended September 30, 2020.

Since the inception of the deferred payments program by SAMA and by the end of Q3 2020, the Bank has recognised SAR 92 million of related modification losses of which SAR 56 million have been unwound.

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, during the nine months period ended September 30, 2020 the Bank received profit free deposits from SAMA amounting to SAR 9,203 million with varying maturities, which qualify as government grants. Management has determined based on the communication from SAMA, that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. By the end of September 30, 2020, total income of SAR 171 million has been recognised in the statement of income and SAR 174 million deferred. The management has exercised certain judgements in the recognition and measurement of the above grant income. During the nine months period ended September 30, 2020, SAR 19 million has been charged to the net special commission income relating to unwinding.

As at September 30, 2020, the Bank is yet to participate in SAMA's funding for lending and loan guarantee programs.

Furthermore, during the nine months period ended September 30, 2020, the Bank has recognised reimbursement from SAMA for the forgone POS and e-commerce service fee amounting to SAR 75 million.

SAMA liquidity support for the Saudi banking sector amounting to SAR 50 billion

In line with its monetary and financial stability mandate, SAMA injected an amount of fifty billion riyals in order to:

- Enhance the liquidity in the banking sector and enable it to continue its role in providing credit facilities to private sector companies;
- Restructure current credit facilities without any additional fees;
- Support plans to maintain employment levels in the private sector; and
- Provide relief for a number of banking fees that have been waived for customers.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

5. Impact of COVID-19 on Expected Credit Losses (“ECL”) and SAMA programs (continued)

In this regard, during Q2 2020, the Bank received SAR 4,612 million profit free deposit with one year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SAR 90 million, of which SAR 80 million has been recognised as part of net special commission income as at September 30, 2020 and with the remaining amount deferred.

Bank’s initiative - Health care sector support

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. This resulted in the Bank recognising a day 1 modification loss of SAR 23 million in March 2020, which was presented as part of net special commission income. As the three month period for this voluntarily postponed payments ended; therefore, the Bank has completely unwounded the impact till Q3 2020.

6. Cash and balances with SAMA

SAR '000	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
Cash on hand	1,033,364	995,416	1,089,229
Statutory deposit	8,099,246	7,846,920	8,081,823
Money market placements with SAMA	345,566	275,000	6,743,000
Total	9,478,176	9,117,336	15,914,052

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

7. Due from banks and other financial institutions

SAR '000	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
Current accounts	2,451,013	2,157,485	2,802,252
Money market placements	1,267,875	1,584,978	2,799,304
Less: impairment	(385)	(373)	(1,364)
Total	3,718,503	3,742,090	5,600,192

i) The following table shows the stage wise due from banks and other financial institutions:

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
September 30, 2020 (Unaudited)	3,718,842	46	-	3,718,888
December 31, 2019 (Audited)	3,734,954	7,509	-	3,742,463
September 30, 2019 (Unaudited)	5,598,585	2,971	-	5,601,556

ii) The following table shows the stage wise movement in ECL allowance for due from banks and other financial institutions:

SAR '000	September 30, 2020 (Unaudited)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	333	40	-	373
Change for the period, net	50	(38)	-	12
Balance at the end of the period	383	2	-	385

SAR '000	December 31, 2019 (Audited)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	825	2,027	-	2,852
Change for the period, net	(492)	(1,987)	-	(2,479)
Balance at the end of the period	333	40	-	373

SAR '000	September 30, 2019 (Unaudited)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	825	2,027	-	2,852
Change for the period, net	507	(1,995)	-	(1,488)
Balance at the end of the period	1,332	32	-	1,364

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

8. Investments, net

Investments are classified as follows:

SAR '000	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
Investment at amortized cost	25,668,960	22,127,595	24,531,875
Investments at FVOCI – Debt instruments	11,749,214	9,153,150	7,656,961
Investments at FVOCI – Equity/ other investments	252,195	119,706	124,169
Investment at FVIS – Debt instruments	246,448	75,412	92,644
Less: Impairment	(16,010)	(22,084)	(20,131)
Total	37,900,807	31,453,779	32,385,518

i) The following table shows the stage wise debt instruments at amortized cost and FVOCI:

SAR '000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
September 30, 2020 (Unaudited)	37,418,174	-	-	37,418,174
December 31, 2019 (Audited)	31,280,745	-	-	31,280,745
September 30, 2019 (Unaudited)	32,188,836	-	-	32,188,836

ii) The following table shows the stage wise movement in ECL allowance for debt instruments:

SAR '000	September 30, 2020 (Unaudited)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	22,084	-	-	22,084
Change for the period, net	(6,074)	-	-	(6,074)
Balance at the end of the period	16,010	-	-	16,010

SAR '000	December 31, 2019 (Audited)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	40,375	-	187,500	227,875
Change for the period, net	(18,291)	-	-	(18,291)
Bad debts written off against provision	-	-	(187,500)	(187,500)
Balance at the end of the period	22,084	-	-	22,084

SAR '000	September 30, 2019 (Unaudited)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	40,375	-	187,500	227,875
Change for the period, net	(20,244)	-	-	(20,244)
Bad debts written off against provision	-	-	(187,500)	(187,500)
Balance at the end of the period	20,131	-	-	20,131

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

9. Loans and advances, net

i) Loans and advances held at amortised cost are classified as follows:

SAR '000	September 30, 2020 (Unaudited)			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Performing loans and advances – gross	112,756,164	439,631	21,263,249	134,459,044
Non performing loans and advances, net	3,495,972	45,449	218,303	3,759,724
Total loans and advances	116,252,136	485,080	21,481,552	138,218,768
Allowance for impairment	(3,447,849)	(83,841)	(331,336)	(3,863,026)
Loans and advances held at amortised cost, net	112,804,287	401,239	21,150,216	134,355,742

SAR '000	December 31, 2019 (Audited)			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Performing loans and advances – gross	107,970,558	455,017	17,590,312	126,015,887
Non performing loans and advances, net	3,126,851	59,068	231,578	3,417,497
Total loans and advances	111,097,409	514,085	17,821,890	129,433,384
Allowance for impairment	(3,239,150)	(96,829)	(372,309)	(3,708,288)
Loans and advances held at amortised cost, net	107,858,259	417,256	17,449,581	125,725,096

SAR '000	September 30, 2019 (Unaudited)			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Performing loans and advances – gross	107,405,595	487,129	16,377,514	124,270,238
Non performing loans and advances, net	3,165,183	56,136	255,316	3,476,635
Total loans and advances	110,570,778	543,265	16,632,830	127,746,873
Allowance for impairment	(3,847,841)	(96,672)	(363,454)	(4,307,967)
Loans and advances held at amortised cost, net	106,722,937	446,593	16,269,376	123,438,906

ii) The movement in the allowance for impairment of Loans and advances to customers for the period is as follows:

SAR '000	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
Opening loss allowance as at 1 January	3,708,288	4,060,354	4,060,354
Charge for the period, net	1,962,332	1,008,567	570,703
Bad debts written off against provision	(1,807,594)	(1,360,633)	(323,090)
Balance at the end of the period / year	3,863,026	3,708,288	4,307,967

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

9. Loans and advances, net (continued)

iii) The following table shows the stage wise movement in ECL allowance for Loans and advances:

SAR '000	September 30, 2020 (Unaudited)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	680,944	981,444	2,045,900	3,708,288
Change for the period, net	(319,361)	53,429	2,228,264	1,962,332
Bad debts written off against provision	-	-	(1,807,594)	(1,807,594)
Balance at the end of the period	361,583	1,034,873	2,466,570	3,863,026

SAR '000	December 31, 2019 (Audited)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	657,515	1,009,654	2,393,185	4,060,354
Change for the period, net	23,429	(28,210)	1,013,348	1,008,567
Bad debts written off against provision	-	-	(1,360,633)	(1,360,633)
Balance at the end of the period	680,944	981,444	2,045,900	3,708,288

SAR '000	September 30, 2019 (Unaudited)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at 1 January	657,515	1,009,654	2,393,185	4,060,354
Change for the period, net	76,557	177,887	316,259	570,703
Bad debts written off against provision	-	-	(323,090)	(323,090)
Balance at the end of the period	734,072	1,187,541	2,386,354	4,307,967

iv) The following table shows the stage wise Loans and advances:

SAR '000	September 30, 2020 (Unaudited)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Overdraft & commercial loans	100,213,134	12,223,263	3,815,739	116,252,136
Credit Card	395,292	29,506	60,282	485,080
Consumer	20,877,814	317,812	285,926	21,481,552
Balance at the end of the period	121,486,240	12,570,581	4,161,947	138,218,768

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

9. Loans and advances, net (continued)

SAR '000	December 31, 2019 (Audited)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Overdraft & commercial loans	96,185,660	11,784,898	3,126,851	111,097,409
Credit Card	415,507	25,974	72,604	514,085
Consumer	17,047,029	532,295	242,566	17,821,890
Balance at the end of the period	113,648,196	12,343,167	3,442,021	129,433,384

SAR '000	September 30, 2019 (Unaudited)			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Overdraft & commercial loans	96,063,934	11,341,661	3,165,183	110,570,778
Credit Card	464,991	22,138	56,136	543,265
Consumer	15,768,406	609,108	255,316	16,632,830
Balance at the end of the period	112,297,331	11,972,907	3,476,635	127,746,873

10. Due to banks and other financial institutions

SAR '000	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
Current accounts	398,491	554,416	591,010
Money market placements	16,053,484	1,817,724	1,060,580
Total	16,451,975	2,372,140	1,651,590

11. Customers' deposits

SAR '000	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
Demand	78,266,393	67,732,501	71,546,572
Saving	725,065	591,825	557,115
Time	50,200,506	59,478,938	64,819,730
Other	6,462,683	5,034,238	4,974,649
Total	135,654,647	132,837,502	141,898,066

12. Derivatives

In the ordinary course of business, the Bank utilizes the following derivative financial instruments for both trading and hedging purposes:

a) Swaps

Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For currency rate swaps, fixed and floating commission payments and principal are exchanged in different currencies.

b) Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over the counter market. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

c) Forward rate agreements

Forward rate agreements are individually negotiated commission rate contracts that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

d) Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers, Banks and other financial institutions in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profiting from price differentials between markets or products. The Bank also holds structured derivative which are fully back to back in accordance with the Bank's risk management strategy.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and the management of risk. Part of the risk management process involves managing the Bank's exposure to fluctuations in foreign exchange and commission rates to reduce its exposure to currency and commission rate risks to an acceptable level as determined by the Board of Directors in accordance with the guidelines issued by SAMA.

The Board of Directors has established the levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposures. Strategic hedging does not qualify for special hedge accounting and the related derivatives are accounted for as held for trading.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

12. Derivatives (continued)

The Bank uses forward foreign exchange contracts and currency rate swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures. The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Cash flow hedges

The Bank is exposed to variability in future special commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The Bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps.

The tables below show the positive and negative fair values of derivative financial instruments held, together with their notional amounts. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

SAR '000	September 30, 2020 (Unaudited)			December 31, 2019 (Audited)			September 30, 2019 (Unaudited)		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Held for trading									
Commission rate swaps	4,880,022	4,542,787	186,248,432	2,441,789	2,375,872	174,362,942	1,969,681	1,871,699	174,311,380
Commission rate futures and options	853,574	853,574	45,659,003	629,181	629,181	51,141,161	1,532,173	1,532,173	52,091,593
Forward foreign exchange contracts	150,657	51,881	25,962,291	96,965	23,392	24,160,021	80,616	28,570	24,008,400
Currency options	577	577	57,212	427	427	8,784	1,091	1,091	6,781
Others	512	512	64,448	27,299	27,299	164,619	32,739	32,739	416,230
Held as cash flow hedges									
Commission rate swaps	1,350,462	-	30,935,068	1,410,890	13,235	51,800,640	1,413,600	7,811	52,920,164
Total	7,235,804	5,449,331	288,926,454	4,606,551	3,069,406	301,638,167	5,029,900	3,474,083	303,754,548

13. Commitments and contingencies

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

SAR '000	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
Letters of credit	8,855,948	8,833,017	8,660,437
Letters of guarantee	39,674,396	37,928,814	37,358,054
Acceptances	1,895,361	2,246,099	1,798,042
Irrevocable commitments to extend credit	6,098,421	4,616,766	4,879,448
Total	56,524,126	53,624,696	52,695,981

The Bank has made impairment provision amounting to SAR 392 million (December 31, 2019: 556 million and September 30, 2019: 548 million) against credit related commitments and contingencies which has been classified into other liabilities. The Group is subject to legal proceedings in the ordinary course of business. There was no material change in the status of legal proceedings filed against the Bank as disclosed at December 31, 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

14. Cash and cash equivalents

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

SAR '000	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
Cash and balances with SAMA excluding statutory deposit (note 6)	1,378,930	1,270,416	7,832,229
Due from banks and other financial institutions maturing within three months from the date of acquisition	3,718,503	2,392,090	3,353,629
Total	5,097,433	3,662,506	11,185,858

15. Zakat and Income Tax

In March 2019, the General Authority of Zakat and Tax (the "GAZT") issued new zakat regulations through Ministerial Decree No. 2215 dated Rajab 07, 1440H corresponding to March 14, 2019, which provides the new basis for the calculation of Zakat for companies engaged in financing activities and licensed by SAMA. The new Zakat regulations are issued pursuant to the Zakat Implementing Regulations and are applicable for the periods from January 01, 2019.

Zakat for the period ended September 30, 2020 attributable to Saudi Shareholders amounted to approximately SAR 281 million (September 30, 2019: SAR 346 million). Income tax including deferred tax attributable to non-Saudi Shareholder on the current period's share of net income is SAR 44 million (September 30, 2019: SAR 100 million). The provision of Zakat and income tax is estimated based on the results of operations of the Bank for the nine month period ended and the consolidated financial position at September 30, 2020.

16. Fair values of financial assets and liabilities

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Bank uses widely recognized valuation models for determining the fair value of common and simpler financial instruments.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

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

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in the determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values aim also to reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

Valuation Framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Market Risk Department, which is independent of Front Office management and reports to the Chief Risk Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

Determination of fair value and fair value hierarchy

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

Level 1: Quoted prices in active markets for the same instrument (i.e. without modification or repackaging)

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

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

Derivative products valued using a valuation technique with market observable inputs are mainly commission rate swaps and options, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates and commission rate curves. Other investments in level 2 are valued based on market observable date including broker rates etc.

SAR '000	Level 1	Level 2	Level 3	Total
September 30, 2020 (Unaudited)				
Financial assets				
Derivative financial instruments positive fair value	-	7,235,804	-	7,235,804
Financial investments designated at FVIS	190,330	56,118	-	246,448
Financial investments at FVOCI	7,483,129	4,493,936	16,009	11,993,074
Total	7,673,459	11,785,858	16,009	19,475,326
Financial Liabilities				
Derivative financial instruments negative fair value	-	5,449,331	-	5,449,331
Total	-	5,449,331	-	5,449,331

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

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

SAR '000	Level 1	Level 2	Level 3	Total
December 31, 2019 (Audited)				
Financial assets				
Derivative financial instruments positive fair value	-	4,606,551	-	4,606,551
Financial investments designated at FVIS	20,218	55,194	-	75,412
Financial investments at FVOCI	5,699,115	3,554,816	6,984	9,260,915
Total	5,719,333	8,216,561	6,984	13,942,878
Financial Liabilities				
Derivative financial instruments negative fair value	-	3,069,406	-	3,069,406
Total	-	3,069,406	-	3,069,406

SAR '000	Level 1	Level 2	Level 3	Total
September 30, 2019 (Unaudited)				
Financial assets				
Derivative financial instruments positive fair value	-	5,029,900	-	5,029,900
Financial investments designated at FVIS	87,465	5,179	-	92,644
Financial investments at FVOCI	3,923,997	3,842,348	6,967	7,773,312
Total	4,011,462	8,877,427	6,967	12,895,856
Financial Liabilities				
Derivative financial instruments negative fair value	-	3,474,083	-	3,474,083
Total	-	3,474,083	-	3,474,083

During the period there have been no transfers in between level 1, level 2 and level 3.

The fair values of investments held at amortized cost are SAR 26,036 million (December 31, 2019: SAR 22,154 million and September 30, 2019: SAR 24,722 million) against carrying value of SAR 25,661 million (December 31, 2019: SAR 22,117 million and September 30, 2019: SAR 24,520 million). The fair values of commission bearing customers' deposits, debt securities, 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 interim condensed consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of due from and due to banks and other financial institutions. An active market for these instruments is not available and the Bank intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

The estimated fair values of investments held at amortized cost are based on quoted market prices when available or pricing models when used in the case of certain fixed rate bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique. The Bank uses the discounted cash flow method using current yield curve to arrive at the fair value of loans and advances after adjusting internal credit spread which is SAR 137,371 million (December 31, 2019: SAR 129,161 million and September 30, 2019: SAR 126,533 million). The carrying values of those loans and advances are SAR 134,356 million (December 31, 2019: SAR 125,725 million and September 30, 2019: SAR 123,439 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

17. Segment information

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Bank's Board of Directors in its function as chief decision maker in order to allocate resources to the segments and to assess its performance.

Transactions between operating segments are approved by the management as per agreed terms and are reported according to the Bank's internal transfer pricing policy. These terms are in line with normal commercial terms and conditions. The revenue from external parties report to the Board is measured in a manner consistent with that in the consolidated statement of income.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since December 31, 2019.

The Bank is organised into the following main operating segments:

Retail banking – incorporates private and small establishment customers' demand accounts, overdrafts, loans, saving accounts, deposits, credit and debit cards, consumer loans, certain forex products and auto leasing.

Corporate banking – incorporates corporate and medium establishment customers' demand accounts, deposits, overdrafts, loans and other credit facilities and derivative products.

Treasury – incorporates treasury services, trading activities, investment securities, money market, Bank's funding operations and derivative products.

Investment banking and brokerage – Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities, retail investments products, corporate finance and international and local shares brokerage services and insurance.

The Bank's total assets and liabilities, together with total operating income, total operating expenses and net income before zakat and income tax for the nine months then ended, by operating segments, are as follows:

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
September 30, 2020 (Unaudited)					
Total assets	28,191,906	108,303,838	59,476,867	1,472,197	197,444,808
Loans and advances, net	26,935,876	106,039,733	-	1,380,133	134,355,742
Total liabilities	73,581,828	64,703,433	24,056,154	1,420,777	163,762,192
Customers' deposits	73,216,739	62,437,908	-	-	135,654,647
Total operating income	1,354,009	2,229,616	1,438,572	245,520	5,267,717
Total operating expenses before impairment charge	873,167	474,076	210,081	135,016	1,692,340
Impairment charges for financial assets, net	240,059	1,557,355	(4,371)	5,302	1,798,345
Net income for the period before zakat and income tax	240,783	198,185	1,232,862	105,202	1,777,032
Net special commission income	1,188,170	1,748,644	984,042	38,243	3,959,099
Fee and commission income, net	109,565	447,750	(7,048)	207,277	757,544
Exchange income, net	19,260	2,045	275,305	-	296,610
Trading income, net	-	-	106,478	-	106,478
Inter-segment revenue	764,140	298,733	(1,062,873)	-	-
Depreciation and amortization	110,489	29,451	14,018	2,350	156,308

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

17. Segment information (continued)

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
December 31, 2019 (Audited)					
Total assets	23,704,697	103,245,226	49,633,429	1,565,225	178,148,577
Total liabilities	70,547,235	64,397,001	8,748,442	1,509,181	145,201,859

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
September 30, 2019 (Unaudited)					
Total assets	22,654,812	102,398,540	59,972,072	1,339,854	186,365,278
Loans and advances, net	21,302,254	100,879,193	-	1,257,459	123,438,906
Total liabilities	71,071,422	72,597,458	8,803,104	1,281,198	153,753,182
Customers' deposits	70,909,196	70,988,870	-	-	141,898,066
Total operating income	1,406,489	2,325,754	1,219,171	215,412	5,166,826
Total operating expenses before impairment charge	769,786	462,329	233,874	135,204	1,601,193
Impairment charges for financial assets, net	182,595	333,746	2,929	-	519,270
Net income for the period before zakat and income tax	454,108	1,529,679	982,368	80,208	3,046,363
Net special commission income	1,163,665	1,789,032	914,272	47,405	3,914,374
Fee and commission income, net	162,045	532,201	(3,125)	168,007	859,128
Exchange income, net	36,556	2,275	213,722	-	252,553
Trading income, net	-	-	76,594	-	76,594
Inter-segment revenue	809,640	187,014	(996,654)	-	-
Depreciation and amortization	93,564	45,509	16,832	2,804	158,709

18. Share capital and Earnings per share

The authorised, issued and fully paid share capital of the Bank consists of 1,205 million shares of SAR 10 each (December 31, 2019: 1,205 million shares of SAR 10 each and September 30, 2019: 1,205 million shares of SAR 10 each).

Basic and diluted earnings per share for the periods ended September 30, 2020 and 2019 are calculated on a weighted average basis by dividing the net income for the period by 1,205 million shares after excluding treasury shares consists of 5.7 million shares as of September 30, 2020 (December 31, 2019: 5.7 million shares and September 30, 2019: 5.7 million shares).

The final net dividend of SAR 1.00 per share for the year ended 2019 has been approved by the shareholders at the General Assembly Meeting held on May 13, 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2020 and 2019

19. Capital Adequacy

The Bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the Bank's ability to continue as a going concern; and to maintain a strong capital base. Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management.

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

SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset (RWA) at or above the agreed minimum level.

SAMA through its circular number 391000029731 dated 15/03/1439H, which relates to the interim approach and transitional arrangements for the accounting allocations under IFRS 9 – financial instruments, has directed Banks that the initial impact on the capital adequacy ratio as a result of applying IFRS 9 shall be transitioned over five years.

Bank's total risk weighted assets and total Tier I & Tier I + Tier II Capital are as follows:

SAR '000	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)
Credit Risk RWA	175,950,323	163,698,148	162,844,424
Operational Risk RWA	12,863,146	12,701,788	12,633,675
Market Risk RWA	5,491,554	2,164,647	2,191,298
Total RWA	194,305,023	178,564,583	177,669,397
Tier I Capital	33,406,162	32,720,359	32,213,960
Tier II Capital	1,434,850	1,568,513	1,710,676
Total Tier I & II Capital	34,841,012	34,288,872	33,924,636
Capital Adequacy Ratio %			
Tier I ratio	17.19%	18.32%	18.13%
Tier I + Tier II ratio	17.93%	19.20%	19.09%

20. Comparative figures

Certain prior period figures have been reclassified to conform to current period's presentation, which are not material in nature to the interim condensed consolidated financial statements.

21. Events after the reporting period

On November 4, 2020, the Bank announced the completion of issuing SAR 5 Billion Additional Tier I Sukuk denominated in Saudi Arabian Riyals. The issuance was offered by way of private placement in the Kingdom of Saudi Arabia. The term of the Sukuk is perpetual and the rate of return is 4.5% per annum, subject to be reset on November 3, 2025. The Bank reserves the right to redeem the Sukuk early as described in the terms and conditions of the Sukuk.

22. Board of Directors Approval

The interim condensed consolidated financial statements were authorised for issue by the Board of Directors on November 05, 2020 corresponding to Rabi al Awwal 19, 1442H.