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Banque
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BANQUE SAUDI FRANSI

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2020

EY
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KPMG
KPMG Al Fozan & Partners
Certified Public Accountants

Independent auditors' report to the shareholders of Banque Saudi Fransi (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Banque Saudi Fransi (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, 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 notes to the consolidated financial statements which include significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements as endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in Kingdom of Saudi Arabia").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing as 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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key matter below, a description of how our audit addressed the matter is provided in that context:

Independent auditors' report to the shareholders of Banque Saudi Fransi (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
Expected credit loss allowance against loans and advances As at 31 December 2020, the gross loans and advances of the Group were SAR 135 billion against which an expected credit loss ("ECL") allowance of SAR 4.7 billion was maintained. 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. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty regarding the economic outlook in particular and hence has increased the levels of judgement needed to determine the ECL. The key areas of judgement include: 1. Categorisation of loans into Stages 1, 2 and 3 based on the identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. The Group has applied additional judgements to identify and estimate the likelihood of borrowers that may have experienced SICR notwithstanding the various government support programs that resulted in deferrals to certain counterparties. The deferrals were not deemed to have triggered SICR by themselves. 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of counterparty, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities weightages. 3. The need to apply overlays using expert credit judgement to reflect all relevant risk factors that might not be captured by the ECL model.	▪ We obtained and updated our understanding of management's assessment of ECL allowance against loans and advances including the Group's internal rating model, accounting policy, model methodology including any key changes made in light of the COVID-19 pandemic. ▪ We compared the Group's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9. ▪ We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) over: • the ECL model, including governance over the model and its validation (where applicable) including approval of key assumptions and post model adjustments, if any; • the classification of borrowers into various stages and timely identification of SICR and the determination of default / individually impaired exposures; • the IT systems and applications underpinning the ECL model; and • the integrity of data inputs into the ECL model. ▪ For a sample of customers, we assessed: • the internal ratings determined by management based on the Group's internal rating model and considered these assigned ratings in light of external market conditions and available industry information in particular, with reference to the impacts of the COVID-19 pandemic and also assessed that these were consistent with the ratings used as input in the ECL model; • the staging as identified by management; and • management's computations for ECL.

Independent auditors' report to the shareholders of Banque Saudi Fransi (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
Expected credit loss allowance against loans and advances (continued) Application of these judgements, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculations as at 31 December 2020. *Refer to the summary of significant accounting policy note 3.2 (E) for the impairment of financial assets; note 2 (e) 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 7 which contains the disclosure of impairment against loans and advances; and note 31 (c) for details of credit quality analysis and key assumptions and factors considered in determination of ECL.*	▪ We assessed the appropriateness of the Group's criteria for the determination of SICR and identification of "default" or "individually impaired" exposures; and their classification into stages. Further, for a sample of exposures, we assessed the appropriateness of the staging classification of the Group's loan portfolio including for customers who were eligible for deferal of instatlments under government support programs with specific focus on customers operating in sectors most affected by the COVID-19 pandemic. ▪ We assessed the governance process implemented and the qualitative factors considered by the Group when applying any overlays or making any adjustment to the output from the ECL model, due to data or model limitations or otherwise. ▪ We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model including forward looking assumptions keeping in view the uncertainty and volatility in economic scenarios due to the COVID 19 pandemic. ▪ We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020. ▪ Where relevant, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing reasonableness of assumptions used in ECL model particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights and of assumptions used in overlays. ▪ We assessed the adequacy of disclosures in the consolidated financial statements.

Independent auditors' report to the shareholders of Banque Saudi Fransi (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
Valuation of derivative financial instruments The Group has entered into various derivative transactions, including special commission rate and currency swaps ("swaps"); forward foreign exchange contracts ("forwards"); currency, special commission rate and equity options ("options"); and other derivative contracts. Swaps, forwards, options and other derivative contracts include over-the-counter ("OTC") derivatives, and the valuation of these contracts is subjective as it takes into account a number of assumptions and model calibrations. The majority of these derivatives are held for trading. However, the Group utilises certain derivatives for hedge accounting purposes in the consolidated financial statements for hedging cash flow or fair value risks. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in case of hedge ineffectiveness, impact the hedge accounting as well. We considered this as a key audit matter, as there is complexity and subjectivity involved in determining the valuation in general and, in certain cases, due to the use of complex modelling techniques and valuation inputs that are not market observable. *Refer to the basis of preparation note 2 (e) to the consolidated financial statements which sets out the critical accounting judgements, estimates and assumptions regarding fair value measurement; the summary of significant accounting policies note 3.2 (M) for the accounting policy relating to derivative financial instruments and hedge accounting; and note 11 which discloses the derivative positions as at the reporting date.*	▪ We assessed the design and implementation, and tested the operating effectiveness, of the key controls over management's process for valuation of derivatives and hedge accounting, including the testing of relevant automated controls covering the fair valuation process for derivatives. ▪ We selected a sample of derivatives and: • Tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; • Assessed the key inputs to the valuation models; • Performed independent valuations of the derivatives and compared the result with management's valuation; • Checked the hedge effectiveness performed by the Group and the related hedge accounting; and • Assessed the adequacy of disclosures around the valuation basis and inputs used in the fair value measurement as detailed in the consolidated financial statements.

Independent auditors' report to the shareholders of Banque Saudi Fransi (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
SAMA support program and related government grant In response to the COVID-19 pandemic, the Saudi Central Bank (SAMA) launched a number of initiatives including the liquidity support programme for banks and the Private Sector Financing Support Program ("PSFSP"). The PSFSP was launched in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME"). The PSFSP included deferred payments program whereby the Bank deferred the instalment payable by MSMEs during a period from 14 March 2020 to 31 March 2021. In order to compensate the Group with respect to the losses incurred in connection with the above PSFSP and the liquidity support programme, the Group has received various interest/profit free deposits of varying maturities. The difference between market value of deposits calculated using market rates of deposits of similar size and tenure and the interest/profit free deposits has been considered as a government grant and accounted for in accordance with the International Accounting Standard 20: *Government Grants* ("IAS 20"). As of 31 December 2020, the Bank has received SR 9.2 billion under the various SAMA support programs. We considered the accounting treatment of the SAMA support programme and government grant as a key audit matter because: 1. These represent significant events and material transactions that occurred during the period and thereby required significant auditors' attention; and 2. the recognition and measurement of government grant involved significant management judgement including but not limited to: • determining the appropriate discount rate to be used to calculate the grant income on the deposit; and • identifying the objective of each individual deposit to determine the timing of recognition of the grant. *Refer to the significant accounting policy note 3.2 (G) to the consolidated financial statements relating to government grant accounting, note 2 (e) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to government grant recognition and note 40 which contains the disclosure of SAMA support programms and details of the government grant received over the yaer from SAMA.*	▪ We obtained an understanding of the various programs and initiatives taken by SAMA and assessed the objectives of the various deposits received by the Group in order to assess whether the IAS 20 crietria were met for government grant recognition. ▪ We tested the accuracy of the government grant computation (including discount rate used) and assessed the basis for the timing of recognition of the goverment grant being at a point in time or over a period thereby matching the expense/ related costs for which the government grant was intended to compensate. ▪ We assessed the disclosures included by management in the consolidated financial statements in relation to government grant as required by IAS 20.

Independent auditors' report to the shareholders of Banque Saudi Fransi (A Saudi Joint Stock Company) (continued)

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

Other information included in the Group's 2020 annual report

Management is responsible for the other information. Other information consists of the information included in the Group's 2020 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 the 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 the IFRS as endorsed in the Kingdom of Saudi Arabia, the 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 the management determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, 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 the management either intend to liquidate the Bank 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.

Independent auditors' report to the shareholders of Banque Saudi Fransi (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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the 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.

Independent auditors' report to the shareholders of Banque Saudi Fransi (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)

- 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.

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

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Certified Public Accountants

Independent auditors' report to the shareholders of Banque Saudi Fransi (A Saudi Joint Stock Company) (continued)

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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3 Rajab 1442 H
15 February 2021

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ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45

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KPMG Al Fozan & Partners

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2020 and 2019

SAR '000	Notes	2020	2019
ASSETS			
Cash and balances with SAMA	4	**10,548,399**	9,117,336
Due from banks and other financial institutions	5	**4,026,997**	3,742,090
Investments held at fair value through profit or loss	6	**144,603**	75,412
Investments held at fair value through other comprehensive income	6	**11,733,158**	9,260,915
Investments held at amortised cost	6	**25,800,880**	22,117,452
Positive fair value of derivatives	11	**6,909,046**	4,606,551
Loans and advances, net	7	**130,564,835**	125,725,096
Investment in associate	8	**9,695**	9,695
Property, equipment and right of use assets, net	9	**1,440,170**	1,324,567
Other real estate, net		**384,181**	406,151
Deferred tax	27	**-**	42,937
Other assets, net	10	**2,511,620**	1,720,375
Total assets		**194,073,584**	178,148,577
LIABILITIES AND EQUITY			
Liabilities			
Due to SAMA	12	**9,129,625**	1,300
Due to banks and other financial institutions	13	**7,662,588**	2,370,840
Customers' deposits	14	**127,111,644**	132,837,502
Negative fair value of derivatives	11	**5,096,458**	3,069,406
Other liabilities	16	**6,437,324**	6,922,811
Total liabilities		**155,437,639**	145,201,859
Equity			
Share capital	17	**12,053,572**	12,053,572
Statutory reserve	18	**12,053,572**	12,053,572
General reserve	18	**982,857**	982,857
Other reserves	19	**1,188,115**	812,222
Retained earnings		**7,433,263**	5,945,881
Proposed dividend	26	**-**	1,199,679
Treasury shares	36	**(75,434)**	(101,065)
Equity attributable to the shareholders of the Bank		**33,635,945**	32,946,718
Tier 1 Sukuk	15	**5,000,000**	-
Total equity		**38,635,945**	32,946,718
Total liabilities and equity		**194,073,584**	178,148,577

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Adel Mallawi
Chief Financial Officer

Rayan Fayez
Managing Director & CEO

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF INCOME
For the years ended December 31, 2020 and 2019

SAR '000	Notes	2020	2019
Special commission income	21	**6,284,791**	7,369,530
Special commission expense	21	**1,044,403**	2,163,853
Net special commission income		**5,240,388**	5,205,677
Fee and commission income	22	**1,523,127**	1,504,211
Fee and commission expense	22	**441,311**	364,705
Net fee and commission income		**1,081,816**	1,139,506
Exchange income, net		**378,891**	335,504
Trading income, net	23	**167,885**	92,163
Dividend income		**1,180**	2,442
Gains on FVOCI / non-trading investments, net		**10,423**	31,456
Other operating income	24	**164,011**	65,802
Total operating income		**7,044,594**	6,872,550
Salaries and employee related expenses	29	**1,418,703**	1,329,250
Rent and premises related expenses		**69,626**	75,796
Depreciation and amortization	9	**210,254**	211,284
Other operating and general and administrative expenses		**665,507**	670,834
Total operating expenses before impairment charge		**2,364,090**	2,287,164
Impairment charge for expected credit losses, net	7	**2,816,322**	1,008,567
Impairment reversal for investments, financial assets and others, net	7	**(146,054)**	(42,323)
Total operating expenses, net		**5,034,358**	3,253,408
Net income for the year before zakat and income tax		**2,010,236**	3,619,142
Zakat and income tax for the year	27	**464,025**	504,176
Net income for the year after zakat and income tax		**1,546,211**	3,114,966
Basic and diluted earnings per share (SAR)	25	**1.24**	2.60

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Adel Mallawi
Chief Financial Officer

Rayan Fayez
Managing Director & CEO

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
As at December 31, 2020 and 2019

SAR '000	Notes	2020	2019
Net income for the year after zakat and income tax		**1,546,211**	3,114,966
Other comprehensive income / (loss):			
Items that cannot be recycled back to consolidated statement of income in subsequent periods			
Movement in Equity instruments at fair value through other comprehensive income			
Net change in the fair value	19	**35,007**	(8,584)
Loss transferred to retained earning	19	**-**	1,202
Items that can be recycled back to consolidated statement of income in subsequent periods			
Debt instruments at fair value through other comprehensive income			
Net change in the fair value	19	**85,750**	116,762
Income transferred to consolidated statement of income	19	**(10,423)**	(31,456)
Cash flow hedge			
Net change in the fair value	19	**834,615**	1,006,117
(Income) / loss transferred to consolidated statement of income	19	**(569,056)**	46,485
Total other comprehensive income for the year		**375,893**	1,130,526
Total comprehensive income for the year		**1,922,104**	4,245,492

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Adel Mallawi
Chief Financial Officer

Rayan Fayez
Managing Director & CEO

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended December 31, 2020 and 2019

SAR '000	Notes	Share capital	Statutory reserve	General reserve	Retained earnings	Other reserves		Proposed dividend	Treasury shares	Total equity attributable to the shareholders	Tier 1 Sukuk	Total Equity
						FVOCI	Cash flow hedge					
2020												
Balance at the beginning of the year		**12,053,572**	**12,053,572**	**982,857**	**5,945,881**	**68,138**	**744,084**	**1,199,679**	**(101,065)**	**32,946,718**	**-**	**32,946,718**
Net income for the year after zakat and income tax		-	-	-	1,546,211	-	-	-	-	1,546,211	-	1,546,211
Net change in the fair value	19	-	-	-	-	120,757	834,615	-	-	955,372	-	955,372
Net amount transferred to consolidated statement of income	19	-	-	-	-	(10,423)	(569,056)	-	-	(579,479)	-	(579,479)
Total comprehensive income for the year		-	-	-	1,546,211	110,334	265,559	-	-	1,922,104	-	1,922,104
Final dividend paid for 2019	26	-	-	-	-	-	-	(1,199,679)	-	(1,199,679)	-	(1,199,679)
Tier 1 Sukuk issued	15	-	-	-	-	-	-	-	-	-	5,000,000	5,000,000
Tier 1 Sukuk related cost		-	-	-	(58,829)	-	-	-	-	(58,829)	-	(58,829)
Net change in treasury shares	36	-	-	-	-	-	-	-	25,631	25,631	-	25,631
Balance at the end of the year		**12,053,572**	**12,053,572**	**982,857**	**7,433,263**	**178,472**	**1,009,643**	**-**	**(75,434)**	**33,635,945**	**5,000,000**	**38,635,945**
2019												
Balance at the beginning of the year		12,053,572	12,053,572	982,857	5,249,613	(9,786)	(308,518)	958,081	(117,441)	30,861,950	-	30,861,950
Impact of adopting IFRS 16 as at January 01, 2019		-	-	-	(62,666)	-	-	-	-	(62,666)	-	(62,666)
Restated balance as at January 01, 2019		12,053,572	12,053,572	982,857	5,186,947	(9,786)	(308,518)	958,081	(117,441)	30,799,284	-	30,799,284
Net income for the year after zakat and income tax		-	-	-	3,114,966	-	-	-	-	3,114,966	-	3,114,966
Net change in the fair value	19	-	-	-	-	108,178	1,006,117	-	-	1,114,295	-	1,114,295
Loss on disposal of FVOCI investment - equity	19	-	-	-	-	1,202	-	-	-	1,202	-	1,202
Net amount transferred to consolidated statement of income	19	-	-	-	-	(31,456)	46,485	-	-	15,029	-	15,029
Total comprehensive income for the year		-	-	-	3,114,966	77,924	1,052,602	-	-	4,245,492	-	4,245,492
Loss on disposal of FVOCI investment - equity	19	-	-	-	(1,202)	-	-	-	-	(1,202)	-	(1,202)
Final net dividend paid for 2018		-	-	-	-	-	-	(958,081)	-	(958,081)	-	(958,081)
Interim net dividend paid for 2019	26	-	-	-	(1,155,151)	-	-	-	-	(1,155,151)	-	(1,155,151)
Final proposed net dividend for 2019	26	-	-	-	(1,199,679)	-	-	1,199,679	-	-	-	-
Net change in treasury shares	36	-	-	-	-	-	-	-	16,376	16,376	-	16,376
Balance at the end of the year		12,053,572	12,053,572	982,857	5,945,881	68,138	744,084	1,199,679	(101,065)	32,946,718	-	32,946,718

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Adel Mallawi
Chief Financial Officer

Rayan Fayez
Managing Director & CEO

BANQUE SAUDI FRANSI
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2020 and 2019

SAR '000	Note	2020	2019
OPERATING ACTIVITIES			
Net income for the year before zakat and income tax		**2,010,236**	3,619,142
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 FVTPL, net		**72,817**	(72,443)
Gains on FVOCI		**(10,423)**	(31,456)
Depreciation and amortization	9	**210,254**	211,284
Gains on disposal of property, equipment and right of use assets, net		**(293)**	(432)
Impairment charge for credit losses, net	7	**2,816,322**	1,008,567
Impairment reversal for investments, financial assets and others, net		**(146,054)**	(42,323)
Long term incentive scheme provision		**25,631**	16,376
Valuation loss on other real estate, net		**1,001**	57,358
Change in fair value of financial instruments		**-**	22
Operating income before changes in operating assets and liabilities		**4,979,491**	4,766,095
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA	4	**(119,067)**	303,442
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		**1,350,000**	3,377,000
Investments held as FVTPL, trading		**(69,191)**	281,336
Loans and advances		**(7,656,061)**	(6,102,029)
Other assets		**(2,743,921)**	(2,040,350)
Net increase / (decrease) in operating liabilities:			
Due to SAMA, banks and other financial institutions, net		**14,420,073**	226,659
Customers' deposits		**(5,725,858)**	(15,530,502)
Other liabilities		**1,792,976**	2,458,417
		6,228,442	(12,259,932)
Zakat and income tax paid		**(702,159)**	(669,227)
Net cash generated from / (used in) operating activities		**5,526,283**	(12,929,159)
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investment not held as FVTPL		**18,387,572**	9,023,082
Purchase of investments not held as FVTPL		**(24,995,303)**	(12,186,738)
Purchase of property and equipment		**(272,400)**	(122,444)
Dividend received from subsidiaries		**500,000**	-
Proceeds from sale of property and equipments		**430**	1,118
Net cash used in investing activities		**(6,379,701)**	(3,284,982)
FINANCING ACTIVITIES			
Dividends paid	26	**(1,199,679)**	(2,113,232)
Repayment of debt securities and sukuks		**-**	(2,000,000)
Tier 1 Sukuk Issuance		**5,000,000**	-
Net cash from / (used in) financing activities		**3,800,321**	(4,113,232)
Increase / (decrease) in cash and cash equivalents		**2,946,903**	(20,327,373)
Cash and cash equivalents at the beginning of the year		**3,662,506**	23,989,879
Cash and cash equivalents at the end of the year	28	**6,609,409**	3,662,506
Special commission received during the year		**6,341,488**	7,472,392
Special commission paid during the year		**1,429,151**	2,144,156
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated statement of income		**375,893**	1,130,526

The accompanying notes 1 to 42 form an integral part of these consolidated financial statements.

Adel Mallawi
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 (2019: 87 branches) in the Kingdom of Saudi Arabia, employing 2,881 people (2019: 2,998 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 consolidated financial statements of the Bank comprise the financial statement of Banque Saudi Fransi and its wholly owned subsidiaries (collectively referred to as the "Group"), 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 subsidiaries, BSF Markets Limited and BSF Sukuk Limited registered in Cayman Islands having 100% share in equity. The objective of BSF Markets Limited 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

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with 'International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants (SOCPA) and in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Bank.

b) Basis of measurement and presentation

The consolidated financial statements are prepared on a going concern basis under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at Fair Value through Profit or Loss (FVTPL), FVOCI investments, liabilities for cash-settled-share based payments and defined benefit obligations. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise adjusted to record changes in fair value attributable to the risks that are being hedged.

The statement of financial position is stated in order of liquidity.

c) Going concern

In making the going concern assessment, the Bank has considered a wide range of information relating to present and future projections of profitability, cash flows and other capital resources etc.

2. Basis of preparation (continued)

d) Functional and presentation currency

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

e) Critical accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements endorsed 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.

The COVID-19 pandemic continues to disrupt global markets as many geographies are experiencing 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 unprecedented yet effective measures taken by the Government, following which the Government has ended the lockdowns and has taken phased measures towards normalization.

Recently, number of COVID-19 vaccines have been developed and approved for mass distribution by various governments around the world. The Government has also approved a vaccine, which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity last, whether vaccine will prevent transmission or not etc.; however, the testing results showed exceptionally high success rates. Hence, the Group 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. The Group has made various accounting estimates in these consolidated financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at December 31, 2020 about future events that the Group believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties, which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecasts since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these consolidated financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant note of these consolidated financial statements.

Revisions to accounting estimates are recognized 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:

2. Basis of preparation (continued)

(i) Expected credit losses ("ECL") on financial assets

The measurement of ECL 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:

1. The selection of an estimation technique or modelling methodology, covering below key judgements and assumptions:

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

2. The selection of inputs for those models, and the interdependencies between those inputs such as macroeconomic scenarios and economic inputs.

ii) Fair value Measurement (note 34)

iii) Impairment of FVOCI equity and debt investments (note 31)

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

v) Deferred tax assets (note 27)

vi) Determination of control over investees

vii) Depreciation and amortization

viii) Define benefit plan

ix) Government grant (note 12 & 40)

3. Summary of significant accounting policies

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

3.1 Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2019. Based on the adoption of new standard and in consideration of current economic environment, the following accounting policies are applicable effective January 01, 2020 replacing, amending or adding to the corresponding accounting policies set out in 2019 annual consolidated financial statements.

New standards, interpretations and amendments to accounting standards adopted by the Group

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after January 1, 2020. The management has assessed that the amendments have no significant impact on the Group's consolidated financial statements.

i) Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

ii) Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose consolidated financial statements make on the basis of those consolidated financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the consolidated financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

iii) Amendments to References to the Conceptual Framework in IFRS Standards

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

iv) Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

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.

3. Summary of significant accounting policies (continued)

- **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.

- **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 programs to implement the new requirements. The Phase 2 amendments introduce new areas of judgement, the Group needs to ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Group 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.

The Bank's exposure at the year end and other related details are explained further in note 39.

v) Amendments to IFRS 16: Leases for COVID-19 rent related concessions applicable for the period beginning on or after June 01, 2020

On May 28, 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID -19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID -19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after June 01, 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

Accounting Standards issued but not yet effective

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Group's accounting year beginning on or after January 01, 2021 are listed below. The Group has opted not to early adopt these pronouncements and they do not have a significant impact on the consolidated financial statements.

i) IFRS 17 – "Insurance contracts", applicable for the period beginning on or after January 1, 2023.

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

3. Summary of significant accounting policies (continued)

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- a specific adaptation for contracts with direct participation features (the variable fee approach)
- a simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after January 01, 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

ii) Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January 01, 2022

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- what is meant by a right to defer settlement
- that a right to defer must exist at the end of the reporting period
- that classification is unaffected by the likelihood that an entity will exercise its deferral right
- that only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 01, 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

iii) Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37)

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

iv) Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (note 39)

v) Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

In May 2020, the IASB issued Property, Plant and Equipment - Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 01, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

3. Summary of significant accounting policies (continued)

vi) Reference to Conceptual Framework (Amendments to IFRS 3)

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after January 01, 2022 and apply prospectively.

3.2 Accounting policies

A. Classification of financial assets

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

Financial asset at amortized cost

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

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

Financial Asset at Fair value through other comprehensive income (FVOCI)

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

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

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

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

3. Summary of significant accounting policies (continued)

Financial asset at Fair value through profit or loss (FVTPL)

All other financial assets are classified 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 as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

Business model assessment

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

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank 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 solely payments of principal and interest

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

3. Summary of significant accounting policies (continued)

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

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

Designation at FVTPL

At initial recognition, the Bank has irrevocably designated certain financial assets at FVTPL to eliminate or significantly reduces the accounting mismatch. Before January 01, 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.

B. Classification of financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective interest rate (EIR).

C. Derecognition

Financial assets

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

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

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

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

3. Summary of significant accounting policies (continued)

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

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

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

Financial liabilities

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

D. 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 and a new financial asset is recognized at fair value.

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

Financial liabilities

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

“If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss. The Group considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.”

3. Summary of significant accounting policies (continued)

E. Impairment

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

- financial assets that are debt instruments
- lease receivables
- financial guarantee contracts issued
- loan commitments issued
- bank balances
- related party balances

Equity instruments are not subject to impairment under IFRS 9.

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 loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is fully drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

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

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

3. Summary of significant accounting policies (continued)

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 interest 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 financial assets 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 a loan or advance by the Bank on terms that the Bank would not consider otherwise
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

3. Summary of significant accounting policies (continued)

- 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.

Write-off

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

F. Financial guarantees and loan commitments

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

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

- at the higher of this amortized amount and the amount of loss allowance; and

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

- the Bank recognizes loss allowance (Refer note 7 “Impairment Disclosures);

G. 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 interest is treated as a government grant related to income. The below-market rate deposit is recognised 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 carrying value of the deposit determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with IAS 20. Government grant is recognised in statement of consolidated income on a systematic basis over the periods 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.

H. Revenue / expenses recognition

Special commission income and expenses

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

3. Summary of significant accounting policies (continued)

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

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

Measurement of amortized cost and special commission income and expense

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

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

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

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

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

I. Rendering of services

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

The Bank 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 fee services related to credit card, the Bank recognizes revenue over the period of time.

J. Customer Loyalty Program

The Bank offers customer loyalty program (reward points / air miles herein referred to as “reward points”), which allows card members to earn points that can be redeemed for certain Partner outlets. The Bank allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative stand alone selling price. The amount of revenue allocated to reward points is deferred and released to the income statement when reward points are redeemed.

3. Summary of significant accounting policies (continued)

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.

K. Basis of consolidation

The consolidated financial statements comprises of the financial statements of the Bank and its subsidiaries (the Group) i.e. Saudi Fransi Capital, Saudi Fransi Insurance Agency, Saudi Fransi for Finance Leasing, Sakan real estate financing, Sofinco Saudi Fransi, BSF Markets Limited and BSF Sukuk Limited. 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 the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights granted by equity instruments such as shares

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the carrying amount of any non-controlling interests
- derecognises the cumulative translation differences recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss

3. Summary of significant accounting policies (continued)

- reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Balances between the Bank and its subsidiaries including any income and expenses arising from intra-group transactions are eliminated in preparing these consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(i) List of significant subsidiaries

The table below provides details of the major subsidiaries of the Group:

Name of the subsidiary	Principal place of business	Ownership interest	
		2020	2019
Saudi Fransi Capital	K.S.A	**100%**	100%
Saudi Fransi Insurance Agency	K.S.A	**100%**	100%
Saudi Fransi for Finance Leasing	K.S.A	**100%**	100%
Sakan Real Estate Financing	K.S.A	**100%**	100%

Apart from the above subsidiaries, the Bank also owns BSF Markets Limited and BSF Sukuk Limited having 100% share in equity, incorporated in the Cayman Islands. Sofinco Saudi Fransi has no material impact on the Group financial statements.

All subsidiaries are 100% owned by the Group hence no non-controlling interest is recognised in these consolidated financial statements.

(ii) Significant restriction

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate.

L. Investment in associates

Investments in associates are initially recognised at cost and subsequently accounted for under the equity method of accounting.

An associate is an entity in which the Bank holds 20% to 50% of the voting power and over which it has significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the statement of financial position at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in the value of individual investments. The Bank's shares of its associates' post-acquisition profits or losses are recognized in the statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

3. Summary of significant accounting policies (continued)

When the Bank ceases to equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset.

M. Derivatives financial instruments and hedge accounting

Derivative financial instruments including forward foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, and currency and commission rate options (both written and purchased) are measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

(i) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in net trading income. Derivatives held for trading also include those derivatives, which do not qualify for hedge accounting.

(ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

For financial assets, the requirements are whether the financial asset contains contractual terms that give rise on specified date to cashflows that are SPPI, and consequently the accounting of embedded derivatives are not applicable to financial assets.

(iii) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rate, foreign currency, and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risk, the bank applies hedge accounting for transactions that meet specific criteria.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment,

3. Summary of significant accounting policies (continued)

that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting.

A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. Prospective testing is performed mainly through matching the critical terms of both hedge item and instrument.

A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the income statement in 'Net trading income'. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of income.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the statement of income together with change in the fair value of the hedged item attributable to the hedged risk under non-trading gains / losses in the statement of income.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective commission rate method, (the hedge item is also fair-valued). If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

Cash flow hedges

For designated and qualifying cash flow hedging, derivatives instruments in a hedge of a variability in cash flows attributable to a particular risk associated with recognised asset or a liability or a highly probable forecast transaction that could affect the statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is recognised in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the statement of income in the same period in which the hedged item affects the statement of income. However, if the Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into the statement of income as a reclassification adjustment the amount that is not to be recognized.

3. Summary of significant accounting policies (continued)

Where the hedged forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Bank revokes the designation then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognised in "other comprehensive income" is transferred immediately to the consolidated statement of income for the period.

N. Foreign currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot rates prevailing at transaction dates. Monetary assets and liabilities at year-end denominated in foreign currencies are translated into Saudi Arabian Riyals at rates of exchange prevailing at the reporting date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective interest rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

All differences arising on non-trading activities are taken to other non-operating income in the statement of income, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in foreign entity.

Foreign currency differences arising from the translation of the following items are recognized in OCI:

- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI; and
- qualifying cash flow hedges to the extent that the hedge is effective.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

As at the reporting date, the assets and liabilities of foreign operations are translated into Saudi Arabian Riyals at the rate of exchange as at the statement of financial position date, and their statement of incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the statement of income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

3. Summary of significant accounting policies (continued)

When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the statement of income.

O. Offsetting financial instruments

Financial assets and liabilities are offset and reported net in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are not offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

P. Exchange income / (loss)

Exchange income / loss is recognised as discussed in foreign currencies policy above.

Q. Fees and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the special commission income / expense as applicable.

Income from asset management and brokerage are recognised at a point-in-time when the performance obligation of the Group is satisfied.

Investment banking and corporate finance fee revenues are recognised over the period of time when the performance obligations are met in accordance with the applicable terms of the contract.

Other fee and commission income – including account servicing fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed and performance obligations are achieved as point-in-time. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

R. Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of net trading income, net income from FVTPL financial instruments or other operating income based on the underlying classification of the equity instrument.

S. Trading income / (loss)

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVTPL.

Results arising from trading activities include all gains and losses from changes in fair values, related special commission income or expense including dividends for financial assets and financial liabilities held for trading and foreign exchange differences. This includes any ineffectiveness recorded in hedging transactions.

3. Summary of significant accounting policies (continued)

T. Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. When substantially all the risks and rewards of ownership remain with the Bank. These assets are continued to measure in accordance with related accounting policies for investments held as FVTPL, FVOCI and other investments held at amortized cost. The transactions are treated as collateralised borrowing and counter-party liability for amounts received under these agreements is included in "Due to SAMA" or "Due to banks and other financial institutions" or "Customer deposits", as appropriate. The difference between sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the statement of financial position, as the Bank does not obtain control over the assets. Amounts paid under these agreements are included in "Cash and balances with SAMA", "Due from banks and other financial institutions" or "Loans and advances", as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

U. Settlement and trade date accounting

All regular way purchases and sales of financial assets are recognized and derecognized in the consolidated statement of financial position on the settlement date i.e. the date on which the asset is acquired from or delivered to the counter party. The Bank accounts for any change in fair value which is recognized from the trade date.

Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or follow convention in the market place.

All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

V. Fair value measurement

The Group measures financial instruments, such as, derivatives and equity instruments and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 34.

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 by the Group.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

3. Summary of significant accounting policies (continued)

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

All assets and liabilities for which fair value is measured or disclosed in the 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 assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

- verification of observable pricing;
- calibration of model valuations;
- a review and approval process for new models and changes to models involving Risk Division

To dynamically address valuation issues, within the Market Risk Committee, which is held every quarter, a Valuation Sub-Committee may be held to review and determine by consensus adjustments of valuation methodologies at the request of the Market Risk Committee members.

The Market Risk Committee comprises of the Managing Director & Chief Executive Officer, the Chief Investment Officer, the Chief Financial Officer, the Treasurer, the Head of Institutional Banking Group, the Chief Risk Officer and the Head of Market Risk.

W. Deposits, debt securities issued and subordinated liabilities

From January 01, 2019, when the Bank designates a financial liability as at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve.

On initial recognition of the financial liability, the Bank assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on profit or loss of expected changes in fair value of the related instruments.

3. Summary of significant accounting policies (continued)

X. Other real estate

The Bank, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of net realisable value of due loans and advances and the current fair value of the related properties, less any costs to sell (if material). No depreciation is charged on such real estate. Rental income from other real estate is recognised in the consolidated statement of income.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the statement of income. Gains or losses on disposal are recognised in the statement of income.

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold.

Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

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

Y. Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the group. On-going repairs and maintenance are expensed as incurred.

3. Summary of significant accounting policies (continued)

The cost of other property and equipment is depreciated and amortised on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the lease period or economic life whichever is shorter
Furniture, equipment and vehicles	4 to10 years
Software programme and automation project	2 to 5 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income.

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

Z. Provisions

Provisions are recognised when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

Provisions for liabilities and charges

The Bank receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process being followed as per law.

AA. Accounting for leases

Right of Use Asset / Lease Liabilities

On initial recognition, at 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 consideration. Control is identified if most of the benefits are flowing to the group and the group can direct the usage of such assets.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of Use Assets

Bank apply cost model, and measure right of use asset at cost;

I. less any accumulated depreciation and any accumulated impairment losses; and
II. adjusted for any re-measurement of the lease liability for lease modifications.

3. Summary of significant accounting policies (continued)

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

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

I. increasing the carrying amount to reflect interest on the lease liability
II. reducing the carrying amount to reflect the lease payments made and;
II. re-measuring the carrying amount to reflect any re-assessment or lease modification

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

AB. Cash and cash equivalents

For the purpose of the statement of cash flows, “cash and cash equivalents” include notes and coins on hand, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

AC. End of service benefits

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation conducted by an independent actuary, taking into account the provision of the Saudi Arabian Labor Law.

AD. Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related services are provided.

A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

AE. Treasury shares and share based payment to employee

These are recorded at cost and presented as a deduction from the equity as adjusted for any transaction cost, and gains or losses on sale of such shares. Subsequent to their acquisition, these are carried at the amount equal to consideration paid. Any gains or losses on disposal of such shares are reflected under equity and are not recognised in the consolidated statement of income.

3. Summary of significant accounting policies (continued)

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

The Bank has adopted the equity- settled share based payments to employees. The Bank recognises a cost /expense over the vesting period and a corresponding entry to equity and measurement is based on the grant-date fair value of the equity instruments granted. Market and non-vesting conditions are reflected in the initial measurement of fair value with no subsequent true-up if the conditions are not satisfied.

AF. Zakat and income tax

Income Tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognized.

Zakat

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

3. Summary of significant accounting policies (continued)

AG. Investment management, brokerage and corporate finance services

The Bank offers investment services to its customers, through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors. The Bank's share of investment in these funds is included in the FVTPL investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in the consolidated financial statements.

AH. Islamic banking products

In addition to the conventional banking products, the Bank offers its customers certain non-commission based banking products, which are approved by its Shariah Board, as follows:

High level definitions of non-commission based banking products

i) **Murabaha** is an agreement whereby the Bank sells to a customer a commodity or an asset, which the Bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

ii) **Mudarabah** is an agreement between the Bank and a customer whereby the Bank invests in a specific transaction. The Bank is called "rabb-ul-mal" while the management and work is exclusive responsibility of the customer who is called "mudarib". The profit is shared as per the terms of the agreement but the loss is borne by the Bank.

iii) **Istisna'a** is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

iv) **Ijarah** is an agreement whereby the Bank, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

v) **Musharaka** is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

vi) **Tawaraq** is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

These non-commission based banking products are included in "loans and advances" and are in conformity with the related accounting policies described in these consolidated financial statements.

AI. Tier 1 Sukuk

The Group classifies Sukuk issued with no fixed redemption/maturity dates (Perpetual Sukuk) and not obliging the Group for payment of profit as part of equity.

The related initial costs and distributions thereon are recognised directly in the consolidated statement of changes in equity under retained earnings.

4. Cash and balances with SAMA

SAR '000	2020	2019
Cash on hand	**965,457**	995,416
Statutory deposit	**7,965,987**	7,846,920
Money market placements	**1,616,955**	275,000
Total	**10,548,399**	9,117,336

In accordance with the Banking Control Law and regulations issued by Saudi Central Bank (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its customer demand, savings, time and other deposits, calculated on average balance. The statutory deposits with SAMA are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

5. Due from banks and other financial institutions

SAR '000	2020	2019
Current accounts	**4,027,436**	2,157,485
Money market placements	**-**	1,584,978
Less: impairment	**(439)**	(373)
Total	**4,026,997**	3,742,090

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies.

The above includes Shariah based balances as below:

SAR '000	2020	2019
Tawaraq	**-**	650,000
Total	**-**	650,000

The following table shows the gross carrying amount of the due from banks and other financial institutions.

SAR '000	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at January 01, 2020	**3,734,954**	**7,509**	**-**	**3,742,463**
Transfer from 12-month ECL	**(31,932)**	**31,932**	**-**	**-**
Transfer from lifetime ECL not credit impaired	**-**	**-**	**-**	**-**
Net charge / (reversal) for the year	**314,150**	**(29,177)**	**-**	**284,973**
Write-offs	**-**	**-**	**-**	**-**
Balance as at December 31, 2020	**4,017,172**	**10,264**	**-**	**4,027,436**

5. Due from banks and other financial institutions (continued)

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at January 01, 2019	15,749,084	192,297	-	15,941,381
Transfer from 12-month ECL	(58)	58	-	-
Transfer from lifetime ECL not credit impaired	-	-	-	-
Net charge / (reversal) for the year	(12,014,072)	(184,846)	-	(12,198,918)
Write-offs	-	-	-	-
Balance as at December 31, 2019	3,734,954	7,509	-	3,742,463

The following table shows reconciliations from the opening to the closing balance of impairment on due from banks and other financial institutions.

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance as at January 01, 2020	**333**	**40**	**-**	**373**
Transfer from 12-month ECL	**(142)**	**142**	**-**	**-**
Transfer from lifetime ECL not credit impaired	**-**	**-**	**-**	**-**
Net charge / (reversal) for the year	**188**	**(122)**	**-**	**66**
Write-offs	**-**	**-**	**-**	**-**
Balance as at December 31, 2020	**379**	**60**	**-**	**439**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance as at January 01, 2019	825	2,027	-	2,852
Transfer from 12-month ECL	(1)	1	-	-
Transfer from lifetime ECL not credit impaired	-	-	-	-
Net charge / (reversal) for the year	(491)	(1,988)	-	(2,479)
Write-offs	-	-	-	-
Balance as at December 31, 2019	333	40	-	373

6. Investments, net

a) Investments held at fair value through profit or loss

Investments by type of securities

SAR '000	Domestic		International		Total	
	2020	2019	**2020**	2019	**2020**	2019
Fixed-rate securities	**24,096**	-	**64,533**	20,218	**88,629**	20,218
Floating-rate securities	**55,974**	55,194	**-**	-	**55,974**	55,194
Total	**80,070**	55,194	**64,533**	20,218	**144,603**	75,412

The analysis of the composition of investments is as follows:

SAR '000	2020			2019		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed-rate securities	**88,629**	**-**	**88,629**	20,218	-	20,218
Floating-rate securities	**53,972**	**2,002**	**55,974**	53,170	2,024	55,194
Investments at FVTPL	**142,601**	**2,002**	**144,603**	73,388	2,024	75,412

b) Investments held at fair value through other comprehensive income

Investments by type of securities

SAR '000	Domestic		International		Total	
	2020	2019	**2020**	2019	**2020**	2019
Fixed-rate securities	**6,802,862**	2,815,958	**1,410,585**	2,805,037	**8,213,447**	5,620,995
Floating-rate securities	**3,231,070**	3,520,214	**67,673**	-	**3,298,743**	3,520,214
Equities	**201,611**	83,843	**19,357**	35,863	**220,968**	119,706
Total	**10,235,543**	6,420,015	**1,497,615**	2,840,900	**11,733,158**	9,260,915

The analysis of the composition of investments is as follows:

SAR '000	2020			2019		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed-rate securities	**8,213,447**	**-**	**8,213,447**	5,620,995	-	5,620,995
Floating-rate securities	**1,066,631**	**2,232,112**	**3,298,743**	1,046,660	2,473,554	3,520,214
Equities	**195,888**	**25,080**	**220,968**	78,120	41,586	119,706
Investments at FVOCI, net	**9,475,966**	**2,257,192**	**11,733,158**	6,745,775	2,515,140	9,260,915

6. Investments, net (continued)

The following table shows the type of assets:

SAR '000	Domestic		International		Total	
	2020	2019	**2020**	2019	**2020**	2019
Debt instruments	**10,033,932**	6,336,172	**1,478,258**	2,805,037	**11,512,190**	9,141,209
Equity investments	**201,611**	83,843	**19,357**	35,863	**220,968**	119,706
Total	**10,235,543**	6,420,015	**1,497,615**	2,840,900	**11,733,158**	9,260,915

The Group designated investments disclosed in the following table as equity securities at FVOCI on initial recognition. The FVOCI designation was made because the equity investments are expected to be held for strategic purposes rather than with a view to profit on a subsequent sale and there are no plans to dispose of these investments in the short or medium term. This designation is irrevocable.

c) Investments held at amortised cost

Investments by type of securities

SAR '000	Domestic		International		Total	
	2020	2019	**2020**	2019	**2020**	2019
Fixed-rate securities	**21,775,557**	16,268,214	**-**	**-**	**21,775,557**	16,268,214
Floating-rate securities	**3,472,932**	4,734,400	**-**	**-**	**3,472,932**	4,734,400
Other	**552,391**	1,114,838	**-**	**-**	**552,391**	1,114,838
Total	**25,800,880**	22,117,452	**-**	**-**	**25,800,880**	22,117,452

The analysis of the composition of investments is as follows:

SAR '000	2020			2019		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed-rate securities	**18,067,995**	**3,707,562**	**21,775,557**	12,557,945	3,710,269	16,268,214
Floating-rate securities	**3,472,932**	**-**	**3,472,932**	4,734,400	-	4,734,400
Other	**-**	**552,391**	**552,391**	-	1,114,838	1,114,838
Investments held at amortized cost, net	**21,540,927**	**4,259,953**	**25,800,880**	17,292,345	4,825,107	22,117,452

6. Investments, net (continued)

d) The reconciliations from the opening to the closing balance of gross carrying value of Debt instrument

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Debt instrument investments				
Balance at January 01	**31,280,745**	**-**	**-**	**31,280,745**
Transfer from12-month ECL	**-**	**-**	**-**	**-**
Transfer from lifetime ECL not credit impaired	**-**	**-**	**-**	**-**
Transfer from lifetime ECL credit impaired	**-**	**-**	**-**	**-**
Net charge / (reversal) for the year	**6,047,717**	**-**	**-**	**6,047,717**
Write-offs	**-**	**-**	**-**	**-**
Balance as at December 31, 2020	**37,328,462**	**-**	**-**	**37,328,462**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt instrument investments				
Balance at January 01	27,920,474	-	187,500	28,107,974
Transfer from12-month ECL	-	-	-	-
Transfer from lifetime ECL not credit impaired	-	-	-	-
Transfer from lifetime ECL credit impaired	-	-	-	-
Net charge / (reversal) for the year	3,360,271	-	-	3,360,271
Write-offs	-	-	(187,500)	(187,500)
Balance as at December 31, 2019	31,280,745	-	-	31,280,745

Amortized cost

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 01	**22,127,595**	**-**	**-**	**22,127,595**
Transfer from12-month ECL	**-**	**-**	**-**	**-**
Transfer from lifetime ECL not credit impaired	**-**	**-**	**-**	**-**
Net charge / (reversal) for the year	**3,679,828**	**-**	**-**	**3,679,828**
Write-offs	**-**	**-**	**-**	**-**
Balance as at December 31, 2020	**25,807,423**	**-**	**-**	**25,807,423**

6. Investments, net (continued)

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	22,408,755	-	187,500	22,596,255
Transfer from12-month ECL	-	-	-	-
Transfer from lifetime ECL not credit impaired	-	-	-	-
Net charge / (reversal) for the year	(281,160)	-	-	(281,160)
Write-offs	-	-	(187,500)	(187,500)
Balance as at December 31, 2019	22,127,595	-	-	22,127,595

FVOCI

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 01	**9,153,150**	**-**	**-**	**9,153,150**
Transfer from12-month ECL	**-**	**-**	**-**	**-**
Transfer from lifetime ECL not credit impaired	**-**	**-**	**-**	**-**
Net charge / (reversal) for the year	**2,367,889**	**-**	**-**	**2,367,889**
Write-offs	**-**	**-**	**-**	**-**
Balance as at December 31, 2020	**11,521,039**	**-**	**-**	**11,521,039**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	5,511,719	-	-	5,511,719
Transfer from12-month ECL	-	-	-	-
Transfer from lifetime ECL not credit impaired	-	-	-	-
Net charge / (reversal) for the year	3,641,431	-	-	3,641,431
Write-offs	-	-	-	-
Balance as at December 31, 2019	9,153,150	-	-	9,153,150

6. Investments, net (continued)

e) The reconciliations from the opening to the closing balance of ECL on Debt instruments:

An analysis of changes is loss allowance for Debt instruments is as follows:

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Debt instrument investments				
Balance at January 01	**22,084**	**-**	**-**	**22,084**
Transfer from12-month ECL	**-**	**-**	**-**	**-**
Transfer from lifetime ECL not credit impaired	**-**	**-**	**-**	**-**
Transfer from lifetime ECL credit impaired	**-**	**-**	**-**	**-**
Net charge / (reversal) for the year	**(6,692)**	**-**	**-**	**(6,692)**
Write-offs	**-**	**-**	**-**	**-**
Balance as at December 31, 2020	**15,392**	**-**	**-**	**15,392**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt instrument investments				
Balance at January 01	40,375	-	187,500	227,875
Transfer from12-month ECL	-	-	-	-
Transfer from lifetime ECL not credit impaired	-	-	-	-
Transfer from lifetime ECL credit impaired	-	-	-	-
Net charge / (reversal) for the year	(18,291)	-	-	(18,291)
Write-offs	-	-	(187,500)	(187,500)
Balance as at December 31, 2019	22,084	-	-	22,084

An analysis of changes is loss allowance by each class of Debt instruments by products, is as follows:

Amortized cost

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 01	**10,143**	**-**	**-**	**10,143**
Transfer from12-month ECL	**-**	**-**	**-**	**-**
Transfer from lifetime ECL not credit impaired	**-**	**-**	**-**	**-**
Net charge / (reversal) for the year	**(3,600)**	**-**	**-**	**(3,600)**
Write-offs	**-**	**-**	**-**	**-**
Balance as at December 31, 2020	**6,543**	**-**	**-**	**6,543**

6. Investments, net (continued)

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	35,029	-	187,500	222,529
Transfer from12-month ECL	-	-	-	-
Transfer from lifetime ECL not credit impaired	-	-	-	-
Net charge / (reversal) for the year	(24,886)	-	-	(24,886)
Write-offs	-	-	(187,500)	(187,500)
Balance as at December 31, 2019	10,143	-	-	10,143

FVOCI

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 01	**11,941**	**-**	**-**	**11,941**
Transfer from12-month ECL	**-**	**-**	**-**	**-**
Transfer from lifetime ECL not credit impaired	**-**	**-**	**-**	**-**
Net charge / (reversal) for the year	**(3,092)**	**-**	**-**	**(3,092)**
Write-offs	**-**	**-**	**-**	**-**
Balance as at December 31, 2020	**8,849**	**-**	**-**	**8,849**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	5,346	-	-	5,346
Transfer from12-month ECL	-	-	-	-
Transfer from lifetime ECL not credit impaired	-	-	-	-
Net charge / (reversal) for the year	6,595	-	-	6,595
Write-offs	-	-	-	-
Balance as at December 31, 2019	11,941	-	-	11,941

6. Investments, net (continued)

f) Investment securities are classified as follows:

SAR '000	2020	2019
Investment at amortized cost	**25,807,423**	22,127,595
Investments at FVOCI – Debt instruments	**11,521,039**	9,153,150
Investments at FVOCI – Equity/ other investments	**220,968**	119,706
Investment at FVTPL – Debt instruments	**144,603**	75,412
Allowance for impairment	**(15,392)**	(22,084)
Total	**37,678,641**	31,453,779

g) Investments by type of securities

SAR '000	Domestic		International		Total	
	2020	2019	**2020**	2019	**2020**	2019
Fixed-rate securities	**28,605,757**	20,336,581	**1,476,684**	2,830,431	**30,082,441**	23,167,012
Floating-rate securities	**6,766,379**	7,065,884	**67,680**	-	**6,834,059**	7,065,884
Equities	**201,611**	83,843	**19,357**	35,863	**220,968**	119,706
Other	**556,565**	1,123,261	**-**	-	**556,565**	1,123,261
Allowance for impairment	**(13,821)**	(16,908)	**(1,571)**	(5,176)	**(15,392)**	(22,084)
Total	**36,116,491**	28,592,661	**1,562,150**	2,861,118	**37,678,641**	31,453,779

h) The analysis of the composition of investments is as follows:

SAR '000	2020			2019		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed-rate securities	**26,374,521**	**3,707,920**	**30,082,441**	18,200,178	3,710,628	21,910,806
Floating-rate securities	**4,595,334**	**2,238,725**	**6,834,059**	5,841,606	2,480,484	8,322,090
Equities	**195,888**	**25,080**	**220,968**	78,145	41,561	119,706
Other	**-**	**556,565**	**556,565**	-	1,123,261	1,123,261
	31,165,743	**6,528,290**	**37,694,033**	24,119,929	7,355,934	31,475,863
Allowance for impairment	**(6,251)**	**(9,141)**	**(15,392)**	(13,663)	(8,421)	(22,084)
Total	**31,159,492**	**6,519,149**	**37,678,641**	24,106,266	7,347,513	31,453,779

6. Investments, net (continued)

i) The analysis of investments by counterparty is as follows:

SAR '000	2020	2019
Government and quasi government	**33,090,633**	27,746,859
Corporate	**2,368,994**	2,728,494
Banks and other financial institutions	**2,219,014**	978,426
Total	**37,678,641**	31,453,779

j) Shariah based investments:

Investment securities designated as at FVOCI:

SAR '000	2020	2019
Debt instruments		
Sukuk	**5,975,322**	4,891,764
Allowance for impairment	**(7,032)**	(6,710)
Total	**5,968,290**	4,885,054

Investments held at amortised cost:

SAR '000	2020	2019
Debt instruments		
Sukuk	**15,519,408**	5,054,318
Other	**556,565**	1,123,260
Allowance for impairment	**(5,648)**	(8,900)
Total	**16,070,325**	6,168,678

Trading Investment securities include Islamic related products of SAR 136 million (2019: SAR 72 million).

7. Loans and advances, net

a) Loans and advances are classified as follows:

Held to Amortized cost

SAR '000	2020			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
Performing loans and advances – gross	**108,514,110**	**451,388**	**22,525,757**	**131,491,255**
Non performing loans and advances, net	**3,539,025**	**45,048**	**182,517**	**3,766,590**
Total loans and advances	**112,053,135**	**496,436**	**22,708,274**	**135,257,845**
Allowance for impairment	**(4,277,421)**	**(85,124)**	**(330,465)**	**(4,693,010)**
Loans and advances held at amortised cost, net	**107,775,714**	**411,312**	**22,377,809**	**130,564,835**

7. Loans and advances, net (continued)

SAR '000	2019			
	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

The above includes Shariah based loans and advances as below:

SAR '000	**2020**	2019
Overdraft & Commercial loans		
Tawaraq	**46,122,000**	38,859,818
Murabaha	**20,300,162**	21,638,928
Others	**5,924,288**	7,078,065
Allowance for impairment	**(2,112,998)**	(1,799,639)
Total	**70,233,452**	65,777,172

SAR '000	**2020**	2019
Credit Card & Consumer loans		
Tawaraq	**13,488,168**	10,358,056
Murabaha	**6,164,558**	4,532,848
Others	**2,853,269**	2,574,785
Allowance for impairment	**(320,471)**	(357,362)
Total	**22,185,524**	17,108,327

b) The reconciliations from the opening to the closing balance of gross carrying value of Loans and advances

An analysis of changes in gross carrying value for Loans and Advances is, as follows:

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 01	**113,985,696**	**12,005,667**	**3,442,021**	**129,433,384**
Transfer from12-month ECL	**(6,127,649)**	**5,761,073**	**366,576**	**-**
Transfer from lifetime ECL not credit impaired	**3,606,550**	**(5,889,652)**	**2,283,102**	**-**
Transfer from Lifetime ECL credit impaired	**79,204**	**19,329**	**(98,533)**	**-**
Net charge / (reversal) for the year	**7,283,911**	**547,742**	**(175,592)**	**7,656,061**
Write-offs	**-**	**-**	**(1,831,600)**	**(1,831,600)**
Balance as at December 31, 2020	**118,827,712**	**12,444,159**	**3,985,974**	**135,257,845**

7. Loans and advances, net (continued)

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	107,715,746	13,351,076	3,625,166	124,691,988
Transfer from12-month ECL	(4,858,135)	3,808,885	1,049,250	-
Transfer from lifetime ECL not credit impaired	4,547,527	(5,438,265)	890,738	-
Transfer from Lifetime ECL credit impaired	74,566	10,839	(85,405)	-
Net charge / (reversal) for the year	6,505,992	273,132	(677,095)	6,102,029
Write-offs	-	-	(1,360,633)	(1,360,633)
Balance as at December 31, 2019	113,985,696	12,005,667	3,442,021	129,433,384

An analysis of changes in gross carrying value by each class of financial instrument is, as follows:

Overdraft & Commercial loans

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 01	**96,523,160**	**11,447,398**	**3,126,851**	**111,097,409**
Transfer from12-month ECL	**(5,879,314)**	**5,631,290**	**248,024**	**-**
Transfer from lifetime ECL not credit impaired	**3,443,715**	**(5,655,813)**	**2,212,098**	**-**
Transfer from Lifetime ECL credit impaired	**2,023**	**16**	**(2,039)**	**-**
Net charge / (reversal) for the year	**2,065,731**	**762,439**	**(167,545)**	**2,660,625**
Write-offs	**-**	**-**	**(1,704,899)**	**(1,704,899)**
Balance as at December 31, 2020	**96,155,315**	**12,185,330**	**3,712,490**	**112,053,135**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	96,128,877	11,415,153	3,257,188	110,801,218
Transfer from12-month ECL	(4,579,452)	3,628,098	951,354	-
Transfer from lifetime ECL not credit impaired	3,486,286	(4,225,299)	739,013	-
Transfer from Lifetime ECL credit impaired	580	-	(580)	-
Net charge / (reversal) for the year	1,486,869	629,446	(555,413)	1,560,902
Write-offs	-	-	(1,264,711)	(1,264,711)
Balance as at December 31, 2019	96,523,160	11,447,398	3,126,851	111,097,409

7. Loans and advances, net (continued)

Credit Cards

SAR '000	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	**415,507**	**25,974**	**72,604**	**514,085**
Transfer from12-month ECL	**(28,728)**	**9,492**	**19,236**	**-**
Transfer from lifetime ECL not credit impaired	**13,817**	**(26,814)**	**12,997**	**-**
Transfer from Lifetime ECL credit impaired	**3,462**	**615**	**(4,077)**	**-**
Net charge / (reversal) for the year	**11,026**	**11,123**	**8,301**	**30,450**
Write-offs	**-**	**-**	**(48,099)**	**(48,099)**
Balance as at December 31, 2020	**415,084**	**20,390**	**60,962**	**496,436**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	350,495	106,284	80,568	537,347
Transfer from12-month ECL	(21,535)	9,830	11,705	-
Transfer from lifetime ECL not credit impaired	61,764	(77,450)	15,686	-
Transfer from Lifetime ECL credit impaired	5,537	1,378	(6,915)	-
Net charge / (reversal) for the year	19,246	(14,068)	(329)	4,849
Write-offs	-	-	(28,111)	(28,111)
Balance as at December 31, 2019	415,507	25,974	72,604	514,085

Consumer Loans

SAR '000	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	**17,047,029**	**532,295**	**242,566**	**17,821,890**
Transfer from12-month ECL	**(219,607)**	**120,291**	**99,316**	**-**
Transfer from lifetime ECL not credit impaired	**149,018**	**(207,025)**	**58,007**	**-**
Transfer from Lifetime ECL credit impaired	**73,719**	**18,698**	**(92,417)**	**-**
Net charge / (reversal) for the year	**5,207,154**	**(225,820)**	**(16,348)**	**4,964,986**
Write-offs	**-**	**-**	**(78,602)**	**(78,602)**
Balance as at December 31, 2020	**22,257,313**	**238,439**	**212,522**	**22,708,274**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	11,236,374	1,829,639	287,410	13,353,423
Transfer from12-month ECL	(257,148)	170,957	86,191	-
Transfer from lifetime ECL not credit impaired	999,477	(1,135,516)	136,039	-
Transfer from Lifetime ECL credit impaired	68,449	9,461	(77,910)	-
Net charge / (reversal) for the year	4,999,877	(342,246)	(121,353)	4,536,278
Write-offs	-	-	(67,811)	(67,811)
Balance as at December 31, 2019	17,047,029	532,295	242,566	17,821,890

7. Loans and advances, net (continued)

c) Movement in allowance for impairment of credit losses are classified as follows:

An analysis of changes in loss allowance for Loans and Advances is, as follows:

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 01	**680,944**	**981,444**	**2,045,900**	**3,708,288**
Transfer from12-month ECL	**(81,788)**	**72,861**	**8,927**	**-**
Transfer from lifetime ECL not credit impaired	**78,873**	**(416,420)**	**337,547**	**-**
Transfer from Lifetime ECL credit impaired	**33,090**	**8,016**	**(41,106)**	**-**
Net charge / (reversal) for the year	**(131,762)**	**729,628**	**2,218,456**	**2,816,322**
Write-offs	**-**	**-**	**(1,831,600)**	**(1,831,600)**
Balance as at December 31, 2020	**579,357**	**1,375,529**	**2,738,124**	**4,693,010**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	657,515	1,009,654	2,393,185	4,060,354
Transfer from12-month ECL	(40,309)	28,932	11,377	-
Transfer from lifetime ECL not credit impaired	166,707	(188,998)	22,291	-
Transfer from Lifetime ECL credit impaired	33,774	5,767	(39,541)	-
Net charge / (reversal) for the year	(136,743)	126,089	1,019,221	1,008,567
Write-offs	-	-	(1,360,633)	(1,360,633)
Balance as at December 31, 2019	680,944	981,444	2,045,900	3,708,288

An analysis of changes in loss allowance by each class of financial instrument is, as follows:

Overdraft & Commercial loans

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 01	**549,654**	**958,551**	**1,730,945**	**3,239,150**
Transfer from12-month ECL	**(76,191)**	**70,556**	**5,635**	**-**
Transfer from lifetime ECL not credit impaired	**69,362**	**(400,307)**	**330,945**	**-**
Transfer from Lifetime ECL credit impaired	**911**	**7**	**(918)**	**-**
Net charge / (reversal) for the year	**(116,797)**	**731,387**	**2,128,580**	**2,743,170**
Write-offs	**-**	**-**	**(1,704,899)**	**(1,704,899)**
Balance as at December 31, 2020	**426,939**	**1,360,194**	**2,490,288**	**4,277,421**

7. Loans and advances, net (continued)

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	571,694	975,305	2,084,807	3,631,806
Transfer from12-month ECL	(38,062)	27,521	10,541	-
Transfer from lifetime ECL not credit impaired	147,795	(165,276)	17,481	-
Transfer from Lifetime ECL credit impaired	261	-	(261)	-
Net charge / (reversal) for the year	(132,034)	121,001	883,088	872,055
Write-offs	-	-	(1,264,711)	(1,264,711)
Balance as at December 31, 2019	549,654	958,551	1,730,945	3,239,150

Credit Cards

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 01	**15,698**	**8,722**	**72,409**	**96,829**
Transfer from12-month ECL	**(2,437)**	**590**	**1,847**	**-**
Transfer from lifetime ECL not credit impaired	**3,297**	**(7,631)**	**4,334**	**-**
Transfer from Lifetime ECL credit impaired	**2,030**	**363**	**(2,393)**	**-**
Net charge / (reversal) for the year	**469**	**3,097**	**32,828**	**36,394**
Write-offs	**-**	**-**	**(48,099)**	**(48,099)**
Balance as at December 31, 2020	**19,057**	**5,141**	**60,926**	**85,124**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	17,240	3,278	60,257	80,775
Transfer from12-month ECL	(508)	221	287	-
Transfer from lifetime ECL not credit impaired	2,354	(2,682)	328	-
Transfer from Lifetime ECL credit impaired	2,898	855	(3,753)	-
Net charge / (reversal) for the year	(6,286)	7,050	43,401	44,165
Write-offs	-	-	(28,111)	(28,111)
Balance as at December 31, 2019	15,698	8,722	72,409	96,829

Consumer Loans

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 01	**115,592**	**14,171**	**242,546**	**372,309**
Transfer from12-month ECL	**(3,160)**	**1,715**	**1,445**	**-**
Transfer from lifetime ECL not credit impaired	**6,214**	**(8,482)**	**2,268**	**-**
Transfer from Lifetime ECL credit impaired	**30,149**	**7,646**	**(37,795)**	**-**
Net charge / (reversal) for the year	**(15,434)**	**(4,856)**	**57,048**	**36,758**
Write-offs	**-**	**-**	**(78,602)**	**(78,602)**
Balance as at December 31, 2020	**133,361**	**10,194**	**186,910**	**330,465**

7. Loans and advances, net (continued)

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	68,581	31,071	248,121	347,773
Transfer from12-month ECL	(1,739)	1,190	549	-
Transfer from lifetime ECL not credit impaired	16,558	(21,040)	4,482	-
Transfer from Lifetime ECL credit impaired	30,615	4,912	(35,527)	-
Net charge / (reversal) for the year	1,577	(1,962)	92,732	92,347
Write-offs	-	-	(67,811)	(67,811)
Balance as at December 31, 2019	115,592	14,171	242,546	372,309

The movement in the allowance for impairment charge for investments and other financial assets for the year ended December 31, is as follows:

SAR '000	**Note**	**2020**	2019
Impairment (reversal) / charge on due from banks, net	**5**	**66**	(2,479)
Impairment (reversal) / charge on off statement of financial position, net	**16**	**(145,067)**	(21,792)
Impairment reversal on amortized cost, net	**6 (e)**	**(3,600)**	(24,886)
Impairment charge / (reversal) on FVOCI, net	**6 (e)**	**(3,092)**	6,595
Impairment charge / (reversal) on other assets, net		**5,639**	239
Total		**(146,054)**	(42,323)

d) Loans and advances include finance lease receivables, which are analyzed as follows:

SAR '000	**2020**	2019
Gross receivable from finance leases		
Less than 1 year	**1,188,855**	1,130,795
1 to 5 years	**2,231,657**	2,625,584
More than 5 years	**5,768,800**	6,632,622
Unearned future finance income on finance lease	**(636,275)**	(750,396)
Net receivable from finance leases	**8,553,037**	9,638,605
Allowance for impairment	**(104,444)**	(142,492)
Total	**8,448,593**	9,496,113

8. Investment in associate

SAR '000	**2020**	2019
Balance at January 01	**9,695**	9,695
Share of earnings	**-**	-
Allowance for impairment	**-**	-
Balance as at December 31	**9,695**	9,695

Investment in associate represents 27% shareholding in the Banque BEMO Saudi Fransi (2019: 27%).

8. Investment in associate (continued)

The Bank's share of Banque Bemo Saudi Fransi - Syria financial statements:

SAR '000	Banque Bemo Saudi Fransi - Syria	
	2020	2019
Total assets	**528,362**	746,650
Total liabilities	**467,675**	673,190
Total equity	**60,187**	73,460
Total income	**65,354**	37,899
Total expenses	**30,608**	31,931

9. Property, equipment and right of use assets, net

SAR '000	Land and buildings	Leasehold improvements	Furniture, equipment & vehicles	Computer and Software	Total
Cost					
Balance as at January 01, 2019	744,777	600,572	569,694	1,047,809	2,962,852
Additions during the year	18,350	10,370	21,798	71,926	122,444
Disposals and retirements	(2,382)	(21,612)	(4,077)	(67,373)	(95,444)
Balance as at December 31, 2019	760,745	589,330	587,415	1,052,362	2,989,852
Additions during the year	**4,496**	**9,081**	**23,687**	**235,136**	**272,400**
Disposals and retirements	**(5)**	**(7,876)**	**(3,828)**	**(26,058)**	**(37,767)**
Balance as at December 31, 2020	**765,236**	**590,535**	**607,274**	**1,261,440**	**3,224,485**
Accumulated depreciation and impairment losses					
Balance as at January 01, 2019	337,151	548,582	483,732	903,018	2,272,483
Depreciation and amortization charge	25,880	22,495	23,825	75,752	147,952
Disposals and retirements	(1,811)	(21,612)	(3,962)	(67,373)	(94,758)
Balance as at December 31, 2019	361,220	549,465	503,595	911,397	2,325,677
Depreciation and amortization charge	**24,581**	**18,342**	**18,436**	**76,345**	**137,704**
Disposals and retirements	**(5)**	**(7,876)**	**(3,792)**	**(25,957)**	**(37,630)**
Balance as at December 31, 2020	**385,796**	**559,931**	**518,239**	**961,785**	**2,425,751**
Net book value					
As at December 31, 2020	**379,440**	**30,604**	**89,035**	**299,655**	**798,734**
As at December 31, 2019	399,525	39,865	83,820	140,965	664,175

9. Property, equipment and right of use assets, net (continued)

Leasehold improvements as at December 31, 2020 include work in progress amounting to SAR 18 million (2019: SAR 12 million). Computer and software include software having a net book value of SAR 104 million (2019: SAR 76 million).

Right-of-use assets

SAR '000	**2020**		
	Land & Building	**Furniture, equipment & vehicles**	**Total**
Balance at January 01	**656,556**	**3,836**	**660,392**
Add: Additions	**60,186**	**3,334**	**63,520**
Less: Disposals	**9,869**	**57**	**9,926**
Depreciation and amortization	**67,824**	**4,726**	**72,550**
Balance as at December 31, 2020	**639,049**	**2,387**	**641,436**

SAR '000	2019		
	Land & Building	Furniture, equipment & vehicles	Total
Balance at January 01	666,874	8,161	675,035
Add: Additions	50,663	7	50,670
Less: Disposals	1,959	22	1,981
Depreciation and amortization	59,022	4,310	63,332
Balance as at December 31, 2019	656,556	3,836	660,392

The following table shows the net book value of property, equipment and right of use assets:

SAR '000	**2020**	2019
Net book value		
Fixed Assets	**798,734**	664,175
Right-of-use assets	**641,436**	660,392
Total	**1,440,170**	1,324,567

The following table shows depreciation and amortization of property, equipment and right of use assets:

SAR '000	**2020**	2019
Depreciation and amortization		
Fixed Assets	**137,704**	147,952
Right-of-use assets	**72,550**	63,332
Total	**210,254**	211,284

10. Other assets

SAR '000	2020	2019
Accounts receivable	**869,920**	708,249
Collateral received on derivatives	**1,403,740**	591,952
Others	**237,960**	420,174
Total	**2,511,620**	1,720,375

11. Derivatives

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

a) Swaps

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

b) Forwards and futures

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

c) Forward rate agreements

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

d) Options

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

Held for trading purposes

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

11. Derivatives (continued)

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 have 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 have also established the level of commission rate risk by setting commission rate sensitivity limits. Commission rate exposure in terms of the sensitivity is reviewed on a periodic basis and hedging strategies are used to reduce the exposure within the established limits.

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

The Bank uses forward foreign exchange contracts and currency rate swaps to hedge against currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission rate exposures.

The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Cash flow hedges

The Bank is exposed to variability in future special commission income cash flows on non-trading assets and liabilities which bear variable commission rate. The Bank uses commission rate swaps as cash flow hedges of these commission rate risks. Also, as a result of firm commitments in foreign currencies, such as its issued foreign currency debt, the Bank is exposed to foreign exchange and commission rate risks which are hedged with cross currency commission rate swaps. Below is the schedule indicating as at December 31, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

SAR '000	Within 1 year	1-3 years	3-5 years	Over 5 years
2020				
Cash inflows (assets)	**964,125**	**935,369**	**280,851**	**-**
Cash out flows (liabilities)	**(388,148)**	**(345,323)**	**(202,323)**	**-**
Net cash inflow	**575,977**	**590,046**	**78,528**	**-**
2019				
Cash inflows (assets)	1,422,004	1,796,338	552,450	-
Cash out flows (liabilities)	(953,419)	(1,024,577)	(347,229)	-
Net cash inflow	468,585	771,761	205,221	-

11. Derivatives (continued)

The net gain / (loss) on cash flow hedges transferred to the consolidated statement of income during the year was as follows:

SAR '000	**2020**	2019
Special commission income	**1,072,046**	1,464,149
Special commission expense	**(502,990)**	(1,510,634)
Net gain / (loss) on cash flow hedges transferred to consolidated statement of income	**569,056**	(46,485)

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

Derivative financial instruments **SAR '000**			**Notional amounts by term to maturity**					
	Positive fair value	**Negative fair value**	**Notional amount total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
2020								
Held for trading								
Commission rate swaps	**4,554,278**	**4,222,635**	**199,290,260**	**13,239,134**	**29,738,887**	**127,888,968**	**28,423,271**	**182,145,903**
Commission rate futures and options	**744,023**	**744,023**	**34,996,063**	**409,149**	**3,950,120**	**26,195,573**	**4,441,221**	**45,627,465**
Forward foreign exchange contracts	**242,504**	**121,796**	**32,777,959**	**16,194,974**	**8,025,272**	**6,991,533**	**1,566,180**	**29,157,531**
Currency options	**944**	**944**	**67,743**	**22,055**	**45,688**	**-**	**-**	**54,941**
Others	**2,616**	**2,616**	**61,357**	**23,121**	**38,236**	**-**	**-**	**67,557**
Held as cash flow hedges								
Commission rate swaps	**1,364,681**	**4,444**	**32,571,544**	**2,896,544**	**7,903,500**	**21,771,500**	**-**	**35,808,513**
Total	**6,909,046**	**5,096,458**	**299,764,926**	**32,784,977**	**49,701,703**	**182,847,574**	**34,430,672**	**292,861,910**

Derivative financial instruments SAR '000			Notional amounts by term to maturity					
	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
2019								
Held for trading								
Commission rate swaps	2,441,789	2,375,872	174,362,942	17,712,296	21,800,979	116,905,641	17,944,026	163,993,329
Commission rate futures and options	629,181	629,181	51,141,161	51,387	9,252,601	35,116,223	6,720,950	55,851,254
Forward foreign exchange contracts	96,965	23,392	24,160,021	14,611,504	6,914,915	1,860,789	772,813	22,495,992
Currency options	427	427	8,784	360	-	8,424	-	240,976
Others	27,299	27,299	164,619	123,840	40,779	-	-	539,424
Held as cash flow hedges								
Commission rate swaps	1,410,890	13,235	51,800,640	10,198,000	6,480,000	35,122,640	-	54,880,395
Total	4,606,551	3,069,406	301,638,167	42,697,387	44,489,274	189,013,717	25,437,789	298,001,370

11. Derivatives (continued)

Derivative portfolio include Shariah based derivatives with notional amount of SAR 22,518 million (2019: SAR 24,005 million).

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value.

SAR '000 **Description of hedged items**	**Fair value**	**Cost**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
2020						
Floating commission rate investments	**3,897,280**	**3,783,544**	**Cash flow**	**Commission rate swap**	**113,736**	**-**
Floating commission rate loans	**30,034,501**	**28,788,000**	**Cash flow**	**Commission rate swap**	**1,250,945**	**4,444**
2019						
Floating commission rate investments	4,130,432	4,019,640	Cash flow	Commission rate swap	110,792	-
Floating commission rate loans	49,067,863	47,781,000	Cash flow	Commission rate swap	1,300,098	13,235

The Bank has posted SAR 1,404 million (2019: SAR 592 million) and received SAR 915 million (2019: SAR 942 million) collaterals under Credit Support Annex (CSA) agreements and European Market Infrastructure Regulation (EMIR).

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

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

12. Due to SAMA

SAR '000	**2020**	2019
Current accounts	**67,594**	1,300
Government grant (note 40)	**9,214,101**	-
Modification impact, net	**(152,070)**	-
Total	**9,129,625**	1,300

12. Due to SAMA (continued)

The table below shows a summary of government grant along with the maturity dates:

Date of Receipt	Final Maturity Date	Principal Amount SAR '000
March 29, 2020	March 29, 2023	**525,127**
March 29, 2020	December 29, 2024	**474,873**
May 11, 2020	February 11, 2025	**785,000**
May 21, 2020	February 20, 2025	**869,000**
June 04, 2020	June 06, 2021	**4,612,111**
July 16, 2020	April 16, 2025	**489,403**
September 30, 2020	January 04, 2024	**1,448,255**
December 23, 2020	September 20, 2022	**10,332**
Total		**9,214,101**

13. Due to banks and other financial institutions

SAR '000	2020	2019
Current accounts	**342,230**	553,116
Money market deposits	**7,320,358**	1,817,724
Total	**7,662,588**	2,370,840

Due to banks and other financial institutions include Islamic related products of SAR Nil million (2019: SAR Nil million).

14. Customers' deposits

SAR '000	2020	2019
Demand	**79,860,073**	67,732,501
Saving	**753,054**	591,825
Time	**40,442,288**	59,478,938
Other	**6,056,229**	5,034,238
Total	**127,111,644**	132,837,502

Other customers' deposits include SAR 3,799 million (2019: SAR 3,036 million) related to margins held for irrevocable commitments.

Time deposits include Shariah approved customer deposits as below:

SAR '000	2020	2019
Murabaha	**17,453,471**	19,125,900
Total	**17,453,471**	19,125,900

Customers' deposits include foreign currency deposits as follows:

SAR '000	2020	2019
Demand	**7,664,520**	7,436,209
Saving	**23,964**	18,200
Time	**3,490,519**	12,349,220
Other	**2,851,133**	1,948,430
Total	**14,030,136**	21,752,059

Foreign currency deposits mainly include deposits in USD amounting to SAR 9,482 million (2019: SAR 17,443 million).

15. Tier 1 Sukuk

During 2020, the Bank through a Shariah compliant arrangement issued Tier 1 Sukuk (the "Sukuk"), amounting to SAR 5 billion. The issuance was approved by the regulatory authorities and the Board of Directors of the Bank.

These Sukuks are perpetual securities in respect of which there is no fixed redemption dates and represents an undivided ownership interest of the Sukuk-holders in the Sukuk assets, with each Sakk constituting an unsecured, conditional and subordinated obligation of the Bank classified under equity. However, the Bank shall have the exclusive right to redeem or call the Sukuks in a specific period of time, subject to the terms and conditions stipulated in the Sukuk Agreement.

The applicable profit rate is 4.5% per annum from date of issue up to 2025 and is subjected to reset every 5 years. The applicable profit on the Sukuks is payable quarterly in arrears on each periodic distribution date, except upon the occurrence of a non payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such non-payment event or non-payment election are not considered to be events of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

16. Other liabilities

SAR '000	2020	2019
Accounts payable and accrued expenses	**2,416,407**	2,424,115
Collateral received on derivatives	**915,153**	942,139
Zakat liability for prior years	**725,121**	966,828
Lease liability	**702,162**	711,888
ECL provision on off statement of financial position	**410,871**	555,938
Others	**1,267,610**	1,321,903
Total	**6,437,324**	6,922,811

The following table shows the gross carrying amount of off balance sheet items:

SAR '000	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	**28,908,401**	**1,336,396**	**684,563**	**30,929,360**
Transfer from12-month ECL	**(1,041,807)**	**1,014,003**	**27,804**	**-**
Transfer from lifetime ECL not credit impaired	**1,526,942**	**(1,632,856)**	**105,914**	**-**
Net charge / (reversal) for the year	**1,647,228**	**802,672**	**119,522**	**2,569,422**
Write-offs	**-**	**-**	**-**	**-**
Balance as at December 31, 2020	**31,040,764**	**1,520,215**	**937,803**	**33,498,782**

16. Other liabilities (continued)

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	26,690,788	1,600,403	691,669	28,982,860
Transfer from12-month ECL	(1,405,534)	1,046,678	358,856	-
Transfer from lifetime ECL not credit impaired	405,966	(479,096)	73,130	-
Net charge / (reversal) for the year	3,217,181	(831,589)	(439,092)	1,946,500
Write-offs	-	-	-	-
Balance as at December 31, 2019	28,908,401	1,336,396	684,563	30,929,360

Movement of ECL provision on off statement of financial position:

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Balance at January 01	**42,107**	**25,629**	**488,202**	**555,938**
Transfer from12-month ECL	**(2,172)**	**2,164**	**8**	**-**
Transfer from lifetime ECL not credit impaired	**8,500**	**(8,560)**	**60**	**-**
Net charge / (reversal) for the year	**(22,866)**	**(8,206)**	**(113,995)**	**(145,067)**
Write-offs	**-**	**-**	**-**	**-**
Balance as at December 31, 2020	**25,569**	**11,027**	**374,275**	**410,871**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Balance at January 01	44,176	44,057	489,497	577,730
Transfer from12-month ECL	(1,479)	1,475	4	-
Transfer from lifetime ECL not credit impaired	2,175	(2,577)	402	-
Net charge / (reversal) for the year	(2,765)	(17,326)	(1,701)	(21,792)
Write-offs	-	-	-	-
Balance as at December 31, 2019	42,107	25,629	488,202	555,938

17. Share capital

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

The ownership of the Bank's share capital is as follows:

SAR '000	**2020 (%)**	2019 (%)	**2020**	2019
Saudi shareholders	**91.0**	87.0	**10,968,751**	10,485,269
Credit Agricole Corporate and Investment Bank (CA-CIB)	**-**	4.0	**-**	483,482
RAM Holdings I Ltd.	**9.0**	9.0	**1,084,821**	1,084,821
Total	**100**	100	**12,053,572**	12,053,572

18. Statutory and general reserve

In accordance with Saudi Arabian Banking Control Law and the By-Laws of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Accordingly, the Bank has reached the required limits and no further transfers are required from the net income for the year ended December 31, 2020 (2019: SAR Nil). The statutory reserve is not available for distribution.

The Bank had appropriated SAR 983 million to general reserve from retained earnings in the prior years.

19. Other reserves

SAR '000	Cash flow hedges	FVOCI investments	Total
2020			
Balance at January 01	**744,084**	**68,138**	**812,222**
Net change in fair value	**834,615**	**120,757**	**955,372**
Transfer to consolidated statement of income	**(569,056)**	**(10,423)**	**(579,479)**
Disposal of equity – FVOCI	**-**	**-**	**-**
Net movement during the year	**265,559**	**110,334**	**375,893**
Balance as at December 31, 2020	**1,009,643**	**178,472**	**1,188,115**
2019			
Balance at January 01	(308,518)	(9,786)	(318,304)
Net change in fair value	1,006,117	108,178	1,114,295
Transfer to consolidated statement of income	46,485	(31,456)	15,029
Disposal of equity – FVOCI	-	1,202	1,202
Net movement during the year	1,052,602	77,924	1,130,526
Balance as at December 31, 2019	744,084	68,138	812,222

Other reserves represent the net unrealized revaluation gains / (losses) of cash flow hedges and FVOCI. These reserves are not available for distribution.

20. Commitments and contingencies

a) Legal proceedings

As at December 31, 2020 there were 54 (2019: 47) legal proceedings outstanding against the Bank. No material provision has been made as the related legal advice indicates that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2020 the Bank had capital commitments of SAR 100 million (2019: SAR 92 million) in respect of buildings and equipment purchases.

20. Commitments and contingencies (continued)

c) Credit related commitments and contingencies

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

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

Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The contractual maturity structure for the Bank's commitments and contingencies is as follows:

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
2020					
Letters of credit	**4,085,130**	**3,151,502**	**1,118,861**	**-**	**8,355,493**
Letters of guarantee	**10,851,329**	**18,190,497**	**10,003,114**	**452,760**	**39,497,700**
Acceptances	**1,409,804**	**704,592**	**78,068**	**-**	**2,192,464**
Irrevocable commitments to extend credit	**366,377**	**284,102**	**5,508,216**	**6,800**	**6,165,495**
Total	**16,712,640**	**22,330,693**	**16,708,259**	**459,560**	**56,211,152**
2019					
Letters of credit	1,110,084	6,239,163	1,483,770	-	8,833,017
Letters of guarantee	5,968,798	22,178,207	9,271,363	510,446	37,928,814
Acceptances	637,151	1,500,016	108,932	-	2,246,099
Irrevocable commitments to extend credit	56,243	1,022,714	3,537,809	-	4,616,766
Total	7,772,276	30,940,100	14,401,874	510,446	53,624,696

The outstanding unused portion of non-firm commitments which can be revoked unilaterally at any time by the Bank was SAR 99,024 million (2019: SAR 89,038 million).

Commitment and contingencies balance related to Shariah based products were SAR 5,460 million (2019: SAR 3,953 million).

20. Commitments and contingencies (continued)

ii) The analysis of commitments and contingencies by counterparty is as follows:

SAR '000	2020	2019
Government and quasi government	**86,122**	644,470
Corporate	**51,780,738**	48,799,930
Banks and other financial institutions	**4,307,744**	4,130,350
Other	**36,548**	49,946
Total	**56,211,152**	53,624,696

d) Assets pledged

Securities pledged under repurchase agreements with other banks are government bonds. Other non-government bonds are also pledged under repurchase agreements. Assets pledged as collateral with other financial institutions for security are as follows:

SAR '000	2020		2019	
	Assets	**Related liabilities**	Assets	Related liabilities
FVOCI	**3,292,500**	**3,283,512**	1,895,273	1,801,663
Amortised Cost	**1,041,000**	**997,336**	-	-
Total	**4,333,500**	**4,280,848**	1,895,273	1,801,663

21. Special commission income and expense

SAR '000	2020	2019
Special commission income		
Investments		
– FVOCI	**254,264**	219,285
– Amortised Cost	**583,145**	693,533
	837,409	912,818
Due from SAMA, banks and other financial institutions	**69,754**	386,613
Loans and advances	**5,377,628**	6,070,099
Total	**6,284,791**	7,369,530
Special commission expense		
Due to SAMA, banks and other financial institutions	**93,170**	82,277
Customers' deposits	**951,233**	2,040,817
Debt securities and sukuks	**-**	40,759
Total	**1,044,403**	2,163,853
Net special commission income	**5,240,388**	5,205,677

Net Special commission income related to Islamic related products were SAR 1,700 million (2019: SAR 1,466 million).

22. Fees and commission income, net

SAR '000	2020	2019
Fees and commission income		
- Share trading, brokerage, fund management and corporate finance	**411,521**	281,332
- Trade finance	**394,455**	441,304
- Loans and syndication management fees	**283,186**	341,976
- Card products	**303,530**	311,315
- Other banking services	**130,435**	128,284
Total fees and commission income	**1,523,127**	1,504,211
Fees and commission expense		
- Share trading and brokerage	**99,229**	47,566
- Card products	**284,927**	272,459
- Other banking services	**57,155**	44,680
Total fees and commission expense	**441,311**	364,705
Fees and commission income, net	**1,081,816**	1,139,506

Unamortized balance of commission received in advance SAR 474 million (2019: SAR 559 million)

23. Trading income, net

SAR '000	2020	2019
Derivatives, net	**153,585**	77,734
Securities, net	**14,300**	14,429
Total	**167,885**	92,163

24. Other operating income

SAR '000	2020	2019
Gains on disposal of property and equipment	**394**	543
Recoveries of written off loans	**93,471**	61,222
Other	**70,146**	4,037
Total	**164,011**	65,802

25. Basic and diluted earnings per share

Basic and diluted earnings per share for the years ended December 31, 2020 and 2019 are calculated on a weighted average basis by dividing the net income adjusted for Tier I Sukuk costs for the year by 1,200 million shares after excluding treasury shares consisting of 5.7 million shares as of December 31, 2020 (December 31, 2019: 5.7 million shares).

26. Gross dividend

The Board of Directors have proposed final net dividend of SAR Nil million (2019: SAR 1,200 million) i.e. SAR Nil (2019: SAR 1.00) net per share for the year which is subject to the approval of the shareholders at the Annual General Assembly Meeting and the regulatory agencies. The Board of Directors has declared interim net dividend of SAR Nil million (2019: SAR 1,155 million) i.e. SAR Nil (2019: SAR 1.00) net per share.

SAR '000	**2020**	2019
Interim net dividend	-	1,155,151
Final proposed net dividend	-	1,199,679
Total	-	2,354,830

27. Zakat and Income Tax

The dividends are paid to the Saudi and non-Saudi shareholders after deduction of Zakat and income tax respectively as follows:

a) Saudi shareholders

Zakat attributable to Saudi Shareholders for the year amounted to SAR 381 million (2019: SAR 391 million) which is deducted from their share of dividend.

b) Non-Saudi shareholders

Income tax payable on the current year's share of income is approximately SAR 40 million (2019: SAR 106 million). The share of dividend of non-Saudi shareholder is paid after deducting the related taxes due as described above.

CACIB sold its remaining shares in the Bank during 2020. After the sale of these shares, it is expected that the Bank is not subjected to Income Tax and 100 percent of its shareholding is considered zakatable.

Zakat Settlement

The Bank has calculated Zakat accruals for the year 2020 based on the new Zakat rules for financing activities in accordance with MR 2215 dated March 14, 2019 corresponding to Rajab 07, 1440H.

As a major event, in the year 2018, the Bank reached a settlement agreement with the General Authority for Zakat & Income Tax (GAZT), to settle the Zakat Liability amounting to SAR 1,510.67 million for previous years and until the end of the financial year 2017. The settlement agreement requires the Bank to settle 20% of the agreed Zakat Liability in 2018 and the remaining to be settled over the period of five years, accordingly the Bank has adjusted Zakat & Income Taxes for the previous years and until the end of financial year 2017, through its Retained Earnings. The Bank has settled SAR 786 million up to December 31, 2020.

As a result of the settlement agreement, the Bank has agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to Zakat & Income Tax.

27. Zakat and Income Tax (continued)

Zakat Reconciliation

SAR '000	2020	2019
Zakat for the year	**380,931**	391,248
Zakat charge for the current year	**380,931**	391,248

Tax Reconciliation

SAR '000	2020	2019
Income tax for the year	**40,157**	106,294
Deferred tax	**42,937**	6,634
Income tax charge for the current year	**83,094**	112,928

Deferred Tax

The deferred tax arises on end of service benefits, impairment allowance on off-balance expected credit losses and other items

SAR '000	2020	2019
Opening deferred tax asset	**42,937**	49,571
Reversal of temporary differences	**(4,282)**	(2,533)
Impact of change in shareholding	**(38,655)**	(4,101)
Deferred tax expense	**(42,937)**	(6,634)
Balance as at December 31	**-**	42,937

28. Cash and cash equivalents

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

SAR '000	2020	2019
Cash and balances with SAMA excluding statutory deposit (note 4)	**2,582,412**	1,270,416
Due from banks and other financial institutions with a maturity of three months or less from the date of acquisition	**4,026,997**	2,392,090
Total	**6,609,409**	3,662,506

Due from banks and other financial institutions maturing after three months from the date of acquisition were SAR Nil million (2019: SAR 1,350 million).

29. Employees compensation practices

SAR '000	**2020**				
Categories of employees	**Number of employees**	**Fixed compensation**	**Variable compensation**	**Total compensation**	**Forms of payment**
Senior executives	**17**	**43,426**	**36,260**	**79,686**	**Cash**
Employees engaged in risk taking activities	**359**	**205,062**	**86,449**	**291,511**	**Cash**
Employees engaged in control functions	**365**	**125,510**	**21,637**	**147,147**	**Cash**
Other employees	**2,140**	**486,128**	**93,012**	**579,140**	**Cash**
Total	**2,881**	**860,126**	**237,358**	**1,097,484**	

SAR '000	2019				
Categories of employees	Number of employees	Fixed compensation	Variable compensation	Total compensation	Forms of payment
Senior executives	17	39,706	33,051	72,757	Cash
Employees engaged in risk taking activities	383	221,584	84,401	305,985	Cash
Employees engaged in control functions	372	125,204	23,769	148,973	Cash
Other employees	2,226	484,206	83,286	567,492	Cash
Total	2,998	870,700	224,507	1,095,207	

Number of employees represents only the closing balance.

SAR '000	**2020**	2019
Total compensation	**1,097,484**	1,095,207
Other employee related costs	**321,219**	234,043
Total salaries and employee related costs	**1,418,703**	1,329,250

The above table includes deferred variable compensation of SAR 18.4 million (2019: SAR 20.3 million).

There are certain benefits paid to employees under various schemes that are recorded under special commission and fee expenses.

Senior executives:

This comprises senior management having responsibility and authority for formulating strategies, directing and controlling the activities of the Bank including MD.

29. Employees compensation practices (continued)

Employees engaged in risk taking activities:

This comprises managerial staff within the business lines (Corporate, Retail, Treasury and Investment banking and Brokerage), who are responsible for executing and implementing the business strategy on behalf of the Bank. This includes those involved in recommending and evaluating credit limits and credit worthiness, pricing of loans, undertaking and executing business proposals, treasury dealing activities, investment management and brokerage services.

Employees engaged in control functions:

This refers to employees working in divisions that are not involved in risk taking activities but engaged in review functions (Risk Management, Compliance, Corporate Governance, Legal, Internal Audit, Finance and Accounting). These functions are fully independent from risk taking units.

Other employees:

This includes all other employees of the Bank, excluding those already reported under the above categories.

Governance of Compensation

The Board of Directors of the Bank, through the Nomination and Compensation Committee (NCCOM) is responsible for the overall design and oversight of the compensation and performance management system.

NCCOM: Terms of Reference

a) Overseeing the compensation system's design and operation on behalf of the Board of Directors;
b) Preparing the Compensation Policy and placing it before the Board for approval;
c) Periodically reviewing the Compensation Policy on its own or when advised by the Board, and making recommendations to the Board for amending/updating the Policy;
d) Periodically evaluating the adequacy and effectiveness of the Compensation Policy to ensure that its stated objectives are achieved;
e) Evaluating practices by which compensation is paid for potential future revenues whose timing and likelihood remain uncertain;
f) Making recommendations to the Board on the level and composition of remuneration of key executives of the Bank. The key executives for this purpose will include all those executives whose appointment is subject to no objection by SAMA;
g) Determination of bonus pool based on risk-adjusted profit of the Bank for payment of performance bonus;
h) Reviewing compliance of the Compensation Policy with these Rules and the FSB principles and Standards;
i) Performing any other related tasks to comply with the regulatory requirements.
j) Considering the suitability of candidates for membership of the Board in accordance with the By-Laws of the Bank and approved policies and standards;
k) Undertaking an annual review of the requirement of suitable skills and qualifications for the membership of the Board;
l) Recommending to the Board criteria for the composition of the Board and its Committees, including the number of Board members, and independence of directors;
m) Conducting an annual evaluation of the independent status of each candidate proposed for election at the General Assembly meeting and reporting the results of such evaluation to the Board;
n) Satisfying itself to the Board and its committees, as applicable, are in compliance with all regulatory requirements, including its composition;

29. Employees compensation practices (continued)

o) Assisting the Board in reviewing the adequacy of the succession planning process and oversee its implementation;
p) Reviewing the performance and making recommendations to the Board regarding the compensation of the Senior Management of the Bank;
q) Reviewing and assessing the adequacy of this Charter every three years and submitting this Charter and any amendments to the Board for approval;
r) Conducting self-evaluation to assess the Committee's contribution and effectiveness in fulfilling its mandate and present it to the Board every three years.

Incentives Oversight Committee (IOC): Terms of Reference

a) The IOC ensures that all incentive plans are properly balanced for risk and reflective of the Bank's compensation philosophy, policy, strategic objectives and incentive system as determined by the NRC and business unit goals;

b) The IOC is responsible for making recommendations to the NRC on all changes to the existing incentive plans in the Bank as well as the addition or removal of any incentive plan. The Board is ultimately responsible for the approval of all incentive plans in the Bank which will be based on the recommendation of the NRC;

c) The IOC is responsible for establishing the processes for incentive plan administration and payments; and

d) The IOC monitors incentive plan results against a set defined KPI's on a quarterly basis and alerts management in case of potential disconnects between performance results and planned incentive payments.

Salient Features of the Banks Compensation Policy

The Bank utilizes 4 key Reward Principles which are aligned to the Bank's overall strategic direction. The 4 Rewards Principles underpin the design and execution of the Bank's compensation policy and practices:

1st Reward Principle: Pay for Performance:
The Bank's policy ensures, through fixed and variable forms of compensation, the recognition of high performance and the differentiation between varying levels of performance at the Bank's different levels: individual, group/division and bank-wide, based on the seniority of the role within the Bank, whilst also ensuring the independency of the control functions.

2nd Reward Principle: Flexibility:
The Bank's compensation policy is flexible enough in order to facilitate an internal job market, and flexible enough in order to cater to the evolving requirements of the Bank in an evolving banking industry.

3rd Reward Principle: Competitiveness:
The Bank monitors market trends closely and reviews its compensation against a selected peer group of banks. This is to ensure that the Bank remains able to attract, engage and retain the required talent.

4th Reward Principle: Risk Alignment:
The Bank's compensation policy ensures that the correct risk mitigation measures are applied, such as: variable compensation deferral and clawback arrangements, as appropriate.

General description

Benefits payable to the employees of the Bank at the end of their services are accrued based on actuarial valuation conducted by an independent actuary, taking into accounts the provision of the Saudi Arabian Labor Law. The actuarial gains/losses for the year ended December 31, 2020, are not material to the consolidated financial statements taken as a whole.

29. Employees compensation practices (continued)

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.

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:

SAR '000	2020	2019
Defined benefit obligation at the beginning of the year	**440,882**	452,753
Current service cost charge for the year	**37,763**	43,007
Interest cost	**12,626**	16,551
Benefits paid	**(40,005)**	(57,283)
Unrecognized actuarial gain	**2,610**	(14,146)
Defined benefit obligation at the end of the year	**453,876**	440,882

SAR '000	2020	2019
Charge for the year		
Current service cost	**37,763**	43,007
Interest cost	**12,626**	16,551
Total	**50,389**	59,558

Principal actuarial assumptions (in respect of the employee benefit scheme)	2020	2019
Discount rate	**2.5% p.a**	3.0% p.a
Expected rate of salary increase	**3.0% p.a**	3.5% p.a
Normal retirement age	**58 years**	58 years

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

Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2020 and 2019 to the discount rate, salary escalation rate, withdrawal assumptions and mortality rates.

SAR '000	2020	2019
Discount rate – decrease by 0.5%	**476,311**	459,806
Future salary growth – increase by 0.5%	**476,078**	459,617
Retirement age – increase by one year	**454,526**	442,682

29. Employees compensation practices (continued)

Expected maturity analysis of discounted defined benefit obligation for the end of service plan is as follows:

SAR '000	2020	2019
Less than 1 year	**48,583**	39,822
1 to 5 years	**103,829**	44,737
Above 5 years	**301,464**	356,323
Total	**453,876**	440,882

30. Operating segments

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

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

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss. The Bank's primary business is conducted in the Kingdom of Saudi Arabia.

a) The Bank's reportable segments under IFRS 8 are as follows:

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

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

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

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit as included in the internal management reports that are reviewed by chief decision maker. Segment profit is used to measure performance, as the management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The Bank's total assets and liabilities as at December 31, 2020 and 2019, its total operating income and expenses and its net income attributable to equity holders of the Bank for the years then ended by operating segments, are as follows:

30. Operating segments (continued)

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
2020					
Total assets	**29,086,054**	**102,506,558**	**61,050,037**	**1,430,935**	**194,073,584**
Loans and advances, net	**27,914,895**	**101,297,248**	**-**	**1,352,692**	**130,564,835**
Total liabilities	**74,966,550**	**54,368,111**	**24,680,827**	**1,422,151**	**155,437,639**
Customers' deposits	**74,388,681**	**52,722,963**	**-**	**-**	**127,111,644**
Total operating income	**1,810,727**	**2,926,420**	**1,945,676**	**361,771**	**7,044,594**
Total operating expenses before impairment charge	**1,202,260**	**633,624**	**304,946**	**223,260**	**2,364,090**
Impairment charges for financial assets, net	**271,087**	**2,396,969**	**(3,030)**	**5,242**	**2,670,268**
Net income for the year before zakat and income tax	**337,380**	**(104,173)**	**1,643,760**	**133,269**	**2,010,236**
Net special commission income	**1,561,596**	**2,273,280**	**1,356,033**	**49,479**	**5,240,388**
Fees and commission income, net	**170,554**	**612,128**	**(13,158)**	**312,292**	**1,081,816**
Exchange income, net	**25,164**	**3,043**	**350,684**	**-**	**378,891**
Trading income, net	**-**	**-**	**167,885**	**-**	**167,885**
Inter-segment revenue	**1,030,744**	**302,143**	**(1,332,887)**	**-**	**-**
Depreciation and amortization	**149,636**	**38,753**	**18,740**	**3,125**	**210,254**
2019					
Total assets	23,704,697	103,245,226	49,633,429	1,565,225	178,148,577
Loans and advances, net	22,391,351	101,842,279	-	1,491,466	125,725,096
Total liabilities	70,547,235	64,397,001	8,748,442	1,509,181	145,201,859
Customers' deposits	70,386,729	62,450,773	-	-	132,837,502
Total operating income	1,884,766	3,059,771	1,634,338	293,675	6,872,550
Total operating expenses before impairment charge	1,104,693	634,758	367,497	180,216	2,287,164
Impairment charges for financial assets, net	277,497	682,921	5,826	-	966,244
Net income for the year before zakat and income tax	502,576	1,742,092	1,261,015	113,459	3,619,142
Net special commission income	1,563,868	2,355,136	1,223,783	62,890	5,205,677
Fees and commission income, net	213,750	698,998	(4,027)	230,785	1,139,506
Exchange income, net	46,802	3,008	285,694	-	335,504
Trading income, net	-	-	92,163	-	92,163
Inter-segment revenue	1,079,552	248,011	(1,327,563)	-	-
Depreciation and amortization	129,704	55,854	22,112	3,614	211,284

30. Operating segments (continued)

b) The Bank's credit exposure by operating segments is as follows:

SAR '000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
2020					
Balance Sheet assets	**27,981,059**	**101,950,150**	**50,579,184**	**1,352,717**	**181,863,110**
Commitments and contingencies	**232,461**	**33,266,321**	**-**	**-**	**33,498,782**
Derivatives	**-**	**-**	**7,127,961**	**-**	**7,127,961**
2019					
Balance Sheet assets	22,456,683	103,027,147	42,077,259	1,491,491	169,052,580
Commitments and contingencies	244,591	30,684,769	-	-	30,929,360
Derivatives	-	-	5,513,287	-	5,513,287

Credit exposure comprises the carrying value of balance sheet assets excluding cash, property and equipment, positive fair value of derivative, deferred tax, other assets & other real estate. The credit equivalent value of commitments, contingencies and derivatives are included in credit exposure.

31. Financial Risk Management

Credit Risk

The Board of Directors are responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Board Risk Committee, which has the responsibility to monitor the overall risk process within the Bank.

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

The Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports to the Supervisory Board.

The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

The Bank assesses the probability of default of counterparties using internal rating tools with an overlay of credit assessment, where necessary. In addition the Bank also uses external ratings from major rating agencies where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify, to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

31. Financial Risk Management (continued)

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes collateral / security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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

The debt securities included in the investment portfolio are mainly sovereign risk. For analysis of investments by counterparty and the details of the composition of investments, and loans and advances, refer to notes 6 and 7, respectively. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 20. The information on Banks maximum credit exposure by business segment is given in note 30.

The Bank's internal credit rating grades:

Rating Grade	Description	PD-Range	Mid-Point
Performing			
A+	Exceptional	0-0.02%	0.0030%
A	Excellent	0-0.02%	0.0100%
B+	Very Good	0.02%-0.04%	0.0221%
B	Good	0.04%-0.08%	0.0585%
C+	Very Satisfactory	0.08%-0.16%	0.1464%
C	Satisfactory	0.16%-0.32%	0.3047%
C-	Fairly Satisfactory	0.32%-0.64%	0.5333%
D+	Pass	0.64%-0.85%	0.8059%
D	Mediocre	0. 88%-1.28%	1.2213%
D-	Very Mediocre	1.28%-2.56%	2.1793%
E+	Weak	2.56%-5.12%	4.8860%
E	Special Mention	5.12%-15.0%	10.9544%
E-	Special Mention	15.0%-40.0%	24.8933%
Non-Performing			
F	Standard	100.00%	100.00%
Z	Doubtful	100.00%	100.00%
Y	Loss	100.00%	100.00%

31. Financial Risk Management (continued)

Geographical concentration

a) The distribution by geographical region for major categories of assets, liabilities, commitments and contingencies and credit exposure of derivatives is as follows:

SAR '000	Saudi Arabia	Middle East	Europe	North America	Other Countries	Total
2020						
Assets						
Cash and balances with SAMA						
Cash in hand	965,457	-	-	-	-	965,457
Balances with SAMA	9,582,942	-	-	-	-	9,582,942
Due from banks and other financial institutions						
Current account	-	239,598	667,821	3,067,299	52,279	4,026,997
Money market placements	-	-	-	-	-	-
Investments, net						
Held as FVTPL	80,070	64,533	-	-	-	144,603
FVOCI	10,235,542	1,314,716	121,293	-	61,607	11,733,158
Investments held at amortised cost	25,800,880	-	-	-	-	25,800,880
Investment in associate	-	9,695	-	-	-	9,695
Positive fair value of derivatives						
Held for trading	2,171,951	581,330	2,659,503	2,052	129,529	5,544,365
Held as cash flow hedges	175,362	51,415	1,046,130	-	91,774	1,364,681
Loans and advances, net						
Over draft and commercial loans	106,191,518	1,584,196	-	-	-	107,775,714
Credit cards	411,304	-	-	-	8	411,312
Consumer loans	22,377,809	-	-	-	-	22,377,809
Property, equipment and right of use assets , net	1,440,170	-	-	-	-	1,440,170
Other assets, deferred tax and other real estate	1,492,665	49,356	1,326,886	-	26,894	2,895,801
Total assets	180,925,670	3,894,839	5,821,633	3,069,351	362,091	194,073,584

31. Financial Risk Management (continued)

SAR '000	Saudi Arabia	Middle East	Europe	North America	Other Countries	Total
2020						
Liabilities						
Due to SAMA, banks and other financial institutions						
Current accounts	67,594	211,611	92,157	36,200	2,262	409,824
Money market deposits	10,662,746	1,435,916	4,013,364	-	270,363	16,382,389
Customers' deposits						
Demand	79,657,180	98,253	3,349	28	101,263	79,860,073
Time	40,353,188	89,100	-	-	-	40,442,288
Saving	753,054	-	-	-	-	753,054
Other	6,055,391	765	73	-	-	6,056,229
Negative fair value of derivatives						
Held for trading	1,045,624	171,010	3,760,102	1,923	113,355	5,092,014
Held as cash flow hedges	1,835	-	2,059	-	550	4,444
Other liabilities	5,611,258	22,184	775,433	-	28,449	6,437,324
Total liabilities	144,207,870	2,028,839	8,646,537	38,151	516,242	155,437,639
Commitments and contingencies						
Letters of credit	7,889,925	200,652	93,750	2,212	168,954	8,355,493
Letters of guarantee	35,765,001	451,388	3,004,900	198,782	77,629	39,497,700
Acceptances	2,190,416	184	-	-	1,864	2,192,464
Irrevocable commitments to extend credit	5,858,302	307,193	-	-	-	6,165,495
Total	51,703,644	959,417	3,098,650	200,994	248,447	56,211,152
Maximum Credit exposure (stated at credit equivalent amounts)						
Derivatives	3,081,040	2,655,676	1,206,280	7,255	177,710	7,127,961
Total	3,081,040	2,655,676	1,206,280	7,255	177,710	7,127,961
Commitments and contingencies exposure						
Letters of credit	4,059,729	40,130	18,750	442	33,791	4,152,842
Letters of guarantee	22,370,407	261,495	1,517,359	99,391	46,471	24,295,123
Acceptances	2,190,417	183	-	-	1,864	2,192,464
Irrevocable commitments to extend credit	2,704,756	153,597	-	-	-	2,858,353
Total	31,325,309	455,405	1,536,109	99,833	82,126	33,498,782

31. Financial Risk Management (continued)

SAR '000	Saudi Arabia	Middle East	Europe	North America	Other Countries	Total
2019						
Assets						
Cash and balances with SAMA						
Cash in hand	995,416	-	-	-	-	995,416
Balances with SAMA	8,121,920	-	-	-	-	8,121,920
Due from banks and other financial institutions						
Current account	-	94,350	853,248	1,173,804	35,815	2,157,217
Money market placements	1,080,457	304,024	-	200,392	-	1,584,873
Investments, net						
Held as FVTPL	55,194	12,664	-	-	7,554	75,412
FVOCI	6,420,015	790,542	119,528	1,870,702	60,128	9,260,915
Investments held at amortised cost	22,117,452	-	-	-	-	22,117,452
Investment in associate	-	9,695	-	-	-	9,695
Positive fair value of derivatives						
Held for trading	1,149,458	293,043	981,804	120,714	650,642	3,195,661
Held as cash flow hedges	169,536	67,739	657,268	425,073	91,274	1,410,890
Loans and advances, net						
Over draft and commercial loans	105,828,376	1,388,259	351,910	-	289,714	107,858,259
Credit cards	417,247	-	-	-	9	417,256
Consumer loans	17,449,581	-	-	-	-	17,449,581
Property, equipment and right of use assets , net	1,324,567	-	-	-	-	1,324,567
Other assets, deferred tax and other real estate	1,530,438	-	511,200	127,822	3	2,169,463
Total assets	166,659,657	2,960,316	3,474,958	3,918,507	1,135,139	178,148,577

31. Financial Risk Management (continued)

SAR '000	Saudi Arabia	Middle East	Europe	North America	Other Countries	Total
2019						
Liabilities						
Due to SAMA, banks and other financial institutions						
Current accounts	1,300	461,639	58,980	29,492	3,005	554,416
Money market deposits	-	9,821	908,968	898,935	-	1,817,724
Customers' deposits						
Demand	67,423,708	97,509	4,405	109	206,770	67,732,501
Time	59,359,866	119,072	-	-	-	59,478,938
Saving	591,823	-	-	-	2	591,825
Other	5,033,580	585	73	-	-	5,034,238
Negative fair value of derivatives						
Held for trading	845,083	71,239	1,021,893	319,375	798,581	3,056,171
Held as cash flow hedges	-	38	10,834	2,363	-	13,235
Other liabilities	5,897,291	-	446,839	477,029	101,652	6,922,811
Total liabilities	139,152,651	759,903	2,451,992	1,727,303	1,110,010	145,201,859
Commitments and contingencies						
Letters of credit	8,333,751	193,131	103,026	-	203,109	8,833,017
Letters of guarantee	34,420,006	564,340	2,568,506	242,317	133,645	37,928,814
Acceptances	2,211,704	3,418	947	-	30,030	2,246,099
Irrevocable commitments to extend credit	4,100,980	515,786	-	-	-	4,616,766
Total	49,066,441	1,276,675	2,672,479	242,317	366,784	53,624,696
Maximum Credit exposure (stated at credit equivalent amounts)						
Derivatives	2,392,265	637,089	2,332,141	25,612	126,180	5,513,287
Total	2,392,265	637,089	2,332,141	25,612	126,180	5,513,287
Commitments and contingencies exposure						
Letters of credit	3,817,973	38,626	20,605	-	40,622	3,917,826
Letters of guarantee	20,977,809	306,353	1,321,316	133,275	71,236	22,809,989
Acceptances	2,211,704	3,418	947	-	30,030	2,246,099
Irrevocable commitments to extend credit	1,697,553	257,893	-	-	-	1,955,446
Total	28,705,039	606,290	1,342,868	133,275	141,888	30,929,360

31. Financial Risk Management (continued)

b) The distributions by geographical concentration of impaired loans and advances and impairment for credit losses are as follows:

SAR '000	Saudi Arabia	
	2020	2019
Non performing loans and advances, net		
Overdraft & Commercial loans	**3,539,025**	3,126,851
Credit Cards	**45,048**	59,068
Consumer Loans	**182,517**	231,578
Total	**3,766,590**	3,417,497
Lifetime ECL credit impaired		
Overdraft & Commercial loans	**2,490,288**	1,730,945
Credit Cards	**60,926**	72,409
Consumer Loans	**186,910**	242,546
Total	**2,738,124**	2,045,900

c) 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 loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

1. Due from Bank and Other financial institutions

SAR '000	December 31, 2020			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Investment grade	**4,015,331**	**-**	**-**	**4,015,331**
Non-investment grade	**213**	**10,264**	**-**	**10,477**
Unrated	**1,628**	**-**	**-**	**1,628**
Carrying amount	**4,017,172**	**10,264**	**-**	**4,027,436**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	3,703,022	3,381	-	3,706,403
Non-investment grade	31,932	3,049	-	34,981
Unrated	-	1,079	-	1,079
Carrying amount	3,734,954	7,509	-	3,742,463

31. Financial Risk Management (continued)

2. Loans and advances to customers at amortized cost

SAR '000	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost				
Very strong quality including sovereign (A+ to B)	**16,468,413**	**42,803**	**-**	**16,511,216**
Good quality (C+ to C)	**43,367,075**	**793,814**	**-**	**44,160,889**
Satisfactory quality (C- to E+)	**36,319,357**	**6,090,368**	**-**	**42,409,725**
Unrated	**22,548,254**	**249,300**	**12,200**	**22,809,754**
Special mention (E to E-)	**124,613**	**5,267,874**	**207,184**	**5,599,671**
Impaired	**-**	**-**	**3,766,590**	**3,766,590**
Carrying amount	**118,827,712**	**12,444,159**	**3,985,974**	**135,257,845**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost				
Very strong quality including sovereign (A+ to B)	19,187,487	6	-	19,187,493
Good quality (C+ to C)	43,406,075	369,566	-	43,775,641
Satisfactory quality (C- to E+)	32,219,262	4,867,617	-	37,086,879
Unrated	16,722,300	266,130	-	16,988,430
Special mention (E to E-)	2,450,572	6,502,348	24,524	8,977,444
Impaired	-	-	3,417,497	3,417,497
Carrying amount	113,985,696	12,005,667	3,442,021	129,433,384

31. Financial Risk Management (continued)

The following table sets out information about the credit quality of Loans and advances to customers at amortized cost on a product basis.

I. Overdraft & Commercial loans

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loans and advances to customers at amortized cost : Overdraft & Commercial loans				
Very strong quality including sovereign (A+ to B)	**16,468,413**	**42,803**	**-**	**16,511,216**
Good quality (C+ to C)	**43,367,075**	**793,814**	**-**	**44,160,889**
Satisfactory quality (C- to E+)	**36,319,357**	**6,090,368**	**-**	**42,409,725**
Special mention (E to E-)	**470**	**5,258,345**	**173,465**	**5,432,280**
Impaired	**-**	-	**3,539,025**	**3,539,025**
Carrying amount	**96,155,315**	**12,185,330**	**3,712,490**	**112,053,135**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost : Overdraft & Commercial loans				
Very strong quality including sovereign (A+ to B)	19,187,487	6	-	19,187,493
Good quality (C+ to C)	43,406,075	369,566	-	43,775,641
Satisfactory quality (C- to E+)	32,219,262	4,867,617	-	37,086,879
Special mention (E to E-)	1,710,336	6,210,209	-	7,920,545
Impaired	-	-	3,126,851	3,126,851
Carrying amount	96,523,160	11,447,398	3,126,851	111,097,409

31. Financial Risk Management (continued)

II. Credit Cards

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Loans and advances to customers at amortized cost : Credit Cards				
Unrated	**412,499**	**20,172**	**12,200**	**444,871**
Special mention (E to E-)	**2,585**	**218**	**3,714**	**6,517**
Impaired	**-**	**-**	**45,048**	**45,048**
Carrying amount	**415,084**	**20,390**	**60,962**	**496,436**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost : Credit Cards				
Unrated	320,536	1,248	-	321,784
Special mention (E to E-)	94,971	24,726	13,536	133,233
Impaired	-	-	59,068	59,068
Carrying amount	415,507	25,974	72,604	514,085

31. Financial Risk Management (continued)

III. Consumer Loans

SAR '000	December 31, 2020			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost : Consumer Loans				
Unrated	**22,135,755**	**229,128**	**-**	**22,364,883**
Special mention (E to E-)	**121,558**	**9,311**	**30,005**	**160,874**
Impaired	**-**	**-**	**182,517**	**182,517**
Carrying amount	**22,257,313**	**238,439**	**212,522**	**22,708,274**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loans and advances to customers at amortized cost : Consumer Loans				
Unrated	16,401,764	264,882	-	16,666,646
Special mention (E to E-)	645,265	267,413	10,988	923,666
Impaired	-	-	231,578	231,578
Carrying amount	17,047,029	532,295	242,566	17,821,890

Very strong quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are excellent.

Good quality: Capitalization, earnings, financial strength, liquidity, management, market reputation and repayment ability are good.

Satisfactory quality: Facilities require regular monitoring due to financial risk factors. Ability to repay remains at a satisfactory level.

Special mention: Facilities require close attention of management due to deterioration in the borrowers' financial condition. However, repayment is currently protected.

31. Financial Risk Management (continued)

3. Investments

- **Amortized cost**

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Debt investment securities at amortized cost				
Investment grade	**21,547,469**	**-**	**-**	**21,547,469**
Non-investment grade	**-**	**-**	**-**	**-**
Unrated	**4,259,954**	**-**	**-**	**4,259,954**
Individually impaired	**-**	**-**	**-**	**-**
Carrying amount	**25,807,423**	**-**	**-**	**25,807,423**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at amortized cost				
Investment grade	17,293,706	-	-	17,293,706
Non-investment grade	-	-	-	-
Unrated	4,833,889	-	-	4,833,889
Individually impaired	-	-	-	-
Carrying amount	22,127,595	-	-	22,127,595

- **FVOCI**

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Debt investment securities at FVOCI				
Investment grade	**8,620,004**	**-**	**-**	**8,620,004**
Non-investment grade	**-**	**-**	**-**	**-**
Unrated	**2,901,035**	**-**	**-**	**2,901,035**
Carrying amount	**11,521,039**	**-**	**-**	**11,521,039**

31. Financial Risk Management (continued)

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at FVOCI				
Investment grade	5,950,668	-	-	5,950,668
Non-investment grade	-	-	-	-
Unrated	3,202,482	-	-	3,202,482
Carrying amount	9,153,150	-	-	9,153,150

4. Commitment and contingencies

SAR '000	**December 31, 2020**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Commitments and contingencies				
Very strong quality including sovereign (A+ to B)	**7,096,697**	**-**	**-**	**7,096,697**
Good quality (C+ to C)	**11,361,751**	**20,067**	**-**	**11,381,818**
Satisfactory quality (C- to E+)	**12,582,316**	**732,122**	**-**	**13,314,438**
Special mention (E to E-)	**-**	**768,026**	**-**	**768,026**
Impaired	**-**	**-**	**937,803**	**937,803**
Carrying amount	**31,040,764**	**1,520,215**	**937,803**	**33,498,782**

SAR '000	December 31, 2019			
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Commitments and contingencies				
Very strong quality including sovereign (A+ to B)	9,282,188	-	-	9,282,188
Good quality (C+ to C)	9,632,082	1,000	-	9,633,082
Satisfactory quality (C- to E+)	9,994,131	869,982	-	10,864,113
Special mention (E to E-)	-	465,414	-	465,414
Impaired	-	-	684,563	684,563
Carrying amount	28,908,401	1,336,396	684,563	30,929,360

31. Financial Risk Management (continued)

The following table sets out the credit analysis for trading financial assets measured at FVTPL.

SAR '000	2020	2019
Investment securities		
Investment grade	**142,601**	73,388
Non-investment grade	**-**	-
Unrated	**2,002**	2,024
Total carrying amount	**144,603**	75,412

d) Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- defining an absolute threshold rating for stage 2 assets
- days past due count
- slippage in rating notches
- change in PD % since origination for Retail assets

The Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the Lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Bank records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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.

31. Financial Risk Management (continued)

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modeling, the remaining lifetime PD is determined to have increased significantly.

Using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Such qualitative indicators include forbearance, shortfall in collateral value, covenant breaches and deterioration in credit quality of guarantors.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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

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

Consideration due to COVID-19:

In response to the impacts of COVID-19, various support programmes have been offered to the customers either voluntarily by the Bank or on account of SAMA initiatives, such as customers eligible under Deferred Payments Program (refer note 40 for further details). The exercise of the deferment option by a customer, in its own, is not consider by the Bank as triggering SICR and as a consequence impact on ECL for those customers were determined based on their existing staging. However, as part of the Bank's credit evaluation process especially given the current economic situation due to after effects of lock down, the Bank obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

No change has been made in the backstop criteria for all types of exposures.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each corporate exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of exposures involves use of the following data.

31. Financial Risk Management (continued)

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. • Data from credit reference agencies, press articles, changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data and customer behavior – e.g. utilization of credit card facilities • Affordability metrics • External data from credit reference agencies including industry-standard credit scores	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilization of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

i) Generating the term structure of PD

Credit Risk grades mapped to probabilities, Credit transition probabilities and Macroeconomic inputs determine the term structure of Probability of Default. The Bank collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. For some portfolios, information derived from external credit reference agencies is also used.

The Bank employs analytical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. Forward looking predictions of key macro-economic indicators e.g. GDP growth, inflation, unemployment or CDS spreads are translated analytically into the impact on Risk Factors, especially PD. For most of corporate portfolio exposures, key macro-economic indicators include: GDP, government debt, expectation of stock market return / volatility and interest rate forecast. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices. While for retail portfolio, key macro-economic indicators include: government debt, government revenue and expenditure, investment (as a % of GDP) and inflation.

Based on advice from the Bank's Classification and Impairment Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

ii) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

31. Financial Risk Management (continued)

This is assessed by defining an absolute threshold rating for stage 2 assets, days past due count, slippage in rating notches, change in PD % since origination for Retail assets and qualitative measures specific to each exposure class, which is enshrined in the Board approved Staging Policy.

Using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due though technical rebuttals on a case by case basis is possible exceptionally. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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

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

iii) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy.

The Bank computes the gross carrying amounts using Cash-flows for both the pre-modified Terms and post-modification terms with original Interest Rate as EIR. If the difference in the gross carrying amounts is more than the set threshold, the asset will be de-recognised and will be re-recognised as POCI (assuming that the modification is being undertaken in connection with forbearance or a defaulted exposure).

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities' to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of special commission income payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

31. Financial Risk Management (continued)

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect special commission income and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL in case of assets with significant increase in credit risk.

iv) Definition of 'Default'

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default. The Bank considers indicators that are:

- qualitative e.g. breaches of covenant;
- quantitative e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

v) Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly by its view on the future evolving macroeconomic environment. Based on advice from Classification and Impairment Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

31. Financial Risk Management (continued)

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and losses. The economic scenarios used as at December 31 included the following ranges of key indicators.

Economic Indicators	**2020**	2019
General government debt to GDP ratio	**Upside 41.21** **Base case 46.74** **Downside 63.22**	Upside 11.94 Base case 20.54 Downside 39.43
Tadawul All Share Index	**Upside 9,676** **Base case 8,983** **Downside 6,301**	Upside 10,801 Base case 9,701 Downside 7,299
Government Bond Yields 1 Year	**Upside 1.18** **Base case 1.07** **Downside 0.78**	Upside 2.89 Base case 2.26 Downside -0.05

Consideration due to COVID-19:

i. Types of forward looking:

During the course of the year, the Bank updated its forward-looking variables (key economic drivers) used in the macroeconomic model. Please refer to the table above for details.

ii. Scenario assumptions:

As at December 31, 2020, the scenario assumptions are updated to reflect the current situation of COVID-19. This included an assessment of the support of the Government's actions, the response of business and customers (such as repayment deferrals). These are considered in determining the length and severity of the forecast economic downturn.

iii. Probability weightings

The Bank considered the probability weightings to provide the best estimate of the possible loss outcomes and has analysed inter-relationships and correlations (over both the short and long term) within the Bank's credit portfolios in determining them.

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years. To account for the impact of COVID-19, the Bank has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

31. Financial Risk Management (continued)

Economic Indicators	Forecast calendar years used in 2020 ECL model			Forecast calendar years used in 2019 ECL model		
	2021	**2022**	**2023**	2021	2022	2023
General government debt to GDP ratio	**46.74**	**49.29**	**51.59**	21.70	22.95	24.54
Tadawul All Share Index	**8,983**	**9,699**	**9,949**	10,522	10,382	10,589
Government Bond Yields 1 Year	**1.07**	**1.32**	**2.03**	2.83	3.70	3.99

The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by Bank.

SAR '000	Due from bank and other financial institutions	Debt instrument at AC	Debt instrument at FVOCI	Loans and advances	Off statement of financial position	Total
2020						
Most likely (base case)	**439**	**6,543**	**8,849**	**4,681,408**	**410,505**	**5,107,744**
More optimistic (upside)	**439**	**6,543**	**8,849**	**4,650,127**	**409,682**	**5,075,640**
More pessimistic (downside)	**439**	**6,543**	**8,849**	**4,754,331**	**412,549**	**5,182,711**
Closing provision	**439**	**6,543**	**8,849**	**4,693,010**	**410,871**	**5,119,712**
2019						
Most likely (base case)	373	10,143	11,941	3,696,055	555,669	4,274,181
More optimistic (upside)	373	10,143	11,941	3,680,895	555,115	4,258,467
More pessimistic (downside)	373	10,143	11,941	3,753,527	557,119	4,333,103
Closing provision	373	10,143	11,941	3,708,288	555,938	4,286,683

COVID-19 overlays:

The prevailing economic conditions do require the Bank to continue to revise certain inputs and assumptions used for the determination of 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 436 million as at December 31, 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.

31. Financial Risk Management (continued)

vi) Measurement of ECL

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);
c. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models, regulatory inputs (e.g. in case of LGD) and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on analytical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These analytical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PD's 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. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the effective commission rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts or Regulatory guidelines. For some financial assets, EAD is determined by modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options for indeterminate maturity products) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits. Cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms. The portfolios for which external benchmark information represents a significant input into measurement of ECL is Non Retail portfolio where the Bank has used LGD estimates as per BASEL guidelines.

31. Financial Risk Management (continued)

Sensitivity of ECL allowance:

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Bank's allowance for expected credit losses. The changing COVID-19 circumstances and the Government, business and consumer responses could result in significant adjustments to the allowance in future financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of ECL to key factors used in determining it as at the yearend:

Assumptions sensitized	
SAR '000	**PL Impact (2020)**
Macro-economic factors:	
Decrease in $10 oil price per barrel	**69,128**
Decrease in $20 oil price per barrel	**126,794**
Decrease in GDP by 15%	**100,077**
Decrease in Tadawul Stock Index 33%	**95,845**
Scenario weightages:	
Base scenario sensitized by +/- 5% with corresponding change in downside	**3,662**
Base scenario increase by +/- 5% with corresponding change in upside	**1,519**

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The Banking sector is subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous. For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

Consideration due to COVID-19:

The PD, EAD and LGD models are subject to the Bank's model risk policy that stipulates periodic model monitoring, periodic revalidation and defines approval procedures and authorities according to model materiality.

31. Financial Risk Management (continued)

During the period, the Bank has made following material changes in its ECL methodology to reflect the validation exercise undertaken by the Bank:

a. the Bank has re-developed its macro-economic PD model based on appropriate internal and external data and validated for precision, with the assistance of Moody's Analytics.

b. the Corporate and SME models were re-estimated on a wider default dataset on robust statistical principles, expert judgment and Governance and pre-implementation validation indicated robust discriminatory power and calibration of the models.

Ageing of loans and advances (past due but not impaired)

SAR '000	**2020**			
	Overdraft & Commercial loans	**Credit Cards**	**Consumer Loans**	**Total**
From 1 day to 30 days	**146,430**	**32,780**	**413,735**	**592,945**
From 31 days to 90 days	**17,657**	**13,675**	**146,537**	**177,869**
From 91 days to 180 days	**40,247**	**-**	**-**	**40,247**
More than 180 days	**387,566**	**-**	**-**	**387,566**
Loans and advances held at amortised cost, net	**591,900**	**46,455**	**560,272**	**1,198,627**

SAR '000	2019			
	Overdraft & Commercial loans	Credit Cards	Consumer Loans	Total
From 1 day to 30 days	257,964	33,110	685,677	976,751
From 31 days to 90 days	109,611	8,878	241,197	359,686
From 91 days to 180 days	149,627	-	-	149,627
More than 180 days	352,502	-	-	352,502
Loans and advances held at amortised cost, net	869,704	41,988	926,874	1,838,566

31. Financial Risk Management (continued)

e) Economic sector risk concentrations for the loans and advances and allowance for impairment losses are as follows:

SAR '000	Performing	Non Performing, net	Allowance for impairment losses	Loans and advances, net
2020				
Government and quasi Government	**6,159,963**	**-**	**(5,582)**	**6,154,381**
Banks and other financial institutions	**2,179,128**	**-**	**(7,312)**	**2,171,816**
Agriculture and fishing	**2,653,154**	**50,857**	**(46,103)**	**2,657,908**
Manufacturing	**19,155,010**	**970,849**	**(912,067)**	**19,213,792**
Mining and quarrying	**964,647**	**-**	**(1,255)**	**963,392**
Electricity, water, gas and health services	**10,700,531**	**21,636**	**(29,659)**	**10,692,508**
Building and construction	**11,554,215**	**466,159**	**(840,635)**	**11,179,739**
Commerce	**23,648,718**	**1,583,490**	**(1,599,383)**	**23,632,825**
Transportation and communication	**5,040,286**	**3,878**	**(15,070)**	**5,029,094**
Services	**15,006,172**	**119,841**	**(559,320)**	**14,566,693**
Consumer loans and credit cards	**22,977,145**	**227,565**	**(415,589)**	**22,789,121**
Others	**11,452,286**	**322,315**	**(261,035)**	**11,513,566**
Total	**131,491,255**	**3,766,590**	**(4,693,010)**	**130,564,835**
2019				
Government and quasi Government	5,016,656	-	(3,125)	5,013,531
Banks and other financial institutions	2,255,428	-	(14,284)	2,241,144
Agriculture and fishing	1,723,212	56,793	(54,321)	1,725,684
Manufacturing	20,235,685	602,930	(724,029)	20,114,586
Mining and quarrying	2,178,620	-	(14,152)	2,164,468
Electricity, water, gas and health services	11,122,151	38,381	(71,563)	11,088,969
Building and construction	9,656,235	954,696	(815,621)	9,795,310
Commerce	24,264,354	878,492	(974,013)	24,168,833
Transportation and communication	6,004,584	12,922	(40,591)	5,976,915
Services	14,551,688	78,197	(253,871)	14,376,014
Consumer loans and credit cards	18,045,329	290,646	(469,138)	17,866,837
Others	10,961,945	504,440	(273,580)	11,192,805
Total	126,015,887	3,417,497	(3,708,288)	125,725,096

31. Financial Risk Management (continued)

f) Collateral

The Bank in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in loans and advances. These collaterals mostly include time, demand, other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

The amount of collateral held as security for loans that are credit-impaired as at December 31, are as follows:

SAR '000	**2020**	2019
Collateral coverage - less than 50%	**1,706,572**	2,544,622
Collateral coverage - 51 to 70%	**176,593**	122,513
Collateral coverage - more than 70%	**1,883,425**	750,362
Total	**3,766,590**	3,417,497

32. Market Risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as Interest rates, Foreign Exchange rates and Equity prices. The Bank classifies Market Risk exposures into either Trading or non-trading or Banking Book.

Market Risk within Trading & Banking Book is managed and monitored using various indicators such as Value at Risk, Stress Testing and Sensitivities analysis.

a) Market Risk -Trading book

The Board has set limits for the acceptable level of risks in managing the Trading Book. In order to manage the Market Risk in Trading Book, the Bank applies on a daily basis a VAR methodology in order to assess the Market Risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VAR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days. A specific process of VAR back testing is performed on a daily basis.

32. Market Risk (continued)

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VAR limitations mentioned above, the Bank also carries out Stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under Stress test conditions are reported regularly to the Bank's ALM and Market Risk committees for their review.

The Bank's VaR related information for the year ended December 31, 2020 and 2019 are follows:

SAR '000	Foreign exchange rate	Special commission rate risk	Overall Trading
2020			
VaR as at December 31, 2020	**83**	**4,032**	**4,037**
Average VaR for 2020	**113**	**3,406**	**3,396**
Maximum VaR for 2020	**691**	**6,483**	**6,476**
Minimum VaR for 2020	**7**	**1,066**	**1,046**
2019			
VaR as at December 31, 2019	11	1,097	1,093
Average VaR for 2019	83	1,454	1,451
Maximum VaR for 2019	552	2,720	2,703
Minimum VaR for 2019	8	733	706

Overall Trading VaR incorporates compensation effect of positions coming from realized P&L in foreign currencies.

b) Market risk non- trading book

Market risk on non-trading book mainly arises from the special commission rate, foreign currency exposures and equity price changes.

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established special commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Bank's consolidated statement of income or equity. The sensitivity of the special commission income is the effect of the assumed changes in special commission rates with a lowest level at 0%, on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2020 and 2019, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate FVOCI financial assets, including the effect of any associated hedges as at December 31, 2020 and 2019 for the effect of assumed changes in special commission rate. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in SAR thousands.

32. Market Risk (continued)

SAR '000	2020						
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	
USD	+100	9,974	(340)	(3,593)	(53,048)	(7,132)	(64,113)
	-100	(40,857)	340	3,593	53,048	7,132	64,113
SAR	+100	128,000	(8,600)	(30,989)	(393,791)	(124,564)	(557,944)
	-100	(236,593)	8,600	30,989	393,791	124,564	557,944

SAR '000	2019						
Currency	BPS change	Sensitivity of special commission income	Sensitivity of Equity				Total
			6 months or less	Over 6 months to 1 year	Over 1 year to 5 years	Over 5 years	
USD	+100	(66,069)	(956)	(1,079)	(3,066)	(1)	(5,102)
	-100	66,038	956	1,079	3,066	1	5,102
SAR	+100	103,436	(8,452)	(4,598)	(187,136)	(53,580)	(253,766)
	-100	(103,477)	8,452	4,598	187,136	53,580	253,766

Special commission rate sensitivity of assets, liabilities and derivatives

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Board sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored daily by the Bank's Treasury.

The following table summarises the Bank's exposure to special commission rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

The Bank is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets, liabilities, and derivative instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

32. Market Risk (continued)

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
2020						
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	965,457	965,457
Balances with SAMA	1,616,955	-	-	-	7,965,987	9,582,942
Due from banks and other financial institutions						
Current account	-	-	-	-	4,026,997	4,026,997
Money market placements	-	-	-	-	-	-
Investments, net						
Held as FVTPL	55,974	-	78,161	10,468	-	144,603
Held as FVOCI, net	877,510	2,821,111	6,784,775	1,028,794	220,968	11,733,158
Held at amortised cost, net	3,473,506	562,150	19,642,130	2,123,094	-	25,800,880
Investment in associate	-	-	-	-	9,695	9,695
Positive fair value of derivatives						
Held for trading	122,672	237,243	3,694,274	1,244,112	246,064	5,544,365
Held as cash flow hedges	77,827	192,736	1,094,118	-	-	1,364,681
Loans and advances, net						
Credit cards and consumer loans	192,493	609,831	10,848,023	10,911,209	227,565	22,789,121
Over draft and commercial loans	35,333,096	42,507,411	14,971,470	7,262,351	7,701,386	107,775,714
Property, equipment and right of use assets, net	-	-	-	-	1,440,170	1,440,170
Other assets, deferred tax and other real estate	-	-	-	-	2,895,801	2,895,801
Total assets	41,750,033	46,930,482	57,112,951	22,580,028	25,700,090	194,073,584

32. Market Risk (continued)

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
2020						
Liabilities and equity						
Due to SAMA, banks and other financial institutions						
Current accounts	-	-	-	-	409,824	409,824
Money market deposits	6,577,343	743,015	-	-	9,062,031	16,382,389
Customers' deposits						
Demand	-	-	-	-	79,860,073	79,860,073
Saving	753,054	-	-	-	-	753,054
Time	29,434,111	11,003,972	4,205	-	-	40,442,288
Other	-	-	-	-	6,056,229	6,056,229
Negative fair value of derivatives						
Held for trading	143,517	223,642	3,539,534	1,059,965	125,356	5,092,014
Held as cash flow hedges	-	-	4,444	-	-	4,444
Other liabilities	-	-	-	-	6,437,324	6,437,324
Total equity	-	-	-	-	38,635,945	38,635,945
Total liabilities and equity	36,908,025	11,970,629	3,548,183	1,059,965	140,586,782	194,073,584
commission rate sensitivity - On statement of financial position	4,842,008	34,959,853	53,564,768	21,520,063	(114,886,692)	-
commission rate sensitivity - Off statement of financial position	(77,264,528)	8,657,375	63,109,003	5,498,150	-	-
Total commission rate sensitivity gap	(72,422,520)	43,617,228	116,673,771	27,018,213	(114,886,692)	-
Cumulative commission rate sensitivity gap	(72,422,520)	(28,805,292)	87,868,479	114,886,692	-	-

32. Market Risk (continued)

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
2019						
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	995,416	995,416
Balances with SAMA	275,000	-	-	-	7,846,920	8,121,920
Due from banks and other financial institutions						
Current account	-	-	-	-	2,157,217	2,157,217
Money market placements	1,284,873	300,000	-	-	-	1,584,873
Investments, net						
Held as FVTPL	9,954	65,458	-	-	-	75,412
Held as FVOCI, net	799,634	2,852,495	5,317,506	171,574	119,706	9,260,915
Held at amortised cost, net	4,950,362	6,388,055	9,923,516	855,519	-	22,117,452
Investment in associate	-	-	-	-	9,695	9,695
Positive fair value of derivatives						
Held for trading	2,684,512	386,458	-	-	124,691	3,195,661
Held as cash flow hedges	1,205,826	205,064	-	-	-	1,410,890
Loans and advances, net						
Credit cards and consumer loans	414,838	570,783	9,673,945	7,185,815	21,456	17,866,837
Over draft and commercial loans	64,448,642	31,316,608	6,903,514	3,837,526	1,351,969	107,858,259
Property, equipment and right of use assets, net	-	-	-	-	1,324,567	1,324,567
Other assets, deferred tax and other real estate	-	-	-	-	2,169,463	2,169,463
Total assets	76,073,641	42,084,921	31,818,481	12,050,434	16,121,100	178,148,577

32. Market Risk (continued)

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission	Total
2019						
Liabilities and equity						
Due to SAMA, banks and other financial institutions						
Current accounts	-	-	-	-	554,416	554,416
Money market deposits	914,118	903,606	-	-	-	1,817,724
Customers' deposits						
Demand	-	-	-	-	67,732,501	67,732,501
Saving	591,825	-	-	-	-	591,825
Time	38,374,670	21,103,184	1,084	-	-	59,478,938
Other	-	-	-	-	5,034,238	5,034,238
Negative fair value of derivatives						
Held for trading	2,736,788	268,265	-	-	51,118	3,056,171
Held as cash flow hedges	6,668	6,567	-	-	-	13,235
Other liabilities	-	-	-	-	6,922,811	6,922,811
Total equity	-	-	-	-	32,946,718	32,946,718
Total liabilities and equity	42,624,069	22,281,622	1,084	-	113,241,802	178,148,577
commission rate sensitivity - On statement of financial position	33,449,572	19,803,299	31,817,397	12,050,434	(97,120,702)	-
commission rate sensitivity - Off statement of financial position	(29,331,322)	(137,562)	29,498,239	(29,355)	-	-
Total commission rate sensitivity gap	4,118,250	19,665,737	61,315,636	12,021,079	(97,120,702)	-
Cumulative commission rate sensitivity gap	4,118,250	23,783,987	85,099,623	97,120,702	-	-

32. Market Risk (continued)

The off statement of financial position gap represents the net notional amounts of these financial instruments, which are used to manage the special commission rate risk.

The effective special commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

ii) Currency Risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2020 and 2019 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of commission rate swaps used as cash flow hedges). A positive effect shows a potential increase in the consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in the consolidated statement of income or equity.

SAR '000	**2020**			2019		
Currency exposures	**Change in currency rate in %**	**Effect on net income**	**Effect on equity**	Change in currency rate in %	Effect on net income	Effect on equity
USD	**+5**	**56,694**	**-**	+5	17,136	543
EUR	**-3**	**(24)**	**-**	-3	(12)	-

There is no material impact on equity and net income due to change in other foreign currencies.

iii) Currency Position

The Bank manages exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

SAR '000	**2020** **Long / (short)**	2019 Long / (short)
US Dollar	**1,222,500**	362,816
Euro	**813**	397
Pound Sterling	**3,006**	596
Other	**21,466**	15,680
Total	**1,247,785**	379,489

32. Market Risk (continued)

iv) Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

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

SAR '000	**2020**		2019	
Market Indices	**Change in equity Price %**	**Effect on market value**	Change in equity Price %	Effect on market value
Tadawul	**+5**	**9,794**	+5	3,906
Tadawul	**-5**	**(9,794)**	-5	(3,906)

There is no material impact on market value due to change in prices of listed international securities.

33. Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents, and readily marketable securities.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with the Banking Control Law and the Regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total customers' demand deposits, and 4% of due to banks and other financial institutions (excluding balances due to SAMA and non-resident foreign currency deposits), saving deposits, time deposits, margins of letters of credit and guarantee, excluding all type of repo deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, Saudi Government securities or assets which can be converted into cash within a period not exceeding 30 days. The Bank can also raise additional funds through repo facilities available with SAMA against its holding of Saudi Government securities.

a) Maturity analysis of assets and liabilities

The following table summarizes the maturity profile of the Bank's assets and liabilities. The expected maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the final contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained. For presentation purposes all demand, saving and other deposit balances have been shown in no fixed maturity.

33. Liquidity Risk (continued)

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2020						
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	965,457	965,457
Balances with SAMA	1,616,955	-	-	-	7,965,987	9,582,942
Due from banks and other financial institutions						
Current account	-	-	-	-	4,026,997	4,026,997
Money market placements	-	-	-	-	-	-
Investments, net						
Held as FVTPL	-	2,002	132,133	10,468	-	144,603
Held as FVOCI, net	133,618	416,319	9,472,714	1,489,539	220,968	11,733,158
Held at amortised cost, net	400,823	562,149	19,942,340	4,895,568	-	25,800,880
Investment in associate	-	-	-	-	9,695	9,695
Positive fair value of derivatives						
Held for trading	229,426	248,631	3,761,722	1,304,586	-	5,544,365
Held as cash flow hedges	77,827	192,736	1,094,118	-	-	1,364,681
Loans and advances, net						
Credit cards and consumer loans	164,167	614,581	10,934,021	10,930,067	146,285	22,789,121
Over draft and commercial loans	17,830,851	20,590,172	28,969,896	39,207,078	1,177,717	107,775,714
Property, equipment and right of use assets, net	-	-	-	-	1,440,170	1,440,170
Other assets, deferred tax and other real estate	-	-	-	-	2,895,801	2,895,801
Total assets	20,453,667	22,626,590	74,306,944	57,837,306	18,849,077	194,073,584

33. Liquidity Risk (continued)

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2020						
Liabilities and equity						
Due to SAMA, banks and other financial institutions						
Current accounts	-	-	-	-	409,824	409,824
Money market deposits	6,425,486	5,355,126	4,601,777	-	-	16,382,389
Customers' deposits						
Demand	-	-	-	-	79,860,073	79,860,073
Saving	-	-	-	-	753,054	753,054
Time	28,482,086	4,128,568	7,703,709	-	127,925	40,442,288
Other	-	-	-	-	6,056,229	6,056,229
Negative fair value of derivatives						
Held for trading	197,504	252,509	3,546,173	1,095,828	-	5,092,014
Held as cash flow hedges	-	-	4,444	-	-	4,444
Other liabilities	22,175	241,707	714,272	397,957	5,061,213	6,437,324
Total equity	-	-	-	-	38,635,945	38,635,945
Total liabilities and equity	35,127,251	9,977,910	16,570,375	1,493,785	130,904,263	194,073,584

33. Liquidity Risk (continued)

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2019						
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	995,416	995,416
Balances with SAMA	275,000	-	-	-	7,846,920	8,121,920
-Due from banks and other financial institutions						
Current account	-	-	-	-	2,157,217	2,157,217
Money market placements	1,284,873	300,000	-	-	-	1,584,873
Investments, net						
Held as FVTPL	7,944	12,599	54,869	-	-	75,412
Held as FVOCI, net	125,333	257,754	7,973,582	784,540	119,706	9,260,915
Held at amortised cost, net	1,480,361	6,388,055	10,623,517	3,625,519	-	22,117,452
Investment in associate	-	-	-	-	9,695	9,695
Positive fair value of derivatives						
Held for trading	71,163	411,825	2,047,420	665,253	-	3,195,661
Held as cash flow hedges	57,972	105,553	1,247,365	-	-	1,410,890
Loans and advances, net						
Credit cards and consumer loans	106,769	570,783	9,741,170	7,185,815	262,300	17,866,837
Over draft and commercial loans	14,232,457	24,533,682	27,708,454	38,435,340	2,948,326	107,858,259
Property, equipment and right of use assets, net	-	-	-	-	1,324,567	1,324,567
Other assets, deferred tax and other real estate	-	-	-	-	2,169,463	2,169,463
Total assets	17,641,872	32,580,251	59,396,377	50,696,467	17,833,610	178,148,577

33. Liquidity Risk (continued)

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2019						
Liabilities and equity						
Due to SAMA, banks and other financial institutions						
Current accounts	-	-	-	-	554,416	554,416
Money market deposits	914,118	903,606	-	-	-	1,817,724
Customers' deposits						
Demand	-	-	-	-	67,732,501	67,732,501
Saving	-	-	-	-	591,825	591,825
Time	34,801,540	11,955,428	12,597,826	-	124,144	59,478,938
Other	-	-	-	-	5,034,238	5,034,238
Negative fair value of derivatives						
Held for trading	50,122	398,735	2,005,851	601,463	-	3,056,171
Held as cash flow hedges	-	1,640	11,595	-	-	13,235
Other liabilities	-	290,344	938,973	449,399	5,244,095	6,922,811
Total equity	-	-	-	-	32,946,718	32,946,718
Total liabilities and equity	35,765,780	13,549,753	15,554,245	1,050,862	112,227,937	178,148,577

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection, loans and advances to banks, and loans and advances to customers. The cumulative maturities of commitments & contingencies are given in note 20 (i) of the consolidated financial statements.

b) Analysis of financial liabilities by remaining undiscounted contractual maturities

The following table summarizes the maturity profile of the Bank's financial liabilities as at December 31, 2020 and 2019 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

33. Liquidity Risk (continued)

SAR '000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
2020						
Due to SAMA, banks and other financial institutions						
Current accounts	**-**	**-**	**-**	**-**	**409,824**	**409,824**
Money market deposits	**6,431,724**	**5,356,632**	**4,601,777**	**-**	**-**	**16,390,133**
Customers' deposits						
Demand	**-**	**-**	**-**	**-**	**79,860,073**	**79,860,073**
Saving	**-**	**-**	**-**	**-**	**753,054**	**753,054**
Time	**28,554,534**	**4,155,888**	**7,741,617**	**-**	**127,925**	**40,579,964**
Other	**-**	**-**	**-**	**-**	**6,056,229**	**6,056,229**
Total	**34,986,258**	**9,512,520**	**12,343,394**	**-**	**87,207,105**	**144,049,277**
2019						
Due to SAMA, banks and other financial institutions						
Current accounts	-	-	-	-	554,416	554,416
Money market deposits	912,713	916,645	-	-	-	1,829,358
Customers' deposits						
Demand	-	-	-	-	67,732,501	67,732,501
Saving	-	-	-	-	591,825	591,825
Time	34,510,522	12,232,529	12,740,299	-	124,144	59,607,494
Other	-	-	-	-	5,034,238	5,034,238
Total	35,423,235	13,149,174	12,740,299	-	74,037,124	135,349,832

34. Fair values of financial assets and liabilities

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

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

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 the 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.

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

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

Valuation Framework

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

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

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models and changes to models involving Risk Division;
- back-testing of models against observed market transactions and analysis and investigation of significant daily valuation movements

When third party information, such as broker quotes or pricing services, is used to measure fair value, Market Risk Department assesses and documents the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes

Any significant valuation issue is reported at a regular frequency (in addition to whenever deemed necessary) to the Banks Market Risk Committee in order to take appropriate actions accordingly.

Determination of fair value and fair value hierarchy

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

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

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

SAR '000	Level 1	Level 2	Level 3	Total
2020				
Financial assets				
Derivative financial instruments	**-**	**6,909,046**	**-**	**6,909,046**
Financial investments designated at FVTPL				
-Fixed rate securities	**88,629**	**-**	**-**	**88,629**
-Floating rate securities	**-**	**55,974**	**-**	**55,974**
Total	**88,629**	**55,974**	**-**	**144,603**
Financial investments at FVOCI				
-Fixed rate securities	**7,009,701**	**1,203,746**	**-**	**8,213,447**
-Floating rate securities	**67,673**	**3,231,070**	**-**	**3,298,743**
-Equity	**195,888**	**-**	**25,080**	**220,968**
Total	**7,273,262**	**4,434,816**	**25,080**	**11,733,158**
Total	**7,361,891**	**11,399,836**	**25,080**	**18,786,807**
Financial Liabilities				
Derivative financial instruments negative fair value	-	**5,096,458**	**-**	**5,096,458**
Total	-	**5,096,458**	**-**	**5,096,458**
2019				
Financial assets				
Derivative financial instruments	-	4,606,551	-	4,606,551
Financial investments designated at FVTPL				
-Fixed rate securities	20,218	-	-	20,218
-Floating rate securities	-	55,194	-	55,194
Total	20,218	55,194	-	75,412
Financial investments at FVOCI				
-Fixed rate securities	5,620,995	-	-	5,620,995
-Floating rate securities	-	3,520,214	-	3,520,214
-Equity	78,120	34,602	6,984	119,706
Total	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

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

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

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy:

Financial investments classified as FVOCI

SAR '000	**2020**	2019
Balance at the beginning of the year	**6,984**	6,984
Transfer from level 2	**34,602**	-
Addtions during the year	**9,000**	-
Change in the value	**(25,506)**	-
Balance at the end of the year	**25,080**	6,984

The fair values of on-statement of financial position financial instruments, except for loans and advances and financial instruments held at amortized cost are not significantly different from the carrying values included in the consolidated financial statements. The fair values of commission bearing customers' deposits, debt securities, due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market commission rates for similar financial instruments are not significantly different from the contracted rates, and due to the short duration of due from and due to banks. An active market for these instruments is not available and the Bank intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

The estimated fair values of the investments held at amortized cost are based on quoted market prices when available or pricing models when used in case of bonds. Consequently, differences can arise between carrying values and fair value estimates. The fair values of derivatives are based on the quoted market prices when available or by using the appropriate valuation technique.

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

The fair values of investments held at amortized cost are SAR 26,337 million (2019: 22,154 million) against carrying value of SAR 25,801 million (2019: 22,117 million).

The Bank uses the discounted cash flow method using current yield curve to arrive at the fair value of loans and advances (level 3 instruments) after adjusting internal credit spread which is SAR 134,194 million (2019: SAR 129,161 million). The carrying values of those loans and advances are SAR 130,565 million (2019: SAR 125,725 million).

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

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

Impact of COVID-19 on assessment of fair value of the Bank's unquoted investments:

The COVID-19 lead management to expand the inputs and analysis to support the current fair value methodology for its unquoted investments. The Bank used following additional criteria, in the absence of recent pricing activity and based on availability of information with the Bank:

- review of performance of investments against budgets in the period before COVID-19 and following onset of COVID-19 related lockdowns and restrictions;
- cost reduction and cash flow measures put in place by the investee management to limit COVID-19 impact; and
- trajectory of the businesses through the recovery period following COVID-19 lockdown period and impact on long-term revenue generating potential.

The revised procedures and ongoing COVID-19 impact has not led to a change in the fair value of the Bank's unquoted investments.

35. Related party transactions and balances

In the ordinary course of its activities, the Bank transacts business with related parties. In the opinion of the management and the Board, the related party transactions are carried out on group's internal pricing framework. The related party transactions are governed by limits set by the Banking Control Law and Regulations issued by SAMA.

The balances as at December 31, 2020 and 2019 resulting from such transactions included in the consolidated financial statements are as follows:

SAR '000	2020	2019
Associates		
Investments	**9,695**	9,695
Due to banks and other financial institutions	**8,283**	8,017
Directors, auditors, senior management and major shareholders' and their affiliates		
Loans and advances	**11,233,546**	11,975,396
Investments	**801,864**	430,870
Due from banks and other financial institutions	**-**	500,000
Other assets	**10**	7
Customers' deposits	**2,004,973**	8,416,294
Due to banks and other financial institutions	**1,500,000**	8,017
Other liabilities	**13,774**	9,096
Derivatives at fair value, net	**105,030**	47,457
Commitments and contingencies	**2,661,188**	3,998,308

35. Related party transactions and balances (continued)

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements are as follows:

SAR '000	2020	2019
Special commission income		
-Directors, auditors, senior management and major shareholders' and their affiliates	**342,962**	617,739
Total Special commission income	**342,962**	617,739
Special commission expense		
-Directors, auditors, senior management and major shareholders' and their affiliates	**89,372**	360,012
-Associates	**145**	187
Total Special commission expense	**89,517**	360,199
Fees, commission income and others, net	**22,242**	(52,718)
Directors' fees	**9,250**	9,141
Other general and administrative expenses	**109,999**	93,438

The total amount of salaries and employee related benefits to senior management personnel are as follows:

SAR '000	2020	2019
Short term benefit	**69,426**	62,971
Long term benefit (deferral bonus)	**10,260**	9,786
Long term incentive plan	**13,776**	11,347
Termination benefit	**-**	1,031
Total	**93,462**	85,135

The senior management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

36. Treasury Shares

The Bank acquired treasury shares as authorised by the Board under its Long Term Incentive (LTI) plan, which will grant the appreciation award of the Banks share performance to eligible employees as per LTI plan. The eligible employees will benefit from the appreciation in value of the Bank shares over the vesting period. The LTI plan has been commenced on grant date. The Bank has offered eligible employees the option for equity ownership opportunities.

The significant features of these plans are as follows:

Nature of Plan	Long Term Incentive Plan	Long Term Incentive Plan	Long Term Incentive Plan
Number of outstanding plan	1	1	1
Grant date	May 15, 2018	March 31, 2019	March 31, 2020
Maturity date	January 01, 2021	April 01, 2022	April 01, 2023
Grant price - SAR	23.096	35.95	33.265
Vesting period	2.6 years	3 years	3 years
Vesting conditions	Employees remain in service and meets required service criteria	Employees remain in service and meets required service criteria	Employees remain in service , meets performance and service criteria
Method of settlement	Appreciation in equity	Equity	Equity
Valuation model	Black-Sholes	Black-Sholes	Monte-Carlo
Fair value per share on grant date-SAR	33.906	42.37	23.297

The share performance will be granted under a service condition along with market condition associated with them. The total amount of expense recognized in these consolidated financial statements in respect of the above plans for the year is SAR 25.6 million (2019: SAR 16.4 million).

	2020	2019
Number of shares allocated for LTI calculation at the beginning of the year	**2,157,219**	4,130,000
Vested / forfeited during the year	**(214,832)**	(3,130,000)
Allocated during the year, net	**1,638,401**	1,157,219
Number of shares allocated for LTI calculation at the year end	**3,580,788**	2,157,219

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

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.

37. Capital Adequacy (continued)

SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from January 01, 2013. Accordingly, the Group's consolidated Risk Weighted Assets (RWA), total capital and related ratios on a consolidated basis, calculated under the Basel III framework.

The RWAs, total capital and related ratios as at December 31, 2020 and 2019 are calculated using the framework and the methodologies defined under the Basel III framework.

SAR '000	**2020**	2019
Credit Risk RWA	**170,312,433**	163,698,148
Operational Risk RWA	**12,952,525**	12,701,788
Market Risk RWA	**3,967,483**	2,164,647
Total RWA	**187,232,441**	178,564,583
Tier I Capital	**38,489,177**	32,720,359
Tier II Capital	**1,884,995**	1,568,513
Total Tier I & II Capital	**40,374,172**	34,288,872
Capital Adequacy Ratio %		
Tier I ratio	**20.56%**	18.32%
Tier I + Tier II ratio	**21.56%**	19.20%

38. Investment management, brokerage and corporate finance services

The Bank offers investment services to its customers through its subsidiary, which include management of certain investment funds in consultation with professional investment advisors as well as brokerage services. Income from the subsidiaries is included in the consolidated statement of income under fees and commission income, net. Determining whether the Bank controls such an investment fund usually depends on the assessment of the aggregate economic interests of the Bank in the Fund (comprising of its investments, any carried profit and expected management fees) and the investors' rights to remove the Fund Manager.

As a result of the above assessment, the Bank has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds. However, the Bank's share of these funds is included in the FVOCI investments and fees earned are disclosed under related party transactions.

The value of the mutual funds and other private investment portfolio managed by the Bank through its subsidiary was SAR 13,385 million (2019: SAR 8,661 million). The Bank through its subsidiary offers Islamic investment management services to its customers, which include management of certain investment funds in consultation with professional investment advisors, having net asset value of SAR 2,070 million (2019: SAR 2,015 million).

39. 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.

Phase (2) – The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR).

Under these temporary exceptions, interbank offered rates (IBOR) are assumed to continue unaltered for the purposes of hedge accounting until such time as the uncertainty is resolved. The application of this set of temporary exceptions is mandatory for accounting periods starting on or after January 01, 2020. Significant judgement will be required in determining when uncertainty is expected to be resolved and therefore when the temporary exceptions will cease to apply.

The Bank has established a steering committee to oversee the Bank's IBOR transition journey supported by working group. The steering committee is updated on monthly basis on the overall progress of the project including key achievements. The transition is primarily divided into phase 1 and phase 2. Phase 1 includes Gap and impact assessment on account of IBOR transition and phase 2 will involve remediation of gap identified in phase 1 and execution of communication strategy around IBOR decommissioning. Communication strategy involve communication of the IBOR transition to the customers, assisting them in taking informed and timely decision. Further, the Bank currently anticipates that the areas of significant change will be amendments to the contractual terms of LIBOR-referenced floating-rate debts, Derivatives and update of hedge designations.

The Bank has cash flow hedge accounting relationships that are exposed to different IBORs, predominantly, Saudi IBOR and US Dollar Libor. Many of the existing derivatives, loans, bonds and other financial instruments designated in relationships referencing these benchmarks will transition to new risk-free rates ('RFRs') in different ways and at different times. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Bank's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors.

The table below shows the Bank's exposure at the year end to significant IBORs subject to reform. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., the table excludes exposures to IBOR that will expire before transition is required.

SAR '000 December 31, 2020	Non-derivative financial assets - carrying value	Non-derivative financial liabilities carrying value	Derivatives Nominal amount
SIBOR SAR	47,868,219	7,367,018	94,784,628
LIBOR USD	3,650,163	332,486	117,509,178
LIBOR EUR	-	-	428,021
Total	51,518,382	7,699,504	212,721,827

40. SAMA support programs and initiatives

Private 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.

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three 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 and then further deferring the installments falling due within the period from September 15, 2020 to December 14, 2020 for a period of three 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 financing income.

Further to the above, SAMA extended the deferred payment program until March 31, 2021. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from December 15, 2020 to March 31, 2021 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 arrangement. This resulted in the Bank recognizing an additional modification loss of SAR 33 million.

As a result of the above program and related extensions, the Bank has deferred the payments of SAR 4,163 million on MSMEs portfolio and accordingly, has recognised total modification losses of SAR 124 million during the year. The total exposures (funded credit facilities) against these customers amounted to SAR 10,802 million as at the year end.

The Bank generally considered the deferral of payments in hardship arrangements as an indication of a SICR but the deferral of payments under the current COVID-19 support packages have not, in isolation, been treated as an indication of SICR.

The Bank continues to monitor the lending portfolios closely and reassess the provisioning levels as the situation around COVID-19 evolves; however, management has taken SAR 436 million of overlays to reflect potential further credit deterioration, of which the Bank has booked SAR 235 million incremental total ECL for the MSME portfolio having total exposure of SAR 13,510 million.

If the balance of COVID-19 support packages in stage 1 move to stage 2, an additional ECL provisions would be provided during 2021 based on the credit facility - level assessment and the ability to repay amounts due after the deferral period ends.

40. SAMA support programs and initiatives (continued)

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank has received in aggregate SAR 4,592 million of profit free deposit in number of tranches from SAMA during the year ended December 31, 2020, with varying maturities. Management had determined based on the communication from SAMA, that the profit free deposits 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. This resulted in a total income of SAR 404 million, of which SAR 124 million has been recognised in the statement of income and SAR 280 million has been deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended December 31, 2020, SAR 21 million has been charged to the statement of income relating to unwinding of the day 1 income.

As at December 31, 2020, the Bank has participated in SAMA's Loan guarantee programs, which is not material for the financial statements as a whole. The Bank has received SAR Nil million from SAMA for providing concessional financing to eligible MSMEs under Loan guarantee programs as of December 31, 2020.

Furthermore, during the year ended December 31, 2020, the Bank has recognised reimbursement from SAMA for the forgone POS and e-commerce service fee amounting to SAR 69 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 SAR 50 billion 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.

In this regard, during the year ended December 31, 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 in the statement of income for the year ended December 31, 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 during the year ended December 31, 2020, which was presented as part of net financing income. As the three month period for this voluntarily postponed payments ended; therefore, the Bank has completely unwounded the impact during the year ended December 31, 2020.

41. Comparative figures

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

42. Board of Directors approval

The consolidated financial statements were approved by the Board of Directors on February 07, 2021 corresponding to Jumada Al Aakhir 25, 1442H.