THE SAUDI INVESTMENT BANK

(A Saudi joint stock company)

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

As of and for the year ended December 31, 2019

KPMG Al Fozan & Partners
Certified Public Accountants

Deloitte.
Deloitte and Touche & Co.
Chartered Accountants

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

Opinion

We have audited the consolidated financial statements of The Saudi Investment Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as of December 31, 2019, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes from 1 to 44.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (collectively referred to as "IFRS as endorsed in KSA").

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances As of December 31, 2019, the gross loans and advances of the Group were Saudi Riyals (SAR) 59,518 million against which an impairment allowance of SAR 2,406 million was maintained. We considered this as a key audit matter as the determination of expected credit losses ("ECL") involves significant management judgement and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include:	We obtained an understanding of management's process of assessment of impairment of loans and advances as required by IFRS 9 "Financial Instruments", the Group's impairment allowance policy and the ECL modelling methodology. We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9. We evaluated the design and implementation, and tested the operating effectiveness of controls over:

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

Key audit matter	How our audit addressed the key audit matter
1. Categorisation of loans and advances in Stage 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 / default exposures. 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 the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors, etc. 3. The application of overlays, where appropriate, to model-driven ECL to reflect current or future external factors that might not be captured by the expected credit loss model. *Refer to the summary of significant accounting policies note 3(c)(vi) relating to impairment of financial assets, note 2(d)(i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7 and note 32 which contains the disclosure of impairment against loans and advances and details of credit quality analysis and key assumptions and factors considered in determination of ECL.*	• the modelling process, including governance over monitoring of the models and approval of key assumptions; • the classification of borrowers into various stages, timely identification of SICR and determination of default or individually impaired exposures; and • integrity of data inputs into the ECL model. We assessed the Group's criteria for determination of SICR and identification of "default" or "individually impaired" exposures and their classification into stages. For a sample of customers, we assessed: • the internal ratings determined by the management based on the Group's internal rating model and checked that their ratings were in line with the rating used in the ECL model; • the staging as identified by management; and • management's computation of ECL. We assessed the underlying assumptions, including forward looking assumptions, used by the Group in its ECL calculation. Where management overlays were used, we assessed the appropriateness of overlays and the governance process around such overlays. We tested the completeness of data underlying the ECL calculation as of December 31, 2019. Where relevant, we involved specialists to assist us in review of ECL model including ECL calculations and data integrity.
Fees from banking services The Group charges loan processing fees up front to customers. Such fees are an integral part of generating an involvement with the resulting financial instrument, and therefore such fees are considered in making an adjustment to the effective yield, and income is recognised using that effective yield and classified as "Special Commission Income". However, due to the large volume of transactions with mostly insignificant fee amounts, management used certain thresholds and assumptions for recognition of such fees.	We evaluated the design and implementation and tested the operating effectiveness of key controls over the consistent application of management's thresholds and assumptions for recognition of such fees. We evaluated the assumptions used and thresholds established by the Group for making adjustments to the effective yield of loans and advances and recording such adjustments.

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

Key audit matter	How our audit addressed the key audit matter
We considered this as a key audit matter since the use of thresholds and assumptions could result in a material over / under-statement of the Group's profitability for the year. *Refer to the summary of significant accounting policies note 3(h)(iii) to the consolidated financial statements.*	We obtained management's assessment of the impact of the use of thresholds and assumptions and performed the following: o on a sample basis, traced the historical and current year data used by management to source documents; and o assessed management's estimation of the impact on special commission income.
Valuation of investments held as fair value through other comprehensive income (FVTOCI) which are not traded in an active market	
Investments held as FVTOCI comprise a portfolio of corporate bonds, Sukuk and equity instruments. These instruments are measured at fair value with the corresponding unrealized fair value changes recognised in other comprehensive income. Whilst the majority of the fair values of the Group's investments were obtained directly from active markets as of December 31, 2019, the Group held an amount of SAR 7,764 million of unquoted investments. The fair value of these investments is determined through the application of valuation techniques, which often involve the exercise of judgment by management and the use of assumptions and estimates. Estimation uncertainty exists for those investments not traded in an active market and where the internal modelling techniques use: o significant observable valuation inputs (i.e. level 2 investments); and o significant unobservable valuation inputs (i.e. level 3 investments). Estimation uncertainty is particularly high for level 3 investments. In the Group's accounting policies, management has described the key sources of estimation involved in determining the valuation of level 2 and level 3 investments, and in particular when the fair value is established using valuation techniques due to the complexity of investments or due to the lack of availability of market based data.	We evaluated the design and implementation and tested the operating effectiveness of key controls over management's processes for performing valuation of investments classified as FVTOCI which are not traded in an active market. We reviewed the methodology and assessed the appropriateness of valuation models and inputs used by management to value the investments held as FVTOCI through involving our valuation experts. We tested the valuation of a sample of FVTOCI investments not traded in an active market. As part of these audit procedures, we assessed key inputs used in the valuation, such as comparable entity data and liquidity discounts, by benchmarking them with external data.

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

Key audit matter	How our audit addressed the key audit matter
The valuation of the Group's investments held as FVTOCI in level 2 and level 3 categories is considered a key audit matter given the degree of complexity involved in valuing these investments and the significance of the judgments and estimates made by the management. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(c)(ii), note 33 which explains the investment valuation methodology used by the Group and note 2(d)(ii) which explains critical judgments and estimates for fair value measurement.*	
Valuation of derivative financial instruments The Group has entered into various commission rate swaps, commission rate options, foreign exchange forward contracts and foreign exchange options which are over the counter ("OTC") derivatives. The valuation of these contracts is subjective, and is determined through the application of valuation techniques that often involves the execrcise of judgement and the use of assumptions and estimates. The majority of these derivatives are held for trading purposes; however, certain commission rate swaps are categorized as fair value hedges in the consolidated financial statements. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in the case of hedge ineffectiveness, also impact the hedge accounting. Due to the significance of the derivative financial instruments and related estimation and uncertainty, we have assessed the valuation of derivative financial insturments as a key audit matter. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(f) which explains derivative financial instruments and hedge accounting, note 11 which discloses the derivative positions and note 33 which explains the fair values of financial assets and liabilities.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuations of derivatives. We selected a sample of derivatives and performed the following: o tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; o checked the accuracy and appropriateness of the key inputs to the valuation models; o involved our valuation experts to perform an independent valuation of the derivatives and compared the results with management's valuation; and o checked hedge effectiveness performed by the Group and the related hedge accounting.

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

Key audit matter	How our audit addressed the key audit matter
Valuation of associated company put option	
The Group's derivatives as of December 31, 2019 includes a put option with a positive fair value of SAR 421 million (note 11). This put option is embedded within the agreement ("the Agreement") with the other shareholder in an associated company, and gives the Group an option to sell its share in the associated company to the other shareholder based on a strike price determined in accordance with the Agreement. In accordance with the Group's accounting policy, this put option is segregated from the Agreement and is measured at its fair value. The Group uses an option pricing model to fair value the put option, which requires certain inputs which are not observable in the current market. These inputs include historical results of the associated company and other inputs which require management's judgement, including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. This is considered as a key audit matter as the valuation of this put option, as mentioned above, requires management to exercise judgment. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(f) which explains the accounting policy for derivative financial instruments and hedge accounting, note 11 which explains the put option positions and note 33 which explains the fair values of financial assets and liabilities.*	We assessed the design and implementation, and tested the operating effectiveness of controls over the valuation of the associate company put option. We inspected the Agreement to obtain an understanding of the principal terms of the put option. We considered the put option valuation performed by the management and assessed the methodology and key assumptions used by the management. We involved our valuation experts to assess the reasonableness of the valuation of the associated company put option provided by the management.

**Independent Auditors' Report on the Audit of the Consolidated Financial Statements
To the Shareholders of The Saudi Investment Bank (A Saudi Joint Stock Company)
(continued)**

Other Information

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

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance (i.e the Board of Directors of the Bank).

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 IFRSs as endorsed in KSA, the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association, and for such internal control as 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 management either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with ISAs 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 controls 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 controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management .

- Conclude on the appropriateness of the managements' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain jointly responsible for our audit opinion.

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of the most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended December 31, 2019.

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Rajab 6, 1441 H
March 1, 2020

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2019 and 2018

	Notes	2019 SAR'000	2018 Restated SAR'000
ASSETS			
Cash and balances with SAMA	4a	10,218,816	4,871,932
Due from banks and other financial institutions, net	5a,33	3,028,515	2,917,697
Investments	6a,33	26,175,480	24,638,113
Positive fair values of derivatives	11c,33	1,305,076	1,245,243
Loans and advances, net	7a,33	57,112,907	59,412,529
Investments in associates	8b	994,298	1,012,366
Other real estate	32b	457,679	718,724
Property and equipment, net	9a,42	1,134,495	902,889
Information Technology intangible assets, net	9b,42	254,336	208,207
Other assets, net	10a,42	132,994	142,208
Total assets		100,814,596	96,069,908
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions	12a,33	13,788,191	12,620,832
Customers' deposits	13a,33	69,058,054	63,689,869
Negative fair values of derivatives	11c,33	315,519	500,704
Term loans	14,33	2,011,626	2,030,371
Subordinated debt	15,33	-	2,005,661
Other liabilities	16a	1,634,199	1,816,403
Total liabilities		86,807,589	82,663,840
Equity			
Share capital	17	7,500,000	7,500,000
Statutory reserve	18	4,988,000	4,928,000
Treasury shares	39	(1,041,067)	(787,536)
Other reserves	6h	329,977	(192,056)
Retained earnings	41b	230,097	172,660
Shareholders' equity		12,007,007	11,621,068
Tier I Sukuk	38	2,000,000	1,785,000
Total equity	41b	14,007,007	13,406,068
Total liabilities and equity		100,814,596	96,069,908

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31, 2019 and 2018

	Notes	2019 SAR'000	2018 Restated SAR'000
Special commission income	20	3,902,488	3,633,416
Special commission expense	20	1,624,597	1,345,695
Net special commission income		2,277,891	2,287,721
Fee income from banking services, net	21	299,032	295,002
Exchange income, net		155,905	140,625
Dividend income	22	-	5,407
Unrealized fair value through profit and loss		7,350	(20,464)
Realized fair value through profit and loss		3,275	4,528
Gains (losses) on FVOCI debt securities, net	23	43,518	(59)
Other income (loss)		31,257	(30)
Total operating income		2,818,228	2,712,730
Salaries and employee-related expenses	24a	626,327	625,991
Rent and premises related expenses		144,080	151,954
Depreciation and amortization	9	143,517	103,239
Other general and administrative expenses	40b	320,322	252,001
Operating expenses before provisions for credit and other losses		1,234,246	1,133,185
Provisions for credit and other losses	40a	1,342,637	246,972
Total operating expenses		2,576,883	1,380,157
Operating income		241,345	1,332,573
Share in earnings of associates	8b	88,156	111,195
Income before provisions for Zakat and Income tax		329,501	1,443,768
Provisions for Zakat and Income tax	27a	90,040	867,871
Net income	41a	239,461	575,897
Basic and diluted earnings per share (expressed in SAR per share)	25b	0.17	0.65

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2019 and 2018

	Notes	2019 SAR'000	2018 Restated SAR'000
Net income	41a	239,461	575,897
Other comprehensive income (loss)			
Items that cannot be reclassified to the consolidated statement of income in subsequent periods:			
Net change in fair value of equity investments held at fair value through other comprehensive income		1,536	6,538
Net change in present value of defined benefit obligations due to change in actuarial assumptions		(20,689)	-
Items that can be reclassified to the consolidated statement of income in subsequent periods:			
Net change in fair value of debt securities held at fair value through other comprehensive income		585,219	(379,610)
Fair value (gains) losses transferred to the consolidated statement of income on disposal of debt securities	23	(43,518)	59
Share in other comprehensive loss of associates	8b	(515)	(722)
Total other comprehensive income (loss)		522,033	(373,735)
Total comprehensive income		761,494	202,162

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2019 and 2018

		2019 (SAR'000)							
	Notes	Share capital	Statutory Reserve	Treasury shares	Other reserves	Retained earnings	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the year as previously reported	41b	7,500,000	4,928,000	(787,536)	(192,056)	205,268	11,653,676	1,785,000	13,438,676
Retroactive effect of other adjustments	41b	-	-	-	-	(32,608)	(32,608)	-	(32,608)
Balances at the beginning of the year as restated	41b	7,500,000	4,928,000	(787,536)	(192,056)	172,660	11,621,068	1,785,000	13,406,068
Net income		-	-	-	-	239,461	239,461	-	239,461
Total other comprehensive income		-	-	-	522,033	-	522,033	-	522,033
Total comprehensive income		-	-	-	522,033	239,461	761,494	-	761,494
Treasury shares purchased	39	-	-	(253,531)	-	-	(253,531)	-	(253,531)
Tier I Sukuk proceeds	38	-	-	-	-	-	-	215,000	215,000
Tier I Sukuk costs		-	-	-	-	(122,024)	(122,024)	-	(122,024)
Transfer to statutory reserve	18	-	60,000	-	-	(60,000)	-	-	-
Balances at the end of the year		7,500,000	4,988,000	(1,041,067)	329,977	230,097	12,007,007	2,000,000	14,007,007

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - continued

For the years ended December 31, 2019 and 2018

	Notes	2018 (SAR'000) Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shares held for employee options, net	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the year		7,500,000	4,563,000	-	204,478	1,284,858	(58,269)	13,494,067	785,000	14,279,067
Effect of the adoption of IFRS 9 on January 1, 2018		-	-	-	50,603	(873,159)	-	(822,556)	-	(822,556)
Balances at the beginning of the year as adjusted		7,500,000	4,563,000	-	255,081	411,699	(58,269)	12,671,511	785,000	13,456,511
Net income	41a	-	-	-	-	575,897	-	575,897	-	575,897
Total other comprehensive loss		-	-	-	(373,735)	-	-	(373,735)	-	(373,735)
Total comprehensive (loss) income		-	-	-	(373,735)	575,897	-	202,162	-	202,162
Gains on sales of FVOCI equity investments	6a	-	-	-	(73,402)	73,402	-	-	-	-
Foreign shareholder Income tax Reimbursements		-	-	-	-	21,566	-	21,566	-	21,566
Dividends paid	26	-	-	-	-	(450,000)	-	(450,000)	-	(450,000)
Net movement in shares held for employee options	37b	-	-	-	-	-	58,269	58,269	-	58,269
Treasury shares purchased	39	-	-	(787,536)	-	-	-	(787,536)	-	(787,536)
Tier I Sukuk proceeds	38	-	-	-	-	-	-	-	1,000,000	1,000,000
Tier I Sukuk costs		-	-	-	-	(94,904)	-	(94,904)	-	(94,904)
Transfer to statutory reserve	18	-	365,000	-	-	(365,000)	-	-	-	-
Balances at the end of the year	41b	7,500,000	4,928,000	(787,536)	(192,056)	172,660	-	11,621,068	1,785,000	13,406,068

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

THE SAUDI INVESTMENT BANK

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2019 and 2018

	Notes	2019 SR '000	2018 Restated SR '000
OPERATING ACTIVITIES			
Net income	41a	239,461	575,897
Adjustments to reconcile net income to net cash provided from operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		36,428	46,095
Net change in accrued special commission income		193,514	(24,243)
Net change in accrued special commission expense		(33,611)	85,364
Net change in deferred loan fees		27,031	(10,300)
(Gains) losses on FVOCI debt securities, net	23	(43,518)	59
Unrealized fair value through profit and loss		(7,350)	20,464
Realized fair value through profit and loss		(3,275)	(4,528)
Depreciation and amortization	9	143,517	103,239
Loss on sales of property, equipment, and intangibles		2,629	30
Gain on sale of other real estate		(33,886)	-
Provisions for credit and other losses	40a	1,342,637	246,972
Share in earnings of associates	8b	(88,156)	(111,195)
Share based provisions	37b	-	5,400
		1,775,421	933,254
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(221,996)	114,975
Due from banks and other financial institutions maturing after three months from acquisition date		(128,566)	(53,578)
Loans and advances		800,384	(88,742)
Positive fair values of derivatives		(60,822)	(545,360)
Other real estate		228,525	-
Other assets		(258,546)	114,278
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,177,687	4,971,376
Customers' deposits		5,385,416	(3,251,040)
Negative fair values of derivatives		(203,539)	354,885
Other liabilities		221,110	115,491
		8,715,074	2,665,539
Zakat and Income tax payments		(476,080)	(49,840)
Net cash provided from operating activities		8,238,994	2,615,699
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments		1,939,699	1,820,969
Purchases of investments		(2,857,924)	(5,072,207)
Dividends received from associates	8b	105,709	93,323
Investments in associates	8b	-	(1,876)
Acquisitions of property, equipment, and intangibles	9	(163,646)	(118,707)
Proceeds from sales of property, equipment, and intangibles		7,705	1,236
Net cash used in investing activities		(968,457)	(3,277,262)

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS - continued

For the years ended December 31, 2019 and 2018

	Notes	2019 SR '000	2018 Restated SR '000
FINANCING ACTIVITIES			
Sale of shares for employee options, net	37b	-	16,651
Dividends paid	26	-	(450,000)
Vesting of employee share options, net	37b	-	36,218
Treasury shares purchased	39	(253,531)	(787,536)
Proceeds from Tier I Sukuk	38	215,000	1,000,000
Redemption of Subordinated debt	15	(2,000,000)	-
Tier I Sukuk costs		(122,024)	(94,904)
Net cash used in financing activities		(2,160,555)	(279,571)
Net increase (decrease) in cash and cash equivalents		5,109,982	(941,134)
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	4b	4,503,172	5,444,306
Net increase (decrease) in cash and cash equivalents		5,109,982	(941,134)
Cash and cash equivalents at the end of the year	4b	9,613,154	4,503,172
Supplemental special commission information			
Special commission received		4,096,002	3,609,173
Special commission paid		1,661,263	1,263,479
Supplemental non-cash information			
Total other comprehensive income (loss)		522,033	(373,735)
Adoption of IFRS 9 on January 1, 2018		-	(822,556)
Adoption of IFRS 16 on January 1, 2019	3aii	246,601	-
Other real estate	32b	121,285	-
Zakat settlement from 2006 to 2017, net of fair value adjustment	27b	-	711,807

The accompanying notes 1 to 44 form an integral part of these consolidated financial statements.

1. General

The Saudi Investment Bank (the "Bank"), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia ("KSA"). The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 52 branches (2018: 52 branches) in KSA. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P. O. Box 3533
Riyadh 11481, KSA

The Bank offers a full range of commercial and retail banking services. The Bank also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board established by the Bank.

These consolidated financial statements include the financial statements of the Bank and the financial statements of the following subsidiaries (collectively referred to as the "Group" in these consolidated financial statements):

a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a Saudi closed joint stock company, which is registered in KSA under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory and custody services relating to financial securities;

b) "Saudi Investment Real Estate Company", a limited liability company, which is registered in KSA under commercial registration No. 1010268297 issued on 29 Jumada Awwal 1430H (corresponding to May 25, 2009), and is owned 100% by the Bank. The primary objective of the Company is to hold title deeds as collateral on behalf of the Bank for real estate related lending transactions;

c) "Saudi Investment First Company", a limited liability company, which is registered in KSA under commercial registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014), and is owned 100% by the Bank. During 2019, the commercial registration of the Company has been de-registered. However, the Company is in the process of completing other formalities for certain regulatory authorities to complete the liquidation;

d) "SAIB Markets Limited Company", a Cayman Islands limited liability company, registered in the Cayman Islands on July 18, 2017, and is 100% owned by the Bank. The objective of the Company is to conduct derivatives and repurchase activities on behalf of the Bank.

References to the Bank hereafter in these consolidated financial statements refer to disclosures that are relevant only to the Bank and not collectively to the Group.

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements as of and for the year ended December 31, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in KSA and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"); and are in compliance with the provisions of the Banking Control Law, the Regulations for Companies in KSA, and the Bank's Articles of Association.

The consolidated financial statements as of and for the year ended December 31, 2018 were prepared in accordance with IFRS as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and Income tax (relating to the application of IAS 12 - *Income Taxes* and IFRIC 21 - *Levies* in so far as these relate to Zakat and Income tax) and in compliance with the provisions of the Banking Control Law, the Regulations for Companies in KSA, and the Bank's Articles of Association.

2. Basis of preparation - continued

On July 17, 2019, SAMA issued instructions ("the SAMA Instructions") to banks in KSA to account for Zakat and Income tax in the consolidated statement of income. This aligns with IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in KSA and with other standards and pronouncements that are issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Group changed its accounting treatment for Zakat and Income tax by retroactively adjusting the impact in line with International Accounting Standard 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, as disclosed in note 3. The effects of this change are disclosed in note 41.

b) Basis of measurement and presentation

These consolidated financial statements are prepared under the historical cost convention except for the following items in the consolidated statement of financial position:

- Derivatives are measured at fair value;
- Financial instruments designated as Fair Value through Profit or Loss ("FVTPL") are measured at fair value;
- Investments designated as Fair Value through Other Comprehensive Income ("FVOCI") are measured at fair value;
- Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged;
- Cash settled share-based payments are measured at fair value; and
- Defined benefit obligations are recognized at the present value of future obligations using the Projected Unit Credit Method.

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

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in KSA 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 advice and expectations of future events that are believed to be reasonable under the circumstances. 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:

i) Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 *Financial Instruments* across all categories of financial assets requires judgement, and in particular, the estimation of the amount and timing of future cash flows, 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, and the changes to these factors can result in different levels of allowances.

2. Basis of preparation - continued

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

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

ii) Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each consolidated statement of financial position date, except as disclosed in note 33.

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

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

The principal or the most advantageous market must be accessible to or by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated statement of financial position are categorized within a fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1. Quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date (i.e., without modification or proxy);

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

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

2. Basis of preparation - continued

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

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External subject matter experts are involved from time to time for the valuation of certain assets. Involvement of external subject matter experts is decided upon annually. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained.

At each financial reporting date, the Group analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined the classes of assets and liabilities on the basis of the nature, characteristics, and the related risks of the asset or liability, and the level of the fair value hierarchy as explained above.

iii) Determination of control over investees

The control indicators set out in note 3b are subject to management's judgement. The Group also acts as Fund Manager to several investment funds. Determining whether the Group controls individual investment funds usually focuses on the assessment of the aggregate economic interests of the Group in an individual fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated the financial statements of these funds.

iv) Going concern

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

v) Determination of lease terms

In determining the lease terms for the purposes of calculation of lease liabilities and Right of Use ("ROU") leased assets, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease terms if the lease is reasonably certain to be extended (or not terminated).

The Group also reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

vi) Depreciation and amortization

Management uses judgement when determining the periods used for purposes of calculating depreciation and amortization for property and equipment, including ROU leased assets and information technology intangible assets. The judgement includes estimates of any residual values, the estimated periods over which future economic benefits will flow to the Group, and the choice of depreciation and amortization methods.

2. Basis of preparation - continued

vii) Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management makes judgements 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.

viii) Employee benefit plans

The Group operates an end of service benefit plan for its employees based on prevailing Saudi Labor laws. Accruals are made in accordance with actuarial valuations using a projected unit credit method while the benefit payments are discharged as and when the benefit payments are due.

3. Summary of significant accounting policies

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

a) Changes 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, 2018 except for the policies explained below:

i) Zakat and Income tax

As described in note 2, the basis of preparation was changed as a result of SAMA Instructions dated July 17, 2019. Previously, Zakat and Income tax were recognized in equity as per SAMA circular no 381000074519 dated April 11, 2017. With the issuance of the SAMA instructions, Zakat and Income tax is required to be recognized in the consolidated statement of income. The Group has accounted for this change in the accounting for Zakat and Income tax retroactively.

The Group is subject to Zakat and Income tax in accordance with the regulations of the General Authority of Zakat and Income tax (“GAZT”). Provisions for Zakat and Income tax are charged to the consolidated statement of income.

Management periodically evaluates positions taken in Zakat and Income tax returns with respect to situations in which applicable Zakat and Income tax regulations are subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the GAZT. Adjustments arising from final assessments are recorded in the period in which such assessments are made.

Since Zakat is not accounted for similar to Income tax, no deferred Zakat is calculated.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Upon the retroactive application of the new Zakat and Income tax policy, the Group also adopted IFRIC Interpretation 23 which addresses the accounting for Income tax when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether uncertain tax treatments are considered separately;
- The assumptions about the examination of tax treatments by taxation authorities;
- How taxable profit, tax bases, unused tax losses, unused tax credits and tax rates are determined; and
- How changes in facts and circumstances are considered.

3. Summary of significant accounting policies - continued

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty is followed.

The Group applies judgement in identifying uncertainties over Income tax treatments. Upon adoption of the Interpretation, the Group has considered whether it has any uncertain tax positions including transfer pricing. The Group determines, based on tax compliance and transfer pricing studies that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the GAZT. The Interpretation did not have any impact on the consolidated financial statements of the Group.

ii) IFRS 16 "Leases"

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

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after January 1, 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the consolidated statement of financial position, unless the term is 12 months or less or the lease is for a low-value asset item. Thus, the classification required under IAS 17 'Leases' into operating or finance leases is eliminated for Lessees.

For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a Right of Use ("ROU") leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and is amortized over the useful life of the leased asset.

The Group opted for the modified retroactive application (Option 2B) permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16, the leased assets were measured at the amount of the lease liabilities, using an applicable commission rate at the time of first time application. These liabilities were measured at the present value of the remaining lease terms, discounted using the Bank's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.47%.

The following is a reconciliation of the off-balance sheet lease obligations as of December 31, 2018 to the recognized lease liabilities as of January 1, 2019.

Off-balance sheet lease obligations as of December 31, 2018	216,250
Less amounts for those leases with a lease term of 12 months or less and/or low-value leases	(20,696)
Add amounts for reasonably certain extension options	196,834
Net lease obligations as of January 1, 2019	392,388
Discounted lease liabilities due to initial application of IFRS 16 as of January 1, 2019	246,601

3. Summary of significant accounting policies - continued

The Group has used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognize ROU assets and liabilities for leases of low-value assets;
- excluded initial direct costs from the measurement of the ROU assets at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

A number of other new standards are also effective from January 1, 2019 but they do not have a material effect on the consolidated financial statements.

b) Basis of consolidation

These consolidated financial statements are comprised of the financial statements of the Bank and its subsidiaries as identified in note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee. The financial statements of any such structured entities are consolidated from the date the Group obtains control and until the date when the Group ceases to control the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group obtains control until the date the Group ceases to control the subsidiary.

3. Summary of significant accounting policies - continued

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

All Intra-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements.

c) Financial assets and financial liabilities

i) Recognition and Initial measurement

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii) Classification of financial assets

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

Financial Assets 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 Assets at FVOCI

Debt Instruments

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.

3. Summary of significant accounting policies - continued

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Special commission income and foreign exchange gains and losses are recognized in the consolidated statement of income.

Equity Investments

On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument-by-instrument (i.e. share-by-share) basis.

Financial Assets at FVTPL

All other financial assets are classified as measured at FVTPL.

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

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

Business model assessment

The Group 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 Group'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 Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

Financial assets that may be held for trading and for which performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held to both collect contractual cash flows and to sell the 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. “Special commission” is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with a profit margin.

3. Summary of significant accounting policies - continued

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group 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 Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group'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.

iii) Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the expected special commission rate.

iv) Derecognition

Financial assets

The Group 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

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 Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group 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 Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group may retain the obligation to service a transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. However, 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 Group may securitize 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 the consolidated statement of income.

3. Summary of significant accounting policies - continued

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated at FVOCI is not recognized in the consolidated statement of income 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.

Cumulative gains and losses recognized in OCI in respect of such equity investment securities are transferred to retained earnings on disposal.

Financial liabilities

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

v) Modifications of financial assets and financial liabilities

If the terms of a financial asset are modified, the Group 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 Group 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 the consolidated statement of income. 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 an adjustment to special commission income.

The Group 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 the consolidated statement of income.

vi) Impairment

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

- Due from banks and other financial institutions;
- Financial assets that are debt securities;
- Loans and advances, including lease receivables;
- Loan commitments issued;
- Financial guarantee contracts issued; and
- Other financial assets.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured equal to a 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. (See note 32)

3. Summary of significant accounting policies - continued

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

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

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. ECL is 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 Group 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 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 to determine whether the financial asset should be derecognized and ECL is measured as follows.

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

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities 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 Group 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 consumer loan that is overdue for 90 days or more is considered impaired.

3. Summary of significant accounting policies - continued

In making an assessment as to whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in bond yields;
- 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; and
- 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 the allowance for ECL in the consolidated statement of financial position

Allowances for credit losses are presented in the consolidated 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: as an allowance in other liabilities;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group 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 an allowance in other liabilities; and
- For debt securities measured at FVOCI, no loss allowance is recognized against financial assets because the carrying amount of these assets is considered fair value. However, the loss allowance is disclosed and is included in other reserves.

vii) Write-offs

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 Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated allowance for credit losses, 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 provisions for credit losses.

viii) Offsetting financial instruments

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

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

3. Summary of significant accounting policies - continued

ix) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group 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. In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions. The Group has issued no loan commitments that are measured at FVTPL. For other loan commitments, the Group recognizes loss allowances.

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 at the higher of this amortized amount and the amount of loss allowance.

d) Investments in associates

Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank has significant influence (but not control) over financial and operating matters and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Share in earnings of associates includes the changes in the Group's share of the net assets of the associates. The Group's share of its associates post-acquisition income or losses is recognized in the consolidated statement of income and its share of post-acquisition movements in other comprehensive income is recognized in other reserves included in shareholders' equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

Unrealized gains and losses on transactions between the Bank and its associates are eliminated to the extent of the Group's interest in the associates.

The consolidated statement of income reflects the Group's share of the results of operations of the associates. When there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in shareholders' equity. Unrealized gains on transactions are eliminated to the extent of the Group's interest in the investees. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The Group's share of earnings in an associate is shown on the face of the consolidated statement of income, which represents the net earnings attributable to equity holders of an associate and therefore income after Zakat and Income tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the share in earnings of associates in the consolidated statement of income.

3. Summary of significant accounting policies - continued

e) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts for any change in the fair value between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

f) Derivative financial instruments and hedge accounting

As permitted by IFRS 9 – Financial Instruments, the Group has elected to continue to apply the hedge accounting requirements of IAS 39 – Financial Instruments: Recognition and Measurement.

Derivative financial instruments, including 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 initially recognized at fair value on the date on which the derivatives contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position with transaction costs recognized in the consolidated statement of income. All derivatives are carried at their fair value as assets where the net fair value is positive and as liabilities where the net fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow methods, 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 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 Group 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.

Separate embedded derivatives are measured at fair value, with all changes in fair value recognized in the consolidated statement of income unless they form part of qualifying cash flow or net investment hedging relationship in which case all changes in fair value are recognized in the consolidated statement of comprehensive income.

iii) Hedge accounting

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

3. Summary of significant accounting policies - continued

For the purpose of hedge accounting, hedges are classified into two categories:

(a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability, (or assets or liabilities in the case of portfolio hedging), or an unrecognized firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and

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

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged risk, and should be reliably measurable. At inception of the hedge, the risk management objective and strategy are documented including the identification of the hedging instrument, the related hedged item, the nature of the risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge.

At each hedge effectiveness assessment / reporting date, each 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, at inception and at each quarter end on an ongoing basis. 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 if significant is recognized in the consolidated statement of income. For situations where the hedged item is a forecasted transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

Fair value hedges

When a derivative is designated as a hedging instrument in the hedge of a change in fair value of a recognized asset or liability or a firm commitment that could affect the consolidated statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income together with the change in the fair value of the attributable hedged risk in special commission income.

For hedged items measured at amortized 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 amortized over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated statement of income.

Cash flow hedges

When a derivative is designated and qualified as a hedging instrument in the hedge of a variability of cash flows attributable to a particular risk associated with a recognized asset or a liability or a highly probable forecasted transaction that could affect the consolidated statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognized directly in other comprehensive income and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. However, if the Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassifies into the consolidated 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 transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time such asset or liability is recognized, the associated gains or losses that had previously been recognized 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 transaction is no longer expected to occur or the Group 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 recognized in other comprehensive income from the period when the hedge was effective is transferred from shareholders' equity to the consolidated statement of income when the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur and affects the consolidated statement of income, the net cumulative gain or loss previously recognized in other comprehensive income is transferred immediately to the consolidated statement of income.

g) Foreign currencies

Transactions in foreign currencies are translated into SAR at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into SAR at the exchange rates prevailing at the consolidated statement of financial position date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for effective interest rates and payments during the year, and the amortized 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 consolidated statement of income, with the exception of differences of foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income except for differences arising on the retranslation of equity instruments or when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges to the extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment on investment securities available for sale, unless the non-monetary items have an effective hedging strategy.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of 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.

h) Revenue / expense recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

i) Special commission income and expense

Special commission income and expense for all special commission earning / bearing financial instruments are recognized in the consolidated statement of income on the effective special commission rate basis. The effective special commission rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

3. Summary of significant accounting policies - continued

The carrying amount of a financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognized on the effective special commission rate basis, based on the asset's carrying value net of impairment provisions.

The calculation of the effective special commission rate considers all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees paid or transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Measurement of amortized cost and special commission income

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

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

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

Rendering of services

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

Revenue from rendering of services related to share trading and fund management, trade finance, corporate finance and advisory and other banking services, are recognized at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for free services related to credit cards, the Group recognizes revenue over the period of time.

ii) Exchange income / loss

Exchange income / loss is recognized when earned / incurred and in accordance with the principles included in note 3g.

3. Summary of significant accounting policies - continued

iii) Fee income from banking services

Fees that are considered an integral to the effective special commission rate are deferred and included in the measurement of the relevant assets.

Fees from banking services that are not an integral component of the effective special commission rate calculation on a financial asset or liability are generally recognized on an accrual basis when the related service is provided.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.

Fees received on asset management, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.

Performance linked fees or fee components are recognized when the performance criteria is fulfilled.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred, together with the investment costs, and recognized as an adjustment to the effective special commission rate on the loan. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, and are recognized as expenses as the services are received or the transaction is completed.

iv) Dividend income

Dividend income is recognized when the right to receive payment is established.

v) Day 1 profit or loss

Where a transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in the consolidated statement of income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable, or when the instrument is derecognized.

vi) Customer loyalty programs

The Group offers customer loyalty programs referred to as reward points, which allows customers to earn points that can be redeemed through certain partner outlets. The Group allocates a portion of the transaction price to the reward points awarded to members, based on estimates of costs of future redemptions. The amount of expense allocated to reward points is charged to the consolidated statement of income with a corresponding liability recognized in other liabilities. The cumulative amount of the liability related to unredeemed reward points is adjusted over time based on actual redemptions and current trends with respect to future redemptions.

3. Summary of significant accounting policies - continued

i) Repurchase agreements and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership, and are measured in accordance with related accounting policies for investments. The transactions are treated as a collateralized borrowing and the counter party liability for amounts received under these agreements is included in due to banks and other financial institutions or customer deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and recognized over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognized in the consolidated statement of financial position, as the Group does not obtain control over the underlying assets. Amounts paid under these agreements are included in cash and balances with SAMA. The difference between the purchase and resale price is treated as special commission income and recognized over the life of the reverse repurchase agreement on an effective yield basis.

j) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that non-financial assets may be impaired. If any indication exists, or when periodic impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining an asset's fair value less costs to sell, an appropriate valuation model is used. These model calculations are corroborated by valuation multiples, or other available fair value indicators.

k) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of loans and advances. Such real estate is considered as held for sale and is initially stated at the lower of net realizable value of the 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 recognized 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 gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized together with any gain/ loss on disposal in the consolidated statement of income.

l) Property, equipment, and Information technology intangible assets

Property, equipment, and Information technology intangible assets are stated at cost and presented net of accumulated depreciation and amortization. Freehold land is not depreciated. The costs of other property, equipment, and Information technology intangible assets are depreciated or amortized using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20 to 30 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4 to 5 years
Information technology intangible assets	8 years

3. Summary of significant accounting policies - continued

The assets’ residual values, useful lives, and depreciation or amortization methods are reviewed and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated statement of income.

Other expenditures are capitalized only when it is probable that the future economic benefit of the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed when incurred.

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.

m) Leases

Policy applicable from January 1, 2019

At the inception of a contract, the Group assesses whether a 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. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

Right-of-Use (ROU) leased assets

The Group recognizes an ROU leased asset and a lease liability at the lease commencement date. The ROU leased asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU leased asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of ROU leased asset or the end of the lease term. The estimated useful lives of ROU leased assets are determined on the same basis as those of property and equipment. In addition, the ROU leased asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, 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.

3. Summary of significant accounting policies - continued

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

A lease liability is measured at amortized cost using the effective special commission rate method increasing the carrying amount to reflect special commission on the lease liability and reducing the carrying amount to reflect the lease payments made including prepayments.

The lease liability 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, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in consolidated statement of income if the carrying amount of ROU asset has been reduced to zero.

The Group presents ROU leased assets in 'Property and equipment' and lease liabilities in 'Other liabilities' in the consolidated statement of financial position.

Leases of low-value assets

The Group has elected not to recognize ROU leased assets and lease liabilities for leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before January 1, 2019

Leases entered into by the Group as a lessee, were classified as operating leases because the leases do not transfer all risks and rewards of ownership. Payments made under operating leases were charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty was recognized as an expense in the period in which termination takes place.

The Group also evaluates any non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

n) Provisions

Provisions are recognized for on and off balance sheet items when a reliable estimate can be made by the Group 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.

o) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions maturing within three months from the date of acquisition which are also subject to insignificant risk of changes in their fair value.

3. Summary of significant accounting policies - continued

p) Zakat, Income tax, and Value Added tax

The Group is subject to Zakat and Income tax in accordance with the regulations of the General Authority of Zakat and Income tax ("GAZT"). Provisions for Zakat and Income tax are charged to the consolidated statement of income.

Management periodically evaluates positions taken in Zakat and Income tax returns with respect to situations in which applicable Zakat and Income tax regulations are subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the GAZT. Adjustments arising from final assessments are recorded in the period in which such assessments are made.

Since Zakat is not accounted for similar to Income tax, no deferred Zakat is calculated.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Upon the retroactive application of the new Zakat and Income tax policy, the Group also adopted IFRIC Interpretation 23 which addresses the accounting for Income tax when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether uncertain tax treatments are considered separately;
- The assumptions about the examination of tax treatments by taxation authorities;
- How taxable profit, tax bases, unused tax losses, unused tax credits and tax rates are determined; and
- How changes in facts and circumstances are considered.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty is followed.

The Group applies judgement in identifying uncertainties over Income tax treatments. Upon adoption of the Interpretation, the Group has considered whether it has any uncertain tax positions including transfer pricing. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the GAZT. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Value Added tax ("VAT")

The Group collects VAT from its customers for qualifying services provided, and makes VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the GAZT representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Group and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

3. Summary of significant accounting policies - continued

q) Short-term employees' benefits and Employee end of service benefit plan

Short-term employees' benefits are measured on an undiscounted basis and are expensed as the related service is 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.

The Group operates an end of service benefit plan for its employees based on prevailing Saudi Labor laws. Accruals are made in accordance with actuarial valuations using a projected unit credit method while the benefit payments are discharged as and when the benefit payments are due.

r) Asset management services

The Group offers asset management services to its customers, which include management of certain investment funds in consultation with professional investment advisors. The Group's share of these funds is included in investments and fees earned are included in fee income from banking services, net. The Group'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 Group and accordingly are not included in the consolidated financial statements.

s) Non-interest based banking products

In addition to conventional banking, the Group offers to its customers certain non-interest based banking products, which are approved by its Shariah Board.

High level definitions of non-interest based products include:

i. Murabaha - an agreement whereby the Group sells to a customer a commodity or an asset, which the Group 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. Tawaruq – a form of Murabaha transaction where the Group 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.
iii. Istisna'a – an agreement between the Group and a customer whereby the Group sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.
iv. Ijarah – an agreement whereby the Group, 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.

All non-special interest based banking products are accounted for in conformity with the accounting policies described in these consolidated financial statements.

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

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

	2019 SAR'000	2018 SAR'000
Cash on hand	892,087	736,763
Reverse repurchase agreements	6,025,000	977,000
Other balances, net	(137,497)	(59,061)
Cash and balances before statutory deposit (note 4b)	6,779,590	1,654,702
Statutory deposit	3,439,226	3,217,230
Cash and balances with SAMA	10,218,816	4,871,932

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

b) Cash and cash equivalents included in the consolidated statement of cash flows as of December 31, 2019 and 2018 are comprised of the following:

	2019 SAR'000	2018 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4a)	6,779,590	1,654,702
Due from banks and other financial institutions maturing within three months from the date of acquisition	2,833,564	2,848,470
Cash and cash equivalents	9,613,154	4,503,172

5. Due from banks and other financial institutions, net

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

	2019 SAR'000	2018 SAR'000
Current accounts	373,345	797,185
Money market placements	2,657,258	2,123,215
Total due from banks and other financial institutions	3,030,603	2,920,400
Allowance for credit losses	(2,088)	(2,703)
Due from banks and other financial institutions, net	3,028,515	2,917,697

The credit quality of due from banks and other financial institutions is managed using data from reputable external credit ratings agencies. The average S&P rating for the portfolio is an investment grade of "BBB" for 2019 (2018: "A").

5. Due from banks and other financial institutions, net - continued

b) The movement of the allowance for credit losses for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000	2018 SAR'000
Balances at the beginning of the year	2,703	13,564
Provision for credit losses	(615)	(10,861)
Balances at the end of the year	2,088	2,703

c) The credit quality of due from banks and other financial institutions as of December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000			
	Stage 1	Stage 2	Stage 3	Total
Investment grade	3,027,595	-	-	3,027,595
Non-investment grade	-	3,008	-	3,008
Total due from banks and other financial institutions	3,027,595	3,008	-	3,030,603

	2018 SAR'000			
	Stage 1	Stage 2	Stage 3	Total
Investment grade	2,917,319	-	-	2,917,319
Non-investment grade	-	3,081	-	3,081
Total due from banks and other financial institutions	2,917,319	3,081	-	2,920,400

d) A reconciliation from the opening to the closing balances of the allowance for credit losses for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	2,336	367	-	2,703
Provision for credit losses – Changes in exposures and re-measurement	(606)	(9)	-	(615)
Balances at the end of the year	1,730	358	-	2,088

	2018 SAR'000			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	12,667	897	-	13,564
Provision for credit losses – Changes in exposures and re-measurement	(10,331)	(530)	-	(10,861)
Balances at the end of the year	2,336	367	-	2,703

6. Investments

a) Investments as of December 31, 2019 and 2018 are summarized as follows:

	2019 SAR'000			2018 SAR'000		
	Domestic	International	Total	Domestic	International	Total
Fixed rate debt securities	15,700,184	6,745,165	22,445,349	12,935,491	7,796,720	20,732,211
Bonds	8,581,823	5,489,847	14,071,670	6,851,867	6,614,047	13,465,914
Sukuk	7,118,361	1,255,318	8,373,679	6,083,624	1,182,673	7,266,297
Floating rate debt securities	1,014,617	2,287,455	3,302,072	1,188,368	2,281,885	3,470,253
Bonds	-	2,287,455	2,287,455	-	2,281,885	2,281,885
Sukuk	1,014,617	-	1,014,617	1,188,368	-	1,188,368
Total debt securities	16,714,801	9,032,620	25,747,421	14,123,859	10,078,605	24,202,464
Equities	254,168	8,631	262,799	252,750	8,631	261,381
Mutual funds	126,224	-	126,224	131,626	-	131,626
Other securities	-	39,036	39,036	-	42,642	42,642
Investments	17,095,193	9,080,287	26,175,480	14,508,235	10,129,878	24,638,113

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

The Group's investments in equities include SAR 8.6 million as of December 31, 2019 (2018: SAR 8.6 million) which the Bank acquired in prior years in connection with the settlement of certain loans and advances. During the year ended December 31, 2018, the Bank sold a portion of the holdings previously held. The fair value of the shares sold totaled SAR 284.3 million, resulting in a realized gain of approximately SAR 73.4 million. The SAR 73.4 million realized gain was subsequently transferred from other reserves to retained earnings during the year ended December 31, 2018.

The Group also holds additional strategic investments in equities totaling SAR 247.5 million as of December 31, 2019 (2018: SAR 250.6 million) including the Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, SIMAH (the Saudi Credit Bureau), and the Saudi Company for Registration of Finance Lease Contracts.

Investments include SAR 10.8 billion (2018: SAR 7.8 billion) in debt securities, which have been pledged under repurchase agreements with other financial institutions. Pledged assets are those financial assets that may be repledged or resold by counterparties to whom they have been transferred. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities, as well as requirements determined by exchanges on which the Bank acts as a participant. See note 12b.

b) The composition of investments as of December 31, 2019 and 2018 is as follows:

	2019 SAR'000			2018 SAR'000		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Fixed rate debt securities	16,213,536	6,231,813	22,445,349	14,696,443	6,035,768	20,732,211
Bonds	9,574,192	4,497,478	14,071,670	9,087,987	4,377,927	13,465,914
Sukuk	6,639,344	1,734,335	8,373,679	5,608,456	1,657,841	7,266,297
Floating rate debt securities	1,833,548	1,468,524	3,302,072	1,822,577	1,647,676	3,470,253
Bonds	1,833,548	453,907	2,287,455	1,822,577	459,308	2,281,885
Sukuk	-	1,014,617	1,014,617	-	1,188,368	1,188,368
Total debt securities	18,047,084	7,700,337	25,747,421	16,519,020	7,683,444	24,202,464
Equities	249,525	13,274	262,799	248,107	13,274	261,381
Mutual funds	114,664	11,560	126,224	131,626	-	131,626
Other securities	-	39,036	39,036	-	42,642	42,642
Investments	18,411,273	7,764,207	26,175,480	16,898,753	7,739,360	24,638,113

6. Investments - continued

The unquoted debt securities above are principally comprised of Saudi Government Development Bonds, and certain Saudi corporate securities. Equities reported under FVOCI investments include unquoted shares of SAR 13.3 million (2018: SAR 13.3 million) that are carried at cost, as their fair value cannot be reliably measured. Mutual funds are considered as quoted in the table above when the daily net asset values are published on the Saudi Stock Exchange (Tadawul).

The Group's investment in mutual funds represent investment in shariah compliant open ended investment funds for investors seeking capital appreciation and high liquidity through exposure to Shariah compliant Saudi equities and financial products. The Group has also invested in private real estate funds with the investment objective of delivering medium-term capital appreciation through development of premium residential apartments.

c) Investments are classified by counterparty as of December 31, 2019 and 2018 as follows:

	2019 SAR'000	2018 SAR'000
Government and quasi-government	17,348,488	15,777,094
Corporate	4,851,768	4,424,299
Banks and other financial institutions	3,975,224	4,436,720
Total	26,175,480	24,638,113

d) The credit risk exposure of investments as of December 31, 2019 and 2018 is as follows:

	2019 SAR'000	2018 SAR'000
Investment grade	22,577,137	20,979,707
Non-investment grade	1,933,924	1,739,706
Unrated	1,236,360	1,483,051
Subtotal	25,747,421	24,202,464
Equities, mutual funds, and other securities	428,059	435,649
Total	26,175,480	24,638,113

Investment grade securities generally have a minimum external rating from approved rating agencies including Standard and Poor's (BBB-), Moody's (Baa3), or Fitch (BBB-). Unrated investment securities primarily include Saudi corporate securities.

e) The movement of the allowance for credit losses included in other reserves for the years ended December 31, 2019 and 2018 is as follows:

	2019 SAR'000	2018 SAR'000
Balances at the beginning of the year	75,480	64,977
Provision for credit losses	(45,821)	10,503
Balances at the end of the year (note 6h)	29,659	75,480

6. Investments - continued

f) A reconciliation from the opening to the closing balances of the allowance for credit losses for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	71,794	3,686	-	75,480
Provision for credit losses –				
Changes in exposures and re-measurement	(42,135)	(3,686)	-	(45,821)
Balances at the end of the year	29,659	-	-	29,659

	2018 SAR'000			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	64,977	-	-	64,977
Changes in exposures and re-measurement	6,828	(2,995)	-	3,833
Transfers from Stage 1 to Stage 2	(11)	6,681	-	6,670
Provision for credit losses	6,817	3,686	-	10,503
Balances at the end of the year	71,794	3,686	-	75,480

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

	2019 SAR'000			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 and unrated	25,747,421	-	-	25,747,421
Grades 7-9	-	-	-	-
Total debt securities	25,747,421	-	-	25,747,421

	2018 SAR'000			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 and unrated	24,198,778	-	-	24,198,778
Grades 7-9	-	3,686	-	3,686
Total debt securities	24,198,778	3,686	-	24,202,464

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

	2019 SAR'000	2018 SAR'000
Unrealized gains (losses) on revaluation of debt securities at FVOCI before allowance for credit losses	358,923	(228,599)
Allowance for credit losses on debt securities at FVOCI (note 6e)	29,659	75,480
Unrealized gains (losses) on revaluation of debt securities at FVOCI after allowance for credit losses	388,582	(153,119)
Unrealized losses on revaluation of equities held at FVOCI	(37,656)	(39,192)
Actuarial losses on defined benefit plans	(20,689)	-
Share of other comprehensive income (loss) of associates	(260)	255
Other reserves	329,977	(192,056)

7. Loans and advances, net

a) Loans and advances, net classified as held at amortized cost as of December 31, 2019 and 2018 are comprised of the following:

	2019 SAR '000			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	35,908,695	2,002,370	13,248,652	51,159,717
Stage 2	4,165,102	628,792	204,961	4,998,855
Stage 3	553,103	430,102	2,464	985,669
Total performing loans and advances	40,626,900	3,061,264	13,456,077	57,144,241
Non performing loans and advances	947,868	1,164,385	261,998	2,374,251
Total loans and advances	41,574,768	4,225,649	13,718,075	59,518,492
Allowance for credit losses	(982,836)	(1,030,656)	(392,093)	(2,405,585)
Loans and advances, net	40,591,932	3,194,993	13,325,982	57,112,907

	2018 SAR '000			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	34,434,670	3,547,689	14,267,187	52,249,546
Stage 2	5,171,573	906,743	189,619	6,267,935
Stage 3	1,190,635	378,987	44,128	1,613,750
Total performing loans and advances	40,796,878	4,833,419	14,500,934	60,131,231
Non performing loans and advances	126,214	704,104	246,556	1,076,874
Total loans and advances	40,923,092	5,537,523	14,747,490	61,208,105
Allowance for credit losses	(871,262)	(459,161)	(465,153)	(1,795,576)
Loans and advances, net	40,051,830	5,078,362	14,282,337	59,412,529

b) Loans and advances, net are comprised of the following:

	2019 SAR'000	2018 SAR'000
Conventional loans and advances	20,520,406	24,140,228
Non-Interest based loans and advances:	38,998,086	37,067,877
Murabaha, including Tawarruq	38,853,618	36,881,386
Ijarah	144,468	186,491
Total loans and advances	59,518,492	61,208,105
Allowance for credit losses	(2,405,585)	(1,795,576)
Loans and advances, net	57,112,907	59,412,529

c) The movement of the allowance for credit losses for the years ended December 31, 2019 and 2018 is as follows:

	2019 SAR'000	2018 SAR'000
Balances at the beginning of the year	1,795,576	1,718,082
Provision for credit losses	1,270,770	220,514
Write-offs, net	(660,761)	(143,020)
Balances at the end of the year	2,405,585	1,795,576

7. Loans and advances, net - continued

d) The following tables provide a reconciliation from the opening to the closing balance of the allowance for credit losses for the year ended December 31, 2019.

	Commercial, overdrafts and others SAR '000			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	159,244	95,760	1,075,419	1,330,423
Changes in exposures and re-Measurement	96,379	27,695	878,716	1,002,790
Transfers from Stage 1 to Stage 2,3	(3,858)	1,641	11,447	9,230
Transfers from Stage 2 to Stage 3	-	(30,668)	289,356	258,688
Transfers from Stage 2 to Stage 1	6,725	(2,790)	-	3,935
Transfers from Stage 3 to Stage 1,2	99	204	(2,161)	(1,858)
Provision for credit losses	99,345	(3,918)	1,177,358	1,272,785
Write-offs, net	-	-	(589,716)	(589,716)
Balances at the end of the year	258,589	91,842	1,663,061	2,013,492

	Consumer SAR '000			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	180,377	39,696	245,080	465,153
Changes in exposures and re-measurement	(58,973)	53,166	(48,507)	(54,314)
Transfers from Stage 1 to Stage 3	(482)	-	37,855	37,373
Transfers from Stage 2 to Stage 3	-	(192)	15,118	14,926
Provision for credit losses	(59,455)	52,974	4,466	(2,015)
Write-offs, net	-	-	(71,045)	(71,045)
Balances at the end of the year	120,922	92,670	178,501	392,093

The following tables provide a reconciliation from the opening to the closing balance of the allowance for credit losses for the year ended December 31, 2018.

	Commercial, overdrafts and others SAR '000			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	118,705	108,841	1,080,417	1,307,963
Changes in exposures and re-measurement	41,467	30,112	(216,290)	(144,711)
Transfers from Stage 1 to Stage 2,3	(928)	11,283	32,258	42,613
Transfers from Stage 2 to Stage 3	-	(54,476)	276,962	222,486
Provision for credit losses	40,539	(13,081)	92,930	120,388
Write-offs, net	-	-	(97,928)	(97,928)
Balances at the end of the year	159,244	95,760	1,075,419	1,330,423

7. Loans and advances, net – continued

	Consumer SAR '000			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	176,245	15,537	218,337	410,119
Changes in exposures and re-measurement	4,222	24,605	64,103	92,930
Transfers from Stage 1 to Stage 3	(90)	-	5,937	5,847
Transfers from Stage 2 to Stage 3	-	(446)	1,795	1,349
Provision for credit losses	4,132	24,159	71,835	100,126
Write-offs, net	-	-	(45,092)	(45,092)
Balances at the end of the year	180,377	39,696	245,080	465,153

The transfer amounts in the above tables represent the net increase or decrease in the allowance for credit losses as a result of transfers between stages during the years ended December 31, 2019 and 2018.

e) The credit quality of loans and advances as of December 31, 2019 and 2018 is summarized as follows:

(i) Neither past due nor credit impaired loans and advances, are as follows:

	2019 SAR'000	2018 SAR'000
Exceptional	1,030,843	1,890,789
Excellent	4,661,323	4,669,483
Strong	6,070,450	8,251,313
Good	12,898,184	11,881,621
Acceptable	13,472,788	11,965,283
Marginal	1,803,303	2,645,529
Watch	659,279	981,574
Unrated	12,604,404	13,563,575
Total	53,200,574	55,849,167

The above table includes neither past due nor credit impaired loans and advances classified as Stage 2 amounting to SAR 4.7 billion (2018: SAR 4.6 billion). These loans are classified as Stage 2 as they exhibit significant increase in credit risk due to their categorization as restructured, relative downgrade in ratings and watchlist. It also includes Stage 2 exposures which are yet to complete curing periods to be eligible to be upgraded to Stage 1.

The ratings of the loans and advances included above are described as follows:

Exceptional – leader in highly stable industry. Superior financial fundamentals and substantial cash flows. Has ready access to financial markets.

Excellent - leader in a stable industry. Better than peers' financials and cash flows. Has access to financial markets under normal market conditions.

Strong - strong market and financial position with a history of successful performance but certain exceptions exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal conditions.

Good - moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound and within industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

7. Loans and advances, net - continued

Acceptable - minor weaknesses in industry or company specific risk factors. Some financial fundamentals are inferior to industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal - unfavorable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

Watch - unfavorable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances primarily consist of consumer and other retail loans with no past due balances.

(ii) Past due but not credit impaired loans and advances as of December 31, 2019 and 2018 are as follows:

	2019 SAR'000		
	Commercial, overdrafts and others	Consumer	Total
From 1 day to 30 days	1,860,390	644,248	2,504,638
From 31 days to 90 days	248,399	204,961	453,360
Total	2,108,789	849,209	2,957,998

	2018 SAR'000		
	Commercial, overdrafts and others	Consumer	Total
From 1 day to 30 days	61,705	703,612	765,317
From 31 days to 90 days	1,713,378	189,619	1,902,997
Total	1,775,083	893,231	2,668,314

f) The economic sector risk concentrations as of December 31, 2019 and 2018 are as follows:

	2019 SAR'000					
	Performing					
	Stage 1	Stage 2	Stage 3	Non-performing	Allowance for credit losses	Loans and advances, net
Government and quasi-government	969,627	-	-	-	(10,285)	959,342
Banks and other financial services	8,179,335	110,290	42,633	-	(73,842)	8,258,416
Agriculture and fishing	80,938	-	-	-	(1,123)	79,815
Manufacturing	2,875,543	293,607	71,971	201,823	(212,895)	3,230,049
Building and construction	4,928,825	1,464,843	25,268	111,625	(121,771)	6,408,790
Commerce	8,891,055	973,746	94,981	834,023	(525,207)	10,268,598
Transportation and communication	1,598,585	615	8,616	47,682	(67,572)	1,587,926
Services	2,435,795	36,684	42,971	782	(33,821)	2,482,411
Consumer loans	13,248,652	204,961	2,464	261,998	(392,093)	13,325,982
Other	7,951,362	1,914,109	696,765	916,318	(966,976)	10,511,578
Total	51,159,717	4,998,855	985,669	2,374,251	(2,405,585)	57,112,907

7. Loans and advances, net – continued

	2018 SAR'000					
	Performing					
	Stage 1	Stage 2	Stage 3	Non-performing	Allowance for credit losses	Loans and advances, net
Government and quasi-government	1,600,235	-	-	-	(13,597)	1,586,638
Banks and other financial services	7,202,415	299,039	39	27,065	(46,030)	7,482,528
Agriculture and fishing	38,510	-	-	-	(248)	38,262
Manufacturing	4,632,406	495,523	12,068	131,284	(120,408)	5,150,873
Building and construction	4,049,199	1,300,706	28,328	194,155	(144,097)	5,428,291
Commerce	6,432,858	1,542,961	108,833	299,807	(317,283)	8,067,176
Transportation and communication	1,584,666	5,347	144	49,012	(50,647)	1,588,522
Services	2,051,763	25,212	80,206	785	(44,058)	2,113,908
Consumer loans	14,267,187	189,619	44,128	246,556	(465,153)	14,282,337
Other	10,390,307	2,409,528	1,340,004	128,210	(594,055)	13,673,994
Total	52,249,546	6,267,935	1,613,750	1,076,874	(1,795,576)	59,412,529

The economic sector risk concentrations as of December 31, 2018 have been reclassified to conform to changes in the sectors made during 2019.

8. Investments in associates

a) Investments in associates as of December 31, 2019 and 2018 include the Bank's ownership interest in associated companies in KSA, as follows:

	2019	2018
American Express (Saudi Arabia) ("AMEX")	50%	50%
Saudi ORIX Leasing Company ("ORIX")	38%	38%
Amlak International for Real Estate Finance Company ("AMLAK")	32 %	32 %

AMEX is a Saudi Arabian closed joint stock company in KSA with total capital of SAR 100 million. The principal activities of AMEX are to issue credit cards and offer other American Express products in KSA.

ORIX is a Saudi Arabian closed joint stock company in KSA with total capital of SAR 550 million. The primary business activities of ORIX include lease financing services in KSA.

AMLAK is a Saudi Arabian closed joint stock company in KSA with total capital of SAR 906 million. AMLAK offers real estate finance products and services in KSA.

All of the Group's associates are incorporated in and operate exclusively in KSA.

b) The movement of investments in associates for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000	2018 Restated SAR'000
Balance at beginning of the year	1,012,366	993,340
Share of earnings	88,156	111,195
Dividends	(105,709)	(93,323)
Share of other comprehensive loss	(515)	(722)
Investments	-	1,876
Balance at end of the year	994,298	1,012,366

8. Investments in associates – continued

c) The following table summarizes the associates' assets, liabilities, and equity as of December 31, 2019 and 2019, and income and expense for the years then ended:

	2019 SAR'000		
	AMEX	ORIX	AMLAK
Total assets	943,217	1,142,551	3,405,214
Total liabilities	517,095	313,287	2,281,694
Total equity	426,122	829,264	1,123,520
Total income	405,324	113,182	200,002
Total expenses	279,346	71,654	129,107

	2018 SAR'000		
	AMEX	ORIX	AMLAK
Total assets	838,183	1,211,992	3,256,983
Total liabilities	418,341	353,758	2,101,814
Total equity	419,842	858,234	1,155,169
Total income	394,519	123,056	174,655
Total expenses	242,876	65,620	76,809

d) The following table reconciles the summarized financial information to the carrying amount of the Bank's investments in associates:

	2019 SAR'000			
	AMEX	ORIX	AMLAK	Total
Net assets	426,122	829,264	1,123,520	2,378,906
Group's share of net assets	213,061	315,120	362,032	890,213
Goodwill	94,210	9,875	-	104,085
Carrying amount of interest	307,271	324,995	362,032	994,298

	2018 SAR'000			
	AMEX	ORIX	AMLAK	Total
Net assets	419,842	858,234	1,155,169	2,433,245
Group's share of net assets	209,921	326,129	372,231	908,281
Goodwill	94,210	9,875	-	104,085
Carrying amount of interest	304,131	336,004	372,231	1,012,366

9. Property and equipment, net and Information Technology intangible assets, net

a) Property and equipment, net as of December 31, 2019 and 2018 is summarized as follows:

	2019 SAR '000				
	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Projects pending completion	Total
Cost					
Balance at the beginning of the year	1,072,952	159,745	489,581	5,211	1,727,489
Effect of the adoption of IFRS 16 on January 1, 2019	175,070	-	92,870	-	267,940
Additions	50,287	18,171	14,213	-	82,671
Disposals	-	-	(104,631)	-	(104,631)
Transfers	1,404	-	-	(1,404)	-
Balance at the end of the year	1,299,713	177,916	492,033	3,807	1,973,469
Accumulated depreciation and amortization					
Balance at the beginning of the year	329,118	118,503	376,979	-	824,600
Charge for the year	50,106	17,470	41,095	-	108,671
Disposals	-	-	(94,297)	-	(94,297)
Balance at the end of the year	379,224	135,973	323,777	-	838,974
Net book value	920,489	41,943	168,256	3,807	1,134,495

The above line items include ROU leased assets, net as follows:

	Buildings SAR'000	Equipment and vehicles SAR'000	Total SAR'000
Cost	219,268	87,621	306,889
Accumulated depreciation	(13,484)	(16,236)	(29,720)
Net book value	205,784	71,385	277,169

The lease term of leases included in ROU assets range from 2 years to 27 years. The payment for rentals is made on a monthly, quarterly, and annual basis and is paid in advance or arrears.

	2018 SAR '000				
	Land and buildings	Leasehold improvements	Furniture, equipment and vehicles	Projects pending completion	Total
Cost					
Balance at the beginning of the year	1,009,043	145,725	468,027	50,425	1,673,220
Additions	13,624	14,020	22,820	5,071	55,535
Disposals	-	-	(1,266)	-	(1,266)
Transfers	50,285	-	-	(50,285)	-
Balance at the end of the year	1,072,952	159,745	489,581	5,211	1,727,489
Accumulated depreciation and amortization					
Balance at the beginning of the year	295,993	101,653	351,333	-	748,979
Charge for the year	33,125	16,850	26,876	-	76,851
Disposals	-	-	(1,230)	-	(1,230)
Balance at the end of the year	329,118	118,503	376,979	-	824,600
Net book value	743,834	41,242	112,602	5,211	902,889

9. Property and equipment, net and Information Technology intangible assets, net - continued

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

	2019 SAR '000		
	Software	Projects pending completion	Total
Cost			
Balance at the beginning of the year	315,901	44,694	360,595
Additions	13,885	67,090	80,975
Transfers	75,039	(75,039)	-
Balance at the end of the year	404,825	36,745	441,570
Accumulated amortization			
Balance at the beginning of the year	152,388	-	152,388
Charge for the year	34,846	-	34,846
Balance at the end of the year	187,234	-	187,234
Net book value	217,591	36,745	254,336

	2018 SAR '000		
	Software	Projects pending completion	Total
Cost			
Balance at the beginning of the year	255,094	42,329	297,423
Additions	60,807	2,365	63,172
Balance at the end of the year	315,901	44,694	360,595
Accumulated amortization			
Balance at the beginning of the year	126,000	-	126,000
Charge for the year	26,388	-	26,388
Balance at the end of the year	152,388	-	152,388
Net book value	163,513	44,694	208,207

10. Other assets, net

a) Other assets, net as of December 31, 2019 and 2018 are summarized as follows:

	2019 SAR'000	2018 SAR'000
Customer and other receivables	31,736	40,849
Prepaid expenses	50,932	69,542
Others	50,712	32,383
Total other assets	133,380	142,774
Less: allowance for credit losses	(386)	(566)
Other assets, net (note 42)	132,994	142,208

10. Other assets, net - continued

b) The movement of the allowance for credit losses for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000	2018 SAR'000
Balances at the beginning of the year	566	276
Provision for credit losses	(180)	290
Balances at the end of the year	386	566

11. Derivatives

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

i. **Swaps**

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging notional amounts. For cross-currency special commission rate swaps, notional amounts, and fixed and floating special commission payments are exchanged in different currencies. The notional amounts can also vary based upon the agreed terms in the case of variable notional swaps.

ii. **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 special commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

iii. **Forward rate agreements**

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

iv. **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 a 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.

b) The derivative financial instruments are either held for trading or held for hedging purposes as described below:

i. **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 and banks 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 profit from favorable movements in prices, rates or indices. Arbitrage involves identifying, with the expectation of profit from price differentials, between markets or products.

ii. **Held for hedging purposes**

The Bank has adopted a comprehensive system for the measurement and management of risk. The risk management process involves managing the Bank's exposure to fluctuations in currency and special commission rate risks to acceptable levels as determined by the Board of Directors and within the guidelines issued by SAMA.

11. Derivatives - continued

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are routinely monitored and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are periodically used to manage special commission rate gap within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to optimize its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions. The Bank uses forward foreign exchange contracts to also apply various hedging strategies against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission-rate exposures.

c) The tables below summarize the positive and negative fair values of derivative financial instruments, together with the 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 each year-end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts are not indicative of the Bank's exposure to credit risk which is generally limited to the net positive fair values of derivatives, nor market risk.

Derivative financial instruments as of December 31, 2019 and 2018 are summarized as follows:

			Notional amounts by term to maturity					
	2019 SAR'000							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	4,193	2,684	2,368,748	683,015	-	1,685,733	-	4,064,698
Foreign exchange options	267	267	750,320	-	750,320	-	-	1,006,076
Commission rates swaps	124,364	123,861	7,260,075	100,000	1,680,820	3,505,956	1,973,299	7,856,102
Commission rate options	278,528	278,521	9,080,979	-	-	7,581,840	1,499,139	8,692,327
Held as fair value hedges:								
Commission rate swaps	-	591,114	12,835,216	-	93,790	5,045,902	7,695,524	13,780,733
Associated company put option (note 11f)	421,243	-	-	-	-	-	-	-
Subtotal	828,595	996,447	32,295,338	783,015	2,524,930	17,819,431	11,167,962	35,399,936
CSA / EMIR cash margins	476,481	(680,928)	-	-	-	-	-	-
Total (note 32k)	1,305,076	315,519	32,295,338	783,015	2,524,930	17,819,431	11,167,962	35,399,936

11. Derivatives - continued

			Notional amounts by term to maturity					
	2018 SAR'000							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	9,781	6,802	2,919,605	2,919,605	-	-	-	4,012,207
Foreign exchange options	4,408	4,408	848,020	98,020	-	750,000	-	1,135,816
Commission rates swaps	198,425	199,306	9,152,106	-	254,000	7,521,528	1,376,578	13,577,210
Commission rate options	187,979	187,979	6,896,619	-	-	5,397,520	1,499,099	4,706,477
Held as fair value hedges:								
Commission rate swaps	242,456	102,209	12,252,404	-	-	4,107,892	8,144,512	7,310,805
Associated company put option (note 11f)	417,991	-	-	-	-	-	-	-
Subtotal	1,061,040	500,704	32,068,754	3,017,625	254,000	17,776,940	11,020,189	30,742,515
CSA / EMIR cash margins	184,203	-	-	-	-	-	-	-
Total (note 32k)	1,245,243	500,704	32,068,754	3,017,625	254,000	17,776,940	11,020,189	30,742,515

d) The table below is a summary of the Bank's fair value hedges and hedged portfolios as of December 31, 2019 and 2018, which includes the description of the hedged items and related fair values, the nature of the risk being hedged, and the hedging instruments and related fair values.

December 31, 2019 SAR'000						
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument used	Positive fair value	Negative fair value
Fixed commission rate investments	14,203,427	12,174,376	Fair value risk	Commission rate swaps	-	591,114

December 31, 2018 SAR'000						
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument used	Positive fair value	Negative fair value
Fixed commission rate investments	11,938,600	12,349,164	Fair value risk	Commission rate swaps	242,456	102,209

The net losses during the year on hedging instruments for fair value hedges were SAR 710.2 million (2018: gains of SAR 41.1 million). The net gains on hedged items attributable to hedged risk were SAR 710.2 million (2018: losses of SAR 41.1 million). The net positive fair value of all derivatives is approximately SAR 989.6 million (2018: SAR net positive 744.5 million). Approximately 59% (2018: 57%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and 28% (2018: 23%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

11. Derivatives - continued

e) 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.

As of December 31, 2019, the CSA and EMIR net cash collateral amounts held by counterparties in favor of the Bank totaled SAR 1,157 million (2018: SAR 184 million). The EMIR net cash margins include initial margin payments made to the counterparties.

The positive and negative fair values of derivatives including CSA and EMIR cash margins have been netted/offset when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the assets and settle the liability simultaneously. See note 32k.

f) The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company, the estimated value of which is included in note 11c. The terms of the agreement give the Bank a put option and give the counter party a call option that is exercisable for the remaining term of the agreement. The Bank has valued only the put option, as the call option is deemed to be out of the money. The put option, once exercised, grants the Bank the right to receive a payment in exchange for its shares one year after the exercize, based on pre-determined formulas included in the agreement.

12. Due to banks and other financial institutions

a) Due to banks and other financial institutions as of December 31, 2019 and 2018 is summarized as follows:

	2019 SAR’000	2018 SAR’000
Current accounts	8,918	16,073
Repurchase agreements (note 12b)	10,323,011	7,656,065
Money market deposits	3,456,262	4,948,694
Total	13,788,191	12,620,832

b) Debt securities pledged under repurchase agreements with other banks include corporate, bank, and non-government bonds. The fair values of assets pledged as collateral with other financial institutions as security and the related balances of the repurchase agreements as of December 31, 2019 and 2018 are as follows:

	2019 SAR’000		2018 SAR’000	
	Pledged Assets	Repurchase Agreements	Pledged Assets	Repurchase Agreements
Debt securities	10,762,422	10,323,011	7,813,034	7,656,065

13. Customers' deposits

a) Customers' deposits as of December 31, 2019 and 2018 are summarized as follows:

	2019 SAR'000	2018 SAR'000
Murabaha commodity deposits	35,620,301	33,383,265
Conventional time deposits	4,349,043	3,654,726
Time deposits	39,969,344	37,037,991
Savings deposits	1,698,795	1,529,185
Total special commission bearing deposits	41,668,139	38,567,176
Demand deposits	25,865,987	24,113,708
Other deposits	1,523,928	1,008,985
Customers' deposits	69,058,054	63,689,869

Other deposits include SAR 606.4 million (2018: SAR 601.0 million) of margin deposits held for irrevocable commitments.

Customers' deposits above include Sharia-Compliant and demand deposits totaling SAR 61.4 billion (2018: SAR 57.4 billion).

b) The above amounts include foreign currency deposits (equivalent to Saudi Arabian Riyals) as of December 31, 2019 and 2018 as follows:

	2019 SAR'000	2018 SAR'000
Demand	1,509,633	1,775,379
Savings	780,715	1,161,374
Time	8,829,588	6,092,931
Other	69,795	103,407
Total	11,189,731	9,133,091

14. Term loans

On June 19, 2016, the Bank entered into a five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on June 19, 2021. On September 26, 2017, the Bank entered into another five year medium term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized on October 4, 2017 and is repayable on September 26, 2022.

The term loans bear commission at market based variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. The Bank also has not had any defaults of principal or commission on the term loans.

15. Subordinated debt

On June 5, 2014 the Bank concluded the issuance of a SAR 2.0 billion subordinated debt issue through a private placement of a Shariah compliant Tier II Sukuk in KSA.

The Sukuk carried a half yearly profit equal to six month SIBOR plus 1.45%. The Sukuk had a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five year period, subject to certain regulatory approvals. The Bank has not had any defaults of principal or commission on the subordinated debt.

Where the original maturity date for the Sukuk was June 5, 2024, the Bank redeemed the Sukuk at the optional dissolution date of June 5, 2019 after receiving all required regulatory approvals.

16. Other liabilities

a) Other liabilities as of December 31, 2019 and 2018 are summarized as follows:

	Notes	2019 SAR '000	2018 Restated SAR '000
Zakat settlement liability, net	27b	453,801	711,807
Lease liabilities	16d	253,715	-
Allowance for credit losses for financial guarantee contracts	16c	217,397	165,320
Employee end of service benefits	37a	174,512	165,120
Accrued Zakat and Income tax		88,486	195,364
Accrued expenses and other provisions		98,477	103,172
Accrued salaries and other employee related benefits		93,311	191,687
Customer related liabilities		80,632	174,435
Allowance for legal proceedings	19a	73,528	55,240
Deferred fee income		12,095	13,422
Others		88,245	40,836
Total		1,634,199	1,816,403

b) The movement of the allowance for credit losses for financial guarantee contracts for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000	2018 SAR'000
Balances at the beginning of the year	165,320	138,794
Provision for credit losses	52,077	26,526
Balances at the end of the year	217,397	165,320

c) A reconciliation from the opening to the closing balances of the allowance for credit losses for financial guarantee contracts for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	104,039	31,138	30,143	165,320
Changes in exposures and re-measurement	8,774	(13,420)	(28,611)	(33,257)
Transfers from Stage 1 to Stage 2,3	(4,462)	13,068	65,568	74,174
Transfers from Stage 2 to Stage 3	-	(2,323)	14,584	12,261
Transfers from Stage 2 to Stage 1	984	(1,832)	-	(848)
Transfers from Stage 3 to Stage 2	-	44	(297)	(253)
Provision for credit losses	5,296	(4,463)	51,244	52,077
Balances at the end of the year	109,335	26,675	81,387	217,397

16. Other liabilities - continued

	2018 SAR'000			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	98,681	14,676	25,437	138,794
Changes in exposures and re-measurement	8,775	2,030	(58,350)	(47,545)
Transfers from Stage 1 to Stage 2,3	(3,417)	19,204	16,291	32,078
Transfers from Stage 2 to Stage 3	-	(4,772)	46,765	41,993
Provision for credit losses	5,358	16,462	4,706	26,526
Balances at the end of the year	104,039	31,138	30,143	165,320

The transfer amounts in the above tables represent the net increase or decrease in the allowance for credit losses as a result of transfers between stages during the years ended December 31, 2019 and 2018.

d) The maturity analysis of contractual undiscounted lease liabilities is summarized as follows:

	2019 SAR '000
Less than one year	33,664
One to five years	92,411
More than five years	80,225
Total undiscounted lease liabilities as of December 31, 2019	206,300
Add amounts for reasonably certain extension options	107,200
Undiscounted lease liabilities as of December 31, 2019	313,500
Lease liabilities as of December 31, 2019 (note 16a)	253,715

17. Share capital

As of December 31, 2019, the authorized, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2018: 750 million shares of SAR 10 each). The ownership of the Bank's share capital as of December 31, 2019 and 2018 is as follows in SAR millions:

	2019		2018	
	Amount	%	Amount	%
Saudi shareholders	6,750.0	90.0	6,750.0	90.0
Foreign shareholders:				
Mizuho Corporate Bank Limited	-	-	187.5	2.5
Treasury shares (note 39)	750.0	10.0	562.5	7.5
	7,500.0	100.0	7,500.0	100.0

18. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association 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, SAR 60 million has been transferred from 2019 net income (2018: SAR 365 million from income before provisions for Zakat and Income tax). The statutory reserve is not currently available for distribution.

19. Commitments, contingencies, and financial guarantee contracts

a) Legal proceedings

As of December 31, 2019, there were 163 legal proceedings outstanding against the Group (2018: 118). No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome based on professional advice.

The movement of allowance for such legal cases, included in other liabilities, for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000	2018 SAR'000
Balance at beginning of the year	55,240	8,071
Additions during the year	20,966	68,705
Utilized during the year	(2,678)	(21,536)
Balance at end of the year (note 16a)	73,528	55,240

b) Capital commitments

As of December 31, 2019, the Group had capital commitments of SAR 212.1 million (2018: SAR 65.3 million) for property, equipment and Information Technology Intangible assets.

c) Credit related commitments and contingencies

The Group enters into certain credit related facilities to ensure that funds are available to a customer as required.

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

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

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

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss 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.

For issued financial guarantee contracts and loan commitments, the maximum amount is allocated to the earliest period in which the guarantee could be called, as the Group has the right to recall financial guarantee contracts and loan commitments prior to their maturity.

19. Commitments, contingencies, and financial guarantee contracts - continued

i) The contractual maturity structure for the Group's credit related commitments and contingencies as of December 31, 2019 and 2018 are as follows:

	2019 SAR'000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,272,099	1,090,873	305,787	-	2,668,759
Letters of guarantee	2,215,603	4,211,313	2,426,542	63,218	8,916,676
Acceptances	438,520	393,205	-	-	831,725
Total financial guarantee contracts	3,926,222	5,695,391	2,732,329	63,218	12,417,160
Irrevocable commitments to extend credit	-	44,742	268,480	379,854	693,076
Credit-related commitments and contingencies	3,926,222	5,740,133	3,000,809	443,072	13,110,236

	2018 SAR'000				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,325,620	578,465	286,262	-	2,190,347
Letters of guarantee	2,141,354	4,900,113	1,595,453	311,486	8,948,406
Acceptances	402,192	255,513	222	-	657,927
Total financial guarantee contracts	3,869,166	5,734,091	1,881,937	311,486	11,796,680
Irrevocable commitments to extend credit	-	34,049	204,162	320,731	558,942
Credit-related commitments and contingencies	3,869,166	5,768,140	2,086,099	632,217	12,355,622

The movement of the allowance for credit losses for financial guarantee contracts is summarized in note 16b.

The outstanding unused portion of commitments as of December 31, 2019 which can be revoked unilaterally at any time by the Group, amounts to SAR 22.0 billion (2018: SAR 23.5 billion).

ii) The analysis of commitments and contingencies by counterparty as of December 31, 2019 and 2018 is as follows:

	2019 SAR'000	2018 SAR'000
Government and quasi-Government	449,506	351,624
Corporate	11,555,884	10,853,644
Banks and other financial institutions	887,693	820,633
Other	217,153	329,721
Total	13,110,236	12,355,622

The analysis by counterparty as of December 31, 2018 has been reclassified to conform to changes in classification made during 2019.

d) **Operating lease commitments**

The future minimum lease payments under non-cancelable operating leases where the Group was the lessee as of December 31, 2018 were as follows:

	2018 SAR'000
Less than 1 year	47,698
1 to 5 years	93,152
Over 5 years	75,400
Total	216,250

19. Commitments, contingencies, and financial guarantee contracts - continued

e) Zakat and Income tax

Note 27 provide information regarding the current status of the Group's Zakat and Income tax positions.

f) Credit quality of financial guarantee contracts

The following table sets out information about the credit quality of financial guarantee contracts as of December 31, 2019 and 2018.

	2019 SAR'000			
	Stage1	Stage2	Stage3	Total
Financial guarantee contracts	11,366,900	664,557	385,703	12,417,160

	2018 SAR'000			
	Stage1	Stage2	Stage3	Total
Financial guarantee contracts	10,838,500	622,477	335,703	11,796,680

20. Special commission income and expense

Special commission income and expense for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000	2018 SAR'000
Special commission income:		
- Loans and advances	2,903,791	2,796,235
- Investments	889,127	770,591
- Banks and other financial institutions	109,570	66,590
Total	3,902,488	3,633,416
Special commission expense:		
- Customer deposits	1,081,093	926,894
- Banks and other financial institutions	391,339	268,248
- Term loans	74,562	70,978
- Subordinated debt	39,612	79,575
- Lease liabilities	16,835	-
- Zakat settlement liability	21,156	-
Total	1,624,597	1,345,695

21. Fee income from banking services, net

Fee income from banking services, net for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000	2018 SAR'000
Fee income:		
- Share trading and fund management	118,164	149,057
- Trade finance	104,097	104,279
- Corporate and retail finance	15,695	19,059
- Other banking services	183,100	175,970
Total fee income	421,056	448,365
Fee expense:		
- Custodial services	40,789	86,716
- Other banking services	81,235	66,647
Total fee expense	122,024	153,363
Fee income from banking services, net	299,032	295,002

22. Dividend income

Dividend income for the year ended December 31, 2018 is summarized as follows:

	2018 SAR'000
Dividend income from FVOCI equity investments	5,407

23. Gains (losses) on FVOCI debt securities, net

Gains (losses) on the sale of FVOCI debt securities, net for the years ended December 31, 2019 and 2018 are summarized as follows:

	2019 SAR'000	2018 SAR'000
Losses on the sale of FVOCI debt securities	(246)	(458)
Gains on the sale of FVOCI debt securities	43,764	399
Total	43,518	(59)

24. Compensation and related governance and practices

a) As required by SAMA, the following table summarizes the Group's employee categories defined in accordance with SAMA's rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2019 and 2018.

		2019 SAR'000			
Category		Fixed	Variable Compensation Paid		
	Number of Employees	Compensation Paid	Cash	Shares	Total
Senior executives requiring SAMA no objection	21	32,878	11,307	-	11,307
Employees engaged in risk taking activities	197	78,796	14,181	-	14,181
Employees engaged in control functions	266	75,337	9,405	-	9,405
Other employees	953	195,166	18,132	-	18,132
Outsourced employees	44	7,849	1,070	-	1,070
Totals	1,481	390,026	54,095	-	54,095
Variable compensation accrued		82,000			
Other employee benefits and related expenses		154,301			
Total salaries and employee related expenses		626,327			

24. Compensation and related governance and practices - continued

		2018 SAR'000			
Category		Fixed	Variable Compensation Paid		
	Number of Employees	Compensation Paid	Cash	Shares	Total
Senior executives requiring SAMA no objection	23	42,063	15,047	4,609	19,656
Employees engaged in risk taking activities	130	56,463	11,323	3,547	14,870
Employees engaged in control functions	228	61,567	5,784	2,969	8,753
Other employees	1,150	248,614	25,460	10,995	36,455
Outsourced employees	50	8,629	1,137	130	1,267
Totals	1,581	417,336	58,751	22,250	81,001
Variable compensation accrued		70,000			
Other employee benefits and related expenses		138,655			
Total salaries and employee related expenses		625,991			

b) The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which consists of five board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation of members of the Board of Director's, and overseeing the Bank's employee compensation system's design.

The Committee is also responsible to recommend to the Board of Directors the approval of the Bank's Compensation Policy and any amendments thereto, to ensure that the Bank's remuneration policies are in compliance with SAMA Rules on Compensation Practices and the Financial Stability Board's (FSB) Principles for Sound Compensation Practices, to periodically review the Bank's compensation policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Compensation Policy is designed to attract, retain and motivate high performing and high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives, which is monitored/measured via a robust performance management system. The grant of the variable component of the reward, both cash and shares, is strictly dependent on the achievement of set targets, both financial and non-financial, level of achievements and the Bank's overall performance, including key risk indicators. Higher achievements will warrant a better performance rating and higher variable compensation. The Balanced Scorecard concept is used as a performance management tool and Performance objectives are typically categorized into four segments including financial, customer, process, and people.

Financial and non-financial metrics are used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, quality assurance, employee development and engagement, workforce diversity, sustainable business practices, lending guidelines, internal controls, compliance with regulations, and business systems and processes. Effective risk management is emphasized to maintain a strong and secure operating platform. A Risk Appetite Framework Policy has been established and compliance with the annual Risk Appetite Statement is key to all remuneration decisions including variable pay arrangements.

24. Compensation and related governance and practices - continued

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Variable remuneration is linked to long-term value creation and risk horizons. It is also based on individual, business segment and Bank performance criteria. Accordingly, for certain variable remunerations, a portion of the incentive earned for the annual performance bonus program and the employee stock grant plan program are deferred in line with long term risk realization. The vesting is subject to clawback mechanisms.

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

The total amount of compensation paid to key management for the year ended December 31, 2019 was SAR 44.1 million (2018: SAR 61.7 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2019 was SAR 5.3 million (2018: SAR 4.3 million).

The total end of service payments made for all employees who left their employment with the Group during the year ended December 31, 2019 totalled SAR 49.7 million (2018: SAR 20.7 million). These payments were made to 241 beneficiaries (2018: 121). The highest payment to a single individual in 2019 was SAR 17.8 million (2018: SAR 3.4 million).

25. Basic and diluted earnings per share

a) Basic and diluted earnings per share is calculated by dividing net income adjusted for Tier I Sukuk costs by weighted average of the issued and outstanding shares after giving effect to the purchase of 56.2 million and 18.7 million Treasury shares on September 27, 2018 and May 28, 2019 respectively.

b) Details of basic and diluted earnings per share are as follows:

	2019 SAR'000	2018 Restated SAR'000
Net income	239,461	575,897
Tier I Sukuk costs	(122,024)	(94,904)
Net income adjusted for Tier I Sukuk costs	117,437	480,993
Weighted average number of outstanding shares (in '000)	682,607	735,052
Basic and diluted earnings per share (SAR)	0.17	0.65

26. Dividends

In 2018, the Board of Directors proposed a cash dividend of SAR 450 million equal to SAR 0.60 per share, net of Zakat to be withheld from the Saudi shareholders. The proposed cash dividend was approved by the Bank's shareholders in an extraordinary general assembly meeting held on April 24, 2018 (corresponding to 8 Shaban 1439H). The net dividends were paid to the Bank's shareholders thereafter.

27. Zakat and Income tax

a) The Bank has filed the required Zakat and Income tax returns with the GAZT which are due on April 30 each year, through the year ended December 31, 2018. The Bank's Zakat and Income tax calculations and corresponding accruals and payments for Zakat and Income tax are based on the ownership percentages disclosed in note 17.

On March 14, 2019, the GAZT published rules (the "Rules") for the computation of Zakat for companies engaged in financing activities and licensed by SAMA. The Rules are issued pursuant to the Zakat Implementing Regulations and are applicable for the periods beginning January 1, 2019. In addition to providing a new basis for calculation of the Zakat base, the Rules have also introduced a minimum floor and maximum cap at 4 times and 8 times respectively of net income. The Zakat liability for the Saudi shareholders will continue to be calculated at 2.5% of the Zakat base but it will not fall below the minimum floor nor would exceed the maximum cap as prescribed by the Rules.

27. Zakat and Income tax - continued

The Bank has provided for Zakat for the year ended December 31, 2019 on the basis of the Bank's understanding of these rules.

As described in notes 2a, 3ai and 41, the Group retroactively amended its accounting policy relating to Zakat and Income tax. The new policy requires provisions for Zakat and Income tax to be recognized in the consolidated statement of income. Provisions for Zakat and Income tax for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR'000	2018 SAR'000
Provisions for Zakat		
- For current period	76,809	89,305
- For 2006 to 2017, net of fair value adjustment (note 27b)	-	711,807
- For 2005 (note 27b)	-	38,699
- For subsidiaries, 2011 to 2017	3,300	-
Provisions for Income tax		
- For current period	1,800	28,060
- For prior periods	8,131	-
Provisions for Zakat and Income tax	90,040	867,871

b) In December 2018, the Bank agreed with the GAZT to a settlement of Zakat assessments for the years 2006 to 2017 for SAR 775.5 million. The discounted Zakat liability of SAR 711.8 million was fully provided for through a charge to the consolidated statement of income with the corresponding liability included in other liabilities as of December 31, 2018. The Bank has paid SAR 155 million and SAR 124 million on January 1, 2019 and December 1, 2019 respectively, as per the settlement agreement. The undiscounted Zakat settlement liability remaining to be paid and the net discounted Zakat liability is as follows:

	2019 SAR'000	2018 SAR'000
January 1, 2019	-	155,089
December 1, 2019	-	124,072
December 1, 2020	124,072	124,072
December 1, 2021	124,072	124,072
December 1, 2022	124,072	124,072
December 1, 2023	124,072	124,072
Undiscounted Zakat settlement liability	496,288	775,449
Less: Discount	(42,487)	(63,642)
Net discounted Zakat liability	453,801	711,807

The Zakat settlement also included provisions for the Bank to calculate the Zakat liability for the year ended December 31, 2018 using the same methodology as was agreed in the settlement for the prior years. The 2018 Zakat was calculated based on this method and was also charged to the consolidated statement of income in 2018 and was settled by April 30, 2019.

The Zakat settlement also did not include the year 2005. However, the Bank provided for an additional Zakat liability for 2005 amounting to SAR 38.6 million which was charged to the consolidated statement of income in 2018 and was settled in 2019.

c) Certain Income tax and Withholding tax assessments are outstanding for the years 2005 to 2009. The Bank, in consultation with its professional tax and Zakat advisors, has filed appeals for the above assessments with the GAZT, and while management is confident of a favourable outcome on the basis of the appeals filed, it is awaiting responses and final decisions from the appeal and other available processes.

28. Operating segments

a) Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. Performance is measured based on segment profit, as management believes that this indicator is the most relevant in evaluating the results of segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by management. The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated statement of income. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in KSA.

There has been no change to the measurement basis for the segment profit or loss during 2019. The segment assets, liabilities, and income and expense for December 31, 2018 have been reclassified to conform to changes in the basis of segmentation made during 2019.

b) The Group's reportable segments are as follows:

Retail banking. Loans, deposits, and other credit products for individuals and small to medium-sized businesses.

Corporate banking. Loans, deposits and other credit products for corporate and institutional customers.

Treasury and Investments. Money market, investments and treasury services, and investments in associates and related activities.

Asset management and brokerage. Dealing, managing, advising and custody of securities services.

Other. Support functions, special credit, and other management and control units.

Commission is charged to operating segments based on Funds Transfer Price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits (FTP net transfers). All other segment income is from external customers.

c) The segment information provided to the Bank's Board of Directors for the reportable segments for the Group's total assets and liabilities as of December 31, 2019 and 2018, and its total operating income, expenses, and Income before provisions for Zakat and Income tax for the years then ended, are as follows:

	2019 SAR'000					
	Retail banking	Corporate banking	Treasury and investments	Asset management and brokerage	Other	Total
Total assets	20,790,582	36,304,956	40,884,425	405,546	2,429,087	100,814,596
Total liabilities	19,590,724	7,879,088	58,636,077	16,830	684,870	86,807,589
Net special commission income (loss)	745,454	1,856,746	(330,027)	22,543	(16,825)	2,277,891
FTP net transfers	(104,274)	(670,191)	782,632	-	(8,167)	-
Net FTP contribution	641,180	1,186,555	452,605	22,543	(24,992)	2,277,891
Fee income (loss) from banking services, net	37,229	127,351	71,049	79,232	(15,829)	299,032
Other operating income (loss)	84,891	48,474	202,783	3,540	(98,383)	241,305
Total operating income (loss)	763,300	1,362,380	726,437	105,315	(139,204)	2,818,228
Direct operating expenses	309,866	66,586	39,449	71,661	36,467	524,029
Indirect operating expenses	305,394	142,044	262,779	-	-	710,217
Provisions for credit and other losses	770,999	552,602	(47,192)	(178)	66,406	1,342,637
Total operating expenses	1,386,259	761,232	255,036	71,483	102,873	2,576,883
Operating income (loss)	(622,959)	601,148	471,401	33,832	(242,077)	241,345
Share in earnings of associates	-	-	88,156	-	-	88,156
Income (loss) before provisions for Zakat and Income tax	(622,959)	601,148	559,557	33,832	(242,077)	329,501
Property, equipment, and intangibles additions	72,219	1,021	30	855	89,521	163,646
Depreciation and amortization	47,331	632	135	4,957	90,462	143,517

28. Operating segments - continued

	2018 SAR'000					
	Retail banking	Corporate banking	Treasury and investments	Asset management and brokerage	Other	Total
Total assets	23,677,143	35,870,049	34,007,092	421,161	2,094,463	96,069,908
Total liabilities	22,382,297	6,088,379	53,127,242	57,425	1,008,497	82,663,840
Net special commission income (loss)	810,919	1,724,805	(290,699)	23,446	19,250	2,287,721
FTP net transfers	64,575	(818,614)	762,928	-	(8,889)	-
Net FTP contribution	875,494	906,191	472,229	23,446	10,361	2,287,721
Fee income (loss) from banking services, net	129,563	112,565	69,920	64,644	(81,690)	295,002
Other operating income (loss)	67,250	49,397	127,396	(5,322)	(108,714)	130,007
Total operating income (loss)	1,072,307	1,068,153	669,545	82,768	(180,043)	2,712,730
Direct operating expenses	387,140	70,890	37,528	71,869	-	567,427
Indirect operating expenses	229,697	124,467	211,594	-	-	565,758
Provisions for credit and other losses	208,009	38,894	(223)	292	-	246,972
Total operating expenses	824,846	234,251	248,899	72,161	-	1,380,157
Operating income (loss)	247,461	833,902	420,646	10,607	(180,043)	1,332,573
Share in earnings of associates	-	-	111,195	-	-	111,195
Income (loss) before provisions for Zakat and Income tax	247,461	833,902	531,841	10,607	(180,043)	1,443,768
Property, equipment, and intangibles additions	88,795	384	35	937	28,556	118,707
Depreciation and amortization	45,831	1,045	168	2,527	53,668	103,239

d) The Group's credit exposure by business segment as of December 31, 2019 and 2018 is as follows:

	2019 SAR'000					
	Retail banking	Corporate banking	Treasury and investments	Asset management and brokerage	Other	Total
Consolidated statement of financial position assets	19,222,854	36,303,903	39,486,757	335,618	1,171,516	96,520,648
Commitments and contingencies	1,416,768	7,216,363	645,647	-	-	9,278,778
Derivatives	-	-	1,674,044	-	-	1,674,044
Totals	20,639,622	43,520,266	41,806,448	335,618	1,171,516	107,473,470

	2018 SAR'000					
	Retail banking	Corporate banking	Treasury and investments	Asset management and brokerage	Other	Total
Consolidated statement of financial position assets	22,488,511	35,867,577	32,541,629	349,650	665,735	91,913,102
Commitments and contingencies	4,254,721	3,929,374	523,599	-	-	8,707,694
Derivatives	-	-	1,971,687	-	-	1,971,687
Totals	26,743,232	39,796,951	35,036,915	349,650	665,735	102,592,483

Consolidated statement of financial position credit exposure is comprised of the carrying value of consolidated statement of financial position assets excluding cash on hand, property, equipment, and Information Technology intangible assets, investments in associates, investments in equities, mutual funds, and other securities, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are also included in the table above.

29. Geographical concentration

The distribution by geographical region for assets, liabilities, and for commitments, contingencies, and derivatives as of December 31, 2019 and 2018 is as follows:

	2019 SAR'000						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Assets							
Cash and balances with SAMA:							
Cash on hand	892,087	-	-	-	-	-	892,087
Balances with SAMA	9,326,729	-	-	-	-	-	9,326,729
Due from banks and other financial institutions, net:							
Current accounts	-	74,770	225,898	51,974	948	17,826	371,416
Money market placements	2,529,764	25,511	43,256	-	-	58,568	2,657,099
Investments:							
Held as FVTPL	126,224	16,498	-	22,283	255	-	165,260
Held as FVOCI	16,968,969	6,382,025	1,182,067	1,296,848	180,311	-	26,010,220
Positive fair values of derivatives:							
Held for trading	117,129	1,551	227,898	-	-	60,774	407,352
Associated company put option	-	421,243	-	-	-	-	421,243
CSA / EMIR cash margins	(19,300)	-	495,781	-	-	-	476,481
Loans and advances, net:							
Commercial and others	40,591,932	-	-	-	-	-	40,591,932
Overdrafts	3,194,993	-	-	-	-	-	3,194,993
Consumer	13,325,982	-	-	-	-	-	13,325,982
Investments in associates	994,298	-	-	-	-	-	994,298
Other real estate	457,679	-	-	-	-	-	457,679
Property and equipment, net	1,134,495	-	-	-	-	-	1,134,495
Information Technology intangible assets, net	254,336	-	-	-	-	-	254,336
Other assets, net	132,994	-	-	-	-	-	132,994
Total	90,028,311	6,921,598	2,174,900	1,371,105	181,514	137,168	100,814,596
Liabilities							
Due to Banks and other financial institutions:							
Current accounts	-	6,521	1,265	-	-	1,132	8,918
Money market deposits and repurchase agreements	2,825,033	5,948,256	5,005,984	-	-	-	13,779,273
Customers' deposits:							
Time	39,969,344	-	-	-	-	-	39,969,344
Savings	1,698,795	-	-	-	-	-	1,698,795
Demand	25,865,987	-	-	-	-	-	25,865,987
Other	1,523,928	-	-	-	-	-	1,523,928
Negative fair values of derivatives:							
Held for trading	237,400	345	76,619	-	-	90,969	405,333
Held as fair value hedges	10,959	123,584	456,571	-	-	-	591,114
CSA / EMIR cash margins	(4,349)	(124,077)	(552,502)	-	-	-	(680,928)
Term loans	2,011,626	-	-	-	-	-	2,011,626
Other liabilities	1,634,199	-	-	-	-	-	1,634,199
Total	75,772,922	5,954,629	4,987,937	-	-	92,101	86,807,589
Commitments and contingencies							
Letters of credit	2,593,800	72,573	2,386	-	-	-	2,668,759
Letters of guarantee	8,184,619	195,070	478,683	23,742	6,600	27,962	8,916,676
Acceptances	830,882	843	-	-	-	-	831,725
Irrevocable commitments to extend credit	693,076	-	-	-	-	-	693,076
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies							
Letters of credit	2,530,345	70,798	2,328	-	-	-	2,603,471
Letters of guarantee	5,366,442	127,902	313,860	15,567	4,327	18,333	5,846,431
Acceptances	828,036	840	-	-	-	-	828,876
Derivatives							
Held for trading	278,357	116,168	376,129	-	-	-	770,654
Held as fair value hedges	173,144	62,108	246,895	-	-	-	482,147
Associated company put option	-	421,243	-	-	-	-	421,243

29. Geographical concentration - continued

	2018 SAR'000						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Assets							
Cash and balances with SAMA:							
Cash on hand	736,763	-	-	-	-	-	736,763
Balances with SAMA	4,135,169	-	-	-	-	-	4,135,169
Due from banks and other financial institutions, net:							
Current accounts	-	69,660	252,178	455,048	2,870	16,362	796,118
Money market placements	1,649,902	258,701	212,976	-	-	-	2,121,579
Investments:							
Held as FVTPL	131,626	-	254	42,388	-	-	174,268
Held as FVOCI	15,404,960	5,912,945	1,236,263	1,731,190	-	178,487	24,463,845
Positive fair values of derivatives:							
Held for trading	37,651	-	252,625	110,317	-	-	400,593
Held as fair value hedges	18,504	112,757	111,195	-	-	-	242,456
Associated company put option	-	417,991	-	-	-	-	417,991
CSA / EMIR cash margins	-	-	184,203	-	-	-	184,203
Loans and advances, net:							
Commercial and others	40,051,830	-	-	-	-	-	40,051,830
Overdrafts	5,078,362	-	-	-	-	-	5,078,362
Consumer	14,282,337	-	-	-	-	-	14,282,337
Investments in associates	1,012,366	-	-	-	-	-	1,012,366
Other real estate	718,724	-	-	-	-	-	718,724
Property and equipment, net	902,889	-	-	-	-	-	902,889
Information Technology intangible assets, net	208,207	-	-	-	-	-	208,207
Other assets, net	142,208	-	-	-	-	-	142,208
Total	84,511,498	6,772,054	2,249,694	2,338,943	2,870	194,849	96,069,908
Liabilities							
Due to Banks and other financial institutions:							
Current accounts	-	7,940	6,665	-	-	1,468	16,073
Money market deposits and repurchase agreements	4,528,124	2,835,145	5,241,490	-	-	-	12,604,759
Customers' deposits:							
Time	37,037,991	-	-	-	-	-	37,037,991
Savings	1,529,185	-	-	-	-	-	1,529,185
Demand	24,113,708	-	-	-	-	-	24,113,708
Other	1,008,985	-	-	-	-	-	1,008,985
Negative fair values of derivatives:							
Held for trading	114,373	9,953	118,801	155,368	-	-	398,495
Held as fair value hedges	2,195	17,429	82,585	-	-	-	102,209
Term loans	2,030,371	-	-	-	-	-	2,030,371
Subordinated debt	2,005,661	-	-	-	-	-	2,005,661
Other liabilities	1,816,403	-	-	-	-	-	1,816,403
Total	74,186,996	2,870,467	5,449,541	155,368	-	1,468	82,663,840
Commitments and contingencies							
Letters of credit	989,529	129,131	237,366	4,075	24,277	805,969	2,190,347
Letters of guarantee	8,163,093	166,470	508,308	25,213	6,600	78,722	8,948,406
Acceptances	653,360	2,444	-	-	-	2,123	657,927
Irrevocable commitments to extend credit	558,942	-	-	-	-	-	558,942
Maximum credit exposure (stated at credit equivalent amounts)							
Commitments and contingencies							
Letters of credit	942,484	122,992	226,082	3,882	23,123	767,652	2,086,215
Letters of guarantee	5,441,101	110,960	338,812	16,806	4,399	52,472	5,964,550
Acceptances	652,369	2,440	-	-	-	2,120	656,929
Derivatives							
Held for trading	270,904	-	516,748	234,289	-	-	1,021,941
Held as fair value hedges	35,529	212,207	284,019	-	-	-	531,755
Associated company put option	-	417,991	-	-	-	-	417,991

29. Geographical concentration - continued

The credit equivalent of commitments and contingencies and derivatives is calculated according to methodology prescribed by SAMA.

30. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either a trading or banking book.

a) Market risk-trading book

The Board of Directors has set limits for the acceptable level of risks in managing the trading book. The Group currently has trading book exposures in foreign exchange contracts and commission rate swaps. Market risk management uses the estimation of Value at Risk (VaR) tool for all transactions included in the trading portfolios. VaR is estimated for a specified period based on adverse market fluctuations.

b) Market risk-banking book

Market risk in the banking book mainly arises from commission rate risk, liquidity risk, currency risk, and equity price risk.

i. Commission rate risk

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Group's consolidated statement of income or shareholders' equity. The reasonably possible change is estimated based on the relevant commission rate movements during the last five years (2015 - 2019) (2018: 2014 - 2018). A positive effect shows a potential net increase in the consolidated net income or shareholders' equity, whereas a negative effect shows a potential net reduction in consolidated net income or shareholders' equity.

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of December 31, 2019 and 2018, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate FVOCI debt securities, including the effect of any associated hedges as of December 31, 2019 and 2018 for the effect of assumed changes in commission rates. The sensitivity of shareholders' equity is analyzed by maturity of the asset or swap. The entire banking book exposures are monitored and analyzed by currency and relevant sensitivities and are disclosed in SAR thousands. For presentation purposes in the tables below, short-term fixed rate deposit liabilities are treated as variable rate deposits.

		2019 SAR'000	2019 Sensitivity of equity SAR'000				
Commi-ssion rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SIBOR	+35/-187	-33,920/+183,106	-	-2,939/+15,863	-42,485/+229,349	-1,258/+6,791	-46,682/+252,003
LIBOR	+50/-208	-84,854/+354,381	-110/+460	-12,592/+52,587	-362,381/+1,513,435	-1,077,224/+4,498,874	-1,452,307/+6,065,356
Euribor	+43/-9	-7/+2	-	-	-	-	-

30. Market risk- continued

		2018 SAR'000	2018 Sensitivity of equity SAR'000				
Commi-ssion rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SIBOR	+53/-168	-62,917/+199,434	-	-2,589/0	-176,552/+270,543	-216,588/+21,790	-395,729/+292,333
LIBOR	+52/-208	+8,429/-33,718	-3,218/+12,869	-6,238/+24,955	-373,467/+1,493,872	-1,022,103/+4,088,416	-1,405,026/+5,620,112
Euribor	+167/-1	+2,296/-14	-	-	-	-	-

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

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

30. Market risk- continued

The tables below summarize the Group's exposure to special commission rate risks as of December 31, 2019 and 2018. Included in the tables are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	2019 SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA:						
Cash on hand	-	-	-	-	892,087	892,087
Balances with SAMA	6,025,000	-	-	-	3,301,729	9,326,729
Due from banks and other financial institutions, net:						
Current accounts	-	-	-	-	371,416	371,416
Money market placements	2,541,378	115,721	-	-	-	2,657,099
Investments:						
Held as FVTPL	-	-	-	-	165,260	165,260
Held as FVOCI	3,278,182	2,601,982	11,041,261	8,825,996	262,799	26,010,220
Positive fair values of derivatives:						
Held for trading	-	-	-	-	407,352	407,352
Associated company put option	-	-	-	-	421,243	421,243
CSA / EMIR cash margins	-	-	-	-	476,481	476,481
Loans and advances, net:						
Commercial and others	21,506,016	16,485,551	2,495,655	104,710	-	40,591,932
Overdrafts	3,194,993	-	-	-	-	3,194,993
Consumer	1,630,091	3,744,503	6,650,984	1,300,404	-	13,325,982
Investments in associates	-	-	-	-	994,298	994,298
Other real estate	-	-	-	-	457,679	457,679
Property and equipment, net	-	-	-	-	1,134,495	1,134,495
Information Technology intangible assets, net	-	-	-	-	254,336	254,336
Other assets, net	-	-	-	-	132,994	132,994
Total	38,175,660	22,947,757	20,187,900	10,231,110	9,272,169	100,814,596
Liabilities and equity						
Due to banks and other financial institutions:						
Current accounts	-	-	-	-	8,918	8,918
Money market deposits and repurchase agreements	9,530,281	4,248,992	-	-	-	13,779,273
Customers' deposits:						
Time	35,837,305	3,541,189	590,850	-	-	39,969,344
Savings	1,698,795	-	-	-	-	1,698,795
Demand	-	-	-	-	25,865,987	25,865,987
Other	-	606,457	-	-	917,471	1,523,928
Negative fair values of derivatives:						
Held for trading	-	-	-	-	405,333	405,333
Held as fair value hedges	-	-	-	-	591,114	591,114
CSA / EMIR cash margins	-	-	-	-	(680,928)	(680,928)
Term loans	2,011,626	-	-	-	-	2,011,626
Other liabilities	-	-	-	-	1,634,199	1,634,199
Total equity	-	-	-	-	14,007,007	14,007,007
Total	49,078,007	8,396,638	590,850	-	42,749,101	100,814,596
Special commission rate sensitivity- On balance sheet	(10,902,347)	14,551,119	19,597,050	10,231,110	(33,476,932)	-
Special commission rate sensitivity- Off balance sheet	12,835,216	(93,790)	(5,045,902)	(7,695,524)	-	-
Total special commission rate sensitivity gap	1,932,869	14,457,329	14,551,148	2,535,586	(33,476,932)	-
Cumulative special commission rate sensitivity gap	1,932,869	16,390,198	30,941,346	33,476,932	-	-

30. Market risk- continued

	2018 SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total
Assets						
Cash and balances with SAMA:						
Cash on hand	-	-	-	-	736,763	736,763
Balances with SAMA	977,000	-	-	-	3,158,169	4,135,169
Due from banks and other financial institutions, net:						
Current accounts	796,118	-	-	-	-	796,118
Money market placements	2,053,990	67,589	-	-	-	2,121,579
Investments:						
Held as FVTPL	-	-	-	-	174,268	174,268
Held as FVOCI	3,270,117	1,411,887	11,405,053	8,115,407	261,381	24,463,845
Positive fair values of derivatives:						
Held for trading	-	-	-	-	400,593	400,593
Held as fair value hedges	-	-	-	-	242,456	242,456
CSA / EMIR cash margins	-	-	-	-	184,203	184,203
Associated company put option	-	-	-	-	417,991	417,991
Loans and advances, net:						
Commercial and others	26,339,578	13,156,867	440,267	115,118	-	40,051,830
Overdrafts	5,078,362	-	-	-	-	5,078,362
Consumer	3,744,555	2,417,134	7,347,915	772,733	-	14,282,337
Investments in associates	-	-	-	-	1,012,366	1,012,366
Other real estate	-	-	-	-	718,724	718,724
Property and equipment, net	-	-	-	-	902,889	902,889
Information Technology intangible assets, net	-	-	-	-	208,207	208,207
Other assets, net	-	-	-	-	142,208	142,208
Total	42,259,720	17,053,477	19,193,235	9,003,258	8,560,218	96,069,908
Liabilities and equity						
Due to banks and other financial institutions:						
Current accounts	-	-	-	-	16,073	16,073
Money market deposits and repurchase agreements	7,076,990	5,527,769	-	-	-	12,604,759
Customers' deposits						
Time	21,696,731	15,341,260	-	-	-	37,037,991
Savings	1,529,185	-	-	-	-	1,529,185
Demand	-	-	-	-	24,113,708	24,113,708
Other	-	600,745	-	-	408,240	1,008,985
Negative fair values of derivatives:						
Held for trading	-	-	-	-	398,495	398,495
Held as fair value hedges	-	-	-	-	102,209	102,209
Term loans	30,371	2,000,000	-	-	-	2,030,371
Subordinated debt	5,661	2,000,000	-	-	-	2,005,661
Other liabilities	-	-	-	-	1,816,403	1,816,403
Total equity	-	-	-	-	13,406,068	13,406,068
Total	30,338,938	25,469,774	-	-	40,261,196	96,069,908
Special commission rate sensitivity- On balance sheet	11,920,782	(8,416,297)	19,193,235	9,003,258	(31,700,978)	-
Special commission rate sensitivity- Off balance sheet	12,252,404	-	(4,107,892)	(8,144,512)	-	-
Total special commission rate sensitivity gap	24,173,186	(8,416,297)	15,085,343	858,746	(31,700,978)	-
Cumulative special commission rate sensitivity gap	24,173,186	15,756,889	30,842,232	31,700,978	-	-

The off-balance sheet gap position represents the net notional amounts of derivative financial instruments, which are used to manage special commission rate risk.

30. Market risk- continued

ii. Currency risk

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

The table below shows the currencies to which the Group has a significant exposure as of December 31, 2019 and 2018, on its banking book assets and liabilities and forecasted cash flows. The table depicts the effect of a reasonably possible movement of the currency rates against the SAR based on historical currency rate movements, with other variables held constant, on the consolidated statement of income (due to the change in the fair value of the currency sensitive banking book assets and liabilities). The reasonably possible change is estimated based on the relevant foreign exchange rate movements during the last five years (2015- 2019) (2018: 2014- 2018). A positive effect shows a potential net increase in the consolidated statement of income, whereas a negative effect shows a potential net reduction in consolidated statement of income.

Currency Exposures as of December 31, 2019	Change in currency rate in %	Effect on Income before provisions for Zakat and Income tax SAR'000
USD	+0.28/-0.15	+432/-232
EUR	+11.70/-7.20	+9/-5
GBP	+24.36/-5.81	+90/-21

Currency Exposures as of December 31, 2018	Change in currency rate in %	Effect on Income before provisions for Zakat and Income tax SAR'000
USD	+0.28/-0.10	+3,097/-1,100
EUR	+18.00/-12.01	-954/+636
GBP	+29.64/-9.75	-268/+91

iii. Currency position

The Group manages the exposure to the 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. As of December 31, 2019 and 2018, the Group had the following significant net exposures denominated in foreign currencies:

	2019 SAR '000 Long / (short)	2018 SAR '000 Long / (short)
US Dollar	155,075	1,120,449
Euro	74	(5,299)
Pound Sterling	369	(936)
Japanese Yen	242	201
U.A.E Dirham	8,791	964
Others	33,709	15,747

iv. Equity price risk

Equity price risk refers to the risk of a decrease in fair values of equities and mutual funds in the Group's investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual investments.

30. Market risk- continued

The following table depicts the effect on the Group's investments in equities and mutual funds from a reasonably possible change in relevant indices, with other variables held constant, and the related effect on the Group's net income and shareholders' equity as of December 31, 2019 and 2018. The reasonably possible changes in relevant indices are estimated based on the relevant indices movements during the last five years (2015 - 2019) (2018: 2014 - 2018). A positive effect shows a potential increase in consolidated shareholders' equity, whereas a negative effect shows a potential decrease in consolidated shareholders' equity.

	2019		
Market Indices	Change in equity price %	Effect on Income before provisions for Zakat and Income tax SAR'000	Shareholders' equity Effect SAR'000
TADAWUL	+16.71%/-35.72%	+19,162/-40,957	+60,859/-130,087
Unquoted	+5.00%/-5.00%	+578/-578	+1,241/-1,241

	2018		
Market Indices	Change in equity price %	Effect on Income before provisions for Zakat and Income tax SAR'000	Shareholders' equity Effect SAR'000
TADAWUL	+41.82%/-31.10%	+44,109/-32,799	+116,281/-86,465
Unquoted	+5.00%/-5.00%	-/-	+232/-232

31. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources, and assets are managed with liquidity in perspective. Management therefore maintains a healthy balance of cash, cash equivalents, and readily marketable securities as of part of its high liquid assets. Management also monitors the asset and liability maturity profile to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset Liability Committee. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the Asset Liability Committee.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Group maintains a statutory deposit with SAMA equal to 7% (2018: 7%) of total demand deposits and 4% (2018: 4%) of saving and time deposits. In addition to the statutory deposit, the Group also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and balances with SAMA, Saudi Government Development Bonds, or other assets which can be converted into cash within a period not exceeding 30 days. The Group has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 98% of the nominal value of Saudi Riyal denominated bonds held.

The Bank has an established Liquidity Risk Appetite that is approved by Board of Directors and that is reviewed monthly through ALCO and with quarterly reports to the Board Risk Committee (BRC). The Risk Appetite statement is based on a range of key monitoring metrics, including the short-term Liquidity Coverage Ratio and the long-term Net Stable Funding Ratio along with Liquidity Gap limits giving due consideration to stress factors relating to both the market in general and Bank specific conditions. The Bank has also established a comprehensive Contingency Funding Plan (CFP) using early warning monitoring metrics to forewarn Senior Management of impending stress and which establishes a clear allocation of roles and clear lines of management responsibility to address any liquidity stress situations.

a) Contractual maturity profile of assets and liabilities.

The tables below summarize the contractual maturity profile of the Group's assets, liabilities, and equity as of December 31, 2019 and 2018. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Group's deposit retention history. The amounts disclosed for derivatives, and commitments and contingencies are not indicative of future payment obligations.

31. Liquidity risk - continued

	2019 SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity / on demand	Total
Assets						
Cash and balances with SAMA:						
Cash on hand	-	-	-	-	892,087	892,087
Balances with SAMA	6,025,000	-	-	-	3,301,729	9,326,729
Due from banks and other financial institutions, net:						
Current accounts	-	-	-	-	371,416	371,416
Money market placements	2,541,378	115,721	-	-	-	2,657,099
Investments:						
Held as FVTPL	-	-	-	-	165,260	165,260
Held as FVOCI	687,856	2,821,188	12,811,321	9,427,056	262,799	26,010,220
Positive fair values of derivatives:						
Held for trading	-	407,352	-	-	-	407,352
Associated company put option	-	-	-	-	421,243	421,243
CSA / EMIR cash margins	-	476,481	-	-	-	476,481
Loans and advances, net:						
Commercial and others	11,666,019	14,723,860	7,639,305	6,562,748	-	40,591,932
Overdrafts	3,194,993	-	-	-	-	3,194,993
Consumer	4,399,511	2,000,560	5,680,478	1,245,433	-	13,325,982
Investments in associates	-	-	-	-	994,298	994,298
Other real estate	-	-	-	-	457,679	457,679
Property and equipment, net	-	-	-	-	1,134,495	1,134,495
Information Technology intangible assets, net	-	-	-	-	254,336	254,336
Other assets, net	-	132,994	-	-	-	132,994
Total	28,514,757	20,678,156	26,131,104	17,235,237	8,255,342	100,814,596
Liabilities and equity						
Due to banks and other financial institutions:						
Current accounts	-	-	-	-	8,918	8,918
Money market deposits and Repurchase agreements	9,530,280	4,248,993	-	-	-	13,779,273
Customers' deposits:						
Time	32,987,305	2,741,189	4,240,850	-	-	39,969,344
Savings	-	-	-	-	1,698,795	1,698,795
Demand	-	-	-	-	25,865,987	25,865,987
Other	-	-	-	-	1,523,928	1,523,928
Negative fair values of derivatives:						
Held for trading	-	405,333	-	-	-	405,333
Held as fair value hedges	-	591,114	-	-	-	591,114
CSA / EMIR cash margins	-	(680,928)	-	-	-	(680,928)
Term loans	11,626	-	2,000,000	-	-	2,011,626
Other liabilities	217,397	899,462	386,456	33,463	97,421	1,634,199
Total equity	-	-	-	-	14,007,007	14,007,007
Total	42,746,608	8,205,163	6,627,306	33,463	43,202,056	100,814,596
Derivatives, commitments and contingencies	4,709,237	8,265,063	20,820,240	11,611,034	-	45,405,574

31. Liquidity risk - continued

	2018 SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity / on demand	Total
Assets						
Cash and balances with SAMA:						
Cash on hand	-	-	-	-	736,763	736,763
Balances with SAMA	977,000	-	-	-	3,158,169	4,135,169
Due from banks and other financial institutions, net:						
Current accounts	-	-	-	-	796,118	796,118
Money market placements	2,053,990	67,589	-	-	-	2,121,579
Investments:						
Held as FVTPL	-	-	-	-	174,268	174,268
Held as FVOCI	431,306	1,036,468	14,070,094	8,664,596	261,381	24,463,845
Positive fair values of derivatives:						
Held for trading	-	400,593	-	-	-	400,593
Held as fair value hedges	-	242,456	-	-	-	242,456
CSA / EMIR cash margins	-	184,203	-	-	-	184,203
Associated company put option	-	-	-	-	417,991	417,991
Loans and advances, net:						
Commercial and others	19,647,774	14,300,442	4,298,864	1,804,750	-	40,051,830
Overdrafts	5,078,362	-	-	-	-	5,078,362
Consumer	3,744,555	2,417,134	7,347,915	772,733	-	14,282,337
Investments in associates	-	-	-	-	1,012,366	1,012,366
Other real estate	-	-	-	-	718,724	718,724
Property and equipment, net	-	-	-	-	902,889	902,889
Information Technology intangible assets, net	-	-	-	-	208,207	208,207
Other assets, net	-	142,208	-	-	-	142,208
Total	31,932,987	18,791,093	25,716,873	11,242,079	8,386,876	96,069,908
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	16,073	16,073
Money market deposits and repurchase agreements	7,076,990	5,527,769	-	-	-	12,604,759
Customers' deposits:						
Time	21,466,166	12,789,360	2,782,465	-	-	37,037,991
Savings	-	-	-	-	1,529,185	1,529,185
Demand	-	-	-	-	24,113,708	24,113,708
Other	-	600,745	-	-	408,240	1,008,985
Negative fair values of derivatives:						
Held for trading	-	398,495	-	-	-	398,495
Held as fair value hedges	-	102,209	-	-	-	102,209
Term loans	30,371	-	2,000,000	-	-	2,030,371
Subordinated debt	5,661	2,000,000	-	-	-	2,005,661
Other liabilities	-	1,320,115	496,288	-	-	1,816,403
Total equity	-	-	-	-	13,406,068	13,406,068
Total	28,579,188	22,738,693	5,278,753	-	39,473,274	96,069,908
Derivatives, commitments and contingencies	6,886,791	6,022,140	19,863,039	11,652,406	-	44,424,376

31. Liquidity risk - continued

Assets available to meet all the liabilities and to cover outstanding loan commitments include cash and balances with SAMA, due from banks and other financial institutions, investments, and loans and advances. The Group regularly monitors the maturity profile to ensure adequate liquidity is maintained. The cumulative maturities of commitments and contingencies is disclosed in note 19c.

b) **Analysis of financial liabilities by remaining undiscounted maturities**

The tables below summarize the estimated maturity profile of the Group's financial liabilities as of December 31, 2019 and 2018 based on contractual undiscounted future repayment obligations. As special commission payment estimates up to the contractual maturities are included in the tables, the totals do not match the amounts included in the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date that the Group could be required to pay and the tables therefore do not reflect the expected cash flows indicated by the Group's deposit retention history.

The undiscounted maturity profile of financial liabilities is as follows:

	2019 SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed Maturity / on demand	Total
Due to banks and other financial institutions:						
Current accounts	-	-	-	-	8,918	8,918
Money market deposits and repurchase agreements	9,563,630	4,307,827	-	-	-	13,871,457
Customers' deposits:						
Time	33,110,463	2,781,715	4,682,107	-	-	40,574,285
Savings	-	-	-	-	1,698,795	1,698,795
Demand	-	-	-	-	25,865,987	25,865,987
Other	-	-	-	-	1,523,928	1,523,928
Negative fair values of derivatives:						
Held for trading	-	405,333	-	-	-	405,333
Held as fair value hedges	-	591,114	-	-	-	591,114
CSA / EMIR cash margins	-	(680,928)	-	-	-	(680,928)
Term loans	20,980	37,200	2,186,000	-	-	2,244,180
Total	42,695,073	7,442,261	6,868,107	-	29,097,628	86,103,069
Derivatives	107,242	408,911	1,492,088	1,034,564	-	3,042,805
Total	42,802,315	7,851,172	8,360,195	1,034,564	29,097,628	89,145,874

	2018 SAR'000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed Maturity / on demand	Total
Due to banks and other financial institutions:						
Current accounts	-	-	-	-	16,073	16,073
Money market deposits and repurchase agreements	7,100,795	5,602,623	-	-	-	12,703,418
Customers' deposits:						
Time	21,543,176	12,972,887	2,982,107	-	-	37,498,170
Savings	-	-	-	-	1,529,185	1,529,185
Demand	-	-	-	-	24,113,708	24,113,708
Other	-	600,745	-	-	408,240	1,008,985
Negative fair values of derivatives:						
Held for trading	-	398,495	-	-	-	398,495
Held as fair value hedges	-	102,209	-	-	-	102,209
Term loans	48,971	55,800	2,055,800	-	-	2,160,571
Subordinated debt	5,661	2,000,000	-	-	-	2,005,661
Total	28,698,603	21,732,759	5,037,907	-	26,067,206	81,536,475
Derivatives	191,000	543,121	2,213,078	413,257	-	3,360,456
Total	28,889,603	22,275,880	7,250,985	413,257	26,067,206	84,896,931

32. Credit and financial risk management

The Group's Board of Directors is responsible for establishing Corporate Governance processes and approving the Risk Appetite and related risk management framework. It is also responsible for approving and implementing policies to ensure compliance with SAMA guidelines, accounting and reporting standards and best industry practices including Basel guidelines. The Board of Directors has approved the Group's Risk Management Guide Policy as an overarching Risk Policy under which the Group has a suite of policies including a Risk Appetite Framework Policy, Credit Policy Guide, Treasury Policy Guide, Stress Test Policy, Internal Capital Adequacy Assessment Plan Policy, Operational Risk Policy, Fraud Risk Policies, Information Security Policies, among others.

The Board of Directors has also approved the Group's comprehensive IFRS 9 Governance Framework Policy, addressing the Group's IFRS 9 Approach and Methodology Policy, which is supplemented with additional management level policies including an IFRS 9 Data Management and Control Framework Policy, and the IFRS 9 governance framework, along with related accounting and operating procedures.

The Board of Directors is supported by the Board Risk Committee, a committee of the Board, responsible for recommending policies for Board approval and for monitoring risks within the Group. At the management level, the Group operates various committees including an Enterprise Risk Management Committee, a Credit Committee, and an Asset Liability Committee (ALCO), which are responsible for various areas of risk management. A management level Expected Credit Loss (ECL) Committee linked to the Group's IFRS 9 Governance and Framework Policy also operates which is responsible for all aspects of IFRS 9 including expected credit losses.

Other management level committees include the Operational Risk Management Committee, Stress Testing Committee, Financial Fraud Control Committee, Business Continuity Management Committee, Information Security Steering Committee, and the Structured Solution Approval Committee.

At the departmental level, the Group has a Risk Management Group headed by a Chief Risk Officer who is assisted by assistant general managers in charge of Risk Management, Credit Risk Review, Credit Administration, Collections and other functions.

a) Credit Risk

The Group manages its 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 customer lending activities that lead to loans and advances, and other investment activities. There is also credit risk in off consolidated statement of financial position financial instruments, such as loan commitments and financial guarantee contracts. The Group assesses the Probability of Default (PD) of counterparties using internal rating tools which can be mapped to external ratings where available. The Group'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 Group assesses wholesale counterparties using the same techniques as for its lending activities to clients.

Concentrations of credit risk arise when several counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

The Group has a comprehensive Board approved framework for managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Group seeks to control credit risk by monitoring credit exposures, limiting concentration risks, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are regularly monitored. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

32. Credit and financial risk management - continued

b) **Credit Risk management**

The Group 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, businesses, or economic sectors. Economic sector risk concentrations are provided in note 7f.

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between portfolios and allocates expected credit loss allowances. The Group determines each individual borrower's grade based on specific objective and subjective financial and business assessment criteria covering debt service, profitability, liquidity, capital structure, industry, management quality, and company standing. The Group conducts a periodic quality classification exercises over all of its existing borrowers and the results of this exercise are validated by the independent risk management unit established for that purpose. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products, external economic environment, emerging best practices, and regulatory guidance. Information on the credit quality for loans and advances is provided in note 7e.

The Group in the ordinary course of lending activities holds collateral as security for Credit Risk Mitigation (CRM) on its loans and advances. The collateral includes primarily time, demand, and other cash deposits, financial guarantees, local and international equities, real estate, and other assets. The collateral is held mainly against commercial and similar loans and is managed against relevant exposures at their net realizable value. Management monitors the market value of collateral, requests additional collateral in accordance with underlying agreements, and assesses the adequacy of the allowance for credit losses. The Group also seeks additional collateral from counterparties when impairment indicators are observed.

The estimated fair value of collateral held as CRM by the Group for total loans and advances is approximately SAR 47.3 billion (2018: SAR 49.4 billion). The amount of real estate, local and international equities and other cash deposits held as CRM for Stage 3 exposures is as follows:

	Exposure SAR'000	Credit Risk Mitigation SAR'000	ECL SAR'000
December 31, 2019	3,359,920	2,662,795	1,841,562
December 31, 2018	2,690,624	2,802,158	1,320,499

The Group, in the ordinary course of business, acquires real estate against settlement of loans and advances. The Group acquires the real estate with an intention to sell. The real estate acquired is presented as 'Other real estate' in the consolidated statement of financial position. The movement of Other real estate for the years ended December 31, 2019 and 2019 is summarized as follows:

	2019 SAR'000	2018 SAR'000
Balance at the beginning of the year	718,724	718,724
Acquisitions during the year	121,285	-
Disposals during the year	(315,924)	-
Write-offs (note 40)	(66,406)	-
Balance at the end of the year	457,679	718,724

The debt securities included in the investment portfolio are due mainly from corporates, banks, financial institutions, and sovereigns. An analysis of the Group's investments by type of counterparty and credit risk exposure is included in note 6c.

The Group's credit quality of Due from banks and other financial institutions is included in note 5c.

The Group's credit risk relating to derivative financial instruments is included in notes 11 and 29.

Information on the Group's financial guarantee contracts is included in note 19c.

The Group's credit exposure by business segment is included in note 28d.

32. Credit and financial risk management - continued

The Group's distribution of geographic concentration is provided in note 29.

The Group's total credit risk exposure and the relative risk weighted assets is included in note 35a.

c) **Credit analysis of investments held at FVTPL**

The Group's investments held at FVTPL are comprised of Mutual fund investments and other securities which are unquoted and unrated.

d) **Credit risk grades**

The Group allocates exposures to a credit risk grade based on an array 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 a 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 non-consumer exposure is allocated 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 the use of the following data.

Non-Consumer exposures	Consumer 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 include: 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, and 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 • External data from credit reference agencies including industry-standard credit scores • Affordability metrics	• 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

32. Credit and financial risk management - continued

e) **Generating the term structure for the Probability of Default (PD)**

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures and analyzes the information by type of product and borrower as well as by credit risk grading. For some portfolios, information sourced from external credit reference agencies is also used.

The Group employs models developed based on the analysis of the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time due to the impact of macro-economic factors. This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors. For most exposures, key macro-economic indicators include GDP growth and oil prices.

Based on a variety of external actual and forecasted information, the Group formulates a base case view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts to adjust its estimates of PD term-structures.

f) **Determining whether credit risk has increased significantly**

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group 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 Group's historical experience and credit assessments, including forward-looking information.

The criteria for determining whether credit risk has increased significantly varies by portfolio and includes quantitative as well as qualitative factors, including a backstop based on delinquency. One of the key quantitative indicators used by the Group is the relative downgrade of the internal rating of a borrower since origination and thereby the consequent change in the PD.

Using credit judgment and, where possible, relevant historical experience, the Group may also 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 for which the effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. The qualitative indicators include specific high risk rating grades, cross facility defaults, and forbearance.

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in the expected credit loss allowance resulting from transfers between 12-month PD (Stage 1) and lifetime PD (Stages 2 or 3).

The Group uses three main components to measure ECL, which are Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). The Group has leveraged existing regulatory practices and SAMA guidance to develop the methodology for model inputs which are adjusted when and where necessary to comply with IFRS 9 requirements.

Financial Assets reflecting a significant increase in credit risk are classified in Stage 2 and the Group recognizes loss allowances at an amount equal to lifetime expected credit losses, reflecting a lifetime expected PD that represents the probability of default over the remaining life of the financial asset. The allowances for Stage 2 are higher than for Stage 1, reflecting the impact of a longer time horizon compared to a 12-month horizon used for the allowance in Stage 1.

32. Credit and financial risk management - continued

g) **Definition of Default**

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days.

Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default the Group considers indicators that are:

- qualitative, e.g. breaches of covenants;
- quantitative, e.g. overdue status and non-payment of another obligation of the same borrower; 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. IFRS 9 does not define the term ‘default’, but instead requires each entity to do so. In this regard, the Group ensures that it is in alignment with the SAMA definition of default and also that it follows a common definition for regulatory and financial reporting.

The Group recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100% and recoverable cash flows on the asset. These financial assets are credit impaired and are classified under Stage 3.

h) **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 credit of the customer. An existing loan for which the terms have been modified may be derecognized and the renegotiated loan is recognized as a new loan at fair value in accordance with the Group’s policies.

The Group may also renegotiate loans to customers in financial difficulty (referred to as forbearance activities) to maximize collection opportunities and minimize the risk of default. Loan forbearance is granted on a selective basis:

- if there is a high risk of default; or
- if 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 can include extending the maturity, changing the timing of commission and/or principal payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified, the estimate of PD reflects whether the modification has improved or restored the Group’s ability to collect special commission and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group 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. A customer needs to demonstrate consistently good payment behavior over a period of time before the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to a 12-month ECL. The Group considers a period of 12 months as a curing period to move assets from loss allowance measurement at Lifetime ECL (Stage 2 and 3) to a 12-month ECL (Stage 1).

32. Credit and financial risk management - continued

i) **Incorporation of forward looking information**

Based on a consideration of a variety of external actual and forecasted information, the Group 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 and selected private sector forecasters.

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

The Group identifies 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 other credit losses.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data from 2013 to 2018. During 2019, no changes have occurred in underlying assumptions and the defined economic variables. Moreover, a sensitivity analysis has been conducted on the macro-economic scenarios including GDP and oil prices in order to assess the potential change in ECL. The more optimistic sensitivity scenario would reduce ECL by 5 basis points (2018: 4 basis points), while the more pessimistic scenario would increase the ECL by 4 basis points (2018: 5 basis points).

j) **Measurement of ECL**

The key inputs into the measurement of ECL are the term structure of the following variables:

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

These parameters are generally derived from internally developed models and external benchmarks. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on internal rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this can lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated repayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties as well as external benchmarks. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry, and the net recovery amount of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Group 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.

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 Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

32. Credit and financial risk management - continued

For retail overdrafts and other facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period which may be longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group'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 Group can cancel them with immediate effect. This contractual right may not be enforced in the normal day-to-day management but only when the Group 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 Group expects to take and that serve to mitigate ECL. These can include a reduction in limits, or cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modeling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include the instrument type, credit risk rating, time to maturity, collateral type, industry; and geographic location of the borrower. Regular reviews are also conducted to ensure that exposures within a particular portfolio remain appropriately homogeneous.

For portfolios where the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

	PD	LGD
Due from banks and other financial institutions	Moody's default study	SAMA LGD Estimates
Investments	Moody's default study	SAMA LGD Estimates

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime PD at the reporting date with the remaining lifetime PD for the point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

k) Offsetting financial assets and financial liabilities

The table set out below include financial assets and financial liabilities as at December 31, 2019 and 2018 that are offset in the Group’s consolidated statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

	2019 SAR‘000		
	Gross assets / (liabilities) before offset	Offset with gross (assets) / liabilities	Net assets / (liabilities) recognized
Positive fair values of derivatives (note 11c)	2,205,598	(900,522)	1,305,076
Negative fair values of derivatives (note 11c)	(1,216,041)	900,522	(315,519)
Total	989,557	-	989,557

	2018 SAR‘000		
	Gross assets / (liabilities) before offset	Offset with gross (assets) / liabilities	Net assets / (liabilities) recognized
Positive fair values of derivatives (note 11c)	6,901,249	(5,656,006)	1,245,243
Negative fair values of derivatives (note 11c)	(6,156,710)	5,656,006	(500,704)
Total	744,539	-	744,539

32. Credit and financial risk management - continued

l) Summary of financial assets and financial liabilities

The following tables summarizes the balances of financial and other assets and financial and other liabilities by measurement category in the consolidated statement of financial position as of December 31, 2019 and 2018:

	2019 SAR '000				
	Amortized cost	Mandatorily at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total carrying amount
Financial and other assets:					
Cash and balances with SAMA	10,218,816	-	-	-	10,218,816
Due from banks and other financial institutions, net	3,028,515	-	-	-	3,028,515
Investments	-	165,260	262,799	25,747,421	26,175,480
Positive fair values of derivatives	-	1,305,076	-	-	1,305,076
Loans and advances, net	57,112,907	-	-	-	57,112,907
Other assets, net	132,994	-	-	-	132,994
Total financial and other assets	70,493,232	1,470,336	262,799	25,747,421	97,973,788
Financial and other liabilities:					
Due to banks and other financial institutions	13,788,191	-	-	-	13,788,191
Customers' deposits	69,058,054	-	-	-	69,058,054
Negative fair value of derivatives	-	315,519	-	-	315,519
Term loans	2,011,626	-	-	-	2,011,626
Other liabilities	1,634,199	-	-	-	1,634,199
Total financial and other liabilities	86,492,070	315,519	-	-	86,807,589

	2018 SAR '000				
	Amortized cost	Mandatorily at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total carrying amount
Financial and other assets:					
Cash and balances with SAMA	4,871,932	-	-	-	4,871,932
Due from banks and other financial institutions, net	2,917,697	-	-	-	2,917,697
Investments	-	174,268	261,381	24,202,464	24,638,113
Positive fair values of derivatives	-	1,245,243	-	-	1,245,243
Loans and advances, net	59,412,529	-	-	-	59,412,529
Other assets, net	142,208	-	-	-	142,208
Total financial and other assets	67,344,366	1,419,511	261,381	24,202,464	93,227,722
Financial and other liabilities:					
Due to banks and other financial institutions	12,620,832	-	-	-	12,620,832
Customers' deposits	63,689,869	-	-	-	63,689,869
Negative fair value of derivatives	-	500,704	-	-	500,704
Term loans	2,030,371	-	-	-	2,030,371
Subordinated debt	2,005,661	-	-	-	2,005,661
Other liabilities	1,816,403	-	-	-	1,816,403
Total financial and other liabilities	82,163,136	500,704	-	-	82,663,840

33. Fair values of financial assets and liabilities

a) The Group uses the fair value hierarchy disclosed in note 2dii for determining and disclosing the fair value of financial instruments. The following table shows an analysis of financial assets and liabilities recorded at fair value as of December 31, 2019 and 2018 by level of the fair value hierarchy.

	2019 SAR'000			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	883,833	421,243	1,305,076
Investments at FVOCI	18,296,609	7,246,430	467,181	26,010,220
Investments at FVTPL	114,664	-	50,596	165,260
Total	18,411,273	8,130,263	939,020	27,480,556
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	315,519	-	315,519
Total	-	315,519	-	315,519

	2018 SAR'000			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	-	827,252	417,991	1,245,243
Investments at FVOCI	16,767,127	7,224,135	472,583	24,463,845
Investments at FVTPL	131,626	-	42,642	174,268
Total	16,898,753	8,051,387	933,216	25,883,356
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	-	500,704	-	500,704
Total	-	500,704	-	500,704

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

The total amount of the changes in fair value recognized in the consolidated statement of income for the year ended December 31, 2019 which was estimated using valuation models, is a gain of SAR 3.2 million (2018: a loss of SAR 17.3 million).

Level 2 investments include debt securities which are comprised of Saudi corporate and bank securities, and Saudi Arabian Government securities. These securities are generally unquoted. In the absence of a quoted price in an active market, these securities are valued using observable inputs such as yield information for similar instruments or last executed transaction prices in securities of the same issuer or based on indicative market quotes. Adjustments are also considered as part of the valuations when necessary to account for the different features of the instruments including difference in tenors. Because the significant inputs for these investments are observable, the Bank categorizes these investments within Level 2.

33. Fair values of financial assets and liabilities - continued

Level 2 derivative financial instruments include various derivatives contracts including forward foreign exchange contracts, foreign exchange options, and commission rate swaps. These derivatives are valued using widely recognized valuation models. The most frequently applied valuation techniques include the use of forward pricing standard models using present value calculations and well-recognized Black - Scholes option pricing models. These models incorporate various market observable inputs including foreign exchange rates, forward rates, and yield curves, and are therefore included within Level 2.

Level 3 investments include Gulf Cooperation Council Government securities, and also investments in hedge funds, private equity funds and certain unquoted strategic investments in equities. These securities are generally not quoted in an active market, and therefore are valued using indicative market quotes from an issuer / counter-party or valued at cost in the absence of any such alternative reliable indicative estimate.

Level 3 derivative financial instruments include the embedded derivative put option arising from the existing master agreement entered into by the Bank relating to its investment in an associated company (see note 11f). For purposes of determining the fair value of the put option, the Bank uses a well-recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. These other inputs may require management's judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

Should the significant estimations of inputs vary by plus or minus ten percent, the fair value could increase or decrease by approximately SAR 90.4 million (2018: SAR 97.7 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 41.6 million (2018: SAR 44.6 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercize of the option, and could increase or decrease by approximately SAR 37.4 million (2018: SAR 27.5 million) due to estimating the fair value of the underlying investment.

In all respects, the Group's significant estimates are based on experience and judgement relevant to each input, and in all cases, due care is taken to ensure that the inputs are prudent to ensure that the estimation of fair value is reasonable in the circumstances. However, any amounts which may be realized in the future may differ from the Bank's estimates of fair value.

b) The following table summarizes the movement of the Level 3 fair values for the years ended December 31, 2019 and 2018:

	2019 SAR'000	2018 SAR'000
Fair values at the beginning of the year	933,216	948,687
Net change in fair value	10,406	(11,811)
Investments sold	(4,602)	(3,660)
Fair values at the end of the year	939,020	933,216

There were no transfers from either level 1 or level 2 to either level 2 or level 3 during the years ended December 31, 2019 and 2018.

33. Fair values of financial assets and liabilities – continued

c) The following table summarizes the estimated fair values of financial assets and financial liabilities as of December 31, 2019 and 2018 that are not carried at fair value in the consolidated financial statements, along with the comparative carrying amounts for each.

December 31, 2019	Carrying values SAR'000	Estimated fair values SAR'000
Financial assets:		
Due from banks and other financial institutions, net	3,028,515	3,028,515
Loans and advances, net	57,112,907	60,151,426
Total	60,141,422	63,179,941
Financial liabilities:		
Due to banks and other financial institutions	13,788,191	13,788,191
Customers' deposits	69,058,054	68,224,293
Term loans	2,011,626	2,011,626
Total	84,857,871	84,024,110

December 31, 2018	Carrying values SAR'000	Estimated fair values SAR'000
Financial assets:		
Due from banks and other financial institutions, net	2,917,697	2,917,697
Loans and advances, net	59,412,529	60,622,336
Total	62,330,226	63,540,033
Financial liabilities:		
Due to banks and other financial institutions	12,620,832	12,620,832
Customers' deposits	63,689,869	62,332,038
Term loans	2,030,371	2,030,371
Subordinated debt	2,005,661	2,005,661
Total	80,346,733	78,988,902

The estimated fair values of loans and advances, net are calculated using market based discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual loan portfolio. The estimated fair values of customers' deposits are calculated using market based discounted cash flow models of individual deposit classes using the weighted average estimated maturities of each individual deposit class. These fair value estimates would be considered as level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the consolidated financial statements at fair value are not significantly different from the carrying values. The fair values of term loans, subordinated debt, and 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 special commission rates for similar financial instruments are not significantly different from the contractual rates, and because of the short duration of due from and due to banks and other financial institutions.

34. Related party transactions

a) In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for Banks operating in Saudi Arabia and during 2019, SAMA issued rules on Banks exposures to Related Parties. These updates specify the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's related party identification and disclosure of transactions complies with the guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These guidelines include the following definitions of related parties:

- Management of the Bank, their relatives and/or their affiliated entities;
- Principal shareholders of the Bank and/or their relatives;
- Affiliates of the Bank, entities for which the investment is accounted for using the equity method of accounting, their management and relatives;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, and members of the Bank's management that require a no objection approval from SAMA.

Principal shareholders include those owners of record of more than five percent of the Bank's voting ownership and/or voting interest of the Bank.

Relatives include spouses, children, parents, grandparents, siblings, grandchildren, and offspring to whom a member of management of either the Bank, principal shareholder, or affiliate, might control or influence or by whom they might be controlled or influenced, because of the family relationship.

b) The balances as of December 31, 2019 and 2018, resulting from such transactions included in the consolidated statement of financial position are as follows:

	2019 SAR'000	2018 SAR'000
Management of the Bank, their relatives and/or their affiliated entities:		
Loans and advances	363,327	97,154
Customers' deposits	1,084,621	401,349
Tier I Sukuk	7,000	2,000
Commitments and contingencies	88,145	6,067
Investments	400,727	-
Principal shareholders of the Bank and/or their relatives:		
Customers' deposits	2,448,755	5,965,847
Subordinated debt	-	700,000

34. Related party transactions- continued

	2019 SAR'000	2018 SAR'000
Affiliates of the Bank, entities for which the investment is accounted for using the equity method of accounting, their management and relatives:		
Loans and advances	873,967	654,756
Customers' deposits	63,155	144,669
Tier I Sukuk	2,000	-
Commitments, contingencies and derivatives	62,764	101,458
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:		
Customers' deposits and other liabilities	176,722	62,093

c) Income and expense for the years ended December 31, 2019 and 2018, pertaining to transactions with related parties included in the consolidated statement of income are as follows:

	2019 SAR'000	2018 SAR'000
Management of the Bank and/or members of their immediate family:		
Special commission income	6,258	3,655
Special commission expense	2,873	96
Fee income from banking services	111	45
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission expense	13,864	27,914
Fee income from banking services	-	2
Rent and premises-related expenses (Building rental)	7,758	7,758
Affiliates of the Bank and entities for which the investment is accounted for using the equity method of accounting:		
Special commission income	31,143	29,743
Special commission expense	373	1,304
Fee income from banking services	3,328	4,436
Board of Directors and other Board Committee member remuneration	7,118	7,051

The information presented for 2018 does not reflect the requirements of the new related party rules issued during 2019 and therefore is not comparable to the information presented for 2019.

During the year ended December 31, 2018, the Bank purchased 56,245,350 Shares of the Bank owned by J.P. Morgan International Finance Limited – one of the principal shareholder of the Bank - for SAR 13.50 per share. See note 39.

All related party transactions are conducted on an arm's length basis.

The total amount of compensation charged or paid to management personnel during the year is included in note 24.

35. Capital adequacy

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

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

The following table summarizes the Bank's Pillar I Risk Weighted Assets (RWA), Tier I and Tier II Capital, and corresponding Capital adequacy ratio percentages as of December 31, 2019 and 2018. The Tier I capital amount as of December 31, 2018 presented below has been restated for the retroactive application of the new Zakat and Income tax Policy as disclosed in notes 2a, 3ai and 41. The Tier I and Tier I plus Tier II ratios as of December 31, 2018 have also been adjusted accordingly.

	2019 SAR'000	2018 SAR'000
Credit Risk RWA	76,419,416	79,561,316
Operational Risk RWA	5,061,360	4,794,695
Market Risk RWA	1,380,148	2,062,510
Total Pillar- I RWA	82,860,924	86,418,521
Tier I Capital	14,482,246	14,045,818
Tier II Capital	648,296	2,649,509
Total Tier I plus II Capital	15,130,542	16,695,327
Capital Adequacy Ratios:		
Tier I Ratio	17.48%	16.25%
Tier I plus Tier II Ratio	18.26%	19.31%

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

	2019 SAR'000	2018 SAR'000
Total Equity	14,007,007	13,406,068
IFRS 9 five-year transitional adjustment	493,534	658,045
Goodwill adjustment	(18,295)	(18,295)
Tier I Capital	14,482,246	14,045,818
Tier II Subordinated debt	-	2,000,000
Qualifying general provisions, net	648,296	649,509
Tier II Capital	648,296	2,649,509
Tier I plus Tier II Capital	15,130,542	16,695,327

Capital adequacy and the use of Regulatory capital are regularly monitored by the Bank's management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total Regulatory capital to Risk Weighted Assets (RWA) at or above the requirement of 10.5%, which includes additional buffers as required by the Basel Committee on Banking Supervision.

As of December 31, 2019 and 2018, the RWA, Tier I and Tier II capital, and capital adequacy ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III.

35. Capital adequacy - continued

b) The following additional disclosures are required under the Basel III framework.

- Pillar III, Qualitative disclosures (Annually)
- Pillar III, Quantitative disclosures (Annually/Semi-annually)
- Capital Structure (Quarterly)
- Liquidity Coverage Ratio (Quarterly)
- Leverage Ratio (Quarterly)

These disclosures are made available to the public on the Bank’s website within the prescribed time frames as required by SAMA.

36. Asset management and brokerage services

The Group offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totalling SAR 18,799 million (2018: SAR 15,228 million). This includes funds managed under Shariah approved portfolios amounting to SAR 1,625 million (2018: SAR 1,462 million).

37. Employee end of service benefits and employee stock option shares

a) The actuarial obligation amounts recognized in the consolidated statement of financial position which is included in other liabilities and the corresponding movement during the years ended December 31, 2019 and 2018 is as follows:

	2019 SAR’000	2018 SAR’000
Actuarial obligation at the beginning of the year	165,120	186,272
Current service, prior period service and net interest cost	38,429	26,726
Benefits paid	(49,726)	(20,681)
Effect of changes in actuarial assumptions	20,689	(27,197)
Actuarial obligation at the end of the year (note 16a)	174,512	165,120

The current service, prior period service and net interest cost amounts above primarily include costs for employees’ current period service plus prior year service costs adjusted for any current year salary increments.

The effect of changes in actuarial assumptions for the year ended December 31, 2019 and 2018 is primarily related to the usage of a yield curve for the discount factor and the usage of the Group’s empirical data for exit rates.

The principal actuarial assumptions used in the calculation of the actuarial obligations as of December 31, 2019 and 2018 are as follows:

	2019	2018
Discount rate	4.35%	5.05%
Expected rate of salary increment	2.00%	2.34%
Normal retirement age (years)	60	60

37. Employee end of service benefits and employee stock option shares - continued

Should the above actuarial assumptions change in the future, the actuarial obligation could be higher or lower than the December 31, 2019 amount. The table below illustrates the sensitivity of the actuarially determined obligation as of December 31, 2019 and 2018 to the discount rate of 4.35% as of December 31, 2019 (2018: 5.05%), and the salary increment rate of 2.00% as of December 31, 2019 (2018: 2.34%).

	2019			2018		
	Impact on actuarially determined obligation Increase (Decrease)			Impact on actuarially determined obligation Increase (Decrease)		
	Change in assumption	Increase in assumption SAR'000	Decrease in assumption SAR'000	Change in assumption	Increase in assumption SAR'000	Decrease in assumption SAR'000
Discount rate	10%	(5,283)	5,654	10%	(5,613)	6,009
Salary increment rate	10%	2,219	(2,596)	10%	2,629	(2,537)

The above sensitivity analyses is based on a change in a single assumption holding other assumptions constant.

The approximate expected maturity analysis of the undiscounted actuarially determined obligation as of December 31, 2019 and 2018 is as follows:

	2019 SAR'000	2018 SAR'000
Less than one year	36,042	32,151
One to two years	17,464	14,547
Two to five years	41,040	51,543
Over five years	119,479	138,624
Total	214,025	236,865

The weighted average duration of the actuarially determined obligation is approximately 6.33 years (2018: 9.53 years).

b) The Group managed an Employee Stock Grant Plan during 2018. Significant features of the Plan were as follows:

- Grant dates: January 1, 2014 and 2016
- Maturity dates: Between 2017 and 2018
- Vesting period: 4 years per plan
- Vesting conditions: Participating employees to remain in service
- Method of settlement: Shares
- Cost to participating employees: SAR 3.99 to SAR 4.24 per share.

There were no stock options shares outstanding as of December 31, 2019 and 2018.

The movement in the number of stock option shares for the year ended December 31, 2018 is as follows:

	2018
Stock option shares at the beginning of the year	1,836,716
Shares vested during the year	(1,736,178)
Withdrawals during the year	(100,538)
Stock option shares at the end of the year	-

37. Employee end of service benefits and employee stock option shares - continued

In 2018, The Group vested 50% of the shares granted in January 2014, and 75% of the shares granted in January 2016 equivalent to 1,736,178 shares with an estimated cost of SAR 24.5 million.

The Group also managed an Employee Contributory Share Option Plan during 2018. The following table summarizes the movement in the number of subscribed shares for the years ended December 31, 2018.

	2018
Subscribed shares at the beginning of the year	3,731,175
Shares granted during the year	(3,495,032)
Withdrawals during the year	(236,143)
Subscribed shares at the end of the year	-

In connection with the Group's Employee Stock Grant Plan and Employee Contributory Share Option Plan, the Group purchased and sold shares as required for the respective final share vesting and subscription requirements through the end of 2018. The following table summarizes the movement in the cost of the shares acquired/sold by the Group net of the share based provision movement for the year ended December 31, 2018.

	Cost of shares SAR'000	Share based provisions SAR'000	Total SAR'000
Balances as of December 31, 2017	(82,446)	24,177	(58,269)
Shares sold	16,651	-	16,651
Share based provisions	-	5,400	5,400
Share based vesting / granting movement, net	65,795	(29,577)	36,218
Net movement in share based provision	82,446	(24,177)	58,269
Balances as of December 31, 2018	-	-	-

38. Tier I Sukuk

The Bank completed the establishment of a Shari'a compliant Tier I Sukuk Program (the Program) in 2016. The Program was approved by the Bank's regulatory authorities and shareholders. The Bank has issued the following Tier I Sukuk securities under the program on the dates indicated as of December 31, 2019 and 2018:

	2019 SAR '000	2018 SAR '000
November 16, 2016	500,000	500,000
June 6, 2017	285,000	285,000
March 21, 2018	1,000,000	1,000,000
April 15, 2019	215,000	-
Total	2,000,000	1,785,000

The Tier I Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Bank classified under equity. However, the Bank has the exclusive right to redeem or call the Tier I Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Program.

The applicable profit rate on the Tier I Sukuk is payable in arrears on each periodic distribution date, except upon the occurrence of a non-payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such a non-payment event or non-payment election are not considered to be an event of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

39. Treasury shares

On June 14, 2018, the Bank entered into a Share Purchase Agreement with J.P. Morgan International Finance Limited (JP Morgan), to purchase 56,245,350 shares of the Bank owned by JP Morgan for SAR 13.50 per share equal to SAR 759.3 million, exclusive of transaction costs and estimated Income tax. The Bank subsequently received all required regulatory approvals and the agreement to purchase the shares was approved in an Extraordinary General Assembly meeting held on 16 Muharram 1440H, corresponding to September 26, 2018. On September 27, 2018, the Bank completed the purchase. The Treasury shares purchased include transaction costs and estimated income tax for a total cost of SAR 787.5 million.

On November 29, 2018, the Bank entered into a Share Purchase Agreement with Mizuho Bank Ltd (Mizuho), to purchase another 18,749,860 shares of the Bank owned by Mizuho for SAR 13.50 per share equal to SAR 253.1 million, exclusive of transaction costs and estimated Income tax. The Bank received all regulatory approvals for the purchase, and the agreement to purchase the shares was approved in an Extraordinary General Assembly Meeting held on 21 Rajab 1440H, corresponding to March 28, 2019. On May 28, 2019, the Bank completed the purchase. The Treasury shares purchased include transaction costs for a total cost of SAR 253.5 million.

The share capital of the Bank has not been reduced as a result of these transactions with the cost of the shares purchased totalling SAR 1,041.1 million presented as a reduction of shareholders' equity.

40. Operating expenses

a) Provisions for credit and other losses for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR '000	2018 SAR '000
Provisions for credit losses:		
Due from banks and other financial institutions (note 5b)	(615)	(10,861)
Investments (note 6e)	(45,821)	10,503
Loans and advances (note 7c)	1,270,770	220,514
Financial guarantee contracts (note 16b)	52,077	26,526
Other assets (note 10b)	(180)	290
Provisions for credit losses	1,276,231	246,972
Provisions for real estate losses (note 32b)	66,406	-
Provisions for credit and other losses	1,342,637	246,972

b) Other general and administrative expenses totaling SAR 320.3 million for the year ended December 31, 2019 include non-recurring expenses totaling approximately SAR 36.4 million (2018: NIL).

41. Effect of the retroactive application of the new Zakat and Income tax policy and other adjustments

a) A summary of the net effect of the retroactive application of the new Zakat and Income tax policy, as explained in notes 2a and 3ai, made to the consolidated statement of income for the year ended December 31, 2018 is summarized below:

	2018 SAR '000
Net income as previously reported	1,458,718
Less the effect of the retroactive application of the new Zakat and Income tax policy	(850,213)
Less the effect of other adjustments - note 41b	(32,608)
Net income as restated	575,897

41. Effect of the retroactive application of the new Zakat and Income tax policy and other adjustments - continued

The basic earnings per share for the year ended December 31, 2018 as a result of the retroactive application of the new Zakat and Income tax policy reduced by SAR 1.21 per share.

The change has had no impact on the consolidated statement of financial position as of January 1, 2018 as the impact of deferred tax was not considered significant. No deferred income tax was accounted for as of December 31, 2019 due to the change in ownership percentages of the Bank during the year ended December 31, 2019 (see notes 17 and 3ai).

b) A summary of the net effect on other liabilities, retained earnings and total equity resulting from the retroactive effect of other adjustments as of December 31, 2018 is summarized below:

	December 31, 2018		
	Other liabilities	Retained earnings	Total equity
Balance as previously reported as of December 31, 2018	1,783,795	205,268	13,438,676
Retroactive effect of other adjustments as of December 31, 2018 (i)	32,608	(32,608)	(32,608)
Balances as restated as of December 31, 2018	1,816,403	172,660	13,406,068

i. Other liabilities as of December 31, 2018 were adjusted by SAR 32.6 million to reflect the prior year effect of a correction in the calculation of accrued zakat liability for the Group and an adjustment to the zakat liability of an associate company, which was not accounted for as at December 31, 2018, with a corresponding decrease in total equity by the same amount.

   The correction of the above adjustments had no impact on the consolidated statement of financial position as of January 1, 2018.

42. Reclassifications

The Group has reclassified a component of other assets in 2019 compared to what was previously reported in 2018. Accordingly, the previously reported amounts in 2018 have been reclassified to conform to the current year presentation. Property, equipment, and intangible costs pending completion which had previously been included in other assets is now included in property and equipment and Information Technology intangible assets. This change is being made to reflect capital work in progress to their relevant line item. This change increases the previously reported property and equipment and Information Technology intangible assets and reduces other assets.

A summary of the effect on the individual components of assets for the above change as of December 31, 2018 is summarized as follows:

	Previously Reported SAR'000	Reclassifications SAR'000	Adjusted SAR'000
Property and equipment, net	897,678	5,211	902,889
Information Technology intangible assets, net	163,513	44,694	208,207
Other assets, net	192,113	(49,905)	142,208

All reclassifications made for the previously reported amounts in 2018 did not affect the previously reported net income or individual components of total equity.

43. Prospective changes in the International Financial Reporting Framework

The Group has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Group's accounting years beginning on January 1, 2020.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Sale of Contribution of Assets between an Investor and its associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The Group does not anticipate that these will have a significant impact on the Group's consolidated financial statements.

44. Board of Director's approval

The consolidated financial statements were authorized for issue by the Board of Directors on 03 Rajab 1441H, corresponding to February 27, 2020.

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