مصرف الراجحي
Al Rajhi Bank

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for 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 the key audit matter below, a description of how our audit addressed the matter is provided in that context:

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Impairment of financing

As at 31 December 2019, the gross financing assets of the Group were SAR 256,702.4 million, against which a credit impairment allowance of SAR 7,019.6 million was maintained.

We considered impairment of financing as a key audit matter, as the determination of expected credit loss ("ECL") involves signficant management judgment, and this has a material impact on the consolidated financial statements of the Group. The key areas of judgment include:

➢ Categorisation of financing into Stages 1, 2 and 3 based on identification of:

(a) exposures with a significant increase in credit risk ("SICR") since their origination; and

(b) individually impaired / default exposures.

➢ 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.</td><td>▪ We have obtained an understanding of management's process of determination of impairment of financing as per IFRS 9, the Group's internal rating model, impairment allowance policy and the ECL modelling methodology.

▪ We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9.

▪ We assessed the design and implementation, and tested the operating effectiveness of controls over:

➢ the modelling process, including governance over monitoring of the model and approval of key assumptions;

➢ the classification of borrowers in various stages and timely identification of SICR and determination of default / individually impaired exposures; and

➢ the integrity of data inputs into the ECL model.

▪ We assessed the Group's criteria for determination of SICR, identification of impaired / default exposures and their classification into various stages.</td></tr>
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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of financing (continued) ➢ Qualitative adjustments to reflect current or future external factors that might not be captured by the ECL models. ➢ Disclosures relating to IFRS 9 and the related disclosures of IFRS 7. *Refer to note 2d)i) which contains the disclosure of critical accounting judgments, estimates and assumptions; note 7-2 which contains the disclosure of impairment against financing; and note 27-1a) for details of credit quality analysis and key assumptions and factors considered in the determination of ECL.*	▪ For a sample of customers, we assessed: ➢ the internal ratings determined by the management based on the Group's internal rating model, and compared with the ratings used in the ECL model; ➢ the staging as identified by management; and ➢ management's computations of ECL. ▪ We assessed the reasonableness of underlying assumptions, including forward-looking assumptions, used by the Group in the ECL model. ▪ Where overlays to model-driven ECL were used, we assessed those overlays and the governance process around such overlays. ▪ We tested the completeness and accuracy of data underlying the ECL calculations as at 31 December 2019. ▪ Where relevant, we involved specialists to assist us in reviewing model calculations. ▪ We assessed the adequacy of disclosures included in the consolidated financial statements.

Other Information included in the Group's 2019 Annual Report

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

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

Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information included in the Bank's 2019 Annual Report (continued)

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

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

Responsibilities of the Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS 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 By-Laws, and for such internal control as management determines 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

KPMG Al Fozan & Partners
Certified Public Accountants

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Independent Auditors' Report on the Audit of the Consolidated Financial Statements to the Shareholders of Al Rajhi Banking and Investment Corporation (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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

As part of an audit in accordance with the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional 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 the 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 the management.

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

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

- 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 the Group's 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 to 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 Al Rajhi Banking and Investment Corporation (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 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 Group is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control law in the Kingdom of Saudi Arabia and the Bank's By-Laws, in so far as they affect the preparation and presentation of the consolidated financial statements.

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25 Jumada Thani 1441H
(19 February 2020)

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KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

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

		(SAR'000)	
	Notes	**31 December 2019**	31 December 2018 (Restated note 37)
ASSETS			
Cash and balances with Saudi Arabian Monetary Authority ("SAMA") and other central banks	4	**39,294,099**	43,246,043
Due from banks and other financial institutions, net	5	**32,058,182**	32,387,760
Investments, net	6	**46,842,630**	43,062,565
Financing, net	7	**249,682,805**	231,758,206
Property and equipment, net	8	**10,407,247**	8,649,435
Investment properties, net	9	**1,383,849**	1,297,590
Other assets, net	10	**4,417,764**	3,629,245
TOTAL ASSETS		**384,086,576**	364,030,844
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**2,219,604**	7,289,624
Customers' deposits	12	**312,405,823**	293,909,125
Other liabilities	13	**18,269,492**	14,526,229
Total liabilities		**332,894,919**	315,724,978
Shareholders' equity			
Share capital	14	**25,000,000**	16,250,000
Statutory reserve	15	**21,789,632**	16,250,000
Other reserves	15	**(216,041)**	(349,555)
Retained earnings		**868,066**	12,499,171
Proposed gross dividends	23	**3,750,000**	3,656,250
Total shareholders' equity		**51,191,657**	48,305,866
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**384,086,576**	364,030,844

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chairman | Chief Executive Officer | Chief Financial Officer

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

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

	Notes	(SAR'000) 2019	2018 (Restated note 37)
INCOME			
Gross financing and investment income	17	**16,962,583**	14,993,709
Return on customers', banks' and financial institutions' time investments	17	**(534,860)**	(506,724)
Net financing and investment income	17	**16,427,723**	14,486,985
Fee from banking services, net	18	**1,987,367**	1,867,034
Exchange income, net		**774,096**	755,804
Other operating income, net	19	**295,278**	209,695
Total operating income		**19,484,464**	17,319,518
EXPENSES			
Salaries and employees' related benefits	20	**2,794,046**	2,809,449
Rent and premises related expenses		**-**	314,567
Depreciation and amortization	8	**1,059,582**	603,136
Other general and administrative expenses	21	**2,532,213**	1,925,518
Total operating expenses before Impairment charge		**6,385,841**	5,652,670
Impairment charge for financing and other financial assets, net	7	**1,772,265**	1,530,946
Total operating expenses		**8,158,106**	7,183,616
Income before Zakat		**11,326,358**	10,135,902
Zakat for the year	2 & 37	**(1,167,831)**	(6,367,949)
NET INCOME FOR THE YEAR		**10,158,527**	3,767,953
Basic and diluted earnings per share (in SAR)	22 & 37	**4.06**	1.51

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chairman — Chief Executive Officer — Chief Financial Officer

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

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

	Notes	(SAR'000) 2019	2018 (Restated Note 37)
Net income for the year		**10,158,527**	3,767,953
Other comprehensive income			
Items that cannot be reclassified to consolidated statement of income in subsequent periods			
Net change in fair value of investments held at fair value through other comprehensive income ("FVOCI Investments")	15	**178,773**	(49,798)
Re-measurement of employees' end of service benefits liabilities ("ESOB")	15 & 25	**(51,630)**	-
Items that can be reclassified to consolidated statement of income in subsequent periods			
Exchange difference on translation of foreign operations	15	**6,371**	(52,637)
Total comprehensive income for the year		**10,292,041**	3,665,518

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chairman | Chief Executive Officer | Chief Financial Officer

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

	Notes	Share capital (SAR'000)	Statutory reserve (SAR'000)	Other reserves (SAR'000)	Retained earnings (SAR'000)	Proposed gross dividends (SAR'000)	Total (SAR'000)
Restated balance at 31 December 2018	37	16,250,000	16,250,000	(349,555)	12,499,171	3,656,250	48,305,866
Net income for the year		-	-	-	10,158,527	-	10,158,527
Net change in fair value of FVOCI investments	15	-	-	178,773	-	-	178,773
Net movement in foreign currency translation reserve	15	-	-	6,371	-	-	6,371
Re-measurement of employee EOSB liabilities	15 & 25	-	-	(51,630)	-	-	(51,630)
Net other comprehensive income recognized directly in shareholders' equity		-	-	133,514	-	-	133,514
Total comprehensive income for the year		-	-	133,514	10,158,527	-	10,292,041
Transfer to statutory reserve		-	5,539,632	-	(5,539,632)	-	-
Bonus shares issued	14	8,750,000	-	-	(8,750,000)	-	-
Dividend for the second half 2018	23	-	-	-	-	(3,656,250)	(3,656,250)
Interim dividends for the first half of 2019	23	-	-	-	(3,750,000)	-	(3,750,000)
Proposed final dividends for 2019	23 & 36	-	-	-	(3,750,000)	3,750,000	-
Balance at 31 December 2019		25,000,000	21,789,632	(216,041)	868,066	3,750,000	51,191,657

	Notes	Share capital (SAR'000)	Statutory reserve (SAR'000)	Other reserves (SAR'000)	Retained earnings (SAR'000)	Proposed gross dividends (SAR'000)	Total (SAR'000)
Balance at 31 December 2017		16,250,000	16,250,000	5,281,682	13,906,736	4,062,500	55,750,918
Impact of adopting IFRS 9	15	-	-	(129,789)	(2,752,899)	-	(2,882,688)
Impact of depreciation of property and equipment	37	-	-	-	(87,187)	-	(87,187)
Other adjustment	37	-	-	-	(799,356)	-	(799,356)
Restated balance at 1 January 2018	23	16,250,000	16,250,000	5,151,893	10,267,294	4,062,500	51,981,687
Restated net income for the year	37	-	-	-	3,767,953	-	3,767,953
Net change in fair value of FVOCI investments	15	-	-	(49,798)	-	-	(49,798)
Net movement in foreign currency translation reserve	15	-	-	(52,637)	-	-	(52,637)
Net other comprehensive income recognized directly in shareholders' equity		-	-	(102,435)	-	-	(102,435)
Total comprehensive income for the year		-	-	(102,435)	3,767,953	-	3,665,518
Final dividend for the second half 2017		-	-	-	-	(4,062,500)	(4,062,500)
Interim dividends for the first half of 2018	23	-	-	-	(3,250,000)	-	(3,250,000)
Proposed final dividends for 2018	23 & 36	-	-	-	(3,656,250)	3,656,250	-
Zakat adjustment and other transfers	37	-	-	(5,399,013)	5,370,174	-	(28,839)
Restated balance at 31 December 2018	37	16,250,000	16,250,000	(349,555)	12,499,171	3,656,250	48,305,866

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chairman | Chief Executive Officer | Chief Financial Officer

AL RAJHI BANKING AND INVESTMENT CORPORATION
(A SAUDI JOINT STOCK COMPANY)

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

		(SAR'000)	
	Notes	2019	2018 (Restated Note 37)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before Zakat		**11,326,358**	10,135,902
Adjustments to reconcile net income to net cash from/ (used in) operating activities:			
Gain on investments held at fair value through statement of income (FVSI)	19	**(21,617)**	(14,600)
Depreciation and Amortization	8	**1,059,582**	603,136
Depreciation on investment properties	9	**17,221**	16,416
(Gain) / loss on sale of property and equipment, net	19	**(568)**	115
Impairment charge for financing and other financial assets, net	7	**1,772,265**	1,530,946
Share in profit of an associate	19	**(23,481)**	(47,928)
(Increase) / decrease in operating assets			
Statutory deposit with SAMA and central banks		**(1,219,309)**	(1,491,942)
Due from banks and other financial institutions		**(3,174,273)**	(16,585,287)
Financing		**(19,696,863)**	(2,636,268)
FVSI investments		**25,685**	151,904
Other assets, net		**(804,605)**	1,333,582
Increase/ (decrease) in operating liabilities			
Due to banks and other financial institutions		**(5,070,020)**	1,767,057
Customers' deposits		**18,496,698**	20,852,681
Other liabilities		**4,388,757**	(1,245,223)
Net cash from operating activities		**7,075,830**	14,370,491
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(1,527,133)**	(1,481,746)
Purchase of investment property		**(103,480)**	-
Purchase of FVOCI / FVSI investments		**(1,638,587)**	(1,389,489)
Proceeds from disposal of FVOCI / FVSI investments		**1,148,963**	1,203,936
Proceeds from maturities of investments held at amortized cost		**91,458,865**	96,748,563
Purchase of investments held at amortized cost		**(94,524,237)**	(103,363,657)
Net cash used in investing activities		**(5,185,609)**	(8,282,393)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	23	**(7,406,250)**	(7,312,500)
Zakat paid		**(2,889,286)**	(211,290)
Payment against lease obligation		**(269,789)**	-
Net cash used in financing activities		**(10,565,325)**	(7,523,790)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(8,675,104)**	(1,435,692)
Cash and cash equivalents at the beginning of the year		**29,786,503**	31,222,195
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	24	**21,111,399**	29,786,503
Gross financing and investment income received during the year		**16,693,465**	13,391,901
Return on customers', banks' and financial institutions' time investments paid during the year		**(282,046)**	(728,956)
		16,411,419	12,662,945
Non-cash transactions:			
Other real estate		**60,226**	72,106
Net change in fair value of FVOCI equity investments		**178,773**	(49,798)

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Chairman | Chief Executive Officer | Chief Financial Officer

1. GENERAL

a) Incorporation and operation

Al Rajhi Banking and Investment Corporation, a Saudi Joint Stock Company, (the "Bank"), was formed and licensed pursuant to Royal Decree No. M/59 dated 3 Dhul Qadah 1407H (corresponding to 29 June 1987) and in accordance with Article 6 of the Council of Ministers' Resolution No. 245, dated 26 Shawal 1407H (corresponding to 23 June 1987).

The Bank operates under Commercial Registration No. 1010000096 and its Head Office is located at the following address:

Al Rajhi Bank
8467 King Fahd Road - Al Muruj Dist.
Unit No 1
Riyadh 12263 - 2743
Kingdom of Saudi Arabia

The objectives of the Bank are to carry out banking and investment activities in accordance with its Articles of Association and By-Laws, the Banking Control Law and the Council of Ministers' Resolution referred to above. The Bank is engaged in banking and investment activities inside and outside the Kingdom of Saudi Arabia through 572 branches (2018: 581) including the branches outside the Kingdom and 13,439 employees (2018: 13,532 employees). The Bank has established certain subsidiary companies (together with the Bank hereinafter referred to as "the Group") in which it owns all or majority of their shares as set out below (Also see note 3(b)):

Name of subsidiaries	**Shareholding %**		
	2019	2018	
Al Rajhi Development Company - KSA	**100%**	100%	A limited liability company registered in the Kingdom of Saudi Arabia to support the mortgage programs of the Bank through transferring and holding the title deeds of real estate properties under its name on behalf of the Bank, collection of revenue of certain properties sold by the Bank, provide real estate and engineering consulting services, provide documentation service to register the real estate properties and overseeing the evaluation of real estate properties.
Al Rajhi Corporation Limited – Malaysia	**100%**	100%	A licensed Islamic Bank under the Islamic Financial Services Act 2013, incorporated and domiciled in Malaysia.

1. GENERAL (continued)

a) Incorporation and operation (continued)

Name of subsidiaries	Shareholding %		
	2019	2018	
Al Rajhi Capital Company – KSA	**100%**	100%	A limited liability company registered in the Kingdom of Saudi Arabia to act as principal agent and/or to provide brokerage, underwriting, managing, advisory, arranging and custodial services.
Al Rajhi Bank – Kuwait	**100%**	100%	A foreign branch registered with the Central Bank of Kuwait.
Al Rajhi Bank – Jordan	**100%**	100%	A foreign branch operating in Hashemite Kingdom of Jordan, providing all financial, banking, and investments services and importing and trading in precious metals and stones in accordance with Islamic Sharia'a rules and under the applicable banking law.
Al Rajhi Takaful Agency Company – KSA	**99%**	99%	A limited liability company registered in the Kingdom of Saudi Arabia to act as an agent for insurance brokerage activities per the agency agreement with Al Rajhi Cooperative Insurance Company.
Al Rajhi Company for management services – KSA	**100%**	100%	A limited liability company registered in the Kingdom of Saudi Arabia to provide recruitment services.
Emkan Finance Company – KSA	**100%**	-	A closed joint stock company registered in the Kingdom of Saudi Arabia providing micro consumer financing, finance lease and small and medium business financing. As of 31 December, the company is under licensing proscess with Saudi Arabian Monetary Authority (SAMA).

Since the subsidiaries are wholly or substantially owned by the Bank, the non-controlling interest is insignificant and therefore not disclosed. All of the above-mentioned subsidiaries have been consolidated.

b) Shari'a Authority

As a commitment from the Bank for its activities to be in compliance with Islamic Shari'a legislations, since its inception, the Bank has established a Shari'a Authority to ascertain that the Bank's activities are subject to its approval and control. The Shari'a Authority had reviewed several of the Bank's activities and issued the required decisions thereon.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group have been prepared:

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

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

On 17 July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for zakat charges in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") as endorsed in the Kingdom of Saudi Arabia, and 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 by retrospectively adjusting the impact in line with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 3 and effect of change in note 37 to the consolidated financial statements. The Group has further adopted IFRS 16: leases effective from 1 January 2019. The change in accounting policy due to this new standard is disclosed in note 3.

b) Basis of measurement and preparation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of investments held as fair value through income statement ("FVSI") and investments held at fair value through other comprehensive income ("FVOCI").

The Group presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 27-2.

c) Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals ("SAR"), which is the Bank's functional currency, and are rounded off to the nearest thousand except where otherwise indicated.

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgments in the process of applying the Group's accounting policies. Such estimates, assumptions and judgments 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 recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur. Significant areas where management has used estimates, assumptions or exercised judgments is as follows:

i) Impairment losses on financial assets

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

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

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

2. BASIS OF PREPARATION (continued)

d) Critical accounting judgments, estimates and assumptions (continued)

ii) Fair value of financial instruments

The Group measures certain financial instruments at fair value at each consolidated balance sheet date.

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

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

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

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

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

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

iii) Determination of control over investees

The control indicators are subject to management’s judgements, and can have a significant effect in the case of the Bank’s interests in investments funds.

Investment funds
The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried profits and expected management fees) and the investor’s rights to remove the Fund Manager the Group has.

3. BASIS OF PREPARATION (continued)

d) Critical accounting judgments, estimates and assumptions (continued)

Determination of control over investees (continued)

concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

iv) Provisions for liabilities and charges

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

v) Going concern

The consolidated financial statements have been prepared on a going concern basis. 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, the management is not aware of any material uncertainties that may cast significant doubt upon the Group’s ability to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018 except for the adoption of the following new standard and other amendments to the accounting treatment of Zakat mentioned below.

Adoption of New Standards

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

Except for the adoption of the below new accounting standard (IFRS 16), several other amendments and interpretations apply for the first time in 2019, but do not have significant an impact on the consolidated financial statements of the Group.

Adoption of IFRS 16 – Leases

The Group adopted IFRS 16 'Leases'

Before 1 January 2019, the Group accounted for leases as follows:

The Group as a lessee:
Leases that do not transfer to the Group substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Group are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

The Group as a lessor:
When assets are transferred under Islamic lease arrangements (e.g. Ijara Muntahia Bittamleek or Ijara with ownership promise), the present value of the lease payments is recognised as a receivable and disclosed under "Financing". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

Adoption of New Standards (continued)

Adoption of IFRS 16 – Leases (continued)

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

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

For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs, which are amortized over the estimated useful life.

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, using the incremental financing rate that is applicable to the Group at 1 January 2019 (the time of initial application), which was approximately 4.6%. IFRS 16 transition disclosures also require the Group to present the reconciliation of the off-balance sheet lease obligations as of 31 December 2018 to the recognized lease liabilities as of 1 January 2019. The right of use assets are classified under property and equipment. On the other hand, the lease liability is classified under other liabilities.

RECONCILIATION OF LEASE LIABILITIES AS OF 1 JANUARY 2019

	SAR'000
Off-balance sheet lease obligations as of 31 December 2018	**1,256,100**
Lease liability of reasonably certain extensions or termination options	203,605
Discounting of lease liability using the Bank's incremental financing rate	(51,946)
Non-lease payments	(55,398)
Total lease liability recognized as of 1 January 2019	**1,352,361**

Right of Use (RoU) Assets / Lease Liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

Adoption of New Standards (continued)

Adoption of IFRS 16 – Leases (continued)

Right of Use Assets
The Group applies the cost model, and measures right of use assets at cost:

a) less any accumulated depreciation and any accumulated impairment losses; and

b) adjusted for any re-measurement of the lease liability for lease modifications.

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset, or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment

Lease Liability
On initial recognition, the lease liability is the present value of all remaining payments to the lessor. After the commencement date, the Group measures the lease liability by:

a) Increasing the carrying amount to reflect the incremental financing rate on the lease liability;
b) Reducing the carrying amount to reflect the lease payments made; and
c) Re-measuring the carrying amount to reflect any re-assessment or lease modification.

Right of use assets are classified under property and equipment, while lease liabilities are classified under other liabilities in the consolidated statement of financial position.

Short-term leases and leases of low-value assets:

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

Accounting for Zakat
As mentioned in note 2(a) above, the basis of preparation has been changed for the year ended 31 December 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat charge was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat shall be recognized in the statement of income. The Group has accounted for this change in the accounting for zakat retrospectively, and the effects of the above change are disclosed in note 37 to the consolidated financial statements. The change has resulted in a reduction of reported income of the Group for the year ended 31 December 2018 by SAR 6,368 million. The change has had no impact on the consolidated statement of cash flows for the year ended 31 December 2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group. The financial statements of subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. 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 majority of the voting or similar rights of an investee entity, the Bank considers all relevant facts and circumstances in assessing whether it has power over the entity, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Bank’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. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it:

- Derecognises the assets and liabilities of the subsidiary
- Derecognises the cumulative translation differences recorded in shareholder’s equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent’s share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate as would be required if the Bank had directly disposed of the related assets or liabilities.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investment in an associate

An associate is an entity over which the Group exercises significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint arrangement.

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

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of the investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before provision for impairment) or the recoverable amount. On derecognition the difference between the carrying amount of investment in the associate and the fair value of the consideration received is recognized in the consolidated statement of income.

Unrealised gains on transactions are eliminated to the extent of the Group's interest in the investee. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. 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.

d) Financial instruments

1) Classification of financial assets

On initial recognition, a financial asset is classified and measured at: amortized cost, FVOCI or FVSI. This classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

Financial assets at amortised cost

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

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

Financial Asset at FVOCI

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

- 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.

Equity Instruments: 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

1) Classification of financial assets (continued)

Financial Asset at FVSI

All other financial assets are classified as measured at FVSI.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVSI 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 profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case’ scenarios into account. If cash flows after initial recognition are realised in a way that is different from the 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 going forward.

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

Assessments whether contractual cash flows are solely payments of principal and interest

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

1) Classification of financial assets (continued)

Assessments whether contractual cash flows are solely payments of principal and interest (continued)

- 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.

Reclassification

The Group reclassifies the financial assets between FVSI, FVOCI and amortized cost if and only if under rare circumstances and if its business model objective for its financial assets changes so its previous business model assessment would no longer apply.

The Group offers profit based products including Mutajara, installment sales, Murabaha and Istisnaa to its customers in compliance with Shari'a rules.

The Group classifies its Principal financing and Investment as follows:

Financing : These financings represent loans granted to customers. These financings mainly constitute four broad categories i.e. Mutajara, Installment sales, Murabaha and credit cards. The Group classifies these financings at amortised cost.

Due from banks and other financial institutions : These consists of placements with financial Institutions (FIs). The Bank classifies these balances due from banks and other financial institutions at amortised cost as they are held to collect contractual cash flows and pass SPPI criterion.

Investments (Murabaha with SAMA) : These investments consists of placements with Saudi Arabian Monetary Agency (SAMA). The Bank classifies these investments at amortised cost as they are held to collect contractual cash flows and pass SPPI criterion.

Investments (Sukuk) : These investments consists of Investment in various Sukuk. The Group classifies these investments at amortised cost except for those Sukuk which fails SPPI criterion, which are classified at FVSI.

Equity Investments : These are the strategic equity investments which the Bank does not expect to sell, for which Group has made an irrevocable election on the date of initial recognition to present the fair value changes in other comprehensive income.

Investments (Mutual Funds) : The investments consist of Investments in various Mutual Funds. The Group classifies these investment at FVSI as these investments fail SPPI criterion.

2) Classification of financial liabilities

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

All amounts due to banks and other financial institutions and customer deposits are initially recognized at fair value less transaction costs.
Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
d) Financial instruments (continued)

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

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.

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

-Financial liabilities

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

4) Modifications of financial assets and financial liabilities

-Financial assets

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 financing income.

-Financial liabilities

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 consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)

5) Impairment

Impairment of financial assets

The loss allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and financing income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

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

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. It 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 Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
d) Financial instruments (continued)
5) Impairment (continued)

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition .This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group 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.

Financing 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 financing that is overdue for 90 days or more is considered impaired.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Financial instruments (continued)
5) Impairment (continued)

Presentation of allowance for ECL in the consolidated statement of financial position

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

Write-off

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

Collateral valuation

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

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Collateral repossessed

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

6) Financial guarantees and financing 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. 'financing commitments' are firm commitments to provide credit under pre-specified terms and conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial instruments (continued)

6) Financial guarantees and financing commitments (continued)

Financial guarantees issued or commitments to provide a financing at a below-market profit 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; and

The Group has issued no financing commitments that are measured at FVSI. For other loan commitments the Group recognizes loss allowance;

7) Foreign Currencies

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

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

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised in OCI.

The monetary assets and liabilities of foreign subsidiaries are translated into SAR at rates of exchange prevailing at the date of the consolidated statement of financial position. The statements of income of foreign subsidiaries are translated at the weighted average exchange rates for the year.

e) Trade date

All regular way purchases and sales of financial assets are recognized and derecognized on the trade date (i.e. the date on which the Group commits to purchase or sell the assets). Regular way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place. All other financial assets and financial liabilities (including assets and liabilities designated at fair value through statement of income) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

f) Offsetting financial instruments

Financial assets and financial 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, and 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)

g) Revenue recognition

The following specific recognition criteria must be met before revenue is recognized.

Income from Mutajara, Murabaha, investments held at amortized cost, installment sale, Istisna'a financing and credit cards services is recognized based on the effective yield basis on the outstanding balances. The effective yield is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset . When calculating the effective yield, the Group estimates future cash flows considering all contractual terms of the financial instrument but excluding future credit losses. Fees and commissions are recognized when the service has been provided.

Financing commitment fees that are likely to be drawn down and other credit related fees are deferred (above certain threshold) and, together with the related direct cost, are recognized as an adjustment to the effective yield on the financing. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognised on a straight-line basis over the commitment period.

Fee and commission income that are integral to the effective rate on a financial asset or financial liability are included in the effective.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, over the period when the service is being provided i.e. related performance obligation is satisfied.

Fees received for asset management, wealth Management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided i.e. related performance obligation is satisfied . Asset management fees related to investment funds are recognized over the period the service is being provided. The same principle applies to Wealth management and Custody Services that are continuously recognized over a period of time.

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

Foreign currency exchange income / loss is recognized when earned / incurred.

Net trading income results from trading activities and include all realised and unrealised gains and losses from changes in fair value and related gross investment income or expense, dividends for financial assets and financial liabilities held for trading and foreign exchange differences.

Net income from FVSI financial instruments relates to financial assets and liabilities designated as FVSI and includes all realised and unrealised fair value changes, investment income, dividends and foreign exchange differences.

Rendering of services

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

The Group has concluded that revenue from rendering of various services related to payment service system, share trading services, remittance business, SADAD and Mudaraba (i.e. subscription, management and performance fees), should be recognized at the point when services are rendered i.e. when performance obligation is satisfied.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of due financing. Such real estate are considered as assets held for sale and are initially stated at the lower of net realisable value of due financing and the current fair value of the related properties, less any costs to sell (if material). Rental income from other real estate is recognised in the consolidated statement of income.

i) Investment properties

Investment properties are held for long-term rental yield and are not occupied by the Group. They are carried at cost, and depreciation is charged to the consolidated statement of income.

The cost of investment properties is depreciated using the straight-line method over the estimated useful life of the assets.

j) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment loss. Land is not depreciated. The cost of other property and equipment is depreciated using the straight-line method over the estimated useful life of the assets, as follows:

Leasehold land improvements over the lesser of the period of the lease or the useful life

Buildings – 33 years
Leasehold building improvements – over the lease period or 3 years, whichever is shorter
Equipment and furniture – 3 to 10 years
Right of use assets – over the lease period

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the date of each statement of financial position.

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

All assets are reviewed for impairment at each reporting date and 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.

k) Customers' deposits

Customer deposits are financial liabilities that are initially recognized at fair value less transaction cost, being the fair value of the consideration received, and are subsequently measured at amortized cost.

l) Provisions

Provisions are recognized when the Group has present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, 'cash and cash equivalents' include notes and coins on hand, balances with SAMA (excluding statutory deposits) and due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition which are subject to insignificant risk of changes in their fair value.

n) Short-term employee benefits

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

o) Special commission excluded from the consolidated statement of income

In accordance with the Shari'a Authority's resolutions, special commission income (non-Shari'a compliant income) received by the Bank is excluded from the determination of financing and investment income of the Bank, and is transferred to other liabilities in the consolidated statement of financial position and is subsequently paid-off to charities institution.

p) Provisions for employees' end of service benefits

The provision for employees' end of service benefits is accrued using actuarial valuation according to the regulations of Saudi labor law and local regulatory requirements.

q) Share-based payments

The Bank's founders had established a share-based compensation plan under which the entity receives services from the eligible employees as consideration for equity instruments of the Bank which are granted to the employees.

r) Mudaraba funds

The Group carries out Mudaraba transactions on behalf of its customers, and are treated by the Group as being restricted investments. These are included as off balance sheet items. The Group's share of profits from managing such funds is included in the Group's consolidated statement of income.

s) Investment management services

The Bank provides investment management services to its customers, through its subsidiary which include management of certain mutual funds. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the Group's consolidated financial statements. The Group's share of these funds is included under FVSI investments. Fees earned are disclosed in the consolidated statement of income.

t) Bank's products definition

The Bank provides its customers with banking products based on interest avoidance concept and in accordance with Shari'a regulations. The following is a description of some of the financing products:

Mutajara financing:
It is a financing agreement whereby the Bank purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price, accordingly the client becomes debtor to the Bank with the sale amount and for the period agreed in the contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Bank's products definition (continued)

Installment sales financing:
It is a financing agreement whereby the Bank purchases a commodity or an asset and sells it to the client based on a purchase promise from the client with a deferred price higher than the cash price.

Accordingly the client becomes a debtor to the Bank with the sale amount to be paid through installments as agreed in the contract.

Istisnaa financing:
It is a financing agreement whereby the Bank contracts to manufacture a commodity with certain known and accurate specifications according to the client's request. The client becomes a debtor to the Bank for the manufacturing price, which includes cost plus profit.

Murabaha financing:
It is a financing agreement whereby the Bank purchases a commodity or asset and sells it to the client with a price representing the purchase price plus a profit known and agreed by the client which means that the client is aware of the cost and profit separately.

4. CASH AND BALANCES WITH SAMA AND OTHER CENTRAL BANKS

Cash and balances with SAMA and other central banks as of 31 December comprise of the following:

	(SAR'000)	
	2019	2018
Cash in hand	**7,404,276**	8,133,635
Statutory deposits	**20,663,503**	19,444,194
Current account with SAMA	**371,320**	293,214
Mutajara with SAMA	**10,855,000**	15,375,000
Total	**39,294,099**	43,246,043

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA and other central banks at stipulated percentages of its customers' demand deposits, customers' time investment and other customers' accounts calculated at the end of each Gregorian month.

The above statutory deposits are not available to finance the Bank's day-to-day operations and therefore are not considered as part of cash and cash equivalents (note 24) when preparing the consolidated statement of cash flows.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions as of 31 December comprise the following:

	(SAR'000)	
	2019	2018
Current accounts	**798,168**	778,769
Mutajara	**31,260,014**	31,608,991
Total	**32,058,182**	32,387,760

The tables below depict the quality of due from banks and other financial institutions as at 31 December:

	(SAR'000)	
	2019	2018
Investment grade (credit rating AAA to BBB)	**31,601,630**	31,381,339
Non-investment grade (credit rating BB+ to B-)	**241,353**	750,591
Unrated	**215,199**	255,830
Total	**32,058,182**	32,387,760

The credit quality of due from banks and other financial institutions is managed using external credit rating agencies. The above due from banks and other financial institutions balances are neither past due nor impaired.

6. INVESTMENTS, NET

a) Investments comprise the following as of 31 December:

	(SAR'000)	
	2019	2018
Investment in an associate	**196,235**	172,753
Investments held at amortized cost		
Murabaha with Saudi Government and SAMA	**24,991,978**	22,477,145
Sukuk	**17,973,379**	17,395,957
Less: Impairment (Stage 1)	**(22,270)**	(28,337)
Total investments held at amortized cost	**42,943,087**	39,844,765
Investments held as FVSI		
Mutual funds	**1,230,711**	1,141,584
Sukuk	**800,000**	800,000
Total investments held as FVSI	**2,030,711**	1,941,584
FVOCI investments		
Equity investments	**1,672,597**	1,103,463
Total FVOCI investments	**1,672,597**	1,103,463
Investments	**46,842,630**	43,062,565

The designated FVSI investments included above are designated upon initial recognition as FVSI and are in accordance with the documented risk management strategy of the Bank.

All investments held at amortized cost are neither past due nor impaired as of 31 December 2019 & 2018.

Equity investment securities designated as at FVOCI
At 1 January 2018, the Bank designated equity securities designated as at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long-term for strategic purposes.

None of the strategic investments were disposed of during 2019, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Investment in an associate
The Bank owns 22.5% (31 December 2018: 22.5%) shares of Al Rajhi Company for Cooperative Insurance, a Saudi Joint Stock Company.

b) The analysis of the composition of investments as of 31 December is as follows:

2019	(SAR'000)		
	Quoted	**Unquoted**	**Total**
Murabaha with Saudi Government and SAMA	**-**	**24,991,978**	**24,991,978**
Sukuk	**13,248,750**	**5,502,359**	**18,751,109**
Equities	**1,844,477**	**24,355**	**1,868,832**
Mutual funds	**-**	**1,230,711**	**1,230,711**
Total	**15,093,227**	**31,749,403**	**46,842,630**

6. INVESTMENTS, NET (continued)

2018	(SAR'000)		
	Quoted	Unquoted	Total
Murabaha with Saudi Government and SAMA	-	22,477,145	22,477,145
Sukuk	12,799,000	5,368,620	18,167,620
Equities	1,251,854	24,362	1,276,216
Mutual funds	-	1,141,584	1,141,584
Total	14,050,854	29,011,711	43,062,565

c) The analysis of unrecognized gains and losses and fair values of investments as of 31 December are as follows:

2019 (SAR'000)	**Gross carrying value**	**Gross unrecognized gains**	**Gross unrecognized losses**	**Fair value**
Murabaha with Saudi Government and SAMA	**24,991,978**	**276,199**	**-**	**25,268,177**
Sukuk	**18,773,379**	**384,209**	**-**	**19,157,588**
Equities	**1,868,832**	**42,954**	**-**	**1,911,786**
Mutual funds	**1,230,711**	**6,494**	**-**	**1,237,205**
Total	**46,864,900**	**709,856**	**-**	**47,574,756**

2018 (SAR'000)	Gross carrying value	Gross unrecognized gains	Gross unrecognized losses	Fair value
Murabaha with Saudi Government and SAMA	22,477,145	198,467	-	22,675,612
Sukuk	18,195,957	9,011	-	18,204,968
Equities	1,276,216	-	(126,599)	1,149,617
Mutual funds	1,141,584	-	(2,173)	1,139,411
Total	43,090,902	207,478	(128,772)	43,169,608

d) Credit quality of investments

(SAR'000)	**2019**	2018
Murabaha with Saudi Government and SAMA	**24,991,978**	22,477,145
Sukuk - Investment grade	**18,565,484**	18,167,620
Sukuk - BB+ (Fitch)	**185,625**	-
Total	**43,743,087**	40,644,765

Investment Grade includes those investments having credit exposure equivalent to Standard and Poor's rating of AAA to BBB. The unrated category only comprise of unquoted sukuk. Fitch has assigned A rating to KSA as a country as at 31 December 2019 (31 December 2018 : A-).

6. INVESTMENTS, NET (continued)

e) The following is an analysis of foreign investments according to investment categories as at 31 December:

(SAR'000)	**2019**	2018
Investments held at amortized cost		
Sukuk	**1,128,857**	1,539,271
Investments held as FVSI		
Equity investments	**21,274**	21,282
Mutual funds	**13,409**	23,543
Total	**1,163,540**	1,584,096

f) The following is an analysis of investments according to counterparties as at 31 December:

(SAR'000)	**2019**	2018
Government and quasi government	**41,780,947**	39,874,318
Banks and other financial institutions	**800,000**	800,000
Companies	**3,053,242**	1,275,000
Mutual funds	**1,230,711**	1,141,584
Less: Impairment (Stage 1)	**(22,270)**	(28,337)
Net investments	**46,842,630**	43,062,565

7. FINANCING, NET

7–1 Financing

a. Net financing as of 31 December comprises the following:

	(SAR'000)			
	2019			
	Performing	**Non-performing**	**Allowance for impairment**	**Net financing**
Mutajara	**42,932,499**	**1,687,074**	**(3,042,329)**	**41,577,244**
Installment sale	**190,952,220**	**581,977**	**(3,810,196)**	**187,724,001**
Murabaha	**17,372,860**	**-**	**(144,794)**	**17,228,066**
Credit cards	**3,128,029**	**47,742**	**(22,277)**	**3,153,494**
Total	**254,385,608**	**2,316,793**	**(7,019,596)**	**249,682,805**

	(SAR'000)			
	2018			
	Performing	Non-performing	Allowance for impairment	Net financing
Mutajara	45,257,143	1,024,320	(2,562,159)	43,719,304
Installment sale	174,683,066	591,541	(4,024,656)	171,249,951
Murabaha	15,386,777	662,570	(1,219,747)	14,829,600
Credit cards	1,973,379	11,881	(25,909)	1,959,351
Total	237,300,365	2,290,312	(7,832,471)	231,758,206

7. FINANCING, NET (continued)

7–1 Financing (continued)

b. The net financing by location, inside and outside the Kingdom of Saudi Arabia, as of 31 December is as follows:

	(SAR'000)				
	2019				
Description	Mutajara	Installment sale	Murabaha	Credit cards	Total
Inside the Kingdom of Saudi Arabia	**44,619,573**	**187,029,236**	**11,580,210**	**3,168,653**	**246,397,672**
Outside the Kingdom of Saudi Arabia	**-**	**4,504,961**	**5,792,650**	**7,118**	**10,304,729**
Gross financing	**44,619,573**	**191,534,197**	**17,372,860**	**3,175,771**	**256,702,401**
Allowance for impairment	**(3,042,329)**	**(3,810,196)**	**(144,794)**	**(22,277)**	**(7,019,596)**
Net financing	**41,577,244**	**187,724,001**	**17,228,066**	**3,153,494**	**249,682,805**

	(SAR'000)				
	2018				
Description	Mutajara	Installment sale	Murabaha	Credit cards	Total
Inside the Kingdom of Saudi Arabia	46,281,463	170,890,940	11,824,165	1,978,461	230,975,029
Outside the Kingdom of Saudi Arabia	-	4,383,667	4,225,182	6,799	8,615,648
Gross financing	46,281,463	175,274,607	16,049,347	1,985,260	239,590,677
Allowance for impairment	(2,562,159)	(4,024,656)	(1,219,747)	(25,909)	(7,832,471)
Net financing	43,719,304	171,249,951	14,829,600	1,959,351	231,758,206

The table below depicts the categories of financing as per main business segments at 31 December:

	(SAR'000)		
2019	**Retail**	**Corporate**	**Total**
Mutajara	**811,429**	**43,808,144**	**44,619,573**
Installment sale	**185,766,580**	**5,767,617**	**191,534,197**
Murabaha	**801,720**	**16,571,140**	**17,372,860**
Credit cards	**3,175,771**	**-**	**3,175,771**
Financing, gross	**190,555,500**	**66,146,901**	**256,702,401**
Less: Allowance for impairment	**(3,832,473)**	**(3,187,123)**	**(7,019,596)**
Financing, net	**186,723,027**	**62,959,778**	**249,682,805**

7. FINANCING, NET (continued)

7–1 Financing (continued)

2018	Retail (SAR'000)	Corporate (SAR'000)	Total (SAR'000)
Mutajara	320,987	45,960,476	46,281,463
Installment sale	168,453,798	6,820,809	175,274,607
Murabaha	373,612	15,675,735	16,049,347
Credit cards	1,985,260	-	1,985,260
Financing, gross	171,133,657	68,457,020	239,590,677
Less: Allowance for impairment	(4,050,565)	(3,781,906)	(7,832,471)
Financing, net	167,083,092	64,675,114	231,758,206

The table below summarizes financing balances at 31 December that are neither past due nor impaired, past due but not impaired and impaired, as per the main business segments of the Group:

2019 (SAR'000)	**Neither past due nor impaired**	**Past due but not impaired**	**Impaired**	**Total**	**Allowance for impairment**	**Net financing**
Retail	189,591,885	333,896	629,719	190,555,500	(3,832,473)	**186,723,027**
Corporate	60,203,638	4,256,189	1,687,074	66,146,901	(3,187,123)	**62,959,778**
Total	**249,795,523**	**4,590,085**	**2,316,793**	**256,702,401**	**(7,019,596)**	**249,682,805**

2018 (SAR'000)	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Allowance for impairment	Net financing
Retail	169,473,152	276,300	603,457	170,352,909	(4,050,565)	166,302,344
Corporate	61,283,584	6,267,329	1,686,855	69,237,768	(3,781,906)	65,455,862
Total	230,756,736	6,543,629	2,290,312	239,590,677	(7,832,471)	231,758,206

Financing past due for less than 90 days is not treated as impaired, unless other available information proves otherwise. 'Neither past due nor impaired' and 'past due but not impaired' comprise total performing financing.

7-2 Allowance for impairment of financing:

a. The movement in the allowance for impairment of financing for the years ended 31 December is as follows (included in is the write-off amount of SAR 260 million which was written off against other financial assets).

2019	**Retail** (SAR'000)	**Corporate** (SAR'000)	**Total** (SAR'000)
Balance at beginning of the year	**4,050,565**	**3,781,906**	**7,832,471**
Gross charge for the year	**1,828,948**	**1,011,379**	**2,840,327**
Bad debts written off against provision	**(2,047,040)**	**(1,606,162)**	**(3,653,202)**
Balance at the end of the year	**3,832,473**	**3,187,123**	**7,019,596**

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued)

2018	(SAR'000)		
	Retail	Corporate	Total
Closing allowance as at 31 December 2017 (calculated under IAS 39)	2,023,434	3,531,776	5,555,210
Amounts restated through opening retained earnings	1,863,397	1,019,291	2,882,688
Opening impairment allowance as at 1 January 2018 (calculated under IFRS 9)	3,886,831	4,551,067	8,437,898
Gross charge for the year	1,563,491	1,193,705	2,757,196
Bad debts written off against provision	(1,399,757)	(1,962,866)	(3,362,623)
Balance at the end of the year	4,050,565	3,781,906	7,832,471

b. The following table shows reconciliations from the opening to the closing balance of the impairment allowance for financings to customers at amortized cost

2019	**(SAR '000')**			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2019	**2,649,346**	**3,360,889**	**2,033,418**	**8,043,653**
Transfer to 12 month ECL	**721,178**	**(721,178)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(41,307)**	**95,244**	**(53,937)**	**-**
Transfer to Lifetime ECL credit impaired	**(9,290)**	**(273,097)**	**282,387**	**-**
Charge for the year	**(334,105)**	**639,699**	**2,691,920**	**2,997,514**
Write-offs	**(469,302)**	**(354,013)**	**(2,569,887)**	**(3,393,202)**
Balance as at 31 December 2019	**2,516,520**	**2,747,544**	**2,383,901**	**7,647,965**

2018	(SAR '000')			
	12 month ECL	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2018	2,643,679	4,094,076	1,700,143	8,437,898
Transfer to 12 month ECL	411,893	(411,893)	-	-
Transfer to Lifetime ECL not credit impaired	(38,177)	112,134	(73,957)	-
Transfer to Lifetime ECL credit impaired	(8,766)	(329,629)	338,395	-
Charge for the period	138,418	361,338	2,468,622	2,968,378
Write-offs	(497,701)	(465,137)	(2,399,785)	(3,362,623)
Balance as at 31 December 2018	2,649,346	3,360,889	2,033,418	8,043,653

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued)

Closing balance as at 31 December 2019, includes impairment allowance related to off balance sheet items amounting to SAR 368 million (2018: SAR 211 million) which is accounted for in other liabilities. Closing balance of Lifetime ECL credit impaired differs from total reported Non Performing financing (NPL) due to IFRS 9 implementation.

7-3 Impairment charge movement

The details of the impairment charge on financing for the year recorded in the consolidated statement of income is as follows:

	(SAR'000)	
	2019	2018
Provided for the year for on balance sheet	**2,840,327**	2,757,196
Provided for the year for off balance sheet	**157,187**	211,182
Recovery of written off financing, net	**(1,225,249)**	(1,437,432)
Allowance for financing impairment, net	**1,772,265**	1,530,946

7-4 Installment sale under financing includes finance lease receivables, which are as follows:

	(SAR'000)	
	2019	2018
Gross receivables from finance leases	**25,261,591**	30,551,173
Less than 1 year	**367,707**	4,485
1 to 5 years	**17,072,183**	22,201,101
Over 5 years	**7,821,701**	8,345,587
	25,261,591	30,551,173
Unearned future finance income on finance leases	**(3,690,399)**	(4,593,105)
Net receivables from finance leases	**21,571,192**	25,958,068

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, net comprises the following as of 31 December:

(SAR'000)

	Land	**Buildings**	**Leasehold land & buildings improvements**	**Equipment and furniture**	**Total**
COST					
At 1 January 2018	2,320,596	3,827,002	941,671	5,379,504	12,468,773
Additions	23,229	502,482	34,242	959,949	1,519,902
Disposals	-	-	(26,159)	(35,391)	(61,550)
At 31 December 2018	**2,343,825**	**4,329,484**	**949,754**	**6,304,062**	**13,927,125**
Additions	156	1,884,315	383,707	562,168	2,830,346
Disposals	(6,096)	-	-	(32,190)	(38,286)
At 31 December 2019	**2,337,885**	**6,213,799**	**1,333,461**	**6,834,040**	**16,719,185**
ACCUMULATED DEPRECIATION					
At 1 January 2018, as reported previously	-	410,441	903,036	3,297,169	4,610,646
Restatement (note 37)	-	2,982	441	83,764	87,187
Restated balance at 1 January 2018 (note 37)	-	413,423	903,477	3,380,933	4,697,833
Restated charge for the year (note 37)	-	70,818	15,745	516,573	603,136
Disposals	-	-	-	(23,279)	(23,279)
At 31 December 2018	**-**	**484,241**	**919,222**	**3,874,227**	**5,277,690**
Charge for the year	-	373,782	77,624	608,176	1,059,582
Disposals	-	-	-	(25,334)	(25,334)
At 31 December 2019	**-**	**858,023**	**996,846**	**4,457,069**	**6,311,938**
NET BOOK VALUE					
At 31 December 2019	**2,337,885**	**5,355,776**	**336,615**	**2,376,971**	**10,407,247**
At 31 December 2018 (Note 37)	2,343,825	3,845,243	30,532	2,429,835	8,649,435
At 1 January 2018	2,320,596	3,413,579	38,194	1,998,571	7,770,940

Buildings include work-in-progress amounting to SAR 159 million as at 31 December 2019 (2018: SAR 1,595 million), and technology-related assets include work-in-progress amounting to SAR 608 million as of December 2019 (2018: SAR 419 million)

Equipment and furniture includes information technology-related assets having net book value of SAR 2,053 million as at 31 December 2019 (2018: SAR 1,372 million).

Included in the above line items are right-of-use assets as of 31 December 2019 of SAR 1,290 million. (2018: SAR nil).

8. PROPERTY AND EQUIPMENT, NET (continued)

Movement in right-of-use-assets for the year ended 31 December 2019

	SAR' 000 Building
Right of use asset recognised as of 1 January 2019	**1,352,361**
Additions	**177,738**
Amortization	**(239,837)**
Balance at the end of the year	**1,290,262**

9. INVESTMENT PROPERTIES, NET

The net book value of the investment properties approximates the fair value.

Investment properties, net comprises the following as of 31 December:

	Land	Buildings	Total
COST			
Balance at 1 January 2018	**811,670**	**538,329**	**1,349,999**
Additions	**-**	**447**	**447**
At 31 December 2018	**811,670**	**538,776**	**1,350,446**
Additions	**82,753**	**20,727**	**103,480**
At 31 December 2019	**894,423**	**559,503**	**1,453,926**
ACCUMULATED DEPRECIATION			
Balance at 1 January 2018	**-**	**(35,994)**	**(35,994)**
Charge for the year	**-**	**(16,862)**	**(16,862)**
At 31 December 2018	**-**	**(52,856)**	**(52,856)**
Charge for the year	**-**	**(17,221)**	**(17,221)**
At 31 December 2019	**-**	**(70,077)**	**(70,077)**
NET BOOK VALUE			
At 31 December 2019	**894,423**	**489,426**	**1,383,849**
At 31 December 2018	811,670	485,920	1,297,590
At 1 January 2018	811,670	502,335	1,314,005

10. OTHER ASSETS, NET

Other assets, net comprise the following as of 31 December:

	(SAR'000)	
	2019	2018
Receivables, net	**1,125,228**	879,916
Prepaid expenses	**498,690**	393,317
Assets in transit subject to financing	**1,289,212**	574,905
Accrued income	**294,421**	273,846
Cheques under collection	**392,958**	324,636
Advance payments	**386,032**	266,634
Other real estate	**60,420**	72,106
Others, net	**370,803**	843,885
Total	**4,417,764**	3,629,245

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise the following as of 31 December:

	(SAR'000)	
	2019	2018
Current accounts	**545,572**	925,945
Banks' time investments	**1,674,032**	6,363,679
Total	**2,219,604**	7,289,624

12. CUSTOMERS' DEPOSITS

Customers' deposits by type comprise the following as of 31 December:

	(SAR'000)	
	2019	2018
Demand deposits	**284,299,851**	268,416,842
Customers' time investments	**22,126,226**	18,689,225
Other customer accounts	**5,979,746**	6,803,058
Total	**312,405,823**	293,909,125

The balance of the other customers' accounts includes margins on letters of credit and guarantees, cheques under clearance and transfers.

Customers' deposits by currency comprise the following as of 31 December:

	(SAR'000)	
	2019	2018
Saudi Arabian Riyals	**298,569,853**	282,460,829
Foreign currencies	**13,835,970**	11,448,296
Total	**312,405,823**	293,909,125

13. OTHER LIABILITIES

Other liabilities comprise the following as of 31 December:

	(SAR'000)	
	2019	2018
Accounts payable	**4,225,376**	2,877,770
Employees' end of service benefits liabilities (note 25)	**980,304**	901,970
Accrued expenses	**1,243,720**	974,599
Charities (note 32)	**10,994**	56,350
Zakat payable	**4,627,204**	6,338,103
Lease liability	**1,294,689**	-
Other	**5,887,205**	3,377,437
Total	**18,269,492**	14,526,229

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,500 million shares of SAR 10 each (2018: 1,625 million shares of SAR 10 each).

On the 4th of April 2019, the Bank's extraordinary general assembly approved to increase the share capital from SAR 16,250 million to SAR 25,000 million through issuance of stock dividends (7 shares for every 13 shares held). The amount of the capital increase was transferred from retained earnings.

Basic and diluted earnings per share for the year ended 31 December 2019 and 2018 is calculated by dividing the net income for the year by 2,500 million shares to give a retrospective effect of the change in the number of shares increased as a result of the bonus shares issued. The diluted earnings per share is the same as the basic earnings per share.

15. STATUTORY AND OTHER RESERVES

The Banking Control Law in Saudi Arabia and the By-Laws of the Bank require a transfer to statutory reserve at a minimum of 25% of the annual net income for the year. Such transfers continue until the reserve equals the paid up share capital. This reserve is presently not available for distribution.

Other reserves includes FVOCI investments reserve, foreign currency translation reserve and employee share plan reserve.

The movements in FVOCI investments, foreign currency reserves, and employee share plan reserve are summarized as follows:

2019	(SAR'000)				
	FVOCI investments	**Foreign currency translation**	**Employee share Plan reserve**	**Re-measurement of employees' end of service benefits**	**Total**
Balance at beginning of the year	**(259,717)**	**(126,948)**	**37,110**	**-**	**(349,555)**
Net change in fair value	**178,773**	**-**	**-**	**-**	**178,773**
Exchange difference on translation of foreign operations	**-**	**6,371**	**-**	**-**	**6,371**
Re-measurement of employees' end of service benefits (note 25)	**-**	**-**	**-**	**(51,630)**	**(51,630)**
Balance at the end of the year	**(80,944)**	**(120,577)**	**37,110**	**(51,630)**	**(216,041)**

15. STATUTORY AND OTHER RESERVES (continued)

2018

	(SAR'000)				
	FVOCI investments	Foreign currency translation	Employee share Plan reserve	Re-measurement of employees' end of service benefits	Total
Balance at beginning of the year	(80,130)	(74,311)	37,110	-	(117,331)
Impact of adopting IFRS 9	(129,789)	-	-	-	(129,789)
Net change in fair value	(49,798)	-	-	-	(49,798)
Exchange difference on translation of foreign operations	-	(52,637)	-	-	(52,637)
Balance at the end of the year	(259,717)	(126,948)	37,110	-	(349,555)

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at 31 December 2019, there were certain legal proceedings outstanding against the Group in the normal course of business including those relating to the extension of credit facilities. Such proceedings are being reviewed by the concerned parties.

Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisors.

b) Capital commitments

As at 31 December 2019, the Group had capital commitments of SAR 290 million (2018: SAR 170 million) relating to contracts for computer software update and development, and SAR 145 million (2018: SAR 65 million) relating to building new workstations, and development and improvement of new and existing branches.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required. Credit related commitments and contingencies mainly comprise letters of guarantee, standby letters of credit, acceptances and unused commitments to extend credit. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as financing.

Letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate, and therefore, carry less risk. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be presented before being reimbursed by the customers.

Cash requirements under guarantees and letters of credit are considerably less than the amount of the commitment because the Bank does not expect the third party to necessarily draw funds under the agreement.

Commitments to extend credit represent unused portions of authorization to extended credit, principally in the form of financing, guarantees and letters of credit. With respect to credit risk relating to commitments to extend unused credit, the Bank is potentially exposed to a loss in an amount which is equal to the total unused commitments. The likely amount of loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

16. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies

The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire without being funded.

1. The contractual maturities of the Bank's commitments and contingent liabilities are as follows:

2019	**(SAR'000)**				
	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Letters of credit	**474,436**	**327,843**	**88,663**	**-**	**890,942**
Acceptances	**219,370**	**105,592**	**-**	**-**	**324,962**
Letters of guarantee	**1,178,236**	**2,985,474**	**765,867**	**43,623**	**4,973,200**
Irrevocable commitments to extend credit	**4,148,570**	**7,339,501**	**103,595**	**44,428**	**11,636,094**
Total	**6,020,612**	**10,758,410**	**958,125**	**88,051**	**17,825,198**

2018	(SAR'000)				
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Letters of credit	562,899	417,925	1,945	-	982,769
Acceptances	261,183	208,706	-	-	469,889
Letters of guarantee	1,270,202	2,405,041	1,159,962	41,956	4,877,161
Irrevocable commitments to extend credit	2,459,684	2,901,726	855,965	265,061	6,482,436
Total	4,553,968	5,933,398	2,017,872	307,017	12,812,255

2. The analysis of commitments and contingencies by counter-party is as follows:

	(SAR'000)	
	2019	2018
Corporates	**16,322,590**	11,704,696
Banks and other financial institutions	**1,502,608**	1,107,559
Total	**17,825,198**	12,812,255

17. NET FINANCING AND INVESTMENT INCOME

Net financing and investment income for the years ended 31 December comprises the following:

	(SAR'000)	
	2019	2018
Financing		
Corporate Mutajara	**2,531,823**	2,379,009
Installment sale	**11,154,919**	9,990,021
Murabaha	**859,641**	781,737
Investments and other		
Murabaha with SAMA	**1,210,789**	1,092,878
Mutajara with banks	**1,007,516**	563,249
Income from sukuk	**197,895**	186,815
Gross financing and investment income	**16,962,583**	14,993,709
Return on customers' time investments	**(418,891)**	(346,796)
Return on due to banks and financial institutions' time investments	**(115,969)**	(159,928)
Return on customers', banks' and financial institutions' time investments	**(534,860)**	(506,724)
Net financing and investment income	**16,427,723**	14,486,985

18. FEE FROM BANKING SERVICES, NET

Fee from banking services, net for the years ended 31 December comprise the following:

	(SAR'000)	
	2019	2018
Fee income:		
Drafts and remittances	**354,981**	397,142
Credit cards	**441,705**	499,020
Other electronic channel related	**1,068,318**	920,795
Brokerage and asset management, net	**281,151**	398,725
Others	**711,525**	462,263
Total fee income	**2,857,680**	2,677,945
Fee expenses:		
ATM Interchange related	**(870,313)**	(810,911)
Fee from banking services, net	**1,987,367**	1,867,034

19. OTHER OPERATING INCOME, NET

Other operating income for the years ended 31 December comprises the following:

	(SAR'000)	
	2019	2018
Dividend income	**58,625**	39,852
Gain / (loss) on sale of property and equipment, net	**568**	(115)
Rental income from investment properties	**117,718**	115,280
Share in profit of an associate	**23,481**	47,928
Gain on investments held as FVSI	**21,617**	14,600
Loss on sale of other real estate	**(2,490)**	(32,000)
Other income, net	**75,759**	24,150
Total	**295,278**	209,695

20. SALARIES AND EMPLOYEES' RELATED BENEFITS

The following tables provide an analysis of the salaries and employees' related benefits for the years ended 31 December:

2019	**(SAR'000)**			
			Variable compensations paid	
	Number of employees	**Fixed compensation**	**Cash**	**Shares**
Executives	**17**	**35,204**	**18,196**	**46,133**
Employees engaged in risk taking activities	**1,626**	**512,278**	**64,282**	**24,537**
Employees engaged in control functions	**386**	**161,583**	**25,532**	**19,773**
Other employees	**11,410**	**1,703,026**	**168,397**	**25,866**
Total	**13,439**	**2,412,091**	**276,407**	**116,309**
Accrued fixed compensations in 2019	**-**	**168,138**	**-**	**-**
Other employees' costs	**-**	**213,817**	**-**	**-**
Gross total	**13,439**	**2,794,046**	**276,407**	**116,309**

2018	(SAR'000)			
			Variable compensations paid	
	Number of employees	Fixed compensation	Cash	Shares
Executives	17	31,515	18,352	35,712
Employees engaged in risk taking activities	1,460	391,876	57,459	15,818
Employees engaged in control functions	463	146,484	32,964	15,534
Other employees	11,592	1,876,868	197,110	18,360
Total	13,532	2,446,743	305,885	85,424
Accrued fixed compensations in 2018		148,136	-	-
Other employees' costs		214,570	-	-
Gross total	13,532	2,809,449	305,885	85,424

20. SALARIES AND EMPLOYEES' RELATED BENEFITS (continued)

Salaries and employees' related benefits include end of services, General Organization for Social Insurance, business trips, training and other benefits.

As the Kingdom of Saudi Arabia is part of the G-20, instructions were given to all financial institutions in the Kingdom to comply with the standards and principles of Basel II and the Financial Stability Board.

SAMA, as the regulator for financial institutions in Saudi Arabia, issued regulations on compensations and bonus in accordance with the standards and principles of Basel II and the Financial Stability Board.

In light of the above SAMA's regulations, the Bank issued compensation and bonuses policy which was implemented after the Board of Directors approval.

The scope of this policy is extended to include the Bank and its subsidiary companies (local and international) that are operating in the financial services sector. Accordingly it includes all official employees, permanent and temporary contracted employees and service providers (contribution in risk position if SAMA allows the use of external resources).

For consistency with other banking institutions in the Kingdom of Saudi Arabia, the Bank has used a combination of fixed and variable compensation to attract and maintain talent. The fixed compensation is assessed on a yearly basis by comparing it to other local banks in the Kingdom of Saudi Arabia including the basic salaries, allowances and benefits which is related to the employees' ranks. The variable compensation is related to the employees' performance and their compatibility to achieve the agreed-on objectives. It includes incentives, performance bonus and other benefits. Incentives are mainly paid to branches' employees whereby the performance bonuses are paid to head office employees and others who do not qualify for incentives.

These bonuses and compensation are approved by the Board of Directors as a percentage of the Bank's net income.

21. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Other general and administrative expenses for the years ended 31 December comprises the following:

	(SAR'000)	
	2019	2018
Communications and utilities expenses	**481,424**	356,061
Maintenance and security expenses	**460,550**	415,660
Cash feeding and transfer expenses	**355,245**	327,112
Software and IT support expenses	**277,520**	178,317
Other operational expenses	**957,474**	648,368
Total	**2,532,213**	1,925,518

22. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2019 and 2018 have been calculated by dividing the net income for the period by 2,500 million shares to give a retrospective effect (in the case of 2018) of the change in the number of shares increased as a result of the bonus shares issued. The diluted earnings per share is the same as the basic earnings per share.

23. PAID AND PROPOSED DIVIDENDS

On 1 August 2019, the Bank has paid an interim dividends amounting to SAR 3,750 million (SAR 1.5 per share) for the first half of 2019. (2018: SAR 3,250 million (i.e. SAR 2 per share) based on 1,625 million shares).

Also on 2 February 2020, the Board of Directors proposed final dividends for the year 2019 amounting to SAR 3,750 million (i.e. SAR 1.5 per share) (2018: SAR 3,656 million, (i.e. SAR 2.25 per share) based on 1,625 million shares).

24. CASH AND CASH EQUIVALENTS

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

	(SAR'000)	
	2019	2018
Cash in hand	**7,404,276**	8,133,635
Due from banks and other financial institutions maturing within 90 days from the date of purchased	**2,480,803**	5,984,654
Balances with SAMA and other central banks (current accounts)	**371,320**	293,214
Mutajara with SAMA	**10,855,000**	15,375,000
Total	**21,111,399**	29,786,503

25. EMPLOYEES' END OF SERVICE BENEFITS LIABILITIES

25.1 General description

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

25.2 The amounts recognized in the consolidated statement of financial position and movement in the liabilities during the year based on its present value are as follows:

	2019	2018
	SAR' 000	SAR' 000
Employees' end of service benefits liabilities at the beginning of the year	**901,970**	848,422
Current service cost	**98,541**	107,685
Financing cost	**39,845**	85,995
Benefits paid	**(111,682)**	(140,132)
Remeasurement loss	**51,630**	-
Employees' end of service benefits liabilities at the end of the year	**980,304**	901,970

25.3 Charge for the year

	2019	2018
	SAR' 000	SAR' 000
Current service cost	**98,541**	106,152
Past service cost	**-**	1,533
	98,541	107,685

EMPLOYEES' END OF SERVICE BENEFITS LIABILITIES (continued)

25.4 Re-measurement recognised in other comprehensive income

	2019 SAR' 000	2018 SAR' 000
Gain from change in experience assumptions	**(5,940)**	-
Loss from change in financial assumptions	**57,570**	-
	51,630	-

25.5 Principal actuarial assumptions (in respect of the employee benefit scheme)

	2019	2018
Discount rate	**4.20%**	5.00%
Expected rate of salary increase	**3.00%**	3.00%
Normal retirement age	**60 years for male employees and 55 for female employees**	60 years for male employees and 55 for female employees

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

25.6 Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the employees' end of service benefits liabilities valuation as at 31 December, 2019 to the discount rate (4.20%), salary increase rate (3.00%), withdrawal assumptions and mortality rates.

	SAR 000'		
2019	**Impact on defined benefit obligation – Increase / (Decrease)**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**+/- 100 basis points**	**(109,828)**	**131,671**
Expected rate of salary increase	**+/- 100 basis points**	**131,949**	**(111,989)**
Normal retirement age	**Increase or decrease by 20%**	**3,204**	**(4,098)**

	SAR 000'		
2018	Impact on defined benefit obligation – Increase / (Decrease)		
Base Scenario	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/- 100 basis points	(96,511)	115,452
Expected rate of salary increase	+/- 100 basis points	117,256	(99,217)
Normal retirement age	Increase or decrease by 20%	9,020	(10,824)

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

25. EMPLOYEE BENEFIT OBLIGATION (continued)

25.7 Expected maturity

Expected maturity analysis of undiscounted employees' end of service benefits liabilities is as follows:

As at 31 December	Discounted liability	Less than a year	1-2 years	2-5 years	Over 5 years	Total
2019	**980,304**	**66,110**	**72,742**	**256,803**	**3,638,241**	**4,033,896**
2018	901,970	61,300	71,836	244,884	3,519,680	3,897,700

The weighted average duration of the employees' end of service benefits liabilities is 14.4 years (2018: 15 years).

26. OPERATING SEGMENTS

The Bank identifies operating segments on the basis of internal reports about the activities of the Bank that are regularly reviewed by the chief operating decision maker, principally the Chief Executive Officer, in order to allocate resources to the segments and to assess its performance.

For management purposes, the Bank is organized into the following four main businesses segments:

Retail segment: Includes individual customer deposits, credit facilities, customer debit current accounts (overdrafts) and fees from banking services.

Corporate segment: Incorporates deposits of corporate customers, credit facilities, and debit current accounts (overdrafts).

Treasury segment: Includes treasury services, Murabaha with SAMA and international Mutajara portfolio and remittance business.

Investment services and brokerage segments: Includes investments of individuals and corporates in mutual funds, local and international share trading services and investment portfolios.

Transactions between the above segments are on normal commercial terms and conditions. Assets and liabilities for the segments comprise operating assets and liabilities, which represents the majority of the Bank's assets and liabilities.

26. OPERATING SEGMENTS (continued)

a) The Bank's total assets and liabilities, together with its total operating income and expenses, and net income, as of and for the years ended 31 December for each segment are as follows:

	(SAR'000)				
2019	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Total assets	**208,945,668**	**59,406,741**	**112,968,906**	**2,765,261**	**384,086,576**
Total liabilities	**289,628,309**	**34,753,212**	**8,376,081**	**137,317**	**332,894,919**
Gross financing and investment income from external customers	**11,115,534**	**3,329,362**	**2,493,337**	**24,350**	**16,962,583**
Inter-segment operating income/ (expense)	**1,432,229**	**(1,117,680)**	**(314,549)**	**-**	**-**
Gross financing and investment income	**12,547,763**	**2,211,682**	**2,178,788**	**24,350**	**16,962,583**
Return on customers', banks' and financial institutions' time investments	**(221,657)**	**(127,114)**	**(186,089)**	**-**	**(534,860)**
Net financing and investment income	**12,326,106**	**2,084,568**	**1,992,699**	**24,350**	**16,427,723**
Fees from banking services, net	**971,089**	**366,932**	**252,103**	**397,243**	**1,987,367**
Exchange income, net	**159,805**	**67,405**	**546,886**	**-**	**774,096**
Other operating income, net	**133,815**	**13,017**	**106,661**	**41,785**	**295,278**
Total operating income	**13,590,815**	**2,531,922**	**2,898,349**	**463,378**	**19,484,464**
Depreciation and amortization	**(983,974)**	**(14,234)**	**(54,958)**	**(6,416)**	**(1,059,582)**
Impairment charge for financing and other financial assets, net	**(1,713,370)**	**(61,373)**	**2,478**	**-**	**(1,772,265)**
Other operating expenses	**(4,467,064)**	**(305,892)**	**(407,238)**	**(146,065)**	**(5,326,259)**
Total operating expenses	**(7,164,408)**	**(381,499)**	**(459,718)**	**(152,481)**	**(8,158,106)**
Income before zakat	**6,426,407**	**2,150,423**	**2,438,631**	**310,897**	**11,326,358**

26. OPERATING SEGMENTS (continued)

	(SAR'000)				
2018	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Total assets	186,924,991	62,102,306	111,970,385	3,033,162	364,030,844
Total liabilities	273,115,320	28,763,133	13,716,156	130,369	315,724,978
Gross financing and investments income from external customers	9,923,875	3,062,944	1,982,370	24,520	14,993,709
Inter-segment operating income/ (expense)	774,845	(898,876)	124,031	-	-
Gross financing and investment income	10,698,720	2,164,068	2,106,401	24,520	14,993,709
Return on customers', banks' and financial institutions' time investments	(124,676)	(213,870)	(159,928)	(8,250)	(506,724)
Net financing & investment income	10,574,044	1,950,198	1,946,473	16,270	14,486,985
Fees from banking services, net	867,121	323,890	277,298	398,725	1,867,034
Exchange income, net	157,251	40,892	557,661	-	755,804
Other operating income, net	25,019	-	62,699	121,977	209,695
Total operating income	11,623,435	2,314,980	2,844,131	536,972	17,319,518
Depreciation and amortization	(517,955)	(9,948)	(69,464)	(5,769)	(603,136)
Impairment charge for financing and other financial assets, net	(1,177,409)	(302,895)	(50,642)	-	(1,530,946)
Other operating expenses	(4,145,108)	(322,513)	(440,005)	(141,908)	(5,049,534)
Total operating expenses	(5,840,472)	(635,356)	(560,111)	(147,677)	(7,183,616)
Income before zakat	5,782,963	1,679,624	2,284,020	389,295	10,135,902

b) The Group's credit exposure by business segments as of 31 December is as follows:

	(SAR'000)				
2019	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Consolidated balance sheet assets	**166,049,907**	**55,905,791**	**100,797,864**	**2,730,512**	**325,484,074**
Commitments and contingencies excluding irrevocable commitments to extend credit	**-**	**6,092,269**	**-**	**-**	**6,092,269**

26. OPERATING SEGMENTS (continued)

	(SAR'000)				
2018	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Consolidated balance sheet assets	155,728,107	52,268,997	94,240,742	2,552,885	304,790,731
Commitments and contingencies excluding irrevocable commitments to extend credit	-	6,329,819	-	-	6,329,819

27. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the banking business, and these risks are an inevitable consequence of participating in financial markets. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies, procedures and systems are designed to identify and analyze these risks and to set appropriate risk mitigants and controls. The Bank reviews its risk management policies and systems on an ongoing basis to reflect changes in markets, products and emerging best practices.

Risk management is performed by the Credit and Risk Management Group ("CRMG") under policies approved by the Board of Directors. The CRMG identifies and evaluates financial risks in close co-operation with the Bank's operating units. The most important types of risks identified by the Bank are credit risk, liquidity risk and market risk. Market risk includes currency risk, profit rate risk, operational risk and price risk.

27-1 Credit risk

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counter-party to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies, letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the CRMG, which sets parameters and thresholds for the Bank's financing activities.

a) Credit risk measurement

i) Financing

The Bank has structured a number of financial products which are in accordance with Sharia law in order to meet the customers demand. These products are all classified as financing assets in the Bank's consolidated statement of financial position. In measuring credit risk of financing at a counterparty level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a. Credit risk measurement (continued)

i) Financing (continued)

This risk rating methodology utilizes a 10 point scale based on quantitative and qualitative factors with seven performing categories (rated 1 to 7) and three non-performing categories (rated 8-10). The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counterparty and assist in determining suitable pricing commensurate with the associated risk.

ii) Credit risk grades

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

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

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

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.
- Data from credit reference agencies, press articles, changes in external credit ratings
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its customers analyzed by segment as well as by credit risk grading.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

iii) Generating the term structure of PD

The Bank employs analytical techniques incorporating internal default estimates backed by transition matrices published by external agencies to construct PD term structures that can be applied to each exposure based on the its remaining lifetime. These PD term structures are then adjusted to incorporate the impact of macroeconomic outlook to arrive at a forward looking estimate of PD across the lifetime.

For retail exposure, borrower and loan specific information collected at the time of application, repayment behavior etc. are used to construct risk based segmentation using Chi-square Automatic Interaction Detection (CHAID) (or Decision Tree) technique. Risk segments are constructed to identify and aggregate customers with similar risk characteristics. For each risk segment thus formed, PD term structures are constructed using historical data that can be applied to each exposure based on its remaining lifetime.

Based on consideration of a variety of external actual and forecast information from published sources, the Bank formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macroeconomic models.

Risk Rating 1
Exceptional - Obligors of unquestioned credit standing at the pinnacle of credit quality.

Risk Rating 2
Excellent - Obligors of the highest quality, presently and prospectively. Virtually no risk in lending to this class, Cash flows reflect exceptionally large and stable margins of protection. Projected cash flows including anticipated credit extensions indicate strong liquidity levels and debt service coverage. Balance Sheet parameters are strong, with excellent asset quality in terms of value and liquidity.

Risk Rating 3
Superior - Typically obligors at the lower end of the high quality range with excellent prospects. Very good asset quality and liquidity. Consistently strong debt capacity and coverage. There could however be some elements, which with a low likelihood might impair performance in the future.

Risk Rating 4
Good - Typically obligors in the high end of the medium range who are definitely sound with minor risk characteristics. Elements of strength are present in such areas as liquidity, stability of margins, cash flows, diversity of assets, and lack of dependence on one type of business.

Risk Rating 5
Satisfactory - These are obligors with smaller margins of debt service coverage and with some elements of reduced strength. Satisfactory asset quality, liquidity, and good debt capacity and coverage. A loss year or declining earnings trend may occur, but the borrowers have sufficient strength and financial flexibility to offset these issues.

Risk Rating 6
Adequate - Obligors with declining earnings, strained cash flow, increasing leverage and/ or weakening market fundamentals that indicate above average risk, such borrowers have limited additional debt capacity, modest coverage, average or below average asset quality and market share. Present borrower performance is satisfactory, but could be adversely affected by developing collateral quality/ adequacy etc.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

Risk Rating 7
Very high risk - Generally undesirable business constituting an undue and unwarranted credit risk but not to the point of justifying a substandard classification. No loss of principal or profit has taken place. Potential weakness might include a weakening financial condition, an unrealistic repayment program, inadequate sources of funds, or a lack of adequate collateral, credit information or documentation. The entity is undistinguished and mediocre. No new or incremental credits will generally be considered for this category.

Risk Rating 8
Substandard - Obligors in default and 90 Days Past Due on repayment of their obligations. Unacceptable business credit. Normal repayment is in jeopardy, and there exists well defined weakness in support of the same. The asset is inadequately protected by the current net worth and paying capacity of the obligor or pledged collateral. Specific provision raised as an estimate of potential loss.

Risk Rating 9
Doubtful - Obligors in default and 180 Days Past Due (DPD) on their contracted obligations, however in the opinion of the management recovery/ salvage value against corporate and real estate obligors is a possibility, and hence write-off should be deferred. Full repayment questionable. Serious problems exist to the point where a partial loss of principle is likely. Weaknesses are so pronounced that on the basis of current information, conditions and values, collection in full is highly improbable. Specific provision raised as an estimate of potential loss. However, for retail obligors (except real estate) and credit cards, total loss is expected. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

Risk Rating 10
Loss - Obligors in default and 360 Days Past Due (DPD) on their obligations. Total loss is expected. An uncollectible assets which does not warrant classification as an active asset. A 100% Specific Provisioning must be triggered followed by the write-off process should be effected as per Al Rajhi Bank write-off policy.

iv) ECL - Significant increase in credit risk

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

For Corporate portfolio, the Bank’s assessment of significant increase in credit risk is based on facility level except for watch-list accounts, whereby the Bank’s assessment is based on counterparty. Significant increase in credit risk assessment for retail loans is carried out at customer level within same product family. All the exposures which are considered to have significantly increased in credit risk are subject to lifetime ECL.

The Bank considers all investment grade debt securities issued by sovereigns including Gulf Corporation Council (GCC) countries to have low credit risk.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

v) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Bank uses its internal credit risk grading system, external risk ratings, quantitative changes in PDs , delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition based on quantitative assessment and / or using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

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

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

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

The Bank classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Bank recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Bank recognises an allowance for the lifetime ECL for all financings categorized in this stage based on the actual / expected behavioral maturity profile including restructuring or rescheduling of facilities.

Stage 3: for credit-impaired financial instruments, the Bank recognises the lifetime ECL. Default identification process i.e. DPD of 90 or more is assumed to be stage 3.

vi) Modified financial assets

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

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

vi) Modified financial assets (continued)

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

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

Forbearance is a qualitative indicator of a significant increase in credit risk, and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behavior over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default.

vii) Definition of ‘Default’

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

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

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

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

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

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

The definition of default largely aligns with that applied for the bank for regulatory purposes.

viii) Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information from published sources, the Bank formulates a forward looking adjustment to PD term structures to arrive at forward looking PD estimates across the lifetime using macroeconomic models.

27. FINANCIAL RISK MANAGEMENT (continued)
27-1 Credit risk (continued)

a) Credit risk measurement (continued)

viii) Incorporation of forward looking information (continued)

The Bank considers scenarios in range of 3-5 years horizon (consistent with forecasts available from public sources), beyond which the long term average macroeconomic conditions prevail. Externally available macroeconomic forecasts from International Monetary Fund (IMF) and Saudi Arabian Monetary Authority (SAMA) are used for making the base case forecast. For other scenarios, adjustments are made to base case forecasts based on expert judgement.

The base case represents a most-likely outcome as published by external sources. The other scenarios represent more optimistic and more pessimistic outcomes.

Economic Indicators	Weightage **2019**
GDP growth rate	**55.44%**
Government expenditure to GDP	**44.56%**

Economic Indicators	Weightage 2018
GDP growth rate	56.29%
Government expenditure to GDP	43.71%

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.

ix) Measurement of ECL

The Bank measures an ECL at an individual instrument level taking into account the projected cash flows, PD, LGD, CCF and discount rate.

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

i. probability of default (PD);
ii. loss given default (LGD);
iii. exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

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

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a. Credit risk measurement (continued)

ix) Measurement of ECL (continued)

For Retail portfolio, bank uses internal LGD models to arrive at the LGD estimates. For Corporate portfolio, bank used supervisory estimates of LGD.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).

x) Credit quality analysis

a) The following table sets out information about the credit quality of financings measured at amortized cost as at 31 December :

	2019			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	SAR in ‘000’			
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	**13,547,133**	**-**	**-**	**13,547,133**
Grade (4-6) / (Baa1 - B3)	**44,673,584**	**3,134,911**	**-**	**47,808,495**
Grade 7- Watch list / (Caa1 – C)	**-**	**3,104,199**	**-**	**3,104,199**
Non-performing	**-**	**-**	**1,687,074**	**1,687,074**
Total Corporate performing and non-performing	**58,220,717**	**6,239,110**	**1,687,074**	**66,146,901**
Total Retail (un-rated)	**187,409,069**	**2,516,712**	**629,719**	**190,555,500**
Total Carrying amount	**245,629,786**	**8,755,822**	**2,316,793**	**256,702,401**

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR in ‘000’			
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	8,322,229	-	-	8,322,229
Grade (4-6) / (Baa1 - B3)	44,092,511	12,217,422	-	56,309,933
Grade 7- Watch list / (Caa1 – C)	-	2,918,751	-	2,918,751
Non-performing	-	-	1,686,855	1,686,855
Total Corporate performing and non-performing	52,414,740	15,136,173	1,686,855	69,237,768
Total Retail (un-rated)	166,676,629	3,072,823	603,457	170,352,909
Total Carrying amount	219,091,369	18,208,996	2,290,312	239,590,677

27. FINANCIAL RISK MANAGEMENT (continued)
27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xi) Financings

a) The net financing concentration risks and the related provision, by major economic sectors at 31 December are as follows:

	(SAR'000)			
2019 **Description**	**Performing**	**Non-Performing**	**Allowance for impairment**	**Net financing**
Commercial	**19,661,771**	**590,056**	**(424,883)**	**19,826,944**
Industrial	**26,775,778**	**375,395**	**(283,941)**	**26,867,232**
Building and construction	**2,031,147**	**573,757**	**(401,434)**	**2,203,470**
Consumer	**192,926,177**	**674,114**	**(532,585)**	**193,067,706**
Services	**12,336,880**	**103,471**	**(70,882)**	**12,369,469**
Agriculture and fishing	**340,974**	**-**	**-**	**340,974**
Others	**312,881**	**-**	**-**	**312,881**
Total	**254,385,608**	**2,316,793**	**(1,713,725)**	**254,988,676**
12 month and life time ECL not credit impaired	**-**	**-**	**(5,305,871)**	**(5,305,871)**
Balance	**254,385,608**	**2,316,793**	**(7,019,596)**	**249,682,805**

	(SAR'000)			
2018 Description	Performing	Non-Performing	Allowance for impairment	Net financing
Commercial	17,365,910	746,180	(618,139)	17,493,951
Industrial	28,007,663	774,347	(696,112)	28,085,898
Building and construction	3,442,028	71,682	(82,411)	3,431,299
Consumer	171,255,069	603,423	(470,400)	171,388,092
Services	16,295,853	80,751	(75,584)	16,301,020
Agriculture and fishing	467,960	-	-	467,960
Others	465,882	13,929	(6)	479,805
Total	237,300,365	2,290,312	(1,942,652)	237,648,025
12 month and life time ECL not credit impaired	-	-	(5,889,819)	(5,889,819)
Balance	237,300,365	2,290,312	(7,832,471)	231,758,206

27. FINANCIAL RISK MANAGEMENT (continued)
27-1 Credit risk (continued)

a) Credit risk measurement (continued)
xi) Financings (continued)

b) The tables below set out the aging of financing past due but not impaired as at 31 December:

2019	**(SAR'000)**			
Age	**Mutajara**	**Installment sale**	**Credit cards**	**Total**
up to 30 days	**2,825,036**	**191,728**	**-**	**3,016,764**
31-60 days	**781,204**	**58,130**	**22,802**	**862,136**
61-90 days	**649,949**	**36,366**	**24,870**	**711,185**
Total	**4,256,189**	**286,224**	**47,672**	**4,590,085**
Fair value of collateral	**2,737,767**	**114,208**	**-**	**2,851,975**

2018	(SAR'000)			
Age	Mutajara	Installment sale	Credit cards	Total
up to 30 days	5,640,509	180,122	-	5,820,631
31-60 days	338,418	40,829	12,700	391,947
61-90 days	288,367	26,209	16,475	331,051
Total	6,267,294	247,160	29,175	6,543,629
Fair value of collateral	1,835,781	81,014	-	1,916,795

The Group in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in financings. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. Real estate collaterals against financing are considered as held for sale and included in other assets.

The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

27. FINANCIAL RISK MANAGEMENT (continued)
27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xi) Financings (continued)

c) The table below sets out gross balances of individually impaired financing, together with the fair value of related collateral held by the Group as at 31 December:

2019	**(SAR'000)**		
	Retail	**Corporate**	**Total**
Individually impaired financing	**629,719**	**1,687,074**	**2,316,793**
Fair value of collateral	**214,921**	**522,084**	**737,005**

2018	(SAR'000)		
	Retail	Corporate	Total
Individually impaired financing	603,457	1,686,855	2,290,312
Fair value of collateral	176,992	1,971,724	2,148,716

d) The table below stratifies credit exposures from corporate financing by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the financing or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowance.

(SAR'000)	**2019**	**2018**
Less than 50%	**61,167,858**	65,100,456
51-70%	**480,738**	835,193
71-90%	**428,167**	1,382,614
91-100%	**-**	-
More than 100%	**4,070,138**	1,919,505
Total exposure	**66,146,901**	69,237,768

b) Settlement risk

The Bank is also exposed to settlement risk in its dealings with other financial institutions. This risk arises when the Bank pays its side of the transaction to the other bank or counterparty before receiving payment from the third party. The risk is that the third party may not pay its obligation. While these exposures are short in duration, they can be significant. The risk is mitigated by dealing with highly rated counterparties, holding collateral and limiting the size of the exposures according to the risk rating of the counterparty.

c) Risk limit control and mitigation policies

The responsibility for credit risk management is enterprise-wide in scope. Strong risk management is integrated into daily processes, decision making and strategy setting, thereby making the understanding and management of credit risk the responsibility of every business segment.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

c) Risk limit control and mitigation policies (continued)

The following business units within the Bank assist in the credit control process:

- Corporate Credit Unit.
- Credit Administration, Monitoring and Control Unit.
- Remedial Unit.
- Credit Policy Unit.
- Retail Credit Unit.

The monitoring and management of credit risk associated with these financing are made by setting approved credit limits. The Bank manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual customers and groups, and to industries and countries.

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, 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 risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors.

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the executive committee.

Exposure to credit risk is also managed through regular analysis on the ability of customers and potential customers to meet financial and contractual repayment obligations and by revising credit limits where appropriate.

Some other specific control and mitigation measures are outlined below:

c-1) Collateral

The Bank implements guidelines on the level and quality of specific classes of collateral, The principal collateral types are:

- Mortgages over residential and commercial properties.
- Cash, shares, and general assets for customer.
- Shares for Murabaha (collateralized share trading) transactions.

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as traditional banking products of the Bank.

Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying goods to which they relate, and therefore, risk is partially mitigated.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

c) Risk limit control and mitigation policies (continued)

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of further financing products, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards

d) Impairment and provisioning policies

The table below sets out the maximum exposure to credit risk at the reporting date without considering collateral or other credit enhancements and includes the off-balance sheet financial instruments involving credit risks as at 31 December:

	(SAR'000)	
On-balance sheet items	**2019**	2018
Investments, net:		
Murabaha with Saudi Government and SAMA	**24,991,978**	22,477,145
Sukuk	**18,751,109**	18,167,620
Due from banks and other financial institutions	**32,058,182**	32,387,760
Financing, net		
Corporate	**62,959,778**	65,455,862
Retail	**186,723,027**	166,302,344
Total on-balance sheet items	**325,484,074**	304,790,731
Off-balance sheet items:		
Letters of credit and acceptances	**1,118,090**	1,452,658
Letters of guarantee	**4,974,179**	4,877,161
Irrevocable commitments to extend credit	**11,636,094**	6,482,436
Total off-balance sheet items	**17,728,363**	12,812,255
Maximum exposure to credit risk	**343,212,437**	317,602,986

The exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

27-2 Liquidity risks

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay deposits and financing parties and fulfill financing commitments. Liquidity risk can be caused by market disruptions or by credit downgrades, which may cause certain sources of funding to become unavailable immediately. Diverse funding sources available to the Bank help mitigate this risk. Assets are managed with liquidity in mind, maintaining a conservative balance of cash and cash equivalents.

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

Liquidity risk management process

The Bank's liquidity management process is as monitored by the Bank's Asset and Liabilities Committee (ALCO), and includes:

- Day-to-day funding, managed by Treasury to ensure that requirements can be met, and this includes replenishment of funds as they mature or are invested;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Maintaining diversified funding sources; and
- Liquidity management and asset and liability mismatching.

Monitoring and reporting take the form of analyzing cash flows of items with both contractual and non-contractual maturities. The net cash flows are measured to ensure that they are within acceptable ranges. The Treasury / ALCO also monitors the level and type of undrawn lending commitments, usage of overdraft facilities and the potential impact of contingent liabilities such as standby letters of credit and guarantees may have on the Bank's liquidity position.

The tables below summarize the maturity profile of the Bank's assets and liabilities, on the basis of the remaining maturity as of the consolidated statement of financial position date to the contractual maturity date.

Management monitors the maturity profile to ensure that adequate liquidity is maintained. Assets available to meet liabilities and to cover outstanding financing commitments include cash, balances with SAMA and due from banks. Further, in accordance with the Banking Control Law and Regulations issued by SAMA, the Bank maintains a statutory deposit equal to a sum not less than 7% of total customers' deposits, and 4% of total other customers' accounts. In addition to the statutory deposit, the Bank maintains a liquid reserve of not less than 20% of the deposit liabilities, in the form of cash, gold or assets which can be converted into cash within a period not exceeding 30 days. Also, the Bank has the ability to raise additional funds through special financing arrangements with SAMA including deferred sales transactions.

The contractual maturities of financial assets and liabilities as of 31 December based on discounted cash flows are as follows. The table below reflects the expected cash flows indicated by the deposit retention history of the Group. Management monitors a rolling forecast of the Group's liquidity position and cash and cash equivalents on the basis of expected cash flows. This is carried out in accordance with practice and limits set by the Group and based on the pattern of historical deposit movements. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2019	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Fixed Maturity	Total
Assets						
Cash and balance with SAMA and other central banks	10,855,000	-	-	-	28,439,099	39,294,099
Due from banks and other financial institutions	11,494,160	6,575,839	13,988,183	-	-	32,058,182
Financing, net						
Mutajara	13,875,181	11,750,437	12,908,065	3,043,561	-	41,577,244
Installment sale	12,151,486	29,194,865	97,755,730	48,621,920	-	187,724,001
Murabaha	3,771,541	4,221,613	3,878,893	5,356,019	-	17,228,066
Credit cards	1,447,050	731,273	975,171	-	-	3,153,494
Investments, net						
Investment in an associate	-	-	-	-	196,235	196,235
Investments held at amortized cost	2,566,987	-	16,089,945	24,286,155	-	42,943,087
FVSI investments	-	-	800,000	-	1,230,711	2,030,711
FVOCI investments	-	-	-	-	1,672,597	1,672,597
Other assets, net	-	-	-	-	16,208,860	16,208,860
Total	56,161,405	52,474,027	146,395,987	81,307,655	47,747,502	384,086,576
Liabilities						
Due to banks and other financial institutions	1,885,035	-	-	-	334,569	2,219,604
Demand deposits	-	-	-	-	284,299,851	284,299,851
Customers' time investments	17,095,711	4,578,411	450,331	1,773	-	22,126,226
Other customer accounts	1,569,561	2,072,232	2,337,953	-	-	5,979,746
Other liabilities	-	-	-	-	18,269,492	18,269,492
Total Liabilities	20,550,307	6,650,643	2,788,284	1,773	302,903,912	332,894,919
Gap	35,611,098	45,823,384	143,607,703	81,305,882	(255,156,410)	51,191,657

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2018	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Fixed Maturity	Total
Assets						
Cash and balance with SAMA and other central banks	15,375,000	-	-	-	27,871,043	43,246,043
Due from banks and other financial institutions	10,569,683	8,273,620	12,488,206	-	1,056,251	32,387,760
Financing, net						
Mutajara	14,480,073	15,127,724	11,655,333	2,456,174	-	43,719,304
Installment sale	10,769,129	30,019,044	101,070,050	29,391,728	-	171,249,951
Murabaha	1,193,548	4,462,625	6,381,359	2,792,068	-	14,829,600
Credit cards	1,959,351	-	-	-	-	1,959,351
Investments, net						
Investment in an associate	-	-	-	-	172,753	172,753
Investments held at amortized cost	370,449	213,900	14,118,036	25,142,380	-	39,844,765
FVSI investments	-	1,941,584	-	-	-	1,941,584
FVOCI investments	-	-	-	1,103,463	-	1,103,463
Other assets, net	-	-	-	-	13,576,270	13,576,270
Total	54,717,233	60,038,497	145,712,984	60,885,813	42,676,317	364,030,844
Liabilities						
Due to banks and other financial institutions	3,951,361	2,583,028	-	-	755,235	7,289,624
Demand deposits	-	-	-	-	268,416,842	268,416,842
Customers' time investments	17,027,753	1,661,472	-	-	-	18,689,225
Other customer accounts	1,662,667	1,359,251	3,781,140	-	-	6,803,058
Other liabilities	-	-	-	-	14,526,229	14,526,229
Total	22,641,781	5,603,751	3,781,140	-	283,698,306	315,724,978
Gap	32,075,452	54,434,746	141,931,844	60,885,813	(241,021,989)	48,305,866

The following tables disclose the maturity of contractual financial liabilities on undiscounted cash flows as at 31 December:

2019	(SAR'000)					
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**No fixed maturity**	**Total**
Due to banks and other financial institutions	**2,342,000**	**-**	**-**	**-**	**334,569**	**2,676,569**
Customer deposits	**19,293,271**	**6,891,825**	**2,821,521**	**1,773**	**284,299,851**	**313,308,241**
Other liabilities	**-**	**-**	**-**	**-**	**18,269,492**	**18,269,492**
Total	**21,635,271**	**6,891,825**	**2,821,521**	**1,773**	**302,903,912**	**334,254,302**

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

2018	(SAR'000)					
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No fixed maturity	Total
Due to banks and other financial institutions	3,951,361	2,583,028	-	-	755,235	7,289,624
Customers' deposits	18,690,420	3,020,723	3,781,140	-	268,416,842	293,909,125
Other liabilities	-	-	-	-	14,526,229	14,526,229
Total	22,641,781	5,603,751	3,781,140	-	283,698,306	315,724,978

The cumulative maturities of commitments and contingencies are given in note 16-c-1 of the consolidated financial statements.

27-3 Market risks

The Bank is exposed to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks arise on profit rate products, foreign currency and mutual fund products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and quoted market prices.

Market risk exposures are monitored by Treasury / Credit & Risk department and reported to ALCO on a monthly basis. ALCO deliberates on the risks taken and ensures that they are appropriate.

a. Market risks - speculative operations

The Bank is not exposed to market risks from speculative operations. The Bank is committed to Sharia guidelines which do not permit it to enter into contracts or speculative instruments such as hedging, options, forward contracts and derivatives.

b. Market risks - banking operations

- **Profit rate risk**

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

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

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Profit rate risk (continued)**

The following table depicts the sensitivity to a reasonably possible change in profit rates, with other variables held constant, on the Bank's consolidated statement of income or shareholders' equity. The sensitivity of the income is the effect of the assumed changes in profit rates on the net income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2019 and 2018. The sensitivity of consolidated shareholders' equity is the same as sensitivity of consolidated income since the Bank does not have fixed rate FVOCI financial assets as at 31 December 2019 and 2018. All the banking book exposures are monitored and analyzed in currency concentrations, and relevant sensitivities are disclosed in SAR million.

2019		**SAR in Million**			
Currency	**Increase in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	Average	Maximum	Minimum
SAR	**+25**	**241**	**244**	**344**	**227**

Currency	**Decrease in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	Average	Maximum	Minimum
SAR	**-25**	**(241)**	**(244)**	**(344)**	**(227)**

2018		SAR in Million			
Currency	Increase in basis points	Sensitivity of gross financing and investment income			
		As at 31 December	Average	Maximum	Minimum
SAR	+25	201	204	216	193

Currency	Decrease in basis points	Sensitivity of gross financing and investment income			
		As at 31 December	Average	Maximum	Minimum
SAR	-25	(201)	(204)	(216)	(193)

Profit rate movements affect reported consolidated shareholders'equity through retained earnings, i.e. increases or decreases in financing and investment income.

Commission sensitivity of assets, liabilities and off balance sheet items:

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The Board sets limits on the level of mismatch of commission rate repricing that may be undertaken, which is monitored daily by Bank Treasury.

The table below summarizes the Bank's exposure to profit rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

The Bank is exposed to profit 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 Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Profit rate risk (continued)**

Commission sensitivity of assets, liabilities and off balance sheet items (continued)

31 December 2019	(SAR'000)						
	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non Commission Sensitive	Total
Assets							
Cash and balance with SAMA and other central banks	10,854,472	-	-	-	-	28,439,627	39,294,099
Due from banks and other financial institutions	10,479,978	357,348	6,543,435	14,677,421	-	-	32,058,182
Investments, net							
Investment in an associate	-	-	-	-	-	196,235	196,235
Investments held at amortized cost	26,001,235	1,252,000	-	-	13,956,318	1,733,534	42,943,087
FVSI investments	-	800,000	-	-	-	1,230,711	2,030,711
FVOCI investments	-	-	-	-	-	1,672,597	1,672,597
Financing, net							
Mutajara	16,244,991	14,699,701	4,218,431	4,609,125	1,804,996	-	41,577,244
Installment sale	18,271,988	16,132,170	20,059,435	93,604,177	39,656,231	-	187,724,001
Murabaha	7,598,931	5,290,277	23,372	3,217,328	1,098,158	-	17,228,066
Credit cards	1,447,050	243,758	487,515	975,171	-	-	3,153,494
Other assets	-	-	-	-	-	16,208,860	16,208,860
Total Assets	90,898,645	38,775,254	31,332,188	117,083,222	56,515,703	49,481,564	384,086,576
Liabilities							
Due to banks and other financial institutions	1,677,579	-	-	-	-	542,025	2,219,604
Customer deposits	-	-	-	-	-	284,299,851	284,299,851
Customers' time investments	17,102,278	3,001,418	1,577,663	444,867	-	-	22,126,226
Other customer accounts	-	-	-	-	-	5,979,746	5,979,746
Other liabilities	-	-	-	-	-	18,269,492	18,269,492
Total liabilities	18,779,857	3,001,418	1,577,663	444,867	-	309,091,114	332,894,919
Gap	72,118,788	35,773,836	29,754,525	116,638,355	56,515,703	(259,609,550)	51,191,657
Profit Rate Sensitivity – On consolidated statement of financial position	72,118,788	35,773,836	29,754,525	116,638,355	56,515,703	(259,609,550)	51,191,657
Profit Rate Sensitivity - Off consolidated statement of financial Position	167,512	24,528	70,934	66,574	5,697	-	335,245
Total Profit Rate Sensitivity Gap	71,951,276	35,749,308	29,683,591	116,571,781	56,510,006	(259,609,550)	50,856,412
Cumulative Profit Rate Sensitivity Gap	71,951,276	107,700,584	137,384,175	253,955,956	310,465,962	50,856,412	101,712,823

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)
b. Market risks - banking operations (continued)
- **Profit rate risk (continued)**

Commission sensitivity of assets, liabilities and off balance sheet items (continued)

31 December 2018	(SAR'000)						
	Less than 3 months	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**	**Non Commission Sensitive**	**Total**
Assets							
Cash and balance with SAMA and other central banks	35,112,408	-	-	-	-	8,133,635	43,246,043
Due from banks and other financial institutions	11,306,178	987,681	7,810,067	11,227,583	-	1,056,251	32,387,760
Investments, net							
Investment in an associate	-	-	-	-	-	172,753	172,753
Investments held at amortized cost	23,952,560	-	-	13,318,036	2,574,169	-	39,844,765
Investments held as FVSI	-	-	-	-	1,941,584		1,941,584
FVOCI investments	-	-	-	-	1,103,463	-	1,103,463
Financing, net							
Mutajara	17,239,834	19,924,825	3,958,429	2,596,216	-	-	43,719,304
Installment sale	13,409,580	13,669,220	21,812,332	98,684,882	23,673,937	-	171,249,951
Murabaha	4,064,638	4,406,381	182	5,499,608	858,791	-	14,829,600
Credit cards	1,959,351	-	-	-	-	-	1,959,351
Other assets	-	-	-	-	-	13,576,270	13,576,270
Total Assets	107,044,549	38,988,107	33,581,010	131,326,325	30,151,944	22,938,909	364,030,844
Liabilities							
Due to banks and other financial institutions	6,534,389	-	-	-	-	755,235	7,289,624
Customer deposits	-	-	-	-	-	268,416,843	268,416,843
Customers' time investments	17,027,753	213,057	1,448,415	-	-	-	18,689,225
Other customer accounts	1,362,776	311,575	589,356	4,539,350	-	-	6,803,057
Other liabilities	-	-	-	-	-	14,526,229	14,526,229
Total liabilities	24,924,918	524,632	2,037,771	4,539,350	-	283,698,307	315,724,978
Gap	82,119,631	38,463,475	31,543,239	126,786,975	30,151,944	(260,759,398)	48,305,866
Profit Rate Sensitivity - On Statement of Financial Positions	82,119,631	38,463,475	31,543,239	126,786,975	30,151,944	(260,759,398)	48,305,866
Profit Rate Sensitivity - Off Statement of Financial Positions	439,043	-	-	-	-	-	439,043
Total Profit Rate Sensitivity Gap	81,680,588	38,463,475	31,543,239	126,786,975	30,151,944	(260,759,398)	47,866,823
Cumulative Profit Rate Sensitivity Gap	81,680,588	120,144,063	151,687,302	278,474,277	308,626,221	47,866,823	95,733,646

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Foreign currency risks**

The tables below summarize the Bank's exposure to foreign currency exchange rate risk at 31 December 2019 and 2018 and the concentration of currency risks, Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency:

	(SAR'000)							
2019	**UAE Dirham**	**Japanese Yen**	**Euro**	**Malaysian Ringgit**	**US Dollar**	**Pound Sterling**	**Other**	**Total**
ASSETS								
Cash and cash equivalents	**34,104**	**-**	**31,868**	**153,650**	**335,903**	**21,963**	**608,879**	**1,186,367**
Due from banks and other financial institutions	**63,357**	**7,508**	**197,512**	**518,468**	**3,120,698**	**24,183**	**102,570**	**4,034,296**
Financing, net	**-**	**-**	**-**	**4,846,668**	**5,531,037**	**-**	**4,504,063**	**14,881,768**
Investments, net	**-**	**-**	**367**	**894,904**	**2,007,106**	**-**	**255,369**	**3,157,746**
Fixed assets	**2,229**	**-**	**9,528**	**65,199**	**392,337**	**1,024**	**54,232**	**524,549**
Other assets, net	**-**	**-**	**1,889**	**171,338**	**74,963**	**831**	**21,534**	**270,555**
Total Assets	**99,690**	**7,508**	**241,164**	**6,650,227**	**11,462,044**	**48,001**	**5,546,647**	**24,055,281**
LIABILITIES								
Due to banks and other financial institutions	**193**	**0**	**61,892**	**129,399**	**375,153**	**17**	**(622,790)**	**(56,136)**
Customers' deposits	**8,861**	**5,013**	**114,609**	**5,429,591**	**3,153,602**	**40,639**	**5,083,655**	**13,835,970**
Other liabilities	**4,369**	**707**	**110,713**	**103,126**	**740,687**	**9,023**	**237,542**	**1,206,167**
Total Liabilities	**13,423**	**5,720**	**287,214**	**5,662,116**	**4,269,442**	**49,679**	**4,698,407**	**14,986,001**
Net	**86,267**	**1,788**	**(46,050)**	**988,111**	**7,192,602**	**(1,678)**	**848,240**	**9,069,280**

	(SAR'000)							
2018	UAE Dirham	Japanese Yen	Euro	Malaysian Ringgit	US Dollar	Pound Sterling	Other	Total
ASSETS								
Cash and cash equivalents	25,946	-	29,291	193,088	568,393	15,538	504,016	1,336,272
Due from banks and other financial institutions	117,748	5,302	145,528	520,081	1,979,909	30,803	721,623	3,520,994
Financing, net	-	-	-	4,564,609	5,077,371	-	3,778,869	13,420,849
Investments, net	-	-	375	1,305,296	1,132,989	-	255,390	2,694,050
Fixed assets	1,226	-	6,578	41,423	269,965	993	36,782	356,967
Other assets, net	-	-	1,258	174,711	63,244	332	17,209	256,754
Total Assets	144,920	5,302	183,030	6,799,208	9,091,871	47,666	5,313,889	21,585,886
LIABILITIES								
Due to banks and other financial institutions	71	-	5,169	569,557	3,304,930	17	(564,139)	3,315,605
Customers' deposits	9,629	2,284	109,079	5,146,634	1,268,627	48,735	4,863,308	11,448,296
Other liabilities	17,305	699	97,032	117,000	695,523	8,882	196,799	1,133,241
Total Liabilities	27,005	2,983	211,280	5,833,191	5,269,080	57,634	4,495,968	15,897,142
Net	117,915	2,319	(28,250)	966,017	3,822,791	(9,968)	817,921	5,688,744

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Foreign currency risks (continued)**

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Bank management has set limits on positions by currencies, which are regularly monitored to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at 31 December 2019 and 2018, on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonably possible movements of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity. A positive effect shows a potential increase in the consolidated statement of income or consolidated shareholders' equity, whereas a negative effect shows a potential net reduction in the consolidated statement of income or consolidated statement of changes in shareholders' equity.

(SAR in million)

Currency Exposures As at 31 December 2019	**Change in Currency Rate in %**	**Effect on Net Income**	**Effect on Equity**
AED	**+/-2**	**1,899**	**1,899**
USD	**+/-2**	**140,917**	**140,917**
EUR	**+/-5**	**(153)**	**(153)**
INR	**+/-5**	**(227)**	**(227)**
PKR	**+/-5**	**249**	**249**

(SAR in million)

Currency Exposures As at 31 December 2018	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
AED	+/-2	2,358	2,358
USD	+/-2	76,146	76,146
EUR	+/-5	(768)	(768)
INR	+/-5	1,813	1,813
PKR	+/-5	547	547

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

b. Market risks - banking operations (continued)

- **Foreign currency risks (continued)**

Currency position

The Bank manages 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. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	2019 **SAR '000** **Long/(short)**	2018 SAR '000 Long/(short)
US Dollar	**7,192,602**	3,822,791
Japanese Yen	**1,788**	2,319
Euro	**(46,050)**	(28,250)
Pound Sterling	**(1,678)**	(9,969)
UAE Dirham	**86,267**	117,914
Malaysian Ringgit	**988,111**	966,017
Others	**848,240**	817,921
Total	**9,069,280**	5,688,743

c. Price risk

The Bank has certain investments which are carried at fair value through the income statement (FVSI) and fair value through other comprehensive income (FVOCI). Price risk arises due to changes in these investments.

As these investments are in a limited number of funds and are not significant to the total investment portfolio, the Bank monitors them periodically and determines the risk of holding them based on changes in market prices.

Other investments have little or no risks as these are bought for immediate sales. Investments are made only with a confirmed sale order, and therefore involve minimal risk.

- **Equity Price Risk**

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

The effect on the Bank’s equity investments held as FVOCI due to reasonably possible changes in equity indices, with all other variables held constant, as at 31 December is as follows:

	2019		2018	
Local Market Indices	**Change in Equity price %**	**Effect in SAR Million**	Change in Equity price %	Effect in SAR Million
Local Share Equities	**+ /- 10**	**+/- 164,824**	+ /- 10	+/- 107,910

27. FINANCIAL RISK MANAGEMENT (continued)

27-3 Market risks (continued)

d. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events.

Operational risk is inherent in most of the Bank's activities. This necessitates an integrated approach to the identification, measurement and monitoring of operational risk.

An Operational Risk Management Unit (ORMU) has been established within the Credit and Risk Management Group, which facilitates the management of Operational Risk within the Bank. ORMU facilitates the management of Operational Risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units and providing ongoing monitoring and guidance across the Bank.

The three primary operational risk management processes in the Bank are Risk Control Self Assessment, Operational Loss Database and eventual implementation of Key Risk Indicators which are designed to function in a mutually reinforcing manner.

28. GEOGRAPHICAL CONCENTRATION

a) The distribution by the geographical region of the major categories of assets, liabilities, commitments, contingencies and credit exposure accounts as of 31 December 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 and other central banks	39,206,336	69,209	-	-	18,554	-	39,294,099
Due from banks and other financial institutions	8,801,478	19,134,342	2,358,919	151,310	845,040	767,093	32,058,182
Financing, net							
Mutajara	39,952,031	1,104,910	520,303	-	-	-	41,577,244
Installment sale	183,365,159	3,035,239	-	-	1,323,603	-	187,724,001
Murabaha	11,574,137	2,131,177	-	-	3,522,752	-	17,228,066
Credit cards	3,146,433	7,061	-	-	-	-	3,153,494
Investments, net							
Investment in an associate	196,235	-	-	-	-	-	196,235
Investments held at amortized cost	40,980,924	1,008,885	-	-	953,278	-	42,943,087
FVSI Investments	1,406,111	624,233	367	-	-	-	2,030,711
FVOCI investments	1,651,690	20,907	-	-	-	-	1,672,597
Total assets	330,280,534	27,135,963	2,879,589	151,310	6,663,227	767,093	367,877,716
Liabilities							
Due to banks and other financial institutions	1,338,054	470,707	-	384,922	25,921	-	2,219,604
Customer deposits	302,177,992	5,061,753	17,726	4,544	5,125,688	18,120	312,405,823
Total liabilities	303,516,046	5,532,460	17,726	389,466	5,151,609	18,120	314,625,427
Commitments and contingencies	16,455,181	633,737	99,182	94,220	421,820	121,058	17,825,198
Credit exposure (stated at credit equivalent value)	9,727,912	-	-	-	1,908,182	-	11,636,094

28. 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 and other central banks	43,169,276	56,311	-	-	20,456	-	43,246,043
Due from banks and other financial institutions	10,803,907	19,835,928	755,337	61,154	919,489	11,945	32,387,760
Financing, net							
Mutajara	40,595,689	1,023,541	2,100,074	-	-	-	43,719,304
Installment sale	166,866,283	2,885,814	-	-	1,497,854	-	171,249,951
Murabaha	9,734,211	1,932,928	-	-	3,162,461	-	14,829,600
Credit cards	1,952,552	5,575	-	-	1,224	-	1,959,351
Investments, net							
Investment in an associate	172,753	-	-	-	-	-	172,753
Investments held at amortized cost	38,132,001	349,095	-	-	1,363,669	-	39,844,765
FVSI Investments	1,896,758	33,234	375	-	11,217	-	1,941,584
FVOCI investments	1,103,463	-	-	-	-	-	1,103,463
Total assets	314,426,893	26,122,426	2,855,786	61,154	6,976,370	11,945	350,454,574
Liabilities							
Due to banks and other financial institutions	6,401,763	44,133	-	329,267	514,461	-	7,289,624
Customer deposits	284,200,248	4,847,634	-	-	4,860,064	1,179	293,909,125
Total Liabilities	290,602,011	4,891,767	-	329,267	5,374,525	1,179	301,198,749
Commitments and contingencies	12,623,480	98,315	2,262	-	88,198	-	12,812,255
Credit exposure (stated at credit equivalent value)	4,401,104	-	-	-	2,081,332	-	6,482,436

28. GEOGRAPHICAL CONCENTRATION (continued)

b) The distributions by geographical concentration of non-performing financing and allowance for impairment of financing are as follows:

2019	**(SAR'000)**			
	Kingdom of Saudi Arabia	**GCC and Middle East**	**South East of Asia**	**Total**
Non-performing				
Mutajara	**1,642,684**	**5,420**	**38,970**	**1,687,074**
Installment sale	**538,829**	**24,736**	**18,412**	**581,977**
Murabaha	-	-	-	-
Credit cards	**47,742**	-	-	**47,742**
Allowance for impairment of financing				
Mutajara	**(1,285,340)**	**(1,088)**	**(19,427)**	**(1,305,855)**
Installment sale	**(522,160)**	**(7,734)**	**(497)**	**(530,391)**
Murabaha	**(144,794)**	-	**(10,751)**	**(155,545)**
Credit cards	**(9,083)**	-	**(287)**	**(9,370)**

2018	(SAR'000)			
	Kingdom of Saudi Arabia	GCC and Middle East	South East of Asia	Total
Non-performing				
Mutajara	991,751	5,959	26,610	1,024,320
Installment sale	559,630	14,942	16,969	591,541
Murabaha	536,865	108,621	17,084	662,570
Credit cards	11,874	-	7	11,881
Allowance for impairment of financing				
Mutajara	(837,349)	(2,066)	(2,958)	(842,373)
Installment sale	(453,000)	(10,185)	(4,244)	(467,429)
Murabaha	(504,296)	(108,500)	(17,084)	(629,880)
Credit cards	(2,970)	-	-	(2,970)

Refer to Note 7-1b for performing financing.

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

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

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

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.

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

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

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

Carrying amounts and fair value:

The following table shows the carrying amounts and fair values of financial assets and financial liabilities as at 31 December, including their levels in the fair value hierarchy (refer note 2d (ii)). It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2019	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Financial assets measured at fair value					
FVSI Investments – Mutual funds	**1,230,711**	**-**	**1,230,711**	**-**	**1,230,711**
FVOCI equity investments	**1,672,597**	**1,648,243**	**-**	**24,355**	**1,672,598**
FVSI Sukuk	**800,000**			**800,000**	**800,000**
Financial assets not measured at fair value					
Due from banks and other financial institutions	**32,058,182**	**-**	**-**	**32,300,842**	**32,300,842**
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	**24,991,978**	**-**	**-**	**25,268,177**	**25,268,177**
- Sukuk	**17,973,379**	**-**	**-**	**18,357,588**	**18,357,588**
Gross Financing	**256,702,401**			**275,942,492**	**275,942,492**
Total	**335,429,248**	**1,648,243**	**1,230,711**	**352,693,454**	**355,572,408**
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	**2,219,604**	**-**	**-**	**2,219,642**	**2,219,642**
Customers' deposits	**312,405,823**	**-**	**-**	**312,405,823**	**312,405,823**
Total	**314,625,427**	**-**	**-**	**314,625,465**	**314,625,465**

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

2018	(SAR'000)				
Financial assets	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
FVSI Investments – Mutual funds	1,141,584	-	1,141,584	-	1,141,584
FVOCI equity investments	1,103,463	1,079,101	-	24,362	1,103,463
FVSI Sukuk	800,000	-	-	800,000	800,000
Financial assets not measured at fair value					
Due from banks and other financial institutions	32,387,760	-	-	32,495,110	32,495,110
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	22,477,145	-	-	22,675,612	22,675,612
- Sukuk	17,395,957	-	-	17,404,968	17,404,968
Gross Financing	239,590,677	-	-	242,364,635	242,364,635
Total	314,896,586	1,079,101	1,141,584	315,764,687	317,985,372
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	7,289,624	-	-	7,287,557	7,287,557
Customers' deposits	293,909,125	-	-	293,909,125	293,909,125
Total	301,198,749	-	-	301,196,682	301,196,682

FVSI investments classified as level 2 include mutual funds, the fair value of which is determined based on the latest reported net assets value (NAV) as at the date of statement of consolidated financial position.

The level 3 financial assets measured at fair value represent investments recorded at cost. The carrying value of these investments approximates fair value.

Gross financing classified as level 3 has been valued using expected cash flows discounted at relevant SIBOR as at 31 December 2019 and 2018. Investments held at amortized cost, due to / from banks and other financial institutions have been valued using the actual cash flows discounted at relevant SIBOR/ SAMA murabaha rates as at 31 December 2019 and 2018.

The value obtained from the relevant valuation model may differ from the transaction price of a financial instrument. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', 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.

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

30. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank transacts business with related parties. The related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA. The nature and balances resulting from such transactions as at and for the year ended 31 December are as follows:

	(SAR'000)	
Related parties	**2019**	2018
Members of the Board of Directors		
Mutajara	**67,680**	76,404
Contingent liabilities (*)	**20**	46,258
Current accounts	**320,085**	219,330
Companies and establishments guaranteed by members of the Board of Directors		
Mutajara	**7,244,210**	8,040,701
Contingent liabilities (*)	**877,158**	952,343
Associate		
Contributions receivable	**142,152**	252,706
Payable against claims	**194,312**	144,640
Bank balances	**332,713**	274,705

(*) = off balance sheet items.

Income and expenses pertaining to transactions with related parties included in the consolidated financial statements for the years ended 31 December are as follows:

	(SAR'000)	
	2019	2018
Income from financing and other financial assets	**135,422**	139,496
Mudaraba Fees	**79,316**	68,272
Employees' salaries and benefits (air tickets)	**4,297**	4,142
Rent and premises related expenses	**5,521**	2,238
Contribution – policies written	**861,880**	1,059,392
Claims incurred and notified during the period	**662,212**	900,207
Claims paid	**615,901**	905,840
Board of Directors' remunerations	**6,140**	5,945

30. RELATED PARTY TRANSACTIONS (continued)

The amounts of compensations recorded in favor of or paid to the Board of Directors and the executive management personnel during the years ended 31 December are as follows:

	(SAR'000)	
	2019	2018
Short-term benefits	**99,533**	85,579
Provision for employees' end of service benefits	**10,669**	11,536

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

31. MUDARABA FUNDS

Mudaraba funds comprise the following as at 31 December:

	(SAR'000)	
	2019	2018
Customers' Mudaraba and investments	**23,255,708**	21,070,580
Total	**23,255,708**	21,070,580

Mudaraba and investments accounts represents customers' investment portfolio managed by Al Rajhi Capital Company and are considered as off balance sheet. Consistent with the accounting policies of the Group, such balances are not included in the consolidated financial statements as these are held by the Group in a fiduciary capacity.

32. SPECIAL COMMISSIONS EXCLUDED FROM THE CONSOLIDATED STATEMENT OF INCOME

The following represents the movements in charities account, which is included in other liabilities (see note 13) for the year ended 31 December:

	(SAR'000)	
	2019	2018
Balance at beginning of the year	**56,350**	16,854
Additions during the year	**52,691**	40,520
Payments made during the year	**(98,047)**	(1,024)
Balance at end of the year	**10,994**	56,350

33. INVESTMENT MANAGEMENT SERVICES

The Group offers investment services to its customers. The Group has established a number of Mudaraba funds in different investment aspects. These funds are managed by the Group's Investment Department, and a portion of the funds is also invested in participation with the Group. The Group also offers investment management services to its customers through its subsidiary, which include management of funds with total assets under management of SAR 42,084 million (2018: SAR 41,294 million). The mutual funds are not controlled by the Group and neither are under significant influence to be considered as associates / subsidiaries. Mutual funds' financial statements are not included in the consolidated financial statements of the Group. The Group's share of investments in these funds is included under investments, and is disclosed under related party transactions. Funds invested by the Group in those investment funds amounted to SAR 981 million at 31 December 2019 (2018: SAR 1,142 million).

34. CAPITAL ADEQUACY

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. SAMA requires the banks to hold the minimum level of the regulatory capital and also to maintain a ratio of total regulatory capital to the risk-weighted assets at or above 8%.

The Bank monitors the adequacy of its capital using ratios established by SAMA. These ratios measure capital adequacy by comparing the Bank's eligible capital with its consolidated statement of financial position, commitments and contingencies, to reflect their relative risk as of 31 December:

	(SAR'000)	
	2019	2018
Credit risk weighted assets	**234,299,968**	222,309,112
Operational risk weighted assets	**30,784,119**	28,094,351
Market risk weighted assets	**7,236,637**	4,102,847
Total Pillar I - risk weighted assets	**272,320,724**	254,506,310

	(SAR'000)	
	2019	2018
Tier I – capital	**51,191,657**	48,305,866
Tier II capital	**2,928,750**	2,778,864
Total tier I & II capital	**54,120,407**	51,084,730
Capital Adequacy Ratio %		
Tier I ratio	**18.80%**	18.98%
Tier I and II ratio	**19.87%**	20.07%

35. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued as listed below, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group is currently assessing the impact of these standards on the future financial statements and intends to adopt these new and amended standards, if applicable, when they become effective.

- IFRS 17 Insurance Contracts
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material

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

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

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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not expected to have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 3: Definition of a Business
In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material
In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's financial statements.

36. SUBSEQUENT EVENTS

The Board of Directors proposed, on 2nd of February 2020, a distribution of final dividends to the shareholders for the year amounting to SAR 3,750 million, of SAR 1.5 per share.

37. RESTATEMENT AND RECLASSIFICATION OF PRIOR YEAR FIGURES

a. Zakat

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

The change in the accounting treatment for zakat (as explained in note 2) has the following impact on the line items of the consolidated statement of income, consolidated statement of financial position and consolidated statement of changes in shareholders' equity.

As at and for the year ended 31 December 2018:

Financial statement impacted	Account	As previously stated as at 31 December 2018 (given the retrospective effect of bonus share issued) SAR’000	Effect of restatement SAR’000	As restated as at 31 December 2018 SAR’000
Consolidated statement of changes in shareholders’ equity	Provision for zakat (retained earnings)	6,367,949	(6,367,949)	-
Consolidated statement of income	Zakat	-	6,367,949	6,367,949
Consolidated statement of income	Earnings per share	4.12	(2.55)	1.57

There has been no impact on the Group’s retained earnings and total shareholders’ equity balances as at 1 January 2018 as a result of this change in accounting for Zakat.

As a major event during 2018, the Bank reached a settlement agreement with the General Authority for Zakat and Income Tax (GAZT), to settle the Zakat liability amounting to SAR 5,405,270,925 for the years up to 31 December 2017. The settlement agreement required the Bank to settle 20% of the agreed zakat liability in 2018, and the remaining will be divided equally over the period of five years. Accordingly, the aforementioned zakat liability was re-classified from other reserves to other liabilities and was charged to the consolidated statement of income.

b. Capitalization of property and equipment

The Bank has performed an analysis of capital work in progress reported under property and equipment in the consolidated statement of financial position. As a result of that analysis, the management identified certain assets amounting to SAR 1,902 million that were not capitalized on a timely basis which has resulted in an understatement of depreciation expenses in the previous years.

37. RESTATEMENT AND RECLASSIFICATION OF PRIOR YEAR FIGURES (continued)

2) Capitalization of property and equipment (continued)

The correction of the above error has resulted in the following impact on the line items of the consolidated statement of income, consolidated statement of financial position and consolidated statement of changes in shareholders' equity as detailed below:

As at 1 January 2018:

Financial statement impacted	Account	As previously stated as at 1 January 2018 SAR'000	Effect of Restatement SAR'000	As restated as at 1 January 2018 SAR'000
Consolidated statement of financial position	Property and equipment	7,858,127	(87,187)	7,770,940
Consolidated statement of changes in shareholders' equity	Retained earnings	13,906,736	(87,187)	13,819,549

As at and for the year ended 31 December 2018:

Financial statement impacted	Account	As previously stated as at and for the year ended 31 December 2018 (given the retrospective effect of bonus share issued) SAR'000	Effect of Restatement SAR'000	As restated as at and for year ended 31 December 2018 SAR'000
Consolidated statement of financial position	Property and equipment	8,897,587	(248,152)	8,649,435
Consolidated statement of changes in shareholders' equity	Retained earnings	12,747,323	(248,152)	12,499,171
Consolidated statement of income	Depreciation	442,171	160,965	603,136
Consolidated statement of income	Earnings per share	4.12	(0.06)	4.06

3) Reclassifications

Financing related fee amortization, which had previously been included in fees from banking services, is now included in gross financing and investment income. The change was made to reflect financing related fee amortization as a yield adjustment to gross financing income. Accordingly, the previously reported amounts in the consolidated financial statements for the year ended 31 December 2018 have been reclassified to conform to the current year presentation and therefore, this change increases the previously reported gross financing and investment income by SAR 1,234 million and reduces the fee from banking services accordingly. In addition, an amount of SAR 1,580 million has been reclassified from financing to due from banks and other financial institutions as at 31 December 2018.

37. RESTATEMENT AND RECLASSIFICATION OF PRIOR YEAR FIGURES (continued)

4) Other adjustment

The Bank has conducted a review of the timing of the recognition of up-front fees and financing income relating to retail credit products. As a result of the review, the method of the application of the accounting policy on timing of the recognition of up-front fees and financing income has been amended to appropriately reflect the systematic deferral of the recognition of such income. Based on materiality considerations, an adjustment of SAR 799.4 million was only made to the opening retained earnings as at 1 January 2018, with a corresponding adjustment to deferred income as at that date.

38. APPROVAL OF THE BOARD OF DIRECTORS

The consolidated financial statements were approved by the Board of Directors on 23 Jumada Al Thani 1441H (corresponding to 17 February 2020).