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 2020
TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT

KPMG Al Fozan & Partners
Certified Public Accountants

Building a better working world

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 2020, 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 2020, 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 each 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>
Expected credit loss allowance against financing
As at 31 December 2020, the Group's gross financing amounted to SAR 323,183.5 million (2019: SAR 256,702.4 million), against which an expected credit loss ("ECL") allowance of SAR 7,471.3 million (2019: SAR 7,019.6 million) was recorded.
We considered this as a key audit matter, as the determination of ECL involves significant management judgement, and this has a material impact on the consolidated financial statements of the Group. Moreover, the COVID-19 pandemic has resulted in heightened uncertainty regarding the economic outlook in particular, and hence has increased the levels of judgment needed to determine the ECL under the requirements of IFRS 9 – Financial Instruments ("IFRS 9"). The key areas of judgment include:
1. Categorisation of financing into Stages 1, 2 and 3 based on the identification of:
(a) exposures that have a significant increase in credit risk ("SICR") since their origination; and
(b) individually impaired / defaulted exposures.
In accordance with the requirements of IFRS 9, the Group measures ECL based on the credit losses expected to arise over the next twelve months ('12 month ECL'), unless there has been a significant increase in credit risk since origination or default, in which case, the allowance is based on the ECL expected to arise over the life of the financing ('Lifetime ECL').
The Group has applied judgments to identify and estimate the likelihood of borrowers experiencing SICR, notwithstanding the government support programs that resulted in repayment deferrals to certain segments of counterparties. The repayment deferrals were not deemed to have triggered SICR by themselves in isolation of other factors.
</td><td>

We obtained and updated our understanding of management's assessment of the ECL allowance in respect of financing, including the Group's internal rating model, accounting policy and methodology, as well as any key changes made in light of the COVID-19 pandemic.
We compared the Group's accounting policy and methodology for ECL allowance with the requirements of IFRS 9.
We assessed the design and implementation, and tested the operating effectiveness of the key controls (including relevant IT general and application controls) in relation to:

the ECL model (including governance over the model, its validation, approval of key assumptions and post model overlays, if any);
the classification of borrowers into various stages and timely identification of SICR, and the determination of default / individually impaired exposures;
the IT systems and applications underpinning the ECL model; and
the data inputs into the ECL model.

For a sample of customers, we assessed:

the internal ratings determined by management based on the Group's internal models and considered these assigned ratings in light of external market conditions and available industry information, in particular with reference to the impacts of the COVID-19 pandemic, and also assessed that these were consistent with the ratings used as inputs in the ECL model;
the staging as identified by management; and
management's computations for ECL.

</td></tr>
</table>

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
Expected credit loss allowance against financing (continued)	
2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), including but not limited to assessment of the financial condition of counterparties, expected future cash flows and developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probabilities. 3. The need to apply post model overlays using expert credit judgment to reflect all relevant risk factors that might not be captured by the ECL model. The application of these judgments, particularly in light of the global pandemic, have given rise to greater estimation uncertainty around ECL and therefore affected the associated audit risk thereon as at 31 December 2020. *Refer to the summary of significant accounting policy note 3d)5) for the impairment of financial assets; note 2d)i) which contains the disclosure of critical accounting judements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group; note 7-2 which contains the disclosure of impairment against financing; note 27-1a) for details of credit quality analysis and key assumptions and factors considered in determination of ECL; and note 38 for impact of the COVID-19 pandemic on ECL.*	• We assessed the appropriateness of the Group's criteria for the determination of SICR and default and the identification of individually impaired exposures; and their classification into stages. Further, for a sample of exposures, we assessed the appropriateness of the corresponding staging classification, including customers who were eligible for deferral of instalments under government support programs (with specific focus on customers operating in sectors most affected by the COVID-19 pandemic). • We assessed the governance process established by the Group and the qualitative factors considered by the Group when applying any overlays or making any adjustments to the output from the ECL model, due to data or model limitations or otherwise. • We assessed the reasonableness of the underlying assumptions used by the Group in the ECL model, including forward looking assumptions, keeping in view the uncertainty and volatility in economic scenarios due to the COVID 19 pandemic. • We tested the completeness and accuracy of data underpinning the ECL calculations as at 31 December 2020. • Where relevant, we involved our specialists, including IT specialists, to assist us in reviewing ECL model calculations, evaluating inputs and assessing the reasonableness of assumptions used, particularly around macroeconomic variables, macroeconomic scenarios and probability weights. • We assessed the adequacy of related disclosures in the consolidated financial statements.

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>

SAMA support program and related government grants

In response to COVID-19 pandemic, the Saudi Central Bank ("SAMA") launched a number of initiatives, including the liquidity support programme for banks and the Private Sector Financing Support Program ("PSFSP"). The PSFSP was launched in March 2020 to provide the necessary support to the Micro, Small and Medium Enterprises ("MSMEs"). The PSFSP included the deferred payments program, whereby the Bank deferred the instalments payable by MSMEs falling due during the period from 14 March 2020 to 31 March 2021.

In order to compensate the Bank with respect to the losses incurred in connection with the PSFSP and the liquidity support programme, the Bank has received profit free deposits of varying maturities amounting in aggregate to SAR 8.85 billion. The difference between the fair value of such deposits at initial recognition, determined using market rates of deposits of similar value and tenor, and their face value has been considered as a government grant and accounted for in accordance with International Accounting Standard 20: Government Grants ("IAS 20").

We considered the accounting for the deposits received under the SAMA support programme as a key audit matter because:

1. these deposits represent significant events and material transactions that occurred during the year, and thereby required significant auditors' attention; and

2. the recognition and measurement of government grants have involved significant management judgment, including but not limited to:

(a) determining the appropriate discount rate to be used; and
(b) identifying the objective of each individual deposit to determine the timing of recognition of the associated grant.

Refer to the significant accounting policy note 3a to the consolidated financial statements relating to government grant accounting; and note 38 which contains the disclosure of SAMA support programmes and details of the government grants received over the year from SAMA.

</td><td>

We obtained an understanding of the various programmes and initiatives taken by SAMA during the year ended 31 December 2020 in response to COVID-19, and assessed the objectives of the deposits received by the Group in relation thereto to assess the appropriateness of the application of IAS 20 (and recogntion of government grant) by the Group.

We checked the accuracy of the government grants computation (including discount rates used) and assessed the appropriateness of the timing of recognition of the goverment grants by the Group.

We assessed the appropriateness of related disclosures in the consolidated financial statements.

</td></tr>
</table>

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 Group's 2020 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2020 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

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, amongst 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.

KPMG Al Fozan & Partners
Certified Public Accountants

Building a better working world

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 2020 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 was 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 for the year ended 31 December 2020.

KPMG Al Fozan & Partners
Certified Public Accountants
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia

Dr. Abdullah Hamad Al Fozan
Certified Public Accountant
License no. 348

Ernst & Young

P. O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Rashid S. Al Rashoud
Certified Public Accountant
License No. 366

29 Jumada Thani 1442H
(11 February 2021)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020 AND 2019

	Notes	(SAR'000) 2020	2019
ASSETS			
Cash and balances with SAMA and other central banks	4	**47,362,522**	39,294,099
Due from banks and other financial institutions, net	5	**28,654,842**	32,058,182
Investments, net	6	**60,285,272**	46,842,630
Financing, net	7	**315,712,101**	249,682,805
Property and equipment, net	8	**10,234,785**	10,407,247
Investment properties, net	9	**1,541,211**	1,383,849
Other assets, net	10	**5,033,990**	4,417,764
TOTAL ASSETS		**468,824,723**	384,086,576
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	11	**10,764,061**	2,219,604
Customers' deposits	12	**382,631,003**	312,405,823
Other liabilities	13	**17,311,141**	18,269,492
Total liabilities		**410,706,205**	332,894,919
Shareholders' equity			
Share capital	14	**25,000,000**	25,000,000
Statutory reserve	15	**25,000,000**	21,789,632
Other reserves	15	**(134,728)**	(216,041)
Retained earnings		**8,253,246**	868,066
Proposed gross dividends	23	**-**	3,750,000
Total shareholders' equity		**58,118,518**	51,191,657
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**468,824,723**	384,086,576

The accompanying notes from 1 to 39 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 2020 AND 2019

		(SAR'000)	
	Notes	**2020**	2019
INCOME			
Gross financing and investment income	17	**17,377,963**	16,962,583
Return on customers', banks' and financial institutions' time investments	17	**(464,946)**	(534,860)
Net financing and investment income	17	**16,913,017**	16,427,723
Fee from banking services, net	18	**2,659,680**	1,987,367
Exchange income, net		**783,894**	774,096
Other operating income, net	19	**364,669**	295,278
Total operating income		**20,721,260**	19,484,464
EXPENSES			
Salaries and employees' related benefits	20	**2,977,344**	2,794,046
Depreciation and amortization	8&9	**1,118,148**	1,059,582
Other general and administrative expenses	21	**2,646,409**	2,532,213
Operating expenses before credit impairment charge		**6,741,901**	6,385,841
Impairment charge for financing and other financial assets, net	7	**2,165,740**	1,772,265
Total operating expenses		**8,907,641**	8,158,106
Income for the year before Zakat		**11,813,619**	11,326,358
Zakat for the year	37	**(1,218,071)**	(1,167,831)
NET INCOME FOR THE YEAR		**10,595,548**	10,158,527
Basic and diluted earnings per share (in SAR)	22	**4.24**	4.06

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

Chairman Chief Executive Officer Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

		(SAR'000)	
	Notes	**2020**	2019
Net income for the year		**10,595,548**	10,158,527
Other comprehensive income			
Items that cannot be reclassified to consolidated statement of income in subsequent periods			
Net change in fair value of equity investments held at fair value through other comprehensive income ("FVOCI Investments")	15	**254,222**	178,773
Re-measurement of employees' end of service benefits liabilities ("ESOB")	15 & 25	**(179,605)**	(51,630)
Items that can be reclassified to consolidated statement of income in subsequent periods			
Exchange difference on translating foreign operations	15	**6,696**	6,371
Total comprehensive income for the year		**10,676,861**	10,292,041

The accompanying notes from 1 to 39 form an integral part of these consolidated financial statements.

Chairman　　Chief Executive Officer　　Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

	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 2019		**25,000,000**	**21,789,632**	**(216,041)**	**868,066**	**3,750,000**	**51,191,657**
Net income for the year		-	-	-	**10,595,548**	-	**10,595,548**
Net change in fair value of FVOCI investments	15	-	-	**254,222**	-	-	**254,222**
Exchange difference on translation foreign operations	15	-	-	**6,696**	-	-	**6,696**
Re-measurement of employee EOSB liabilities	15 & 25	-	-	**(179,605)**	-	-	**(179,605)**
Net other comprehensive income recognized directly in shareholders' equity		-	-	**81,313**	-	-	**81,313**
Total comprehensive income for the year		-	-	**81,313**	**10,595,548**	-	**10,676,861**
Transfer to statutory reserve		-	**3,210,368**	-	**(3,210,368)**	-	-
Dividend for the second half 2019	23	-	-	-	-	**(3,750,000)**	**(3,750,000)**
Balance at 31 December 2020		**25,000,000**	**25,000,000**	**(134,728)**	**8,253,246**	-	**58,118,518**

	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		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
Exchange difference on translation foreign operations	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		-	-	-	-	(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	-	-	-	(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

The accompanying notes from 1 to 39 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 2020 AND 2019

	Notes	(SAR'000) 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before Zakat		**11,813,619**	11,326,358
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	**(33,441)**	(21,617)
Depreciation and amortization	8	**1,080,171**	1,059,582
Depreciation on investment properties	9	**37,977**	17,221
(Gain) on sale of property and equipment, net	19	**(10,256)**	(568)
Impairment charge for financing and other financial assets, net	7	**2,165,740**	1,772,265
Share in profit of an associate	19	**(42,944)**	(23,481)
(Increase) / decrease in operating assets			
Statutory deposit with SAMA and other central banks		**(2,796,037)**	(1,219,309)
Due from banks and other financial institutions		**9,846,917**	(3,174,273)
Financing		**(68,195,037)**	(19,696,863)
FVSI investments		**(4,615,776)**	25,685
Other assets, net		**(609,530)**	(804,605)
Increase/ (decrease) in operating liabilities			
Due to banks and other financial institutions		**8,544,457**	(5,070,020)
Customers' deposits		**70,225,180**	18,496,698
Other liabilities		**(958,351)**	4,388,757
Zakat paid		**(2,032,674)**	(2,889,286)
Net cash generated from operating activities		**24,420,015**	4,186,544
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(945,686)**	(1,527,133)
Purchase of investment property		-	(103,480)
Purchase of FVOCI investments		**(2,528,010)**	(1,638,587)
Proceeds from disposal of FVOCI investments		**163,231**	1,148,963
Proceeds from maturities of investments held at amortized cost		**23,898,760**	91,458,865
Purchase of investments held at amortized cost		**(29,500,087)**	(94,524,237)
Net cash used in investing activities		**(8,911,792)**	(5,185,609)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	23	**(3,750,000)**	(7,406,250)
Payment against lease obligation		**(42,261)**	(269,789)
Net cash used in financing activities		**(3,792,261)**	(7,676,039)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**11,715,962**	(8,675,104)
Cash and cash equivalents at the beginning of the year		**21,111,399**	29,786,503
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	24	**32,827,361**	21,111,399
Gross financing and investment income received during the year		**17,579,469**	16,693,465
Return on customers', banks' and financial institutions' time investments paid during the year		**(147,912)**	(282,046)
		17,431,557	16,411,419
Non-cash transactions:			
Net change in fair value of FVOCI equity investments		**254,222**	178,773

The accompanying notes from 1 to 39 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 591 branches (2019: 572) including the branches outside the Kingdom and 13,716 employees (2019: 13,439 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 %		
	2020	2019	
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 %		
	2020	2019	
Al Rajhi Capital Company – KSA	**100%**	100%	A Saudi Closed Joint Stock Company authorized by the Capital Market Authority to carry on securities business in the activities of Dealing/brokerage, Managing assets, advising, Arranging, and Custody.
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%**	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.
Tawtheeq company – KSA	**100%**	-	A closed joint stock company registered in Kingdom of Saudi Arabia providing financial leasing contracts registration to organize contracts data and streamline litigation processes.
Al Rajhi Financial Markets Ltd	**100%**	-	A Limited Liability Company registered in the Cayman Islands with the objective of managing certain

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

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 derivatives, 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.

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:

2. BASIS OF PREPARATION (continued)

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

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

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:

2. BASIS OF PREPARATION (continued)

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

ii) Fair value of financial instruments (continued)

- 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 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 2019 except for the effect of government grant and derivatives financial instruments accounting policies mentioned below.

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

Derivative financial instruments
Derivative financial instruments include foreign exchange forward contracts and profit rate swaps. These derivatives financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into. These instruments are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

In the ordinary course of business, the Bank utilises the following derivative financial instruments for trading purposes:

a) Profit rate swaps
Swaps are commitments to exchange one set of cash flows for another. For profit rate swaps, counterparties exchange fixed and floating profit rate payments in a single currency without exchanging principal.

b) Foreign exchange forwards
Forwards are contractual agreements to either buy or sell a specified currency at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter markets. Foreign currencies are transacted in standardised amounts on regulated exchanges and changes in futures contract values are settled daily.

Held for trading purposes
Most of the Bank's derivative trading activities relate to sales and positioning. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices.

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the interim condensed consolidated statement of income and disclosed in foreign exchange income for foreign exchange forward contracts and in other income for profit rate swap contracts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

IBOR Transition (Profit Rate Benchmark Reforms):

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

Phase (1) - The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform. The bank has adopted these amendments along with the hedging relief for pre-replacement hedges.

Phase (2) – The second phase relates to the replacement of benchmark rates (IBOR) with alternative risk-free rates (RFR). The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021 and early application is permitted. Now that the Phase 2 Amendments have been finalised, the Bank will complete its assessment of the accounting implications of the scenarios it expects to encounter as the transition from IBORs to RFRs in order to accelerate its programmes to implement the new requirements. The Phase 2 Amendments introduce new areas of judgement, the Bank needs to ensure it has appropriate accounting policies and governance in place. For the additional disclosures, the Bank will have to assess and implement required updates in the financial reporting systems and processes to gather and present the information required.

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

The table below shows the Bank's exposure at the year-end to significant IBORs subject to reform that have yet to transition to RFRs. The table excludes exposures to IBOR that will expire before transition is required.

In SAR 000 **31 December 2020**	**Non-derivative financial assets - carrying value**	**Non-derivative financial liabilities carrying value**	**Derivatives Nominal amount1**
SAIBOR SAR (1 month)	47,000	-	11,009
SAIBOR SAR (3 months)	25,025,000	-	76,131
SAIBOR SAR (6 months)	25,610,000	-	1,528,100
SAIBOR SAR (12 months)	500,000	-	-
LIBOR USD (1 months)	24,000	-	23,019
LIBOR USD (3 months)	3,246,250	-	563,250
LIBOR USD (6 months)	7,160,000	-	6,926,443
LIBOR USD (12 months)	**-**	**-**	**-**
Total	**61,612,250**		**9,127,752**

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

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 the Saudi Central Bank (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 thoes mechanisms and, irrespective of the political intents, 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 Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as 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)

d) 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 charity institutions.

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.

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)	
	2020	2019
Cash in hand	**7,355,940**	7,404,276
Statutory deposits	**23,459,540**	20,663,503
Current account with SAMA	**311,493**	371,320
Mutajara with SAMA	**16,235,549**	10,855,000
Total	**47,362,522**	39,294,099

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)	
	2020	2019
Current accounts	**1,259,634**	798,168
Mutajara	**27,395,208**	31,260,014
Total	**28,654,842**	32,058,182

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

	(SAR'000)	
	2020	2019
Investment grade (credit rating AAA to BBB)	**28,013,793**	31,601,630
Non-investment grade (credit rating BB+ to B-)	**492,593**	241,353
Unrated	**148,456**	215,199
Total	**28,654,842**	32,058,182

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 classified in stage 1.

6. INVESTMENTS, NET

a) Investments comprise the following as of 31 December:

	(SAR'000)	
	2020	2019
Investment in an associate	**239,179**	196,235
Investments held at amortized cost		
Murabaha with Saudi Government and SAMA	**22,904,021**	24,991,978
Sukuk	**25,240,452**	17,973,379
Structured Products	**1,000,000**	-
Less: Impairment (Stage 1)	**(26,962)**	(22,270)
Total investments held at amortized cost	**49,117,511**	42,943,087
Investments held as FVSI		
Mutual funds	**2,545,864**	1,230,711
Structured Products	**1,502,525**	-
Sukuk	**2,588,595**	800,000
Total investments held as FVSI	**6,636,984**	2,030,711
FVOCI investments		
Equity investments	**3,687,266**	1,672,597
Sukuk	**604,332**	-
Total FVOCI investments	**4,291,598**	1,672,597
Investments	**60,285,272**	46,842,630

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 2020 & 2019.

Equity investment securities designated as at FVOCI
The Bank has designated investment in equity securities designated 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 2020, 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 2019: 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:

2020		(SAR'000)	
	Quoted	**Unquoted**	**Total**
Murabaha with Saudi Government and SAMA	**-**	**22,904,021**	**22,904,021**
Structured Products	**-**	**2,502,525**	**2,502,525**
Sukuk	**24,143,625**	**4,262,792**	**28,406,417**
Equities	**3,902,056**	**24,389**	**3,926,445**
Mutual funds	**2,291,749**	**254,115**	**2,545,864**
Total	**30,337,430**	**29,947,842**	**60,285,272**

6. INVESTMENTS, NET (continued)

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	16,323,938	30,518,692	46,842,630

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

2020 (SAR'000)	**Gross carrying value**	**Gross unrecognized gains**	**Gross unrecognized losses**	**Fair value**
Murabaha with Saudi Government and SAMA	**22,904,021**	**322,861**	**-**	**23,226,882**
Sukuk	**28,406,417**	**915,263**	**-**	**29,321,680**
Structure Product	**2,502,525**	**48,310**	**-**	**2,550,835**
Equities	**3,926,445**	**-**	**-**	**3,926,445**
Mutual funds	**2,545,864**	**-**	**-**	**2,545,864**
Total	**60,285,272**	**1,286,434**	**-**	**61,571,706**

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	-	-	1,868,832
Mutual funds	1,230,711	-	-	1,230,711
Total	46,864,900	660,408	-	47,525,308

d) Credit quality of investments

(SAR'000)	**2020**	2019
Murabaha with Saudi Government and SAMA	**22,904,021**	24,991,978
Sukuk - Investment grade	**26,404,319**	18,565,484
Structured Products - Investment grade	**2,502,525**	-
Sukuk - BB+ (Fitch)	**597,098**	185,625
Sukuk unrated	**1,405,000**	-
Total	**53,812,963**	43,743,087

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 2020 (31 December 2019 : A).

6. INVESTMENTS, NET (continued)

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

(SAR'000)	**2020**	2019
Investments held at amortized cost		
Sukuk	**3,766,053**	1,128,857
FVOCI investments		
Sukuk	**604,332**	-
Equity investments	**21,309**	21,274
Investments held as FVSI		
Mutual funds	**190,843**	13,409
Total	**4,582,537**	1,163,540

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

(SAR'000)	**2020**	2019
Government and quasi government	**45,718,805**	41,780,947
Banks and other financial institutions	**5,091,120**	800,000
Companies	**6,956,445**	3,053,242
Mutual funds	**2,545,864**	1,230,711
Less: Impairment (Stage 1)	**(26,962)**	(22,270)
Net investments	**60,285,272**	46,842,630

7. FINANCING, NET

7–1 Financing

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

	(SAR'000)			
	2020			
	Performing	**Non-performing**	**Allowance for impairment**	**Net financing**
Mutajara	**38,536,363**	**1,690,865**	**(2,995,894)**	**37,231,334**
Installment sale	**259,150,038**	**728,401**	**(4,398,923)**	**255,479,516**
Murabaha	**19,725,827**	**-**	**(55,734)**	**19,670,093**
Credit cards	**3,326,115**	**25,848**	**(20,805)**	**3,331,158**
Total	**320,738,343**	**2,445,114**	**(7,471,356)**	**315,712,101**

	(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

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)				
	2020				
Description	Mutajara	Installment sale	Murabaha	Credit cards	Total
Inside the Kingdom of Saudi Arabia	**40,227,228**	**255,124,933**	**14,595,825**	**3,345,758**	**313,293,744**
Outside the Kingdom of Saudi Arabia	**-**	**4,753,506**	**5,130,002**	**6,205**	**9,889,713**
Gross financing	**40,227,228**	**259,878,439**	**19,725,827**	**3,351,963**	**323,183,457**
Allowance for impairment	**(2,995,894)**	**(4,398,923)**	**(55,734)**	**(20,805)**	**(7,471,356)**
Net financing	**37,231,334**	**255,479,516**	**19,670,093**	**3,331,158**	**315,712,101**

	(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

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

	(SAR'000)		
2020	**Retail**	**Corporate**	**Total**
Mutajara	**1,202,886**	**39,024,342**	**40,227,228**
Installment sale	**250,470,267**	**9,408,172**	**259,878,439**
Murabaha	**-**	**19,725,827**	**19,725,827**
Credit cards	**3,351,963**	**-**	**3,351,963**
Financing, gross	**255,025,116**	**68,158,341**	**323,183,457**
Less: Allowance for impairment	**(4,365,761)**	**(3,105,595)**	**(7,471,356)**
Financing, net	**250,659,355**	**65,052,746**	**315,712,101**

	(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)

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:

2020	**(SAR'000)**					
	Neither past due nor impaired	**Past due but not impaired**	**Impaired**	**Total**	**Allowance for impairment**	**Net financing**
Retail	**250,651,757**	**3,619,110**	**754,249**	**255,025,116**	**(4,365,761)**	**250,659,355**
Corporate	**60,624,852**	**5,842,624**	**1,690,865**	**68,158,341**	**(3,105,595)**	**65,052,746**
Total	**311,276,609**	**9,461,734**	**2,445,114**	**323,183,457**	**(7,471,356)**	**315,712,101**

2019	(SAR'000)					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Allowance for impairment	Net financing
Retail	187,434,532	2,491,249	629,719	190,555,500	(3,832,473)	186,723,027
Corporate	58,325,789	6,134,038	1,687,074	66,146,901	(3,187,123)	62,959,778
Total	245,760,321	8,625,287	2,316,793	256,702,401	(7,019,596)	249,682,805

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 the write-off on amount of SAR 260 million which was written off against other financial assets).

2020	**(SAR'000)**		
	Retail	**Corporate**	**Total**
Balance at beginning of the year	**3,832,473**	**3,187,123**	**7,019,596**
Gross charge for the year	**2,209,585**	**1,008,710**	**3,218,295**
Bad debts written off against provision	**(1,676,297)**	**(1,090,238)**	**(2,766,535)**
Balance at the end of the year	**4,365,761**	**3,105,595**	**7,471,356**

2019	(SAR'000)		
	Retail	Corporate	Total
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):

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

2020	**(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 2020	**2,224,089**	**3,090,301**	**2,333,575**	**7,647,965**
Transfer to 12 month ECL	**256,884**	**(256,884)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(65,311)**	**118,509**	**(53,198)**	**-**
Transfer to Lifetime ECL credit impaired	**(15,473)**	**(247,993)**	**263,466**	**-**
Charge for the year	**349,924**	**415,810**	**2,652,691**	**3,418,425**
Write-offs	**(345,799)**	**(309,824)**	**(2,371,249)**	**(3,026,872)**
Balance as at 31 December 2020	**2,404,314**	**2,809,919**	**2,825,285**	**8,039,518**

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	2,630,470	3,570,795	1,842,389	8,043,653
Transfer to 12 month ECL	713,995	(713,995)	-	-
Transfer to Lifetime ECL not credit impaired	(38,929)	71,051	(32,122)	-
Transfer to Lifetime ECL credit impaired	(9,902)	(252,175)	262,077	-
Charge for the period	(602,243)	768,639	2,831,119	2,997,515
Write-offs	(469,302)	(354,013)	(2,569,887)	(3,393,203)
Balance as at 31 December 2019	2,224,089	3,090,301	2,333,575	7,647,965

Closing balance as at 31 December 2020, includes impairment allowance related to off balance sheet items amounting to SAR 568 million (2019: SAR 368 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. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

2020	**(SAR '000')**			
Retail	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2020	**1,656,406**	**1,662,188**	**773,878**	**4,092,472**
Transfer to 12 month ECL	**206,493**	**(206,493)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(53,588)**	**106,625**	**(53,037)**	**-**
Transfer to Lifetime ECL credit impaired	**(10,890)**	**(60,716)**	**71,606**	**-**
Charge for the year	**400,113**	**371,282**	**1,438,190**	**2,209,585**
Write-offs	**(345,799)**	**(309,824)**	**(1,280,673)**	**(1,936,296)**
Balance as at 31 December 2020	**1,852,735**	**1,563,062**	**949,964**	**4,365,761**
2019				
Balance at 1 January 2019	2,242,794	1,115,136	692,635	4,050,565
Transfer to 12 month ECL	236,154	(236,154)		-
Transfer to Lifetime ECL not credit impaired	(32,913)	65,035	(32,122)	-
Transfer to Lifetime ECL credit impaired	(6,986)	(71,995)	78,981	-
Charge for the year	(313,340)	1,144,178	998,110	1,828,948
Write-offs	(469,302)	(354,013)	(963,726)	(1,787,041)
Balance as at 31 December 2019	1,656,407	1,662,187	773,878	4,092,472

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

2020	(SAR '000')			
Corporate	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Financings to customers at amortized cost				
Balance at 1 January 2020	**567,683**	**1,428,113**	**1,559,697**	**3,555,493**
Transfer to 12 month ECL	**50,391**	**(50,391)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(11,723)**	**11,884**	**(161)**	**-**
Transfer to Lifetime ECL credit impaired	**(4,582)**	**(187,278)**	**191,860**	**-**
Charge for the year	**(50,190)**	**44,529**	**1,214,502**	**1,208,841**
Write-offs	**-**	**-**	**(1,090,577)**	**(1,090,577)**
Balance as at 31 December 2020	**551,579**	**1,246,857**	**1,875,321**	**3,673,757**
2019				
Balance at 1 January 2019	387,676	2,455,658	1,149,754	3,993,088
Transfer to 12 month ECL	477,841	(477,841)	-	-
Transfer to Lifetime ECL not credit impaired	(6,016)	6,016	-	-
Transfer to Lifetime ECL credit impaired	(2,916)	(180,181)	183,096	-
Charge for the period	(288,903)	(375,539)	1,833,009	1,168,567
Write-offs	-	-	(1,606,162)	(1,606,162)
Balance as at 31 December 2019	567,683	1,428,113	1,559,697	3,555,493

For Corporate opening balance will be higher by 211 million for off balance provision and the closing will be higher by SAR 368 million for off balance provision in 2019. For 2020 the total includes off balance sheet provision of SAR 568 million.

2020	(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 2020	**244,233,853**	**9,730,883**	**2,737,665**	**256,702,401**
Transfer to 12 month ECL	**1,449,420**	**(1,449,420)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(3,152,175)**	**3,257,063**	**(104,888)**	**-**
Transfer to Lifetime ECL credit impaired	**(612,722)**	**(743,352)**	**1,356,074**	**-**
Write-offs	**(345,799)**	**(309,824)**	**(2,371,249)**	**(3,026,872)**
New Business / Movement	**65,885,808**	**1,787,599**	**1,834,522**	**69,507,929**
Balance as at 31 December 2020	**307,458,385**	**12,272,949**	**3,452,124**	**323,183,458**

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

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	230,756,736	6,543,629	2,290,312	239,590,677
Transfer to 12 month ECL	3,473,536	(3,473,536)	-	-
Transfer to Lifetime ECL not credit impaired	(1,427,741)	1,480,118	(52,377)	-
Transfer to Lifetime ECL credit impaired	(175,895)	(679,980)	855,875	-
Write-offs	(469,302)	(354,013)	(2,569,887)	(3,393,202)
New Business / Movement	12,076,518	6,214,665	2,213,743	20,504,926
Balance as at 31 December 2019	244,233,852	9,730,883	2,737,666	256,702,401

2020	**(SAR '000')**			
Retail	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2020	**186,184,436**	**3,320,473**	**1,050,591**	**190,555,500**
Transfer to 12 month ECL	**820,807**	**(820,807)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(2,018,928)**	**2,123,816**	**(104,888)**	**-**
Transfer to Lifetime ECL credit impaired	**(422,408)**	**(144,054)**	**566,462**	**-**
Write-offs	**(345,799)**	**(309,824)**	**(1,280,672)**	**(1,936,295)**
New Business / Movement	**63,138,025**	**1,738,121**	**1,529,766**	**66,405,912**
Balance as at 31 December 2020	**247,356,133**	**5,907,725**	**1,761,259**	**255,025,117**
2019				
Balance at 1 January 2019	169,473,152	276,300	603,457	170,352,909
Transfer to 12 month ECL	700,777	(700,777)		-
Transfer to Lifetime ECL not credit impaired	(956,070)	1,008,447	(52,377)	-
Transfer to Lifetime ECL credit impaired	(69,959)	(74,226)	144,185	-
Write-offs	(469,302)	(354,013)	(963,725)	(1,787,040)
New Business / Movement	17,505,838	3,164,741	1,319,052	21,989,631
Balance as at 31 December 2019	186,184,436	3,320,472	1,050,592	190,555,500

7. FINANCING, NET (continued)

7-2 Allowance for impairment of financing (continued):

2020	**(SAR '000')**			
Corporate	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
Financings to customers at amortized cost				
Balance at 1 January 2020	**58,049,416**	**6,410,411**	**1,687,074**	**66,146,901**
Transfer to 12 month ECL	**628,613**	**(628,613)**	**-**	**-**
Transfer to Lifetime ECL not credit impaired	**(1,133,246)**	**1,133,246**	**-**	**-**
Transfer to Lifetime ECL credit impaired	**(190,313)**	**(599,299)**	**789,612**	**-**
Write-offs	**-**	**-**	**(1,090,577)**	**(1,090,577)**
New Business / Movement	**2,747,782**	**49,479**	**304,756**	**3,102,017**
Balance as at 31 December 2020	**60,102,252**	**6,365,224**	**1,690,865**	**68,158,341**
2019				
Balance at 1 January 2019	61,283,584	6,267,329	1,686,855	69,237,768
Transfer to 12 month ECL	2,772,759	(2,772,759)	-	-
Transfer to Lifetime ECL not credit impaired	(471,671)	471,671	-	-
Transfer to Lifetime ECL credit impaired	(105,935)	(605,754)	711,689	-
Write-offs	-	-	(1,606,162)	(1,606,162)
New Business / Movement	(5,429,321)	3,049,924	894,692	(1,484,705)
Balance as at 31 December 2019	58,049,416	6,410,411	1,687,074	66,146,901

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)	
	2020	2019
Provided for the year for on balance sheet	**3,218,295**	2,840,327
Provided for the year for off balance sheet	**200,130**	157,187
Recovery of written off financing, net	**(1,252,685)**	(1,225,249)
Allowance for financing impairment, net	**2,165,740**	1,772,265

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

	(SAR'000)	
	2020	2019
Gross receivables from finance leases	**24,042,741**	25,261,591
Less than 1 year	**1,313,474**	367,707
1 to 5 years	**15,397,354**	17,072,183
Over 5 years	**7,331,913**	7,821,701
	24,042,741	25,261,591
Unearned future finance income on finance leases	**(3,226,606)**	(3,690,399)
Net receivables from finance leases	**20,816,135**	21,571,192

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**	**Right-of-Use assets**	**Total**
COST						
At 1 January 2019	2,343,825	4,329,484	949,754	4,951,701	1,352,361	13,927,125
Additions	156	1,884,315	383,707	384,430	177,738	2,830,346
Disposals	(6,096)	-	-	(32,190)	-	(38,286)
At 31 December 2019	**2,337,885**	**6,213,799**	**1,333,461**	**5,303,941**	**1,530,099**	**16,719,185**
Additions	27,675	6,964	259,571	630,849	20,627	945,686
Disposals	(14,588)	(38,884)	-	(45,287)	-	(98,759)
At 31 December 2020	**2,350,972**	**6,181,879**	**1,593,032**	**5,889,503**	**1,550,726**	**17,566,113**
ACCUMULATED DEPRECIATION						
As at 1 January 2019	-	484,241	919,222	3,874,227	-	5,277,690
Charge for the year	-	373,782	77,624	368,339	239,837	1,059,582
Disposals	-	-	-	(25,334)	-	(25,334)
At 31 December 2019	**-**	**858,023**	**996,846**	**4,217,232**	**239,837**	**6,311,938**
Charge for the year	-	137,154	102,203	628,072	212,742	1,080,171
Disposals	-	(31,984)		(28,797)	-	(60,781)
At 31 December 2020	**-**	**963,193**	**1,099,049**	**4,816,507**	**452,579**	**7,331,328**
NET BOOK VALUE						
At 31 December 2020	**2,350,972**	**5,218,686**	**493,983**	**1,072,996**	**1,098,147**	**10,234,785**
At 31 December 2019	2,337,885	5,355,776	336,615	1,086,709	1,290,262	10,407,247

Buildings include work-in-progress amounting to SAR 225 million as at 31 December 2020 (2019: SAR 159 million), and technology-related assets include work-in-progress amounting to SAR 595 million as of December 2020 (2019: SAR 608 million).

8. PROPERTY AND EQUIPMENT, NET (continued)

Equipment and furniture includes information technology-related assets as follows:

	Tangible	Intangible	Total
COST			
At 31 December 2019	1,546,127	-	1,546,127
Additions	264,598	102,614	367,212
Disposals	-	-	-
At 31 December 2020	**1,810,725**	**102,614**	**1,913,339**
ACCUMULATED DEPRECIATION			
At 31 December 2019	899,976	-	899,976
Charge for the year	257,388	14,687	272,075
Disposals	-	-	-
At 31 December 2020	**1,157,364**	**14,687**	**1,172,051**
NET BOOK VALUE			
At 31 December 2020	**653,361**	**87,927**	**741,288**
At 31 December 2019	646,150	-	646,150

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 2019	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**
Additions	**-**	**195,339**	**195,339**
At 31 December 2020	**894,423**	**754,842**	**1,649,265**
ACCUMULATED DEPRECIATION			
Balance at 1 January 2019	-	(52,856)	(52,856)
Charge for the year	-	(17,221)	(17,221)
At 31 December 2019	-	**(70,077)**	**(70,077)**
Charge for the year	**-**	**(37,977)**	**(37,977)**
At 31 December 2020	**-**	**(108,054)**	**(108,054)**
NET BOOK VALUE			
At 31 December 2020	**894,423**	**646,788**	**1,541,211**
At 31 December 2019	894,423	489,426	1,383,849

10. OTHER ASSETS, NET

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

	(SAR'000)	
	2020	2019
Receivables, net	**1,613,343**	1,125,228
Prepaid expenses	**218,304**	498,690
Assets in transit subject to financing	**1,332,565**	1,289,212
Accrued income	**276,169**	294,421
Cheques under collection	**413,397**	392,958
Advance payments	**262,475**	386,032
Other real estate	**73,411**	60,420
Others, net	**844,326**	370,803
Total	**5,033,990**	4,417,764

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	(SAR'000)	
	2020	2019
Current accounts	**448,288**	545,572
Banks' time investments	**10,315,773**	1,674,032
Total	**10,764,061**	2,219,604

In order to offset the modification losses that the Bank is expected to incur in deferring the payments as disclosed in note 38, the Bank has received profit free deposits from SAMA of (SAR 2.97 billion for 3 years, SAR 674 million for 1.5 years and SAR 5.2 billion for 1 year). Some of these deposits tenures have been extanded by SAMA during Q4 2020. Please refer to note 38.

12. CUSTOMERS' DEPOSITS

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

	(SAR'000)	
	2020	2019
Demand deposits	**327,572,511**	284,299,851
Customers' time investments	**43,017,282**	22,126,226
Other customer accounts	**12,041,210**	5,979,746
Total	**382,631,003**	312,405,823

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)	
	2020	2019
Saudi Arabian Riyals	**365,253,514**	298,569,853
Foreign currencies	**17,377,489**	13,835,970
Total	**382,631,003**	312,405,823

13. OTHER LIABILITIES

Other liabilities comprise the following as of 31 December:

	(SAR'000)	
	2020	2019
Accounts payable	**4,317,852**	4,225,376
Employees' end of service benefits liabilities (note 25)	**1,176,075**	980,304
Accrued expenses	**1,554,957**	1,243,720
Charities (note 32)	**8,885**	10,994
Zakat payable	**3,812,601**	4,627,204
Lease liability	**1,128,141**	1,294,689
Other	**5,312,630**	5,887,205
Total	**17,311,141**	18,269,492

14. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 2,500 million shares of SAR 10 each (2019: 2,500 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.

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:

2020	(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	**(80,944)**	**(120,577)**	**37,110**	**(51,630)**	**(216,041)**
Net change in fair value	**254,222**	**-**	**-**	**-**	**254,222**
Exchange difference on translation of foreign operations	**-**	**6,696**	**-**	**-**	**6,696**
Re-measurement of employees' end of service benefits (note 25)	**-**	**-**	**-**	**(179,605)**	**(179,605)**
Balance at the end of the year	**173,278**	**(113,881)**	**37,110**	**(231,235)**	**(134,728)**

15. STATUTORY AND OTHER RESERVES (continued)

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)

16. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at 31 December 2020, 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 2020, the Group had capital commitments of SAR 540 million (2019: SAR 290 million) relating to contracts for computer software update and development, and SAR 238 million (2019: SAR 145 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 (continued)

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:

2020			**(SAR'000)**		
	Less than 3 months	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Letters of credit	**1,729,492**	**545,033**	**104,908**	**-**	**2,379,433**
Acceptances	**305,577**	**365,191**	**-**	**-**	**670,768**
Letters of guarantee	**760,935**	**3,310,309**	**1,171,463**	**200,481**	**5,443,188**
Irrevocable commitments to extend credit	**3,880,062**	**6,265,899**	**516,740**	**-**	**10,662,701**
Total	**6,676,066**	**10,486,432**	**1,793,111**	**200,481**	**19,156,090**

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

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

	(SAR'000)	
	2020	2019
Corporates	**18,318,019**	16,322,590
Banks and other financial institutions	**838,071**	1,502,608
Total	**19,156,090**	17,825,198

17. NET FINANCING AND INVESTMENT INCOME

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

	(SAR'000)	
	2020	2019
Financing		
Corporate Mutajara	**1,629,182**	2,531,823
Installment sale	**12,819,648**	11,154,919
Murabaha	**802,882**	859,641
Investments and other		
Murabaha with SAMA	**970,595**	1,210,789
Mutajara with banks	**980,343**	1,007,516
Income from sukuk	**175,313**	197,895
Gross financing and investment income	**17,377,963**	16,962,583
Return on customers' time investments	**(354,193)**	(418,891)
Return on due to banks and financial institutions' time investments	**(110,753)**	(115,969)
Return on customers', banks' and financial institutions' time investments	**(464,946)**	(534,860)
Net financing and investment income	**16,913,017**	16,427,723

18. FEE FROM BANKING SERVICES, NET

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

	(SAR'000)	
	2020	2019
Fee income:		
Drafts and remittances	**270,434**	354,981
Credit cards	**416,816**	441,705
Other electronic channel related	**1,218,272**	1,068,318
Brokerage and asset management, net	**672,193**	281,151
Others	**702,423**	711,525
Total fee income	**3,280,138**	2,857,680
Fee expenses:		
ATM Interchange related	**(620,458)**	(870,313)
Fee from banking services, net	**2,659,680**	1,987,367

19. OTHER OPERATING INCOME, NET

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

	(SAR'000)	
	2020	2019
Dividend income	**94,445**	58,625
Gain / (loss) on sale of property and equipment, net	**10,256**	568
Rental income from investment properties	**96,134**	117,718
Share in profit of an associate	**42,944**	23,481
Gain on investments held as FVSI	**33,441**	21,617
Loss on sale of other real estate	**(2,251)**	(2,490)
Other income, net	**89,700**	75,759
Total	**364,669**	295,278

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:

2020	**(SAR'000)**			
	Number of employees	**Fixed and variable compensation**	**Variable compensations paid**	
			Cash	**Shares**
Executives	**22**	**40,552**	**20,591**	**45,954**
Employees engaged in risk taking activities	**1,684**	**509,487**	**131,639**	**20,312**
Employees engaged in control functions	**412**	**155,859**	**25,969**	**21,608**
Other employees	**11,598**	**1,826,261**	**274,757**	**28,022**
Total	**13,716**	**2,532,159**	**452,956**	**115,896**
Accrued compensations in 2020	**-**	**188,652**	**-**	**-**
Other employees' costs	**-**	**256,533**	**-**	**-**
Gross total	**13,716**	**2,977,344**	**452,956**	**115,896**

2019	(SAR'000)			
	Number of employees	Fixed and variable compensation	Variable compensations paid	
			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 compensations in 2019	-	168,138	-	-
Other employees' costs	-	213,817	-	-
Gross total	13,439	2,794,046	276,407	116,309

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).

20. SALARIES AND EMPLOYEES' RELATED BENEFITS (continued)

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)	
	2020	2019
Communications and utilities expenses	**628,591**	481,424
Maintenance and security expenses	**547,520**	460,550
Cash feeding and transfer expenses	**338,404**	355,245
Software and IT support expenses	**351,348**	277,520
Other operational expenses	**780,546**	957,474
Total	**2,646,409**	2,532,213

22. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2020 and 2019 have been calculated by dividing the net income for the period by 2,500 million shares. The diluted earnings per share is the same as the basic earnings per share.

23. PAID DIVIDENDS

On 6th of April 2020, the bank has paid final dividends for the year 2019 amounting to SAR 3,750 million (i.e. SAR 1.5 per share).

24. CASH AND CASH EQUIVALENTS

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

	(SAR'000)	
	2020	2019
Cash in hand	**7,355,940**	7,404,276
Due from banks and other financial institutions maturing within 90 days from the date of purchased	**8,924,379**	2,480,803
Balances with SAMA and other central banks (current accounts)	**311,493**	371,320
Mutajara with SAMA	**16,235,549**	10,855,000
Total	**32,827,361**	21,111,399

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:

	2020 SAR' 000	2019 SAR' 000
Employees' end of service benefits liabilities at the beginning of the year	**980,304**	901,970
Current service cost	**86,355**	98,541
Financing cost	**38,041**	39,845
Benefits paid	**(108,230)**	(111,682)
Remeasurement loss	**179,605**	51,630
Employees' end of service benefits liabilities at the end of the year	**1,176,075**	980,304

25.3 Charge for the year

	2020 SAR' 000	2019 SAR' 000
Current service cost	**86,355**	98,541
Past service cost	**-**	-
	86,355	98,541

25.4 Re-measurement recognised in other comprehensive income

	2020 SAR' 000	2019 SAR' 000
Gain from change in experience assumptions	**(10,911)**	(5,940)
Loss from change in demographic assumptions	**532**	-
Loss from change in financial assumptions	**189,984**	57,570
	179,605	51,630

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

	2020	2019
Discount rate	**2.75%**	4.20%
Expected rate of salary increase	**2.6% for FY 2021 and 2022 and 3% thereafter**	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. EMPLOYEES' END OF SERVICE BENEFITS LIABILITIES (continued)

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 2020 to the discount rate 2.75% (31 December 2019: 4.20%), salary increase rate 2.6% (31 December 2019: 3.00%), withdrawal assumptions and mortality rates.

	SAR 000'		
2020	**Impact on defined benefit obligation – Increase / (Decrease)**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**+/- 100 basis points**	**(64,586)**	**213,380**
Expected rate of salary increase	**+/- 100 basis points**	**224,989**	**(76,315)**
Normal retirement age	**Increase or decrease by 20%**	**28,398**	**(98,239)**

	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)

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

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
2020	**1,176,075**	**82,333**	**91,365**	**307,844**	**2,894,768**	**3,376,310**
2019	980,304	66,110	72,742	256,803	3,638,241	4,033,896

The weighted average duration of the employees' end of service benefits liabilities is 13 years (2019: 14.4 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)				
2020	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Total assets	**268,108,817**	**66,837,087**	**129,950,664**	**3,928,155**	**468,824,723**
Total liabilities	**289,583,836**	**108,514,833**	**12,442,931**	**164,605**	**410,706,205**
Gross financing and investment income from external customers	**12,663,068**	**2,605,515**	**2,061,630**	**47,750**	**17,377,963**
Inter-segment operating income/ (expense)	**(1,151,245)**	**(123,039)**	**1,274,284**	**-**	**-**
Gross financing and investment income	**11,511,823**	**2,482,476**	**3,335,914**	**47,750**	**17,377,963**
Return on customers', banks' and financial institutions' time investments	**(224,644)**	**(103,026)**	**(137,276)**	**-**	**(464,946)**
Net financing and investment income	**11,287,179**	**2,379,450**	**3,198,638**	**47,750**	**16,913,017**
Fees from banking services, net	**1,815,919**	**124,181**	**47,388**	**672,192**	**2,659,680**
Exchange income, net	**158,864**	**111,056**	**513,975**	**-**	**783,895**
Other operating income, net	**99,407**	**4**	**179,831**	**85,426**	**364,668**
Total operating income	**13,361,369**	**2,614,691**	**3,939,832**	**805,368**	**20,721,260**
Depreciation and amortization	**(1,046,484)**	**(41,570)**	**(22,801)**	**(7,293)**	**(1,118,148)**
Impairment charge for financing and other financial assets, net	**(1,164,985)**	**(1,000,755)**	**-**	**-**	**(2,165,740)**
Other operating expenses	**(5,006,796)**	**(284,449)**	**(181,975)**	**(150,533)**	**(5,623,753)**
Total operating expenses	**(7,218,265)**	**(1,326,774)**	**(204,776)**	**(157,826)**	**(8,907,641)**
Income before zakat	**6,143,104**	**1,287,917**	**3,735,056**	**647,542**	**11,813,619**

26. OPERATING SEGMENTS (continued)

	(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 investments 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 & 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

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

	(SAR'000)				
2020	**Retail segment**	**Corporate segment**	**Treasury segment**	**Investment services and brokerage segment**	**Total**
Consolidated balance sheet assets	**250,659,355**	**65,052,746**	**79,241,453**	**3,337,170**	**398,290,724**
Commitments and contingencies excluding irrevocable commitments to extend credit	**-**	**8,493,389**	**-**	**-**	**8,493,389**

26. OPERATING SEGMENTS (continued)

	(SAR'000)				
2019	Retail segment	Corporate segment	Treasury segment	Investment services and brokerage segment	Total
Consolidated balance sheet assets	186,723,027	62,959,778	73,070,757	2,730,512	325,484,074
Commitments and contingencies excluding irrevocable commitments to extend credit	-	6,189,104	-	-	6,189,104

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.

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.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

iii) Generating the term structure of PD (continued)

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.

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.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

iii) Generating the term structure of PD (continued)

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.

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.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

v) Determining whether credit risk has increased significantly (continued)

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

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.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

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.

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 Central Bank (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 2020**
National Savings as Pct of GDP	**55.44%**
Government expenditure to GDP	**44.56%**

Economic Indicators	Weightage 2019
National Savings as Pct of GDP	55.44%
Government expenditure to GDP	44.56%

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

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

Economic Indicators	Scenarios	2020	2019
Gross National Savings Pct of GDP	Upside	25.06%	30.67%
	Base (Most Likely)	17.57%	24.07%
	Downside	13.54%	17.46%
Government Expenditure to GDP	Upside	38.92%	39.19%
	Base (Most Likely)	35.76%	37.19%
	Downside	34.06%	35.19%

To account for the impact of COVID-19, the Bank has used below base case near term forecast in its ECL model, which is based on updated information available as at the reporting date:

Economic Indicators	Forecast calendar years used in 2020 ECL model			Forecast calendar years used in 2019 ECL model		
	2021	2022	2023	2020	2021	2022
Gross National Savings Pct of GDP	16.65%	16.97%	17.12%	23.71%	22.65%	21.82%
Government Expenditure to GDP	33.87%	31.86%	31.09%	36.14%	35.83%	34.87%

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

31 December 2020	Due from Bank and other financial institutions	Investment	Financing	Letters of guarantee	Letters of credit	Irrevocable commitments to extend credit	Total
	SAR '000'						
Most likely (Base case)	73,144	26,962	7,398,212	340,617	191,253	9,330	8,039,518
More optimistic (Upside)	56,419	20,715	6,497,871	334,362	187,367	5,709	7,102,443
More pessimistic (Downside)	93,093	33,266	8,043,601	348,052	195,038	12,782	8,725,832

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.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

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

Assumptions sensitized	**ECL Impact (2020) Increase / (Decrease)**
Macro-economic factors:	
National Savings as Pct of GDP increase by 10%	**(207,622,144)**
National Savings as Pct of GDP decrease by 10%	**151,999,029**
Government expenditure to GDP increase by 10%	**(497,277,032)**
Government expenditure to GDP decrease by 10%	**364,053,780**

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.

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

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

ix) Measurement of ECL (continued)

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 :

	2020			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	SAR '000'			
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	**10,218,303**	**-**	**-**	**10,218,303**
Grade (4-6) / (Baa1 - B3)	**49,883,949**	**3,698,775**	**-**	**53,582,724**
Grade 7- Watch list / (Caa1 – C)	**-**	**2,666,449**	**-**	**2,666,449**
Non-performing	**-**	**-**	**1,690,865**	**1,690,865**
Total Corporate performing and non-performing	**60,102,252**	**6,365,224**	**1,690,865**	**68,158,341**
Total Retail (un-rated)	**247,356,133**	**5,907,725**	**1,761,259**	**255,025,117**
Total Carrying amount	**307,458,385**	**12,272,949**	**3,452,124**	**323,183,458**

	2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR '000'			
Carrying amount distribution by Grades				
Grade 1-3 / (Aaa - A3)	13,547,133	-	-	13,547,133
Grade (4-6) / (Baa1 - B3)	44,502,283	3,306,212	-	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	58,049,416	6,410,411	1,687,074	66,146,901
Total Retail (un-rated)	186,184,436	3,320,472	1,050,591	190,555,499
Total Carrying amount	244,233,852	9,730,883	2,737,665	256,702,400

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:

2020	**(SAR'000)**			
Description	**Performing**	**Non-Performing**	**Allowance for impairment**	**Net financing**
Commercial	**20,831,819**	**654,288**	**(527,116)**	**20,958,991**
Industrial	**27,896,009**	**229,237**	**(138,592)**	**27,986,654**
Building and construction	**1,396,185**	**636,587**	**(604,646)**	**1,428,126**
Consumer	**254,270,868**	**754,249**	**(642,253)**	**254,382,864**
Services	**13,936,713**	**170,055**	**(105,083)**	**14,001,685**
Agriculture and fishing	**539,561**	**-**		**539,561**
Others	**1,867,188**	**698**	**(7,122)**	**1,860,764**
Total	**320,738,343**	**2,445,114**	**(2,024,812)**	**321,158,645**
12 month and life time ECL not credit impaired	**-**	**-**	**(5,446,544)**	**(5,446,544)**
Balance	**320,738,343**	**2,445,114**	**(7,471,356)**	**315,712,101**

2019	(SAR'000)			
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

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:

2020	**(SAR'000)**			
Age	**Mutajara**	**Installment sale**	**Credit cards**	**Total**
up to 30 days	**5,515,679**	**2,333,363**	**108,052**	**7,957,094**
31-60 days	**162,091**	**715,777**	**18,448**	**896,316**
61-90 days	**164,854**	**431,730**	**11,740**	**608,324**
Total	**5,842,624**	**3,480,870**	**138,240**	**9,461,734**
Fair value of collateral	**1,847,413**	**2,261,408**	**-**	**4,108,821**

2019	(SAR'000)			
Age	Mutajara	Installment sale	Credit cards	Total
up to 30 days	5,567,429	1,436,316	91,568	7,095,313
31-60 days	243,767	612,747	16,978	873,492
61-90 days	322,842	323,959	9,681	656,482
Total	6,134,038	2,373,022	118,227	8,625,287
Fair value of collateral	2,737,767	114,208	-	2,851,975

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.

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:

2020	**(SAR'000)**		
	Retail	**Corporate**	**Total**
Individually impaired financing	**754,249**	**1,690,865**	**2,445,114**
Fair value of collateral	**573,602**	**453,208**	**1,026,810**

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

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

a) Credit risk measurement (continued)

xi) Financings (continued)

d) The table below stratifies credit exposures from corporate and retail 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)	2020	2019
Less than 50%	**61,641,163**	57,225,432
51-70%	**9,753,323**	9,015,785
71-90%	**60,253,907**	30,830,167
91-100%	**47,993,706**	29,548,809
More than 100%	**3,955,723**	4,070,138
Total exposure	**183,597,822**	130,690,331

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.

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.

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

c) Risk limit control and mitigation policies (continued)

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.

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

27. FINANCIAL RISK MANAGEMENT (continued)

27-1 Credit risk (continued)

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	**2020**	2019
Investments, net:		
Murabaha with Saudi Government and SAMA	**22,904,021**	24,991,978
Sukuk	**28,406,417**	18,751,109
Structured Products	**1,000,000**	-
Due from banks and other financial institutions	**28,654,842**	32,058,182
Financing, net		
Corporate	**65,052,746**	62,959,778
Retail	**250,659,355**	186,723,027
Other finaincal assets		
Receivables, net	**1,613,343**	-
Total on-balance sheet items	**398,290,724**	325,484,074
Off-balance sheet items:		
Letters of credit and acceptances	**3,050,200**	1,215,904
Letters of guarantee	**5,443,189**	4,973,200
Irrevocable commitments to extend credit	**10,662,701**	11,636,094
Total off-balance sheet items	**19,156,090**	17,825,198
Maximum exposure to credit risk	**417,446,814**	343,309,272

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.

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.

27. FINANCIAL RISK MANAGEMENT (continued)

27-2 Liquidity risks (continued)

The tables below summarizes 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)

2020	(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	16,235,549	-	-	-	31,126,973	47,362,522
Due from banks and other financial institutions	8,924,380	6,519,752	11,951,076	-	1,259,634	28,654,842
Financing, net						
Mutajara	14,385,991	9,205,279	11,161,268	2,478,796	-	37,231,334
Installment sale	14,550,254	31,842,841	115,670,114	93,416,307	-	255,479,516
Murabaha	1,233,638	2,760,214	4,281,018	11,395,223	-	19,670,093
Credit cards	1,409,529	823,202	1,096,299	2,128	-	3,331,158
Investments, net						
Investment in an associate	-	-	-	-	239,179	239,179
Investments held at amortized cost	488,781	-	18,408,177	30,220,553	-	49,117,511
FVSI investments	-	-	1,502,525	2,588,595	2,545,864	6,636,984
FVOCI investments	-	-	-	-	4,291,598	4,291,598
Other assets, net	-	-	-	-	16,809,986	16,809,986
Total	57,228,122	51,151,288	164,070,477	140,101,602	56,273,234	468,824,723
Liabilities						
Due to banks and other financial institutions	1,208,109	5,459,613	3,648,051	-	448,288	10,764,061
Demand deposits	-	-	-	-	327,572,511	327,572,511
Customers' time investments	29,729,360	13,278,009	9,913	-	-	43,017,282
Other customer accounts	1,611,253	2,135,266	2,398,659	-	5,896,032	12,041,210
Other liabilities	-	-	-	-	17,311,141	17,311,141
Total Liabilities	32,548,722	20,872,888	6,056,623	-	351,227,972	410,706,205
Gap	24,679,400	30,278,400	158,013,854	140,101,602	(294,954,738)	58,118,518

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	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

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

2020	**(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	**1,224,402**	**5,533,239**	**3,697,247**	**-**	**454,333**	**10,909,221**
Customer deposits	**31,347,940**	**15,416,547**	**2,408,574**	**-**	**333,468,543**	**382,641,604**
Other liabilities	**-**	**-**	**-**	**-**	**17,311,141**	**17,311,141**
Total	**32,572,342**	**20,949,786**	**6,105,821**	**-**	**351,234,017**	**410,861,966**

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

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
Due to banks and other financial institutions	2,342,000	-	-	-	334,569	2,676,569
Customers' 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

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 2020 and 2019. 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 2020 and 2019. All the banking book exposures are monitored and analyzed in currency concentrations, and relevant sensitivities are disclosed in SAR million.

2020		**SAR in Million**			
Currency	**Increase in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	Average	Maximum	Minimum
SAR	**+25**	**255**	**244**	**255**	**229**

Currency	**Decrease in basis points**	**Sensitivity of gross financing and investment income**			
		As at 31 December	Average	Maximum	Minimum
SAR	**-25**	**(255)**	**(244)**	**(255)**	**(229)**

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	235	244	227

Currency	Decrease in basis points	Sensitivity of gross financing and investment income			
		As at 31 December	Average	Maximum	Minimum
SAR	-25	(241)	(235)	(244)	(227)

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 2020 (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	16,235,549	-	-	-	-	31,126,973	47,362,522
Due from banks and other financial institutions	10,131,068	2,902,451	2,410,613	11,951,076	-	1,259,634	28,654,842
Investments, net							
Investment in an associate	-	-	-	-	-	239,179	239,179
Investments held at amortized cost	22,355,265	2,005,632	-	15,545,908	9,210,706	-	49,117,511
FVSI investments	-	2,588,595	-	1,502,525	-	2,545,864	6,636,984
FVOCI investments	-	604,332	-	-	-	3,687,266	4,291,598
Financing, net							
Mutajara	16,174,148	11,265,923	3,283,366	5,343,271	1,164,626	-	37,231,334
Installment sale	21,730,136	13,139,501	22,689,661	117,297,161	80,623,057	-	255,479,516
Murabaha	10,302,648	8,213,185	35,286	282,279	836,695	-	19,670,093
Credit cards	1,409,504	274,410	548,817	1,096,299	2,128	-	3,331,158
Other assets	-	-	-	-	-	16,809,986	16,809,986
Total Assets	98,338,318	40,994,029	28,967,743	153,018,519	91,837,212	55,668,902	468,824,723
Liabilities							
Due to banks and other financial institutions	2,027,236	4,891,925	649,025	2,747,587	-	448,288	10,764,061
Customer deposits	-	-	-	-	-	327,572,511	327,572,511
Customers' time investments	29,729,361	9,015,881	4,262,127	9,913	-	-	43,017,282
Other customer accounts	5,896,032	-	-	-	-	6,145,178	12,041,210
Other liabilities	-	-	-	-	-	17,311,141	17,311,141
Total liabilities	37,652,629	13,907,806	4,911,152	2,757,500	-	351,477,118	410,706,205
Gap	60,685,690	27,086,223	24,056,591	150,261,019	91,837,211	(295,808,216)	58,118,518
Profit Rate Sensitivity – On consolidated statement of financial position	60,685,690	27,086,223	24,056,591	150,261,019	91,837,211	(295,808,216)	58,118,518
Profit Rate Sensitivity - Off consolidated statement of financial Position	86,891	136,217	134,359	33,212	934	-	391,613
Total Profit Rate Sensitivity Gap	60,598,799	26,950,006	23,922,231	150,227,807	91,836,278	(295,808,216)	57,726,905
Cumulative Profit Rate Sensitivity Gap	60,598,799	87,548,805	111,471,036	261,698,844	353,535,121	57,726,905	57,726,905

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
Investments held as FVSI	-	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 Positions	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 Positions	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	50,856,412

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 2020 and 2019 and the concentration of currency risks, Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency:

	(SAR'000)							
2020	**UAE Dirham**	**Japanese Yen**	**Euro**	**Malaysian Ringgit**	**US Dollar**	**Pound Sterling**	**Other**	**Total**
ASSETS								
Cash and cash equivalents	**44,180**	**-**	**29,595**	**38,086**	**350,388**	**23,183**	**486,520**	**971,952**
Due from banks and other financial institutions	**55,513**	**5,940**	**183,332**	**399,012**	**3,524,878**	**27,772**	**468,221**	**4,664,668**
Financing, net	**-**	**-**	**-**	**4,751,305**	**7,567,866**	**-**	**4,962,823**	**17,281,994**
Investments, net	**-**	**-**	**402**	**1,311,663**	**5,886,959**	**-**	**258,697**	**7,457,721**
Fixed assets	**2,421**	**-**	**10,392**	**53,882**	**473,445**	**3,282**	**45,887**	**589,309**
Other assets, net	**2**	**-**	**2,218**	**52,053**	**349,542**	**991**	**24,635**	**429,441**
Total Assets	**102,116**	**5,940**	**225,939**	**6,606,001**	**18,153,078**	**55,228**	**6,246,783**	**31,395,085**
LIABILITIES								
Due to banks and other financial institutions	**71**	**-**	**17,852**	**298,106**	**1,473,317**	**190**	**(77,328)**	**1,712,208**
Customers' deposits	**16,993**	**5,203**	**117,125**	**5,246,529**	**6,595,424**	**50,363**	**5,345,852**	**17,377,489**
Other liabilities	**5,026**	**745**	**130,684**	**93,769**	**847,993**	**7,082**	**231,059**	**1,316,358**
Total Liabilities	**22,090**	**5,948**	**265,661**	**5,638,404**	**8,916,734**	**57,635**	**5,499,583**	**20,406,055**
Net	**80,026**	**(8)**	**(39,722)**	**967,597**	**9,236,344**	**(2,407)**	**747,200**	**10,989,030**

	(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	-	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

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 2020 and 2019, 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 '000)

Currency Exposures As at 31 December 2020	**Change in Currency Rate in %**	**Effect on Net Income**	**Effect on Equity**
AED	**+/-2**	**1,601**	**1,601**
USD	**+/-2**	**184,727**	**184,727**
EUR	**+/-5**	**(1,986)**	**(1,986)**
INR	**+/-5**	**4,567**	**4,567**
PKR	**+/-5**	**3,518**	**3,518**

(SAR in '000)

Currency Exposures As at 31 December 2019	Change in Currency Rate in %	Effect on Net Income	Effect on Equity
AED	+/-2	1,725	1,725
USD	+/-2	143,852	143,852
EUR	+/-5	(2,303)	(2,303)
INR	+/-5	(227)	(227)
PKR	+/-5	249	249

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:

	2020 SAR '000 Long/(short)	2019 SAR '000 Long/(short)
US Dollar	**9,236,344**	7,192,602
Japanese Yen	**(8)**	1,788
Euro	**(39,722)**	(46,050)
Pound Sterling	**(2,407)**	(1,678)
UAE Dirham	**80,026**	86,267
Malaysian Ringgit	**967,597**	988,111
Others	**747,200**	848,240
Total	**10,989,030**	9,069,280

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:

	2020		2019	
Local Market Indices	**Change in Equity price %**	**Effect in SAR Million**	Change in Equity price %	Effect in SAR Million
Local Share Equities	**+ /- 10**	**+/-341,957**	+ /- 10	+/- 164,824

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:

2020	(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	47,297,397	48,505	-	-	16,620	-	47,362,522
Due from banks and other financial institutions	10,606,664	16,518,568	63,202	157,458	997,102	311,848	28,654,842
Financing, net							
Mutajara	37,230,349	592	393	-	-	-	37,231,334
Installment sale	251,269,430	2,947,323	-	-	1,262,763	-	255,479,516
Murabaha	14,173,176	2,381,816	-	-	3,115,101	-	19,670,093
Credit cards	3,324,868	6,143	-	-	147	-	3,331,158
Investments, net							
Investment in an associate	239,179	-	-	-	-	-	239,179
Investments held at amortized cost	44,933,282	1,808,802	1,280,580	-	676,671	-	48,699,335
FVSI Investments	6,949,685	190,843	-	-	-	-	7,140,528
FVOCI investments	3,580,589	21,309	-	-	604,332	-	4,206,230
Total assets	419,604,619	23,923,901	1,344,175	157,458	6,672,736	311,848	452,014,737
Liabilities							
Due to banks and other financial institutions	10,049,256	20,448	-	435,859	258,498	-	10,764,061
Customer deposits	365,253,514	8,578,469	22,799	452	8,769,155	6,615	382,631,004
Total liabilities	375,302,770	8,598,917	22,799	436,311	9,027,653	6,615	393,395,065
Commitments and contingencies	13,585,335	1,161,669	272,045	16,508	3,773,101	347,432	19,156,090
Credit exposure (stated at credit equivalent value)	8,336,590	-	-	-	2,326,111	-	10,662,701

28. GEOGRAPHICAL CONCENTRATION (continued)

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	39,958,043	1,098,898	520,303	-	-	-	41,577,244
Installment sale	184,182,295	2,300,310	-	-	1,241,396	-	187,724,001
Murabaha	12,244,295	2,131,177	-	-	2,852,594	-	17,228,066
Credit cards	3,146,501	6,993	-	-	-	-	3,153,494
Investments, net							
Investment in an associate	196,235	-	-	-	-	-	196,235
Investments held at amortized cost	41,814,230	592,232	-	-	536,625	-	42,943,087
FVSI Investments	2,017,302	13,042	367	-	-	-	2,030,711
FVOCI investments	1,651,323	21,274	-	-	-	-	1,672,597
Total assets	331,620,850	26,465,805	2,879,589	151,310	5,993,069	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	298,569,853	6,865,823	17,726	4,544	6,929,758	18,120	312,405,824
Total Liabilities	299,907,907	7,336,530	17,726	389,466	6,955,679	18,120	314,625,428
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)

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

2020	**(SAR'000)**			
	Kingdom of Saudi Arabia	**GCC and Middle East**	**South East of Asia**	**Total**
Non-performing				
Mutajara	**1,647,511**	**5,423**	**37,929**	**1,690,865**
Installment sale	**690,942**	**25,559**	**11,900**	**728,401**
Murabaha	**-**	**-**	**-**	**-**
Credit cards	**25,848**	**-**	**-**	**25,848**
Allowance for impairment of financing				
Mutajara	**(2,929,580)**	**(12,570)**	**(53,744)**	**(2,995,894)**
Installment sale	**(4,289,808)**	**(62,293)**	**(46,822)**	**(4,398,923)**
Murabaha	**(55,734)**	**-**	**-**	**(55,734)**
Credit cards	**(20,805)**	**-**	**-**	**(20,805)**

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)

Refer to Note 7-1a 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:

- 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.

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

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.

2020	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets measured at fair value					
FVSI Investments – Mutual funds	2,545,864	-	2,291,749	254,115	2,545,864
FVOCI equity investments	3,687,266	3,662,877	-	24,389	3,687,266
FVSI Sukuk	2,588,595	-	2,588,595	-	2,588,595
FVOCI Sukuk	604,332	-	604,332	-	604,332
Structure Products	1,502,525	-	-	1,502,525	1,502,525
Financial assets not measured at fair value					
Due from banks and other financial institutions	28,654,842	-	-	29,128,159	29,128,159
Investments held at amortized cost					
- Murabaha with Saudi Government and SAMA	22,904,021	-	-	23,226,882	23,226,882
- Sukuk	25,240,452		24,143,625	2,012,090	26,155,715
- Structured Products	1,000,000	-	-	1,048,310	1,048,310
Gross Financing	323,183,457	-	-	331,028,641	331,028,641
Total	411,911,354	3,662,877	29,628,301	388,225,111	421,516,289
Financial liabilities					
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	10,764,061	-	-	10,909,221	10,909,221
Customers' deposits	382,631,003	-	-	382,641,604	382,641,604
Total	393,395,064	-	-	393,550,825	393,550,825

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

Carrying amounts and fair value (continued):

2019	(SAR'000)				
Financial assets	Carrying value	Level 1	Level 2	Level 3	Total
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	-	185,625	18,171,963	18,357,588
Gross Financing	256,702,401	-	-	275,942,492	275,942,492
Total	335,429,248	1,648,243	1,416,336	352,507,829	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

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 current effective profit rate. 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.

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	**2020**	2019
Members of the Board of Directors		
Mutajara	**59,321**	67,680
Contingent liabilities (*)	**-**	20
Current accounts	**242,323**	320,085
Companies and establishments guaranteed by members of the Board of Directors		
Mutajara	**10,222,874**	7,244,210
Contingent liabilities (*)	**3,664,052**	877,158
Associate		
Contributions receivable	**321,512**	142,152
Payable against claims	**169,437**	194,312
Bank balances	**188,276**	332,713

(*) = 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)	
	2020	2019
Income from financing and other financial assets	**32,141**	135,422
Mudaraba Fees	**72,689**	79,316
Employees' salaries and benefits (air tickets)	**795**	4,297
Rent and premises related expenses	**6,826**	5,521
Contribution – policies written	**721,077**	861,880
Claims incurred and notified during the period	**440,395**	662,212
Claims paid	**465,270**	615,901
Board of Directors' remunerations	**6,009**	6,140

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)	
	2020	2019
Short-term benefits	**107,097**	99,533
Provision for employees' end of service benefits	**10,687**	10,669

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)	
	2020	2019
Customers' Mudaraba and investments	**29,216,806**	23,255,708
Total	**29,216,806**	23,255,708

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)	
	2020	2019
Balance at beginning of the year	**10,994**	56,350
Additions during the year	**11,745**	52,691
Payments made during the year	**(13,854)**	(98,047)
Balance at end of the year	**8,885**	10,994

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 50,220 million (2019: SAR 42,084 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 1,166 million at 31 December 2020 (2019: SAR 981 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%.

34. CAPITAL ADEQUACY (continued)

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)	
	2020	2019
Credit risk weighted assets	**280,373,990**	234,299,968
Operational risk weighted assets	**33,318,660**	30,784,119
Market risk weighted assets	**9,316,353**	7,236,637
Total Pillar I - risk weighted assets	**323,009,003**	272,320,724

	(SAR'000)	
	2020	2019
Tier I – capital	**58,118,518**	51,191,657
Tier II capital	**3,504,675**	2,928,750
Total tier I & II capital	**61,623,193**	54,120,407
Capital Adequacy Ratio %		
Tier I ratio	**17.99%**	18.80%
Tier I and II ratio	**19.08%**	19.87%

35. DERIVATIVE FINANCIAL INSTRUMENTS

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

				Notional amounts by term to maturity			
Derivative financial instruments 31 December 2020	**Positive fair value**	**Negative fair value**	**Notional amount Total**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
			(SAR'000)				
Held for trading:							
Profit rate swaps	**30,460**	**(22,157)**	**9,127,752**	**-**	**-**	**5,438,733**	**3,689,019**
Foreign exchange forward contracts	**2,151**	**(1,889)**	**1,353,546**	**786,539**	**567,006**	**-**	**-**

36. 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
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

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.

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.
The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

36. STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

37. 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.

38. IMPACT OF COVID-19 AND SAMA PROGRAMS

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

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

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

38. IMPACT OF COVID-19 AND SAMA PROGRAMS (Continued)

Private Sector Financing Support Program ("PSFSP")

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

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

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for a total of nine months (original deferment for six months was followed on by a further extension of three months) on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September for a period of six months and then further deferring the installments falling due within the period from 15 September 2020 to 14 December 2020 for a period of three months without increasing the facility tenure.

The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which have been presented as part of net financing income.

Further to the above, SAMA on 8 December 2020 extended the deferred payment program until March 31, 2021. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 15 December 2020 to 31 March 2021 without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Bank recognizing an additional modification loss of SAR 49.6 million.

As a result of the above program and related extensions, the Bank has deferred the payments SAR 3.34 billion on MSMEs portfolio and accordingly, has recognized total modification losses of SAR 165.5 million during the year. The total exposures against these customers amounted to SAR 5.45 billion as at the year end.

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

The Bank continues to monitor the lending portfolios closely and reassess the provisioning levels as the situation around COVID-19 evolves; however, management has taken SAR 608 millions of overlays to reflect potential further credit deterioration.

The Bank has booked SAR 437.5 million incremental total ECL for the MSME portfolio having total exposure of SAR 3.96 billion.

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

38. IMPACT OF COVID-19 AND SAMA PROGRAMS (Continued)

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank has received in aggregate SAR 3.65 billion of profit free deposits in a number of tranches from SAMA during the year ended 31 December 2020, with varying maturities. Management had determined based on the communication from SAMA, that the profit free deposits primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. On 30th December 2020, SAMA has extended SAR 3.32 billion of the above-mentioned deposits for an additional 21 months from orginal maturities. This resulted in a total income of SAR 350.5 million, of which SAR 165.5 million has been recognized in the statement of income and SAR 185 million has been deferred. The management has exercised certain judgements in the recognition and measurement of this grant income. During the year ended 31 December 2020, SAR 22.9 million has been charged to the statement of income relating to unwinding of the day 1 income.

As at 31 December 2020, the Bank is yet to participate in SAMA's funding for lending or facility guarantee programs.

Furthermore, during the year ended 31 December 2020, the Bank has recognised reimbursement from SAMA for the forgone POS and e-commerce service fees amounting to SR 89 million.

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

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

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

In this regard, during the year ended December 31, 2020, the Bank received SAR 5.2 billion profit free deposit with one-year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidized funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total deferred income of SAR 56.9 million.

Bank's initiative - Health care sector support

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. This resulted in the Bank recognizing a day 1 modification loss of SAR 243.7 million during the year ended 31 December 2020, which was presented as part of net financing income. SAR 58.5 million has been recognized in the statement of income on unwinding of this modification loss during the year ended 31 December 2020.

39. APPROVAL OF THE BOARD OF DIRECTORS

The consolidated financial statements were approved by the Board of Directors on 26 Jumada Al Thani 1442H (corresponding to 8 February 2021).