Independent Auditors' Report
to the Shareholders of Riyad Bank (A Saudi Joint Stock Company)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Riyad Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements as endorsed 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 as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics, as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Independent Auditors’ Report
to the Shareholders of Riyad Bank (A Saudi Joint Stock Company)

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances At 31 December 2019, the gross loans and advances of the Group were Saudi Riyals 176.7 billion against which an impairment allowance of Saudi Riyals 2.8 billion was maintained.	We obtained an understanding of management’s process of assessment of the impairment of loans and advances as per IFRS 9 , the Group’s internal rating model, impairment allowance policy and the ECL modelling methodology.
We considered impairment of loans and advances as a key audit matter as the determination of expected credit loss (ECL) involves signficant management judgement and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include: - Categorisation of loans into Stages 1, 2 and 3 based on the identification of: (a) exposures with a significant increase in credit risk (“SICR”) since their origination (b) individually impaired / defaulted exposures - Assumptions used in the ECL model for determining probability of default (PD), loss given default (LGD) and exposure at default (EAD) including but not limited to assessment of financial condition of counterparty, expected future cash flows and forward looking macroeconomic factors. - The need to apply overlays to reflect current or future external factors that might not be captured by the expected credit loss model. - Disclosures relating to IFRS 9 and the related incremental disclosures of IFRS 7.	We compared the Group’s impairment allowance policy and ECL methodology with the requirements of IFRS 9. We assessed the design and implementation, and tested the operating effectiveness of the key controls over: - the modelling process, including governance over the monitoring of the model and approval of key assumptions; - the classification of borrowers into various stages and timely identification of SICR and determination of default / individually impaired exposures; and - the integrity of data inputs into the ECL model. We assessed the Group’s criteria for the determination of SICR and identification of impaired / default exposures and their classification into various stages. For a sample of customers, we assessed: - the internal ratings determined by the management based on the Group’s internal rating model and assessed these ratings were in line with the ratings used in the ECL model; - the staging as identified by management; and - management’s computations for ECL. We assessed the reasonableness of underlying assumptions including forward looking assumptions used by the Group in the ECL model.
Impairment of loans and advances *Refer to the note 2 (d) (i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the impairment losses on financial assets and the impairment assessment methodology used by the Group, note 8 which contains the disclosure of impairment against loans and advances and note 30.3 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.*	Where management overlays were used, we assessed those overlays and the governance process around such overlays. We tested the completeness of data underlying the ECL calculations as of 31 December 2019. Where relevant, we involved specialists to assist us in the review of model calculations. We assessed the disclosures included in the consolidated financial statements.

Independent Auditors' Report
to the Shareholders of Riyad Bank (A Saudi Joint Stock Company)

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
Fees from banking services The Group charges administrative fees upfront to borrowers on loan financing. All such fees are an integral part of generating an involvement with the resulting financial instrument and therefore, all such fees should be considered in making an adjustment to the effective yield and income should be recognised using that adjusted effective yield and classified as special commission income. However, due to the large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and threshold in relation to the recognition of such fees and classifies them within "Fee and commission income, net". We considered this as a key audit matter since the use of management assumptions and threshold could result in material over / understatement of the Group's profitability. *Refer to the notes 3 (g) to the consolidated financial statements related to accounting policies for special commisssion income and note 2 (d) (v) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to the fee income.*	We performed the following procedures: We evaluated the assumptions and judgments used by management for recognizing the administrative fees charged upfront to borrowers. We obtained the management's assessment of the impact of the use of assumptions and threshold and performed the following: - on a sample basis, traced the historical and current year data used by management in their assessment to the underlying accounting records; and - assessed the impact on the recognition of fee and commission income and special commission income.

Other Information included in the Bank's 2019 Annual Report

The Board of Directors of the Bank (the "Directors") are responsible for the other information. The other information consists of the information included in the Bank's 2019 annual report, other than the consolidated financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

Independent Auditors' Report
to the Shareholders of Riyad Bank (A Saudi Joint Stock Company)

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

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

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

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

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

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as endorsed in KSA, the applicable requirements of the Companies' Law, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-laws, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent Auditors' Report
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Report on the audit of the consolidated financial statements (continued)

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

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

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank is not in compliance, in all material respects, with the applicable requirements of the Companies' Law, 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.

Ernst & Young & Co.
(Certified Public Accountants)
P. O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Yousef A. AlMubarak
Certified Public Accountant
License No. 427

PricewaterhouseCoopers

P. O. Box 8282
Riyadh 11482
Kingdom of Saudi Arabia

Omar M. Al Sagga
Certified Public Accountant
License No. 369

8 Jumada Al Alkhir 1441H
(2 February 2020)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2019 and 2018

	Note	2019 SAR'000	2018 SAR'000
ASSETS			
Cash and balances with SAMA	4	29,189,487	16,323,172
Due from banks and other financial institutions	5	4,734,888	11,029,176
Positive fair value of derivatives	6	608,847	286,625
Investments, net	7	53,361,415	47,992,772
Loans and advances, net	8	173,981,999	151,024,830
Investment in associates	9	702,882	595,493
Other real estate		233,057	227,405
Property and equipment, net	10	2,201,925	1,699,462
Other assets	11	774,378	720,641
Total assets		265,788,878	229,899,576
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and other financial institutions	12	13,124,480	8,580,514
Negative fair value of derivatives	6	649,226	274,270
Customer deposits	13	194,517,899	169,822,156
Debt securities in issue	14	4,003,029	4,003,783
Other liabilities	15	12,922,782	10,444,637
Total liabilities		225,217,416	193,125,360
Shareholders' equity			
Share capital	16	30,000,000	30,000,000
Statutory reserve	17	6,502,130	5,101,613
Other reserves	18	1,027,108	58,047
Retained earnings		1,392,224	414,556
Proposed dividends	26	1,650,000	1,200,000
Total shareholders' equity		40,571,462	36,774,216
Total liabilities and shareholders' equity		265,788,878	229,899,576

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF INCOME

For the years ended December 31, 2019 and 2018

	Note	2019 SAR'000	2018 SAR'000 (Restated)
Special commission income	20	10,371,426	8,332,365
Special commission expense	20	2,534,411	1,703,905
Net special commission income		7,837,015	6,628,460
Total fee and commission income	21	2,880,929	2,411,911
Total fee and commission expense	21	850,184	700,859
Fee and commission income, net		2,030,745	1,711,052
Exchange income, net		342,658	292,581
Trading income, net		132,806	104,560
Dividend income		102,866	57,533
Gains on disposal of non-trading investments, net	22	255,486	130,308
Other operating income	23	15,487	42,907
Total operating income, net		10,717,063	8,967,401
Salaries and employee-related expenses	24	1,879,017	1,765,185
Rent and premises-related expenses		200,189	327,607
Depreciation of property and equipment	10	438,976	296,901
Other general and administrative expenses		1,035,685	926,271
Other operating expenses		120,207	31,392
Total operating expenses before impairment charge		3,674,074	3,347,356
Impairment charge for credit losses and other financial assets, net	8 e)	1,012,284	927,840
Impairment (reversal) charge for investments, net		(48,028)	26,870
Total operating expenses, net		4,638,330	4,302,066
Net operating income		6,078,733	4,665,335
Share in earnings of associates, net	9	153,333	50,750
Net income for the year before zakat		6,232,066	4,716,085
Zakat for the year	3 a)	630,000	430,249
Zakat for the previous years	26	-	1,193,559
Total zakat		630,000	1,623,808
Net income for the year		5,602,066	3,092,277
Basic and diluted earnings per share (in SAR)	25	1.87	1.03

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2019 and 2018

	2019 SAR'000	2018 SAR'000
Net income for the year	5,602,066	3,092,277
Other comprehensive income (OCI):		
a) Items that will be reclassified to consolidated statement of income in subsequent periods		
- Fair value through other comprehensive income (FVOCI- debt instruments)		
- Net change in fair value (note 18)	1,105,992	(579,105)
- Net amounts transferred to consolidated statement of income (note 18)	(235,604)	(109,563)
- Net changes in allowance for expected credit losses(ECL) of debt instruments (note 18)	(17,276)	19,801
b) Items that will not be reclassified to consolidated statement of income in subsequent periods		
- Actuarial (losses) /gains on defined benefit plans (note 27 b)	(149,515)	1,581
- Net change in fair value of equity instruments at fair value through other comprehensive income (FVOCI- equity instruments) (note 18)	251,583	101,200
Other comprehensive income for the year	955,180	(566,086)
Total comprehensive income for the year	6,557,246	2,526,191

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

riyad bank

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2019 and 2018

SAR'000	Share capital	Statutory reserve	Other reserves	Retained earnings	Proposed dividends	Total
December 31, 2019						
Balance at the beginning of the year	30,000,000	5,101,613	58,047	414,556	1,200,000	36,774,216
Total comprehensive income						
Net changes in fair values of						
- FVOCI -equity instruments	-	-	251,583	-	-	251,583
- FVOCI -debt instruments	-	-	1,105,992	-	-	1,105,992
Net amount reclassified to the consolidated statement of income for FVOCI -debt instruments	-	-	(235,604)	-	-	(235,604)
Net changes in allowance for expected credit losses on FVOCI -debt instruments	-	-	(17,276)	-	-	(17,276)
Actuarial losses (Note 27 (b))	-	-	(149,515)	-	-	(149,515)
Net income for the year after zakat	-	-	-	5,602,066	-	5,602,066
Total comprehensive income	-	-	955,180	5,602,066	-	6,557,246
Disposal of FVOCI-equity instruments (note 7 b))	-	-	13,881	(13,881)	-	-
Final dividends - 2018 (note 26)	-	-	-	-	(1,200,000)	(1,200,000)
Interim dividend - 2019 (note 26)	-	-	-	(1,560,000)	-	(1,560,000)
Transfer to statutory reserve (note 17)	-	1,400,517	-	(1,400,517)	-	-
Final proposed dividend - 2019 (note 26)	-	-	-	(1,650,000)	1,650,000	-
Balance at the end of the year	30,000,000	6,502,130	1,027,108	1,392,224	1,650,000	40,571,462
December 31, 2018						
Balance at the beginning of the year	30,000,000	3,922,592	686,865	2,873,536	1,140,000	38,622,993
Impact of adopting IFRS 9 at January 1, 2018	-	-	(116,478)	(2,008,490)	-	(2,124,968)
Restated balance at the beginning of the year	30,000,000	3,922,592	570,387	865,046	1,140,000	36,498,025
Total comprehensive income						
Net changes in fair values of						
- FVOCI -equity instruments	-	-	101,200	-	-	101,200
- FVOCI -debt instruments	-	-	(579,105)	-	-	(579,105)
Net amount reclassified to the consolidated statement of income for FVOCI -debt instruments	-	-	(109,563)	-	-	(109,563)
Net changes in allowance for expected credit losses on FVOCI -debt instruments	-	-	19,801	-	-	19,801
Actuarial gains (Note 27 (b))	-	-	1,581	-	-	1,581
Net income for the year after zakat	-	-	-	3,092,277	-	3,092,277
Total comprehensive income	-	-	(566,086)	3,092,277	-	2,526,191
Disposal of FVOCI-equity instruments (note 7 b))	-	-	53,746	(53,746)	-	-
Final dividends - 2017	-	-	-	-	(1,140,000)	(1,140,000)
Interim dividend - 2018 (note 26)	-	-	-	(1,110,000)	-	(1,110,000)
Transfer to statutory reserve (note 17)	-	1,179,021	-	(1,179,021)	-	-
Final proposed dividend - 2018 (note 26)	-	-	-	(1,200,000)	1,200,000	-
Balance at the end of the year	30,000,000	5,101,613	58,047	414,556	1,200,000	36,774,216

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31, 2019 and 2018

	Note	2019 SAR'000	2018 SAR'000
OPERATING ACTIVITIES			
Net income for the year before zakat		6,232,066	4,716,085
Adjustments to reconcile net income for the year to net cash from operating activities:			
Accretion of discounts and amortisation of premium, net on non-FVIS instruments, net		(113,104)	(53,358)
Gains on non-trading investments, net	22	(255,486)	(130,308)
Gains (loss) on trading investments, net		(21,569)	178
Dividend income		(102,866)	(57,533)
Depreciation of property and equipment	10	438,976	296,901
Share in earnings of associates, net		(153,333)	(50,750)
Impairment charge for investments, net		(48,028)	26,870
Impairment charge for credit losses and other provisions, net	8 e)	1,012,284	927,840
		6,988,940	5,675,925
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		(1,038,289)	(648,599)
Due from banks and other financial institutions maturing after three months from date of acquisition		499,845	2,459,615
Positive fair value of derivatives		(322,222)	(170,735)
Fair value through income statement (FVIS)		(619,607)	865,853
Loans and advances, net		(23,927,290)	(14,551,201)
Other real estate		(5,652)	7,714
Other assets		(102,298)	(190,632)
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		4,543,966	1,524,346
Negative fair value of derivatives		374,956	196,347
Customer deposits		24,695,743	15,456,607
Other liabilities		2,008,446	691,051
Zakat paid		(905,404)	(661,542)
Net cash from operating activities		12,191,134	10,654,749
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments not held as FVIS instruments		61,538,567	25,094,607
Purchase of investments not held as FVIS instruments		(64,609,430)	(27,966,717)
Purchase of property and equipment, net		(333,802)	(243,955)
Net cash used in investing activities		(3,404,665)	(3,116,065)
FINANCING ACTIVITIES			
Repayment of debt securities in issue		-	(4,000,000)
Dividend paid		(2,757,618)	(2,246,438)
Cash used in financing activities		(2,757,618)	(6,246,438)
Net increase in cash and cash equivalents		6,028,851	1,292,246
Cash and cash equivalents at beginning of the year		17,443,889	16,151,643
Cash and cash equivalents at end of the year	28	23,472,740	17,443,889
Special commission received during the year		10,372,322	8,156,702
Special commission paid during the year		2,433,950	1,667,443
Supplemental non-cash information			
Net changes in fair value and transfers to consolidated statement of income		1,121,971	(587,468)

The accompanying notes 1 to 40 form an integral part of these consolidated financial statements.

1. GENERAL

Riyad Bank ("The Bank") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, formed pursuant to the Royal Decree and the Council of Ministers' Resolution No. 91 dated 1 Jumad Al-Awal 1377H (corresponding to November 23, 1957G). The Bank operates under commercial registration No. 1010001054 dated 25 Rabi Al-Thani 1377H (corresponding to November 18, 1957G) through its 341 (2018: 341) licensed branches in the Kingdom of Saudi Arabia, a branch in London-United Kingdom, an agency in Houston-United States, and a representative office in Singapore. The number of the Group's employees stood at 5,955 as at December 31, 2019 (2018: 5,973). The Bank's Head Office is located at the following address:

Granada Oasis - A1 Tower
Riyadh - Al Shuhada District
P.O. Box 22622
Riyadh 11416
Kingdom of Saudi Arabia

The objective of the Group is to provide a full range of banking and investment services. The Bank also provides to its customers, non-conventional banking products which are approved and supervised by an independent Shariah Board established by the Bank.

The consolidated financial statements comprise the financial statements of Riyad Bank and its wholly owned subsidiaries (the Bank and the subsidiaries are collectively referred to as "the Group"), a) Riyad Capital (engaged in investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the Capital Market Authority), b) Ithra Al-Riyad Real Estate Company (formed with the objective to hold, manage, sell and purchase real estate assets for owners or third parties for financing activities); c) Riyad Company for Insurance Agency (which acts as an agent for selling insurance products owned and managed by another principal insurance company), incorporated in the Kingdom of Saudi Arabia; d) Curzon Street Properties Limited incorporated in the Isle of Man; and e) Riyad Financial Markets incorporated in the Cayman Islands - a netting and bankruptcy jurisdiction country, to execute derivative transactions with international counterparties on behalf of Riyad Bank.

On December 24, 2018, the Board of Directors' passed resolution to enter into preliminary merger negotiations with the National Commercial Bank (NCB). On December 16, 2019, after considering the merger study discussions with NCB, the Board of directors of both the Banks agreed to end the merger discussions and study.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group have been prepared;

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

The interim condensed consolidated financial statements of the Group for the period ended 31 March 2019 and consolidated financial statements at year-ended 31 December 2018, respectively, were prepared in compliance with the IFRS, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to zakat and income tax) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.

On 17 July 2019, SAMA instructed the banks in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are endorsed by the SOCPA.

Accordingly, the Group changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 3) and the effects of this change are disclosed in note 26 to the consolidated financial statements. The change in accounting policies due to this new standard and treatment of Zakat & Tax are disclosed in the Note 3.

2. BASIS OF PREPARATION (continued)

b) Basis of measurement and presentation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, FVIS and FVOCI investments. In addition, financial assets and liabilities that are carried at cost but are hedged in a fair value hedging relationship are carried at fair value to the extent of the risk being hedged.

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

c) Functional and presentation currency

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

d) Critical accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS, as endorsed in the KSA and other standards and pronouncements endorsed by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i) Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 on the applicable 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 formulae and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models (note 30.3 (b) (v)).

2. BASIS OF PREPARATION (continued)

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

ii) Fair value measurement

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

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

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

The fair value of an asset or a liability is measured using the assumptions, that 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 consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2. BASIS OF PREPARATION (continued)

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

iii) Determination of control over investees

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 interests and expected management fees) and the investor's rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

Special Purpose Entities (SPEs)

The Group is party to certain SPEs, primarily to facilitate Shariah compliant financing arrangements. The exposures to these entities are included in the Group's loans and advances portfolio.

iv) Defined benefit scheme

The Group operates an End of service benefit scheme for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit credit method in accordance with the periodic actuarial valuation. For details of assumptions and estimate please refer note 27.

v) Fee income

The Group charges administrative fee upfront on borrowers, on loan financing. Due to large volume of transactions with mostly individually insignificant fee amounts, management uses certain assumptions and judgments in relation to the recognition of such fee which are recorded within 'fee and commission income, net'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies (for both conventional and non-conventional banking) adopted in the preparation of these consolidated financial statements are set out below.

Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2018 except for the changes explained below.

Based on the adoption of new standards explained below, the accounting policies are applicable effective 1 January 2019 replacing / amending or adding to the corresponding accounting policies set out in 2018 annual consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Effective from 1 January 2019 the Group has adopted the below mentioned new accounting standard and an amendment to the accounting treatment for Zakat & Income Tax, the impact of the adoption of these standards is explained below:

IFRS 16 'Leases'

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

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Group's financial position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Group has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, using the interest rate at the time of first time application,.

RECONCILIATION OF LEASE LIABILITIES

SAR' 000	
Off-balance sheet lease obligations as of December 31, 2018	516,957
Current leases with a lease term of 12 months or less & low-value leases	(29,915)
Operating lease obligations as of January 1, 2019 (Gross undiscounted)	487,042
Operating lease obligations as of January 1, 2019 (net, discounted)	406,306
Lease liabilities due to initial application of IFRS 16 as January 1, 2019	406,306

SAR' 000	December 31, 2019	January 1, 2019
Less than one year	8,776	25,790
One to five years	339,760	240,503
More than five years	198,701	220,749
Total undiscounted lease liabilities	547,237	487,042

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat & Income Tax

As mentioned above, the basis of preparation has been changed from the year ended 31 December 2019 as a result of the issuance of instructions from SAMA dated 17 July 2019. Previously, zakat was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the instructions issued by SAMA dated 17 July 2019, the zakat is recognized in the statement of comprehensive income. The Group has accounted for this change in the accounting for zakat retrospectively and the effects of the above change are disclosed in note 26 to the consolidated financial statements.

a) Classification of financial assets

On initial recognition, the Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

i) Financial Asset at amortised cost (AC)

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

- 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 (SPPI test).

ii) Financial Asset at FVOCI

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

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

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

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

iii) Financial Asset at FVIS

Financial assets at FVIS comprise derivative instruments, quoted equity instruments held for trading and debt securities classified neither as AC nor FVOCI. In addition, on initial recognition, the Group may irrevocably designate a financial asset as FVIS, that otherwise meets the requirements to be measured at amortised cost or at FVOCI, 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 if the Group changes its business model for managing financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Classification of financial assets (continued)

The details of business model assessment and SPPI test are explained below.

Business model assessment

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

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

The business model assessment is 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 FVIS 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(SPPI)

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

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 risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with 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:

- 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.

Designation at Fair value through income statement(FVIS)

At initial recognition, the Group has designated certain financial assets at FVIS. Before 1 January 2018, the Group also designated certain financial assets as at FVIS because the assets were managed, evaluated and reported internally on a fair value basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Classification of financial liabilities

All money market deposits, customer deposits, term loans, subordinated debts and other debt securities in issue are initially recognised at fair value less transaction costs. Financial liabilities at FVIS are recognised initially at fair value and transaction costs are taken directly to the statement of income. Subsequently all commission-bearing financial liabilities other than those held at FVIS or where fair values have been hedged are measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium. Premiums are amortised and discounts accreted on an effective yield basis to maturity and taken to special commission expense.

c) Derecognition

i) - Financial assets

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

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

From January 1, 2018, 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 Group is recognized as a separate asset or liability.

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

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

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

ii) -Financial liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Modifications of financial assets and financial liabilities

i) 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 with the difference recognized as a de-recognition gain or loss and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortised 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 profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

ii) 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 profit or loss.

e) Impairment

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment (continued)

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

12 month ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the 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.

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

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise ;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment (continued)

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve. Impairment losses are recognised in profit and loss and changes between the amortised cost of the assets and their fair value are recognised in OCI.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group'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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this unamortised amount and the amount of loss allowance.

The Group has issued no loan commitments that are measured at FVIS. For other loan commitments:the Group recognizes loss allowance based on the ECL requirement..

g) Revenue / expenses recognition

Special commission income and expenses

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Revenue / expenses recognition (continued)

Measurement of amortized cost and special commission income

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

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

h) 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 share trading and fund management, trade finance, corporate finance and advisory and other banking services, should be recognized at the point when services are rendered i.e. when performance obligation is satisfied.

i) Customer Loyalty Program

The Group offers customer loyalty program (reward points herein referred to as ”Hassad points”), which allows its customers to earn points that can be redeemed for certain partner outlets. The Group allocates a portion of transaction price (interchange fee) to the Hassad points awarded to its customers, based on the relative standalone selling price. The amount of revenue allocated to Hassad points is deferred and released to the consolidated statement of income when reward points are redeemed. The cumulative amount of contract liability related to unredeemed Hassad points is adjusted over time based on actual experience and current trends with respect to redemption.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Basis of consolidation

These consolidated financial statements comprise the financial statements of Riyad Bank and its subsidiaries drawn up to December 31, each year. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

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 interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated any of these funds.

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

Balances between the Group and its subsidiaries, and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Group may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Group can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest (NCI) and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

The Group is party to certain special purpose entities (SPEs), primarily for the purpose of facilitation of certain Shariah compliant financing arrangements. The Group concluded that these entities cannot be consolidated in its financial statements as it could not establish control over these SPEs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Investment in associates

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. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Group holds significant influence (but not control), over financial and operating policies and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. 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. Distribution received from the investee reduces the carrying amount of the investment. Under the equity method of accounting, the investment in the associate is carried on the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. The Group's share of profit of an associate is shown on the face of the consolidated statement of income.

l) Derivative financial instruments and hedge accounting

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

Derivative financial instruments, including foreign exchange contracts, special commission rate swaps and currency options (both written and purchased), are initially recognised at fair value on the date on which the derivative contract is entered into, with transaction costs recognised in the consolidated statement of income and, are subsequently re-measured at fair value. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate. The treatment of changes in their fair value depends on their classification into the following categories:

i) Derivatives held for trading

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

ii) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or to a highly probable forecasted transaction that will affect the reported net gain or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Derivative financial instruments and hedge accounting (continued)

(ii) Hedge accounting (continued)

(a) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the consolidated statement of income, any gain or loss from re-measuring the hedging instruments to fair value is recognised immediately in the consolidated statement of income. The related portion of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the consolidated statement of income. For hedged items measured at amortised cost, where the fair value hedge of a special commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective yield basis. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

(b) Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of a variability of cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecasted transaction that could affect consolidated statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly in other comprehensive income and the ineffective portion, if any, is immediately recognised in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. Where the hedged forecasted transaction results in the recognition of a non- financial asset or a non-financial liability, then at the time such asset or liability is recognised the associated gains or losses that had previously been recognised directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income is retained until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the consolidated statement of income for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Foreign currencies

The Group's consolidated financial statements are presented in Saudi Arabian Riyals, which is also the Group's functional currency. Transactions in foreign currencies are translated into Saudi Arabian Riyals at spot exchange rates prevailing on the transaction dates. Monetary assets and liabilities at the year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at the exchange rates prevailing at the reporting date. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value is determined. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in equity, depending on the recognition of the fair value movement of the underlying financial asset.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the dates of the initial transactions.

The assets and liabilities of overseas branch are translated at the spot exchange rate at the reporting date. The income and expenses of overseas branch are translated at the average exchange rates for the year. All exchange differences, if significant, are recognised in other comprehensive income. These differences are transferred to consolidated statement of income at the time of disposal of foreign operations.

n) Offsetting financial instruments

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Revenue recognition

i) Fee and commission income

Fee and commissions are recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred, together with the related direct cost, and are recognised as an adjustment to the effective yield on the loan. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis. Fee received on asset management, wealth management, financial planning, custody services and other similar services that are provided over an extended period of time, are recognised over the period when the service is being provided.

ii) Others

Dividend income is recognised when the Group's right to receive payment is established. Results arising from trading activities include gains and losses from changes in fair value and related special commission income or expense for financial assets and financial liabilities held for trading.

p) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership and are measured in accordance with related accounting policies for investments held as FVIS, FVOCI, and held at amortised cost. The counterparty liability for amounts received under these agreements is included in "Due to banks and other financial institutions" or "Customer deposits", as appropriate. The difference between sale and repurchase prices is treated as special commission expense and is accrued over the life of the repo agreement on an effective special commission rate basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos), are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets.

Amounts paid under these agreements are included in "Cash and balances with SAMA" or "Due from banks and other financial institutions" as appropriate. The difference between purchase and resale prices is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Other real estate

The Group, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate properties are considered as assets held for sale and are initially stated at the lower of net realisable value of due loans and advances or 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. No depreciation is charged on such real estate.

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, is charged to the consolidated statement of income. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised as income together with any gain/ loss on disposal.

r) Property and equipment

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

Buildings	33 years
Improvements and decoration of premises	over the lower of the lease period or 5 years
Furniture, fixtures and equipment	5 to 20 years
Computer hardware	5 years
Software programs and automation projects	3 to 5 years
Motor vehicles	4 years

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. All assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in consolidated statement of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Guarantee contracts

In ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value in other liabilities, being the value of the premium received. Subsequent to the initial recognition, the Group's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligations arising as a result of guarantees. Any increase in the liability relating to the financial guarantee is taken to the consolidated statement of income in 'impairment charge for credit losses'. The premium received is recognised in the consolidated statement of income in 'Fee and commission income, net' on a straight line basis over the life of the guarantee.

t) Provisions

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

u) Accounting for leases

Leases entered into by the Group as a lessee, are operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

v) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions maturing within three months from the date of acquisition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) End of service benefits

Benefits payable to the employees of the Group at the end of their services are accrued in accordance with the guidelines set by the Saudi Arabian Labor Regulations or other applicable laws in other jurisdictions, and are included in other liabilities in the consolidated statement of financial position.

x) 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 statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

The basis of preparation has been changed as a result of the issuance of instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat and income tax shall be recognized in the statement of income. The Group has accounted for this change in the accounting for zakat and income tax retrospectively (see note 3) and the effects of the above change are disclosed in note 26 to the consolidated financial statements. The change has resulted in reduction of reported income of the Group for the year ended 31 December 2018 by SAR 1,624 million. This comprises of SAR 430.2 million zakat for year-ended 31 December 2018 and SAR 1,193.6 million representing settlement for years till 2017. The change has had no impact on the statement of cash flows for the year ended 31 December 2018.

y) Investment management services

The Group offers investment services to its customers, which include management of certain investment funds. Fees earned are disclosed under related party transactions. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly, are not included in the consolidated financial statements.

z) Non-conventional banking products

In addition to the conventional banking, the Group offers its customers certain non-conventional banking products, which are approved by its Shariah Board. These products include Murabaha, Tawaruq and Ijara.

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

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

iii) Tawaruq is a form of Murabaha transactions where the Group purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

aa) Short term employee benefits

Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by employees and the obligation can be estimated reliably.

ab) Settlement date accounting

All regular way purchases and sales of financial assets are recognised and derecognised on the settlement date, i.e. the date the asset is delivered to the counter party. The Group accounts for any change in fair value between the trade and the settlement date in the same way as it accounts for the acquired assets. Regular way purchases or sales are purchases or sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

4. CASH AND BALANCES WITH SAMA

	2019 SAR'000	2018 SAR'000
Cash in hand	4,916,642	5,212,780
Statutory deposit	9,626,700	8,588,411
Reverse repos with SAMA	14,628,798	2,459,863
Other balances	17,347	62,118
Total	29,189,487	16,323,172

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore is not part of cash and cash equivalents (note 28).

The allowance for expected credit losses(ECLs), in respect of the above, amounted to SAR 0.202 million as on December 31, 2019 (December 31, 2018: SAR 0.137 million). The ECL allowance relate to stage 1 exposures.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 SAR'000	2018 SAR'000
Current accounts	958,966	1,983,429
Money market placements	3,775,922	9,045,747
Total	4,734,888	11,029,176

The allowance for expected credit losses(ECLs) in respect of the above, amounted to SAR 0.54 million as on December 31, 2019(December 31, 2018: SAR 5.2 million). The ECL allowance relates to stage 1 exposures.

6. DERIVATIVES

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

a) Swaps

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

b) Forwards and futures

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

c) Options

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

Held for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying pricing anomalies in different markets and products, with the expectation of profiting from price differentials between markets or products.

Held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates and special commission rates to reduce its exposure to currency and special commission rate risks to acceptable levels as determined by the Board of Directors within the guidelines issued by SAMA. The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has also established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and if required hedging strategies are used to reduce special commission rate gap within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and special commission rate risks. This can be achieved by hedging specific transactions as well as strategic hedging against overall consolidated statement of financial position exposure.

6. DERIVATIVES (continued)

Held for hedging purposes (continued)

Fair value hedges

The Group uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission rate exposures.

Cash flow hedges

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate at a variable rate. The Group uses special commission rate swaps as cash flow hedges of these special commission rate risks.

The table below shows the positive and negative fair values of derivative financial instruments held, together with their notional amounts, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group'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				
2019 SAR'000	Positive fair value	Negative fair value	Notional amount total	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	513,761	(427,453)	40,316,114	4,471,190	10,044,002	23,593,510	2,207,412	38,646,106
Forward foreign exchange contracts	95,086	(21,762)	29,886,020	23,969,845	3,575,365	2,340,810	-	27,877,541
Held as fair value hedges:								
Special commission rate swaps	-	(200,011)	3,169,439	153,075	467,730	2,120,244	428,390	3,169,439
Total	608,847	(649,226)	73,371,573	28,594,110	14,087,097	28,054,564	2,635,802	69,693,086

6. DERIVATIVES (continued)

2018 SAR'000	Positive fair value	Negative fair value	Notional amount total	Notional amounts by term to maturity Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Special commission rate swaps	239,364	(167,805)	31,853,110	2,526,398	7,339,354	20,428,597	1,558,761	20,498,184
Forward foreign exchange contracts	46,053	(51,631)	27,248,377	21,046,531	4,248,967	1,952,879	-	20,691,540
Currency options	1,184	(1,184)	476,362	473,103	3,259	-	-	1,602,607
Held as fair value hedges:								
Special commission rate swaps	24	(53,650)	3,428,279	147,444	450,523	2,070,143	760,169	1,261,980
Total	286,625	(274,270)	63,006,128	24,193,476	12,042,103	24,451,619	2,318,930	44,054,311

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value as at December 31, 2019 and 2018.

2019 SAR '000 Description of hedged items	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate investments and loans	3,536,296	3,336,267	Fair value	Special commission rate swaps	-	(200,011)

2018 SAR '000 Description of	Fair value	Hedge inception value	Risk	Hedging instrument	Positive fair value	Negative fair value
Fixed special commission rate deposits	3,675,675	3,622,683	Fair value	Special commission rate swaps	24	(53,650)

7. INVESTMENTS, NET

a) Investment securities are classified as follows:

	2019 SAR'000	2018 SAR'000
Investment at FVIS	1,038,918	393,272
Investment at amortised cost	32,154,904	32,917,341
Investments at FVOCI – Debt instruments	17,131,969	12,730,942
Investments at FVOCI – Equity investments	3,088,985	2,035,385
Less: Allowance	(53,361)	(84,168)
Total	53,361,415	47,992,772

b) Equity investment securities designated as at FVOCI

The Group designated certain investments shown in the following table as equity securities at FVOCI. The FVOCI designation was made because the investments are expected to be held for strategic purposes.

	Fair value as at December 31, 2019 SAR'000	Fair value as at December 31, 2018 SAR'000	Dividend income recognised during 2019 SAR'000	Dividend income recognised during 2018 SAR'000
Saudi (Tadawul listed) equities	2,140,816	1,363,474	93,080	48,064
Other Saudi equities	371,948	354,627	-	-
Foreign equities	536,220	277,228	2,616	5,640
Total	3,048,984	1,995,329	95,696	53,704

During 2019, the Group sold shares in its Saudi (Tadawul listed) equities having a fair value of SAR 324 million (SAR 643.9 million during 2018) and the loss amounting to SAR 13.9 million (2018: loss amounting to SAR 53.7 million) was transferred to retained earnings. The above sales were carried out as part of tactical adjustment of the portfolio to enhance value.

7. INVESTMENTS, NET (continued)

c) Investments by type of securities

SAR'000	Domestic		International		Total	
	2019	2018	2019	2018	2019	2018
Fixed rate securities	22,652,319	20,958,135	17,887,519	13,849,448	40,539,838	34,807,583
Floating rate securities	7,914,418	9,439,677	832,617	1,401,023	8,747,035	10,840,700
Equities	2,513,364	1,719,250	575,621	316,135	3,088,985	2,035,385
Others	1,038,918	392,484	-	788	1,038,918	393,272
Total investments	34,119,019	32,509,546	19,295,757	15,567,394	53,414,776	48,076,940
Less: Allowance	(9,700)	(36,972)	(43,661)	(47,196)	(53,361)	(84,168)
Total	34,109,319	32,472,574	19,252,096	15,520,198	53,361,415	47,992,772

The impairment allowance on debt instruments at FVOCI amounts to SAR 57.8 million (2018: SAR 75.1 million).

Above investments include sukuks amounting to SAR 15.14 billion (2018: SAR 14.2 billion).

International investments above includes investment portfolios of SAR 1.8 billion (2018: SAR 6.4 billion) which are externally managed.

d) An analysis of changes in loss allowance for debt instruments carried at amortised cost, is as follows:

The loss allowance as on December 31, 2019 amounted to SAR 13.4 million (December 31, 2018: SAR 44.1 million) and these relate to stage 1 exposures.

7. INVESTMENTS, NET (continued)

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

	2019			2018		
SAR '000	Quoted	Unquoted*	Total	Quoted	Unquoted*	Total
Fixed rate securities	18,418,030	22,121,808	40,539,838	15,566,369	19,241,214	34,807,583
Floating rate securities	2,064,940	6,682,095	8,747,035	2,515,192	8,325,508	10,840,700
Equities	2,656,262	432,723	3,088,985	1,706,453	328,932	2,035,385
Others	1,038,918	-	1,038,918	393,272	-	393,272
Total investments	24,178,150	29,236,626	53,414,776	20,181,286	27,895,654	48,076,940
Less: Allowance	(6,309)	(47,052)	(53,361)	(20,360)	(63,808)	(84,168)
Investments, net	24,171,841	29,189,574	53,361,415	20,160,926	27,831,846	47,992,772

*Unquoted securities include Saudi Government Treasury Bills and bonds of SAR 24.6 billion (2018: SAR 21.9 billion)

f) The analysis of investments by counter-party is as follows:

	2019	2018
	SAR '000	SAR '000
Government and quasi Government	29,325,148	28,414,499
Corporate	14,845,500	10,163,384
Banks and other financial institutions	9,190,767	9,414,889
Total	53,361,415	47,992,772

Investments include SAR 11,664 million (2018: SAR 683.6 million), which have been pledged under repurchase agreements with customers (note 19 d)). The market value of such investments is SAR 12,116 million (2018: SAR 687 million).

8. LOANS AND ADVANCES, NET

a) These comprise the following:

2019 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	6,778,704	798,484	55,951,555	111,157,478	497,510	175,183,731
Non-performing loans and advances	95,536	-	377,950	1,078,062	2,586	1,554,134
Total loans and advances	6,874,240	798,484	56,329,505	112,235,540	500,096	176,737,865
Allowance for impairment	(110,945)	(37,971)	(937,524)	(1,667,204)	(2,222)	(2,755,866)
Total	6,763,295	760,513	55,391,981	110,568,336	497,874	173,981,999

2018 SAR'000	Overdrafts	Credit cards	Consumer loans*	Commercial loans	Others	Total
Performing loans and advances	6,006,142	775,403	45,029,627	99,728,737	282,013	151,821,922
Non-performing loans and advances	62,817	-	243,387	1,255,233	-	1,561,437
Total loans and advances	6,068,959	775,403	45,273,014	100,983,970	282,013	153,383,359
Allowance for impairment	(71,928)	(44,456)	(923,783)	(1,317,739)	(623)	(2,358,529)
Total	5,997,031	730,947	44,349,231	99,666,231	281,390	151,024,830

Loans and advances, net, include non-conventional banking products of SAR 105.9 billion (2018: SAR 87.0 billion). As at December 2019, the non-conventional banking products gross portfolio mainly comprises of Tawarooq amounting to SAR 72.1 billion (2018: SAR 59.4 billion), Ijarah amounting to SAR 21.4 billion (2018: SAR 21.7 billion) and Murabaha amounting to SAR 13.6 billion (2018: SAR 7.2 billion) and the expected credit loss allowance on the portfolio was SAR 1.65 billion (2018: SAR 1.63 billion). During 2019, the special commission income on the portfolio amounted to SAR 5.4 billion (2018: SAR 4.0 billion).

* Includes consumer mortgage loans

b) An analysis of changes in loss allowance for total loans and advances is, as follows:

ECL on total loans and advances (SAR'000)

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	301,461	667,541	1,389,527	2,358,529
Transfer to 12-month ECL	153,611	(70,327)	(83,284)	-
Transfer to lifetime ECL - not credit impaired	(10,480)	60,611	(50,131)	-
Transfer to lifetime ECL - credit impaired	(4,096)	(141,785)	145,881	-
Net re-measurement of loss allowance**	9,261	(6,832)	394,908	397,337
Balance as at December 31, 2019	449,757	509,208	1,796,901	2,755,866

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	367,358	662,765	2,480,865	3,510,988
Transfer to 12-month ECL	99,420	(6,470)	(92,950)	-
Transfer to lifetime ECL - not credit impaired	(32,700)	45,320	(12,620)	-
Transfer to lifetime ECL - credit impaired	(5,527)	(67,392)	72,919	-
Net re-measurement of loss allowance**	(127,090)	33,318	(1,058,687)	(1,152,459)
Balance as at December 31, 2018	301,461	667,541	1,389,527	2,358,529

** Includes charge-offs (consumer loans and credit cards) and write-offs (commercial, overdrafts and others).

8. LOANS AND ADVANCES, NET (continued)

b) An analysis of changes in loss allowance for Loans and Advances (continued)

ECL on credit cards (SAR'000)

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	14,012	4,679	25,765	44,456
Transfer to 12-month ECL	5,134	(597)	(4,537)	-
Transfer to lifetime ECL - not credit Impaired	(545)	3,400	(2,855)	-
Transfer to lifetime ECL - credit Impaired	(412)	(2,240)	2,652	-
Net re-measurement of loss allowance including charge-offs	(9,907)	(1,731)	5,153	(6,485)
Balance as at December 31, 2019	8,282	3,511	26,178	37,971

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	22,806	5,283	23,263	51,352
Transfer to 12-month ECL	1,557	(337)	(1,220)	-
Transfer to lifetime ECL - not credit Impaired	(787)	1,035	(248)	-
Transfer to lifetime ECL - credit Impaired	(548)	(1,949)	2,497	-
Net re-measurement of loss allowance including charge-offs	(9,016)	647	1,473	(6,896)
Balance as at December 31, 2018	14,012	4,679	25,765	44,456

ECL on consumer loans*(SAR'000)

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	167,976	259,031	496,776	923,783
Transfer to 12-month ECL	104,540	(54,644)	(49,896)	-
Transfer to lifetime ECL - not credit Impaired	(8,624)	55,602	(46,978)	-
Transfer to lifetime ECL - credit Impaired	(2,716)	(56,549)	59,265	-
Net re-measurement of loss allowance including charge-offs	(43,182)	(110,106)	167,029	13,741
Balance as at December 31, 2019	217,994	93,334	626,196	937,524

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	176,565	227,768	323,998	728,331
Transfer to 12-month ECL	10,585	(3,396)	(7,189)	-
Transfer to lifetime ECL - not credit Impaired	(10,720)	14,021	(3,301)	-
Transfer to lifetime ECL - credit Impaired	(3,544)	(60,512)	64,056	-
Net re-measurement of loss allowance including charge-offs	(4,910)	81,150	119,212	195,452
Balance as at December 31, 2018	167,976	259,031	496,776	923,783

Movement in expected credit losses is mainly due to the increase in portfolo of consumer loans by gross amount of 11 billion. Further re-measurement of expected credit losses on consumer loans due to model related changes resuled in net decrease of ECL by SAR 312 million.

* Includes consumer mortgage loans

8. LOANS AND ADVANCES, NET (continued)

b) An analysis of changes in loss allowance for Loans and Advances (continued)

ECL on Commercial loans** (SAR'000)

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	119,473	403,831	866,986	1,390,290
Transfer to 12-month ECL	43,937	(15,086)	(28,851)	-
Transfer to lifetime ECL - not credit Impaired	(1,311)	1,609	(298)	-
Transfer to lifetime ECL - credit Impaired	(968)	(82,996)	83,964	-
Net re-measurement of loss allowance	62,350	105,005	999,242	1,166,597
Write-offs	-	-	(776,516)	(776,516)
Balance as at December 31, 2019	223,481	412,363	1,144,527	1,780,371

Movement in expected credit losses is mainly due to the increase in portfolo of commercial loans and overdrafts by gross amount of SAR 12.2 billion. Further re-measurement of ECL on written-off facilities during the year amounted to SAR 474.4 million.

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	167,987	429,714	2,133,604	2,731,305
Transfer to 12-month ECL	87,278	(2,737)	(84,541)	-
Transfer to lifetime ECL - not credit Impaired	(21,193)	30,264	(9,071)	-
Transfer to lifetime ECL - credit Impaired	(1,435)	(4,931)	6,366	-
Net re-measurement of loss allowance	(113,164)	(48,479)	954,645	793,002
Write-offs	-	-	(2,134,017)	(2,134,017)
Balance as at December 31, 2018	119,473	403,831	866,986	1,390,290

** Includes overdrafts and others

8. LOANS AND ADVANCES, NET (continued)

c) Movement in allowance for impairment of credit losses

	2019
	SAR'000
Balance at the beginning of the year	2,358,529
Provided during the year, net	1,173,853
Bad debts written off against provision	(776,516)
Balance at the end of the year	2,755,866

	2018
	SAR'000
Closing loss allowance as at December 31, 2017 (calculated under IAS 39)	2,084,926
Amounts restated through opening retained earnings	1,426,062
Opening loss allowance as at January 1, 2018 (calculated under IFRS 9)	3,510,988
Provided during the year, net	981,558
Bad debts written off against provision	(2,134,017)
Balance at the end of the year	2,358,529

d) Impairment charge for financing losses in the consolidated statement of income represents:

	2019	2018
	SAR'000	SAR'000
Charge for the year, net*	1,424,202	1,372,947
Recovery of written off loans and advances, net	(454,007)	(434,242)
Allowance for impairment, net	970,195	938,705

* Includes net charge offs

e) Impairment charges for credit losses and other provisions, net as reflected in the statement of income are detailed as follows:

	2019	2018
	SAR'000	SAR'000
Impairment charge for credit losses, net	970,195	938,705
Impairment charge (reversal) for other financial assets, net	42,089	(10,865)
Total	1,012,284	927,840

9. INVESTMENT IN ASSOCIATES

Investment in associates represents the Group's share of investment in entities where the Group has significant influence. These investments are accounted for using the equity method of accounting. Investment in associates represents:

a) 48.46% (2018: 35%) share ownership in Ajil Financial Services Company incorporated in Kingdom of Saudi Arabia. The objectives of the Company are to engage in financing activities including leasing (and other related products) of projects in the industrial, transportation, agriculture, trading sectors and other skilled professions along with finance leasing of fixed and moveable assets.

During the year, the Group increased its holding in Ajil Financial Services Company to 48.46 % (31 December 2018: 35%). Cash consideration of SAR 33.7 million was paid for the additional stake. In the absence of control, the addtional investment has been accounted for using the equity method in the consolidated financial statements. Gains on the above transaction amounting to SAR 103.7 million has been included in share of earnings in associates, net

b) 21.4 % (2018: 21.4%) share in ownership in Royal and Sun Alliance Insurance (Middle East) Limited E.C., incorporated in Bahrain, engaged in insurance and re-insurance business and

c) 30.6% (2018: 30.6%) share ownership, (including indirect) and Board representation in Al-Alamiya for Cooperative Insurance Company incorporated in Kingdom of Saudi Arabia. The activities of the company are to transact cooperative insurance and re-insurance operations and all related activities as per applicable laws and regulations in the Kingdom.

10. PROPERTY AND EQUIPMENT, NET

SAR' 000	Land and buildings	Improvements and decoration of premises	Furniture, fixtures and equipment	Computer hardware, software programs and automation projects	Motor vehicles	Total
Cost						
Balance as at January 1, 2018	1,448,228	914,198	477,553	2,783,857	992	5,624,828
Additions	-	26,146	20,740	196,948	545	244,379
Disposals	(310)	(3,425)	(4,664)	(133,690)	(118)	(142,207)
Balance as at December 31, 2018	1,447,918	936,919	493,629	2,847,115	1,419	5,727,000
Additions	691,916	60,734	46,213	217,437	696	1,016,996
Disposals	(80,269)	(1,771)	(5,713)	(1,200)	-	(88,953)
Balance at December 31, 2019	2,059,565	995,882	534,129	3,063,352	2,115	6,655,043
Accumulated depreciation and amortisation						
Balance as at January 1, 2018	532,987	793,172	411,851	2,133,510	900	3,872,420
Charge for the year	21,672	42,969	27,184	204,925	151	296,901
Disposals	-	(3,425)	(4,628)	(133,612)	(118)	(141,783)
Balance as at December 31, 2018	554,659	832,716	434,407	2,204,823	933	4,027,538
Charge for the year	157,560	40,750	22,640	217,171	855	438,976
Disposals	(5,106)	(1,771)	(5,321)	(1,198)	-	(13,396)
Balance at December 31, 2019	707,113	871,695	451,726	2,420,796	1,788	4,453,118
Net book value						
As at January 1, 2018	915,241	121,026	65,702	650,347	92	1,752,408
As at December 31, 2018	893,259	104,203	59,222	642,292	486	1,699,462
As at December 31, 2019	1,352,452	124,187	82,403	642,556	327	2,201,925

Improvements and decoration of premises include work in progress amounting to SAR 5.5 million as at December 31, 2019 (2018: SAR 0.8 million).

Land and buildings balance as at January 1, 2019, include Right-of-Use (RoU) assets amounting to SAR 687.9 million, which was recognised upon implementation of IFRS 16. Depreciation and interest expense on these assets during 2019 amounted to SAR 135.9 million and SAR 17.1 million, respectively. Rights on contracts amounting to SAR 80.3 million (accumulated depreciation SAR 5.1 million), expired during the year. The balance of the RoU assets amounted to SAR 476.8 million as at 31 December 2019. Refer note 3 for details on the corresponding lease liabilities.

11. OTHER ASSETS

	2019 SAR'000	2018 SAR'000
Accounts receivable	430,429	348,506
Others*	343,949	372,135
Total	774,378	720,641

* Mainly include prepayments and sundry debtors and settlement accounts of SAR 77.1 million (2018: SAR 180.3 million) and items in transit amounting to SAR 263.6 million (2018: SAR 177.0 million), which are cleared in the normal course of business.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 SAR'000	2018 SAR'000
Current accounts	851,791	832,905
Money market deposits	12,272,689	7,747,609
Total	13,124,480	8,580,514

Money market deposits include deposits against sales of fixed rate bonds of SAR 10,891 million (2018: SAR 684.3 million) with agreement to repurchase the same at fixed future dates.

13. CUSTOMER DEPOSITS

	2019 SAR'000	2018 SAR'000
Demand	93,707,806	86,842,195
Saving	525,605	459,724
Time	80,114,743	66,304,252
Others	20,169,745	16,215,985
Total	194,517,899	169,822,156

Time deposits also include non-conventional banking deposits of SAR 31,450 million (2018: SAR 31,190 million). The special commission expense on the portfolio for 2019 amounted to SAR 801 million (2018: SAR 523 million). Other customers' deposits include SAR 3,099 million (2018: SAR 2,738 million) of margins held for irrevocable commitments.

The above include foreign currency deposits as follows:

	2019 SAR'000	2018 SAR'000
Demand	3,829,760	4,048,138
Saving	13,833	12,547
Time	18,996,369	20,165,422
Other	499,577	325,742
Total	23,339,539	24,551,849

14. DEBT SECURITIES IN ISSUE

During June 2015, the Bank issued SAR 4,000 million Subordinated debt (Sukuk). These are SAR denominated and have maturity date of June 24, 2025 and are callable after 5 years, subject to the terms and conditions of the agreement. The sukuks carry a special commission rate of 6 month SAIBOR plus 115 basis points.

During November 2018, the Bank settled the Senior debt (Sukuk) of SAR 4,000 million issued in November 2013 .This settlement has been done in line with the early settlement option to repay the sukuk after 5 years from issuance date, subject to prior approval of SAMA and terms and conditions of the agreement.

15. OTHER LIABILITIES

	2019 SAR'000	2018 SAR'000
Accounts payable	822,483	716,417
Others*	12,100,299	9,728,220
Total	12,922,782	10,444,637

* Mainly include provision for zakat and tax of SAR 2,531 million (2018: SAR 2,806 million), end of service benefits of SAR 908 million (2018 : SAR 717 million) based on actuarial calculations(note 27 b)), insurance payable, accrued expenses, income received in advance and items in transit which are cleared in the normal course of business.

16. SHARE CAPITAL

The authorised, issued and fully-paid share capital of the Bank consist of 3,000 million shares of SAR 10 each (2018: 3,000 million shares of SAR 10 each).

17. STATUTORY RESERVE

In accordance with Saudi Arabian Banking Control Law and the Bank's By-Laws, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals to the paid up capital of the Bank. Accordingly, SAR 1,400.5 million has been transferred from 2019 net income (2018: SAR 1,179.0 million). The statutory reserve is not currently available for distribution.

18. OTHER RESERVES*

2019 (SAR 000s)	FVOCI debt	FVOCI equity	Total
Balance at beginning of the year	(434,099)	490,565	56,466
Net change in fair value of FVOCI investments	1,105,992	251,583	1,357,575
Net amounts relating to FVOCI-debt investments transferred to consolidated statement of income	(235,604)	-	(235,604)
Net ECL movement during the year	(17,276)	-	(17,276)
Net disposals during the year	-	13,881	13,881
Balance at end of the year	419,013	756,029	1,175,042

2018 (SAR 000s)	FVOCI debt	FVOCI equity	Total
Balance at beginning of the year	179,485	507,380	686,865
Impact of implementation of IFRS 9	55,283	(171,761)	(116,478)
Net change in fair value of FVOCI investments	(579,105)	101,200	(477,905)
Net amounts relating to FVOCI-debt investments transferred to consolidated statement of income	(109,563)	-	(109,563)
Net ECL movement during the year	19,801	-	19,801
Net disposals during the year	-	53,746	53,746
Balance at end of the year	(434,099)	490,565	56,466

** Does not include actuarial loss on defined benefit plan of SAR 147.9 million (2018: gain of SAR 1.58 million).*

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2019, there were legal proceedings of a routine nature outstanding against the Group. No provision has been made as management and in-house legal adviser believes that it is unlikely that any significant loss will arise.

b) Capital commitments

As at December 31, 2019 the Group had capital commitments of SAR 246.4 million (2018: SAR 178.3 million). This includes computer hardware, software, automation projects, construction and equipment purchases.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantee and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are generally collateralised by the underlying shipments of goods to which they relate, and therefore have significantly less risk.

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

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

19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

i) **The contractual maturity structure for the Group's commitments and contingencies are as follows:**

2019 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	4,374,295	4,125,413	698,111	-	9,197,819
Letters of guarantee *	14,898,743	27,225,872	18,660,176	762,147	61,546,938
Acceptances	1,566,581	823,008	26,736	285	2,416,610
Irrevocable commitments to extend credit	2,291,067	1,733,792	5,739,262	2,572,421	12,336,542
Total	23,130,686	33,908,085	25,124,285	3,334,853	85,497,909

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	4,394,052	3,399,272	325,657	-	8,118,981
Letters of guarantee *	17,175,558	30,614,563	15,853,614	757,247	64,400,982
Acceptances	1,329,468	447,421	51,908	-	1,828,797
Irrevocable commitments to extend credit	187,629	1,862,547	8,243,469	1,332,301	11,625,946
Total	23,086,707	36,323,803	24,474,648	2,089,548	85,974,706

* This is as per contractual period of the guarantee and in event of default may be payable on demand and therefore current in nature .

The outstanding unused portion of non-firm commitments as at December 31,2019 which can be revoked unilaterally at any time by the Group, amounts to SAR 92,891 million (2018: SAR 97,192 million).

ii) An analysis of changes in loss allowance for credit related commitments and contingencies are, as follows:

SAR'000	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	32,821	34,827	93,381	161,029
Transfer to 12-month ECL	16,731	(14,532)	(2,199)	-
Transfer to lifetime ECL - not Credit Impaired	(416)	6,888	(6,472)	-
Transfer to lifetime ECL - Credit Impaired	(37)	(10,013)	10,050	-
Net re-measurement of loss allowance	401	(2,811)	58,524	56,114
Transfer to write-off reserves	-	-	(24,358)	(24,358)
Balance as at December 31, 2019	49,500	14,359	128,926	192,785

SAR'000	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	51,789	104,502	497,618	653,909
Transfer to 12-month ECL	6,718	(737)	(5,981)	-
Transfer to lifetime ECL - not Credit Impaired	(7,313)	10,369	(3,056)	-
Transfer to lifetime ECL - Credit Impaired	(116)	(43,026)	43,142	-
Net re-measurement of loss allowance	(18,257)	(36,281)	73,753	19,215
Transfer to write-off reserves	-	-	(512,095)	(512,095)
Balance as at December 31, 2018	32,821	34,827	93,381	161,029

As at December 31, 2019, the balance in the write-off reserves amounted to SAR 603 million (December 31, 2018: SAR 594 million).

19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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

	2019 SAR'000	2018 SAR'000
Government and quasi government	-	-
Corporate	66,605,044	67,468,753
Banks and other financial institutions	18,892,865	18,505,953
Total	85,497,909	85,974,706

d) Assets pledged

Assets pledged as collateral with customers are as follows:

	2019		2018	
	Assets SAR'000	Related liabilities SAR'000	Assets SAR'000	Related liabilities SAR'000
Investments held at amortised cost and FVOCI (note 7 f) and 12)	12,115,699	10,891,186	683,599	684,277

These transactions are conducted under the terms that are usual and customary to standard lending and securities borrowing and lending activities.

20. SPECIAL COMMISSION INCOME AND EXPENSE

		2019	2018
Special commission income on:		SAR'000	SAR'000
Investments	- FVIS	-	11,805
	- FVOCI	624,587	437,340
	- Amortised cost	999,496	841,049
		1,624,083	1,290,194
Due from banks and other financial institutions		256,777	146,713
Loans and advances		8,490,566	6,895,458
Total		10,371,426	8,332,365

	2019	2018
	SAR'000	SAR'000
Special commission expense on:		
Due to banks and other financial institutions	417,087	209,255
Customer deposits	1,952,622	1,248,209
Debt securities in issue	164,702	246,441
Total	2,534,411	1,703,905

21. FEE AND COMMISSION INCOME, NET

	2019	2018
	SAR'000	SAR'000
Fee and commission income on:		
- Share brokerage and fund management	460,426	323,464
- Trade finance	599,826	596,781
- Credit facilities and advisory	901,583	641,278
- Card products	767,946	707,002
- Other banking services	151,148	143,386
Total fee and commission income	2,880,929	2,411,911
Fee and commission expense on:		
- Banking cards	615,936	513,162
- Share brokerage	50,169	49,080
- Other banking services	184,079	138,617
Total fee and commission expense	850,184	700,859
Fee and commission income, net	2,030,745	1,711,052

22. GAINS ON DISPOSAL OF NON-TRADING INVESTMENTS, NET

	2019 SAR'000	2018 SAR'000
FVOCI	243,827	123,468
Amortised Cost	11,659	6,840
Total	255,486	130,308

23. OTHER OPERATING INCOME

Other operating income for 2019, includes gain on disposals of property and equipment amounting to SAR 0.19 million (2018: SAR 25.7 million) and gains on disposals of other real estate acquired in settlement of due loans and advances, amounting to SAR 4.43 million (2018: nil).

24. SALARIES AND EMPLOYEE-RELATED EXPENSES

The following table summarises the Group's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the years ended December 31, 2019 and 2018, and the forms of such payments.

Categories SAR 000	Number of employees		Fixed compensation		Variable compensation		Total compensation	
	2019	2018	2019	2018	2019	2018	2019	2018
Senior executives requiring SAMA no objection	19	15	29,549	28,007	10,112	12,712	39,661	40,719
Employees engaged in risk taking activities	344	355	104,584	100,923	31,434	25,370	136,018	126,293
Employees engaged in control functions	411	411	91,715	90,710	13,699	12,321	105,414	103,031
Outsourced employees	514	381	36,476	23,212	-	-	36,476	23,212
Other employees	4,667	4,811	794,607	753,061	93,064	106,338	887,671	859,399
Total	5,955	5,973	1,056,931	995,913	148,309	156,741	1,205,240	1,152,654

	2019	2018
Variable compensation accrued during the year and other employee related benefits*	822,086	769,272
Total salaries and employee-related expenses as per consolidated statement of income	1,879,017	1,765,185

*Other employee benefits include; insurance, pension, relocation expenses, recruitment expenses, training and development and other employee benefits.

The Group's compensation policy is based on the nature of the job, market practices and a jobholder's level of involvement in risk taking process. This policy applies to all employees, including the executive management team, and aims to link individual performance to the Group's overall achievements and financial soundness. Compensation includes fixed and variable components. Salary revision, performance bonus and other performance-linked incentives are decided based on the outcome of the Group's performance management process, as well as the Group's financial performance and the attainment of strategic goals.

24. SALARIES AND EMPLOYEE-RELATED EXPENSES (continued)

The Board of Directors has the responsibility to approve and oversee the Group's compensation and incentives policy. The Board Nomination and Compensation Committee is composed of five non-executive Directors (comprising of three Board Directors and two independent external members) and is charged with overseeing the compensation system design and effectiveness on behalf of the Board of Directors. In addition, the Nomination and Compensation Committee is accountable for reviewing and approving the Group's compensation and incentives policy and undertaking its periodic assessment and update so as to ensure achievement of the system objectives and to reinforce the Group's risk management framework. Fixed compensation comprises salaries and wages and other benefits and allowances. Variable compensation includes sales incentives, product-related rewards and performance-related payments.

The Group has adopted fixed and variable compensation schemes. For senior managers and material risk takers, the variable component is vested over a period of 3 years and is aligned with the jobholder's level of responsibility, Group and individual performance and the level of risk inherent in the relevant job function. This is based on an annual review conducted by the Nomination and Compensation Committee. The Group consistently evaluates its compensation policies against both industry norms and international best practice and makes necessary revisions as and when required.

25. EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2019 and 2018 are calculated by dividing the net income for the year by 3,000 million shares.

26. DIVIDENDS AND ZAKAT

The dividends for 2019 amounted to SAR 3,210 million (2018: SAR 2,310 million), resulting in a dividend to the shareholders of SAR 1.07 per share (2018: SAR 0.77 per share). The total dividends for 2019 include interim dividends of SAR 1,560 million paid for the first half of 2019 (2018: SAR 1,110 million). The Board of Directors approved interim dividend which was ratified and announced on 7 July 2019, resulting in dividends of SAR 0.52 per share (2018: SAR 0.37 per share) to the shareholders.

Final dividends of SAR 1,650 million (2018: SAR 1,200 million) have been proposed for 2019. On 19 March 2019, the shareholders in the Ordinary General Assembly meeting approved the distribution of the final dividends for 2018 amounting to SAR 1,200 million to shareholders and the distribution date for the dividend was 2 April 2019.

26. DIVIDENDS AND ZAKAT (continued)

During 2018, the Group reached an agreement with the General Authority of Zakat and Tax (GAZT) on the settlement of zakat claims for previous financial years up to the end of the fiscal financial year 2017, against payment of an amount of SAR 2,970 million. As per the settlement agreement, the Group was required to settle 20% of the agreed zakat liability in 2018, and the remaining amount to be settled over a period of five years. Accordingly the Group has recorded zakat for the previous years and until the end of financial year 2017, through its retained earnings amounting to SAR 753.6 million. This was in addition to SAR 440 million accrued during first half of 2018. As a result of the settlement agreement the Group agreed to withdraw all of the previous appeals which were filed with the competent authority with respect to zakat.

On 14 March 2019, Saudi Arabia's General Authority of Zakat and Tax (the "GAZT") had published rules for computation of zakat for companies engaged in financing activities (the "Rules") and licensed by SAMA. The Rules are issued pursuant to the zakat Implementing Regulations and are applicable for the periods from 1 January 2019. In addition to providing a new basis for calculating the Zakat base, the Rules have also introduced a minimum floor at 4 times the net income and a maximum cap at 8 times the net income when determining the Zakat base. Zakat liability for the shareholders will continue to be calculated at 2.5% of the Zakat base but it will not fall below the minimum floor nor would exceed the maximum cap as prescribed by the Rules.
Accordingly based on the new regulations, the Bank has estimated provision for zakat liability for the year ended 31 December 2019 at SAR 630 million (31 December 2018: SAR 1,624 million of which SAR 430 million pertains to year 2018).

The change in the accounting treatment for zakat (as explained in note 3) has the following impacts on the line items of statements of income, statement of financial position and changes in shareholders' equity as at and for the year ended 31 December 2018:

Amount in SAR 000s	Financial statement impacted	As previously reported for the year ended 31 December 2018	Effect of restatement	As restated for for the year ended 31 December 2018
Provision for zakat and income (retained earnings)	Statement of changes in equity	1,623,808	(1,623,808)	-
Zakat	Statement of income	-	1,623,808	1,623,808
Earnings per share (SAR)	Statement of income	1.57	(0.54)	1.03

27. DEFINED BENEFIT PLAN

a) General description

The Group operates an End of Service Benefit Scheme for its employees based on the prevailing Saudi Labor Laws. The liability in respect of the scheme is estimated by a qualified external actuary in accordance with International Accounting Standard 19 - Employee Benefits, and using “Projected Unit Credit Method”.

b) The movement in the obligation during the year based on its present value are as follows:

	2019 SAR'000	2018 SAR'000
Defined benefit obligation at the beginning of the year	717,103	699,325
Current service cost	75,366	67,646
Interest cost	35,389	29,731
Benefits paid	(69,315)	(78,018)
Actuarial loss / (gain) recognised in other comprehensive income	149,515	(1,581)
Defined benefit obligation at the end of the year	908,058	717,103

The end of service liability is disclosed within "other liabilities" in the consolidated statement of financial position

c) Charge for the year

	2019 SAR'000	2018 SAR'000
Current service cost	75,366	67,646
Interest on defined benefit obligations	35,389	29,731
	110,755	97,377

27. DEFINED BENEFIT PLAN (continued)

d) Re-measurement recognised in Other comprehensive income

	2019 SAR'000	2018 SAR'000
Gain from change in experience assumptions	2,536	(697)
Actuarial gains due to change in demographic assumptions	(16,300)	(884)
Loss from change in financial assumptions	163,279	-
	149,515	(1,581)

e) The principal actuarial assumptions (in respect of the employee benefit scheme) used for the valuation as at December 31, 2019 and 2018 are as follows:

	2019	2018
Discount rate per annum	2.9%	4.5%
Expected rate of salary increase per annum	4.5%	4.0%
Normal retirement age	60	60

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

f) Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2019 and 2018 to the discount rate of 2.9% (2018: 4.5%) and salary escalation rate 4.5% (2018: 4.0%)

2019	Impact on defined benefit obligation increase / (decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
		SAR'000	SAR'000
Discount rate	0.50%	(44,512)	48,229
Expected rate of salary increase	0.50%	47,245	(44,076)

2018	Impact on defined benefit obligation – increase / (decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
		SAR'000	SAR'000
Discount rate	0.50%	(36,239)	42,501
Expected rate of salary increase	0.50%	42,291	(36,718)

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

28. CASH AND CASH EQUIVALENTS

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

	2019 SAR'000	2018 SAR'000
Cash and balances with SAMA excluding statutory deposit (note 4)	19,562,787	7,734,761
Due from banks and other financial institutions maturing within three months from the date of acquisition	3,909,953	9,709,128
Total	23,472,740	17,443,889

29. OPERATING SEGMENTS

The Group determines and presents operating segments based on the information that is provided internally to the chief operating decision maker, in order to allocate resources to the segments and to assess its performance. The operating segments are managed separately based on the Group's management and internal reporting structure. The Group’s primary business is conducted in the Kingdom of Saudi Arabia with one international branch, a representative office and an agency. However, the total assets, liabilities, commitments and results of operations of this branch, representative office and agency are not material to the Group’s consolidated financial statements and as a result have not been separately disclosed. The transactions between the Group's operating segments are recorded as per the Group's transfer pricing system. There are no other material items of income or expenses between the operating segments.

The Group’s reportable segments under IFRS 8 are as follows:

Retail banking

Deposits, credit and investment products for individuals and small to medium sized businesses.

Investment banking and brokerage

Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.

Corporate banking

Principally handling corporate customers’ current accounts, deposits and providing loans, overdrafts and other credit facilities and derivative products.

Treasury and investments

Principally providing money market, trading and treasury services as well as the management of the Group’s investment portfolios.

29. OPERATING SEGMENTS (continued)

a) The **Group's** total assets and liabilities as at December 31, its total operating income and expense and its net income, for the years then ended by operating segments, are as follows:

2019 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Total assets	71,292,636	1,572,694	122,370,875	70,552,673	265,788,878
Total liabilities	87,456,194	460,331	105,297,654	32,003,237	225,217,416
Total operating income, net including	3,898,044	587,302	4,062,047	2,169,670	10,717,063
- Inter segment income (expenses)	795,190	139,891	(949,438)	14,357	-
- Net special commission income	3,493,973	140,534	2,867,685	1,334,823	7,837,015
- Fee and commission income, net	424,103	411,976	1,182,181	12,485	2,030,745
Total operating expenses, net including	2,341,755	218,671	2,005,505	72,399	4,638,330
- Depreciation of property and equipment	343,334	18,344	66,272	11,026	438,976
- Impairment charge for credit losses and other financial assets, net	(85,435)	-	1,102,315	(4,596)	1,012,284
- Impairment charge for investments, net	-	-	-	(48,028)	(48,028)
Share in earnings of associates, net	-	-	-	153,333	153,333
Net income before zakat	1,556,289	368,631	2,056,542	2,250,604	6,232,066

2018 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Total assets	56,293,608	1,135,210	110,221,419	62,249,339	229,899,576
Total liabilities	80,948,660	259,540	96,683,322	15,233,838	193,125,360
Total operating income, net including	3,197,392	379,825	3,576,043	1,814,141	8,967,401
- Inter segment income (expenses)	702,672	95,039	(1,030,785)	233,074	-
- Net special commission income	2,831,214	95,118	2,477,671	1,224,457	6,628,460
- Fee and commission income, net	362,252	266,617	1,077,117	5,066	1,711,052
Total operating expenses, net including	2,382,915	154,662	1,618,686	145,803	4,302,066
- Depreciation of property and equipment	217,725	8,806	56,084	14,286	296,901
- Impairment charge for credit losses and other financial assets, net	161,502	-	768,687	(2,349)	927,840
- Impairment charge for investments, net	-	-	-	26,870	26,870
Share in earnings of associates, net	-	-	-	50,750	50,750
Net income before zakat	814,477	225,163	1,957,357	1,719,088	4,716,085

b) **The Group's credit exposure by operating segment is as follows:**

2019 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Consolidated statement of financial position assets	69,292,126	465,740	122,014,454	67,829,710	259,602,030
Commitments and contingencies	-	-	54,875,398	-	54,875,398
Derivatives	-	-	-	2,560,041	2,560,041

2018 SAR'000	Retail banking	Investment banking and brokerage	Corporate banking	Treasury and investments	Total
Consolidated statement of financial position assets	55,394,517	705,088	110,045,615	59,236,667	225,381,887
Commitments and contingencies	-	-	55,682,946	-	55,682,946
Derivatives	-	-	-	1,673,863	1,673,863

Credit exposure comprises the carrying value of consolidated statement of financial position assets excluding equity investments, investment in associates, property and equipment, other real estate. The credit equivalent value of commitments, contingencies and derivatives, according to SAMA's prescribed methodology are included in credit exposure.

30. FINANCIAL RISK MANAGEMENT

30.1 CREDIT RISK

Credit exposures arise principally in lending activities (for both conventional and non-conventional banking products) that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The Group uses internal credit rating tools to assess credit standing of its counterparties and assigns credit ratings accordingly. Also the Group uses the external ratings, of the major rating agency, where applicable. A potential credit loss might arise due to lack of proper credit analysis of the borrower's credit worthiness, inability to service the debt, lack of appropriate documentation, etc.

The Group attempts to control credit risk by the deployment of Risk Acceptance Criteria (RAC's) as credit risk screening tools, appropriate credit structuring, credit review process, post-disbursal monitoring of credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate

The Group's credit risk for derivatives, represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Concentration Risk refers to the risk from an uneven distribution of counterparties in credit or in other business relationship or from concentration in business sectors or geographical regions. Accordingly, Concentration risk in the credit portfolios comes into existence through a skewed distribution of financing to (a) individual borrower (name concentration) (b) industry /economic sector (sector concentration) and (c) geographical regions (regional concentration). Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting any particular category of concentration.

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

Management monitors the market value of collateral recurrently, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The credit quality of the Group's financial assets and letters of credit, letters of guarantee and acceptances is disclosed in note 30.3 a). The debt securities included in the investment portfolio are mostly sovereign risk. Analysis of investments by counterparty is provided in note 7. For details of the composition of loans and advances refer to note 8. Information on credit risk relating to derivative instruments is provided in note 6 and for commitments and contingencies in note 19. The Group's maximum credit exposure, which best represents its maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements, is not materially different than the credit exposure by business segment given in note 29.b). The Group's consolidated Risk Weighted Assets (RWA) calculated under the Basel III framework is also provided in note 35.

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION

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

2019 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	29,189,473	-	14	-	-	-	-	29,189,487
Cash in hand	4,916,628	-	14	-	-	-	-	4,916,642
Balances with SAMA	24,272,845	-	-	-	-	-	-	24,272,845
Due from banks and other financial institutions	2,028,239	1,040,121	1,076,209	499,759	-	6,926	83,634	4,734,888
Current accounts	150,836	118,901	98,910	499,759	-	6,926	83,634	958,966
Money market	1,877,403	921,220	977,299	-	-	-	-	3,775,922
Positive fair value of derivatives	376,643	19,417	207,418	5,139	-	-	230	608,847
Investments, net	34,109,319	2,088,402	4,543,109	8,893,244	384,582	1,040,100	2,302,659	53,361,415
FVIS	1,038,918	-	-	-	-	-	-	1,038,918
FVOCI	2,512,765	915,684	4,543,109	8,893,244	384,582	1,040,100	1,891,469	20,180,953
Amortised cost	30,557,636	1,172,718	-	-	-	-	411,190	32,141,544
Investment in associates	502,655	200,227	-	-	-	-	-	702,882
Loans and advances, net	169,354,108	4,289,854	68,841	175,430	-	93,766	-	173,981,999
Overdraft	6,763,295	-	-	-	-	-	-	6,763,295
Credit cards	760,513	-	-	-	-	-	-	760,513
Consumer loans	55,391,981	-	-	-	-	-	-	55,391,981
Commercial loans	105,940,445	4,289,854	68,841	175,430	-	93,766	-	110,568,336
Others	497,874	-	-	-	-	-	-	497,874
Other assets	774,378	-	-	-	-	-	-	774,378
Accounts receivable and others	774,378	-	-	-	-	-	-	774,378
Total	236,334,815	7,638,021	5,895,591	9,573,572	384,582	1,140,792	2,386,523	263,353,896
Liabilities								
Due to banks and other financial institutions	24,685	3,271,775	9,016,995	273,405	-	44,882	492,738	13,124,480
Current accounts	23,491	280,932	458,484	39,094	-	7,208	42,582	851,791
Money market deposits	1,194	2,990,843	8,558,511	234,311	-	37,674	450,156	12,272,689
Negative fair value of derivatives	106,063	19,067	446,963	76,923	-	-	210	649,226
Customer deposits	193,530,568	-	987,331	-	-	-	-	194,517,899
Demand	93,389,475	-	318,331	-	-	-	-	93,707,806
Saving	525,605	-	-	-	-	-	-	525,605
Time	79,445,743	-	669,000	-	-	-	-	80,114,743
Other	20,169,745	-	-	-	-	-	-	20,169,745
Debt securities in issue	4,003,029	-	-	-	-	-	-	4,003,029
Other liabilities	12,893,204	-	20,006	9,491	-	81	-	12,922,782
Accounts payable and others	12,893,204	-	20,006	9,491	-	81	-	12,922,782
Total	210,557,549	3,290,842	10,471,295	359,819	-	44,963	492,948	225,217,416

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION (continued)

2019 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle	Europe	North America	Latin America	South East Asia	Other countries	Total
Commitments and contingencies	60,471,836	1,709,305	10,001,675	8,965,345	371	2,048,852	2,300,525	85,497,909
Letters of credit	8,710,575	297,199	61,990	2,104	371	73,122	52,458	9,197,819
Letters of guarantee	41,348,138	652,730	9,938,582	5,449,647	-	1,973,945	2,183,896	61,546,938
Acceptances	2,390,696	16,997	1,039	1,922	-	1,785	4,171	2,416,610
Irrevocable commitments	8,022,427	742,379	64	3,511,672	-	-	60,000	12,336,542
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	1,200,123	215,488	938,293	168,405	-	-	37,732	2,560,041
Held for trading	1,200,123	215,488	768,005	168,405	-	-	37,732	2,389,753
Held as fair value hedges	-	-	170,288	-	-	-	-	170,288
Commitments and contingencies	38,825,666	983,631	6,730,997	5,431,302	194	1,370,278	1,533,330	54,875,398
Letters of credit	4,559,809	155,578	32,451	1,101	194	38,278	27,461	4,814,872
Letters of guarantee	27,863,947	439,866	6,697,475	3,672,443	-	1,330,215	1,471,698	41,475,644
Acceptances	2,390,696	16,997	1,039	1,922	-	1,785	4,171	2,416,610
Irrevocable commitments to extend	4,011,214	371,190	32	1,755,836	-	-	30,000	6,168,272

2018 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Assets								
Cash and balances with SAMA	16,323,163	-	9	-	-	-	-	16,323,172
Cash in hand	5,212,771	-	9	-	-	-	-	5,212,780
Balances with SAMA	11,110,392	-	-	-	-	-	-	11,110,392
Due from banks and other financial institutions	7,168,419	243,582	1,747,766	1,736,290	-	98,657	34,462	11,029,176
Current accounts	46,468	104,300	402,968	1,304,564	-	90,667	34,462	1,983,429
Money market placements	7,121,951	139,282	1,344,798	431,726	-	7,990	-	9,045,747
Positive fair value of	165,878	22,552	63,051	35,144	-	-	-	286,625
Investments, net	32,472,574	2,336,183	2,995,033	8,222,419	104,526	417,458	1,444,579	47,992,772
FVIS	392,484	-	-	788	-	-	-	393,272
FVOCI	1,718,101	88,728	2,995,033	8,221,631	104,526	417,458	1,180,794	14,726,271
Amortised cost	30,361,989	2,247,455	-	-	-	-	263,785	32,873,229
Investment in associates	419,769	175,724	-	-	-	-	-	595,493
Loans and advances, net	148,104,829	2,312,590	61,789	208,005	-	337,617	-	151,024,830
Overdraft	5,997,031	-	-	-	-	-	-	5,997,031
Credit cards	730,947	-	-	-	-	-	-	730,947
Consumer loans	44,349,231	-	-	-	-	-	-	44,349,231
Commercial loans	96,746,230	2,312,590	61,789	208,005	-	337,617	-	99,666,231
Others	281,390	-	-	-	-	-	-	281,390
Other assets	720,641	-	-	-	-	-	-	720,641
Accounts receivable and others	720,641	-	-	-	-	-	-	720,641
Total	205,375,273	5,090,631	4,867,648	10,201,858	104,526	853,732	1,479,041	227,972,709

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION (continued)

2018 SAR'000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	Latin America	South East Asia	Other countries	Total
Liabilities								
Due to banks and other financial institutions	3,942,949	1,728,654	2,137,307	364,510	-	8,786	398,308	8,580,514
Current accounts	30,710	229,746	483,452	21,394	-	8,786	58,817	832,905
Money market deposits	3,912,239	1,498,908	1,653,855	343,116	-	-	339,491	7,747,609
Negative fair value of derivatives	117,238	6,990	145,290	4,752	-	-	-	274,270
Customer deposits	168,705,850	-	1,116,306	-	-	-	-	169,822,156
Demand	86,709,137	-	133,058	-	-	-	-	86,842,195
Saving	459,724	-	-	-	-	-	-	459,724
Time	65,321,004	-	983,248	-	-	-	-	66,304,252
Other	16,215,985	-	-	-	-	-	-	16,215,985
Debt securities in issue	4,003,783	-	-	-	-	-	-	4,003,783
Other liabilities	10,424,589	-	9,219	10,582	-	247	-	10,444,637
Accounts payable and others	10,424,589	-	9,219	10,582	-	247	-	10,444,637
Total	187,194,409	1,735,644	3,408,122	379,844	-	9,033	398,308	193,125,360
Commitments and contingencies	59,581,262	1,077,870	11,749,659	8,939,009	144	2,635,476	1,991,286	85,974,706
Letters of credit	7,580,683	309,286	10,739	-	144	55,159	162,970	8,118,981
Letters of guarantee	41,863,921	446,349	11,553,381	6,147,309	-	2,574,683	1,815,339	64,400,982
Acceptances	1,790,103	19,079	1,004	-	-	5,634	12,977	1,828,797
Irrevocable commitments to extend credit	8,346,555	303,156	184,535	2,791,700	-	-	-	11,625,946
Maximum credit exposure (stated at credit equivalent amounts according to SAMA's prescribed methodology)								
Derivatives	821,988	316,193	459,614	76,068	-	-	-	1,673,863
Held for trading	821,988	316,193	358,266	76,068	-	-	-	1,572,515
Held as fair value hedges	-	-	101,348	-	-	-	-	101,348
Commitments and contingencies	38,305,399	625,223	8,019,924	5,597,647	70	1,797,880	1,336,803	55,682,946
Letters of credit	3,675,653	149,964	5,207	-	70	26,745	79,019	3,936,658
Letters of guarantee	28,706,763	306,069	7,922,339	4,215,309	-	1,765,501	1,244,807	44,160,788
Acceptances	1,790,103	19,079	1,004	-	-	5,634	12,977	1,828,797
Irrevocable commitments to extend credit	4,132,880	150,111	91,374	1,382,338	-	-	-	5,756,703

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 GEOGRAPHICAL CONCENTRATION (continued)

b) The distribution by geographical concentration of non-performing loans and advances and provision for credit losses are as follows:

	Non-performing loans and advances, net		Allowance for credit losses	
	2019 SAR'000	2018 SAR'000	2019 SAR'000	2018 SAR'000
Kingdom of Saudi Arabia				
Commercial Loans*	1,176,184	1,318,050	(784,655)	(640,240)
Consumer Loans**	377,950	243,387	(226,413)	(57,741)
Total	1,554,134	1,561,437	(1,011,068)	(697,981)

*Includes overdrafts and other loans

** includes consumer mortgage loans

30.3 CREDIT QUALITY ANALYSIS

The Group uses its internal ratings to rate the credit quality of its portfolio and uses the following categories:

Low - fair risk: Performing assets of high / good quality.

Watch list: Assets that have shown some initial signs of deterioration in credit quality in the recent past and are likely subject to increasing levels of credit risk.

Substandard: Assets which exhibit substantially higher level of credit risk.

Doubtful: These assets are typically in default (impaired) but still show some prospect of partial recovery in principal in the future.

Loss: Impaired assets which are generally fully provided and have low expectations of further recovery.

a) The following table sets out information about the credit quality of financial assets as at December 31, 2019 and 2018. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

i) Balances with SAMA and due from bank and other financial institutions

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	28,498,974	-	-	28,498,974
Non-investment grade	509,501	-	-	509,501
Carrying amount	29,008,475	-	-	29,008,475

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	17,878,277	-	-	17,878,277
Non-investment grade	4,266,628	-	-	4,266,628
Carrying amount	22,144,905	-	-	22,144,905

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

ii) Loans and advances, gross at amortized cost

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	168,355,686	3,065,353	665,573	172,086,612
Watch list	114,590	1,913,529	291,497	2,319,616
Substandard	-	-	1,357,736	1,357,736
Doubtful	-	-	427,437	427,437
Loss	-	-	546,464	546,464
Carrying amount	168,470,276	4,978,882	3,288,707	176,737,865

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	141,464,024	6,823,511	137,155	148,424,690
Watch list	163,672	1,896,235	601,582	2,661,489
Substandard	-	-	1,432,249	1,432,249
Doubtful	-	-	501,808	501,808
Loss	-	-	363,123	363,123
Carrying amount	141,627,696	8,719,746	3,035,917	153,383,359

ii) (a) Credit cards, gross

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	714,841	32,487	-	747,328
Watch list	-	18,728	-	18,728
Substandard	-	-	32,428	32,428
Doubtful	-	-	-	-
Loss	-	-	-	-
Carrying amount	714,841	51,215	32,428	798,484

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	684,864	35,713	-	720,577
Watch list	-	23,893	-	23,893
Substandard	-	-	30,933	30,933
Doubtful	-	-	-	-
Loss	-	-	-	-
Carrying amount	684,864	59,606	30,933	775,403

30. FINANCIAL RISK MANAGEMENT (continued)
30.3 CREDIT QUALITY ANALYSIS (continued)

ii) (b) Consumer loans, gross*

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	53,660,065	814,201	-	54,474,266
Watch list	-	732,214	-	732,214
Substandard	-	-	745,075	745,075
Doubtful	-	-	198,189	198,189
Loss	-	-	179,761	179,761
Carrying amount	53,660,065	1,546,415	1,123,025	56,329,505

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	42,580,593	903,916	-	43,484,509
Watch list	-	840,308	-	840,308
Substandard	-	-	704,810	704,810
Doubtful	-	-	197,445	197,445
Loss	-	-	45,942	45,942
Carrying amount	42,580,593	1,744,224	948,197	45,273,014

ii) (c) Commercial loans, gross**

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	113,980,780	2,218,665	665,573	116,865,018
Watch list	114,590	1,162,587	291,497	1,568,674
Substandard	-	-	580,233	580,233
Doubtful	-	-	229,248	229,248
Loss	-	-	366,703	366,703
Carrying amount	114,095,370	3,381,252	2,133,254	119,609,876

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	98,198,567	5,883,882	137,155	104,219,604
Watch list	163,672	1,032,034	601,582	1,797,288
Substandard	-	-	696,506	696,506
Doubtful	-	-	304,363	304,363
Loss	-	-	317,181	317,181
Carrying amount	98,362,239	6,915,916	2,056,787	107,334,942

* Includes consumer mortgage loans
* *Includes overdrafts and other loans

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

iii) Investments (FVOCI and amortised cost- debt instruments)

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	48,646,065	577,601	-	49,223,666
Watch list	18,070	45,106	31	63,207
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Carrying amount	48,664,135	622,707	31	49,286,873

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	44,725,347	866,377	-	45,591,724
Watch list	3,279	42,970	-	46,249
Substandard	-	-	10,310	10,310
Doubtful	-	-	-	-
Loss	-	-	-	-
Carrying amount	44,728,626	909,347	10,310	45,648,283

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

2019 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	71,543,608	791,185	128,052	72,462,845
Watch list	6,266	357,718	4,459	368,443
Substandard	-	-	81,862	81,862
Doubtful	-	-	1,143	1,143
Loss	-	-	247,074	247,074
Carrying amount	71,549,874	1,148,903	462,590	73,161,367

2018 SAR'000	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Low – fair risk	67,754,998	5,810,793	50,169	73,615,960
Watch list	10,524	433,165	51,161	494,850
Substandard	-	-	190,645	190,645
Doubtful	-	-	2,247	2,247
Loss	-	-	45,058	45,058
Carrying amount	67,765,522	6,243,958	339,280	74,348,760

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk**

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining 12 month probability of default (PD) as at the reporting date; with
- the remaining 12 month PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group, groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:
Stage 1: When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2 or Stage 3.
Stage 2: When a loan has shown a significant increase in credit risk since origination but is not credit impaired, the Group records an allowance for the Lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3: Loans considered credit-impaired. The Group records an allowance for the Lifetime ECL.
POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk (continued)**

Credit risk grades

The Group 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 and his business activities.

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

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

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

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk (continued)**

i) Generating the term structure of PD

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

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

This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

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

ii) Determining whether credit risk has increased significantly

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

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

Using its expert credit judgment and, where possible, relevant historical experience, the Group 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. Disclosure of relevant qualitative indicators, including different criteria used for different portfolios- e.g. retail mortgages, credit cards, commercial real estate etc.

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

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

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

iii) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer or being undergone into financially stressed conditions. 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.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of PD at the reporting date based on the modified terms and the PD estimated based on data at initial recognition and the original contractual terms.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk (continued)**

iii) Modified financial assets (continued)

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Group'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 banking commission, the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Audit Committee regularly reviews reports on forbearance activities.

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

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

iv) Definition of 'Default'

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

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

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk (continued)**

v) Incorporation of forward looking information

The Group 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. The Group is using different indigenous macro-econometric models to help estimating default rates for the wholesale, banks and corporate bonds portfolios, as well as personal loans, mortgage loans, auto loans and credit cards.

The models are developed individually and the relative importance of macroeconomic variables are identified by using the most suitable statistical techniques including Co-integration, Ordinary least square regressions and Granger causality test for non-retail portfolios. To explore the potential impact of changing economic conditions on the future Group's default rates, a composite index is established for the most relevant macroeconomic factors to each single portfolio in non-retail portfolios, under different scenarios and using the weights from the models. Each composite index is a mean to measure the influence of the different factors comprising the model on default rates for each product within the non-retail portfolios. Through the composite index, the Group could obtain simultaneous changes in all the factors that appear to affect the default rate for each credit risk exposure.

For the retail portfolios, the modelling methodology involves a systematic approach with rigorous analyses to arrive at the final macroeconomic model where the underlying development process involves steps of data transformation, univariate and multivariate variable reduction and model selection.

These models help in quantifying the direction and magnitude of the impact of each single macroeconomic factor on the default rate in each separate portfolio. The upmost macroeconomic variables seem to affect the default rate in the Group are:

Economic Indicators

- GDP/ The non-oil private sector
- GDP based on purchasing-power-parity (PPP)
- The International prices for Saudi Oil
- The Daily Average Saudi Oil production
- The Short term interest rate (3 month SIBOR)
- The 5 year SAR Interest rate swap (IRS) rate.
- The Consumer Price Index (inflation)
- The loans to private sector
- The Unemployment rate
- Volume of imports of goods and services
- General government lending/borrowing
- Government Investments

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk (continued)**

vi) Measurement of ECL

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.

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 and externally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 CREDIT QUALITY ANALYSIS (continued)

b) **Amounts arising from ECL – Significant increase in credit risk (continued)**

vi) Measurement of ECL (continued)

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

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.
However, for retail credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL based on the existing expiry date of the credit card. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group has the right to cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk. The Group does not offer retail overdraft facilities, and any technical overdrafts originating in retail current accounts are considered payable immediately; such technical overdrafts are also subjected to Group's staging criteria.

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

- product/instrument type;
- credit risk categorization;
- collateral;
- recovery and cure rates; date of initial recognition;
- remaining term to maturity;

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

30. FINANCIAL RISK MANAGEMENT (continued)

30.4 CREDIT QUALITY OF LOANS AND ADVANCES

a) Ageing of loans and advances (Excluding non-performing loans)

2019 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Upto 30 days	48,544	2,168,986	1,267,010	3,484,540
From 31 - 90 days	22,737	769,237	462,993	1,254,967
From 91 - 180 days	16,934	290,882	190,919	498,735
More than 180 days	-	-	522,903	522,903
Total	88,215	3,229,105	2,443,825	5,761,145

2018 SAR'000	Credit cards	Consumer loans*	Commercial loans**	Total
Upto 30 days	62,231	3,495,818	51,340	3,609,389
From 31 - 90 days	27,208	1,031,869	422,787	1,481,864
From 91 - 180 days	16,546	360,058	50,777	427,381
More than 180 days	-	-	351,176	351,176
Total	105,985	4,887,745	876,080	5,869,810

* Includes consumer mortgage loans
** Includes overdrafts and other loans

30. FINANCIAL RISK MANAGEMENT (continued)

30.4 CREDIT QUALITY OF LOANS AND ADVANCES (continued)

b) Economic sector risk concentration for the loans and advances and allowance for impairment are as follows

SAR' 000	2019 Performing	2019 Non performing	2019 Allowance for impairment	2019 Loans and advances, net	2018 Performing	2018 Non performing	2018 Allowance for impairment	2018 Loans and advances, net
Government and quasi Government	61,521	-	(719)	60,802	-	-	-	-
Banks and other financial institutions	8,363,041	-	(4,782)	8,358,259	6,989,286	-	(8,263)	6,981,023
Agriculture and fishing	2,169,818	-	(2,961)	2,166,857	1,935,554	-	(3,492)	1,932,062
Manufacturing	24,506,104	19,929	(337,249)	24,188,784	24,897,676	501	(231,725)	24,666,452
Mining and quarrying	7,896,825	-	(3,652)	7,893,173	6,940,962	-	(257)	6,940,705
Electricity, water, gas and health services	3,188,051	500	(818)	3,187,733	3,098,627	-	(1,276)	3,097,351
Building and construction	14,721,715	234,096	(163,465)	14,792,346	14,694,804	490,505	(321,636)	14,863,673
Commerce	43,386,698	860,464	(1,242,568)	43,004,594	35,934,569	824,993	(809,696)	35,949,866
Transportation and communication	4,748,303	-	(1,967)	4,746,336	3,883,443	-	(3,600)	3,879,843
Services	9,389,690	61,195	(22,189)	9,428,696	7,610,301	2,051	(10,336)	7,602,016
Consumer loans and credit cards	56,750,039	377,950	(975,495)	56,152,494	45,805,030	243,387	(968,239)	45,080,178
Others	1,926	-	(1)	1,925	31,670	-	(9)	31,661
Total	175,183,731	1,554,134	(2,755,866)	173,981,999	151,821,922	1,561,437	(2,358,529)	151,024,830

c) Collateral

The Group in the ordinary course of lending activities holds collateral as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realisable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary. Fair value of collateral held by Group against financing and advances by each category are as follows:

	2019 SAR'000	2018 SAR'000
Good loans	52,148,593	46,388,480
Past due but performing loans	2,586,024	4,103,990
Non performing loans	867,516	1,864,326
Total	55,602,133	52,356,796

31. MARKET RISK

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as special commission rates, foreign exchange rates, commodity and equity prices. The Group classifies exposures to market risk into either trading or non-trading/ banking-book. The market risk for the trading book is managed and monitored using a VaR methodology. Market risk for the non-trading book is managed and monitored using a combination of VaR, stress testing and sensitivity analysis.

31.1 Market Risk - Trading Book

The Group has set limits (both VaR and exposure based limits) for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Group applies a VaR methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses variance-covariance approach for calculating VaR for trading book based on historical data (of 1 year). VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The Bank calculates VaR on the basis of the following:

1. 10 days holding period at 99% confidence interval for regulatory capital computation
2. 1 day holding period at 99% confidence interval for internal reporting and for disclosure purposes.

This means that the VaR that the Group measures is an estimate (using a confidence level of 99% of the potential loss) that is not expected to be exceeded if the current market positions were to be held unchanged for 1 or 10 days. The use of 99% confidence level depicts that within a 1-day horizon, losses exceeding VaR figure should occur, on average, not more than once every hundred days.

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

To overcome the VaR limitations mentioned above, the Group also carries out stress tests of both non-trading and trading portfolios to simulate conditions outside normal confidence intervals using six stress scenarios for the entire Group. The potential losses occurring under stress test conditions are reported regularly to the Bank's Asset Liability Committee (ALCO) for their review.

The Group’s VaR related information for the year ended December 31, 2019 and 2018 using a 1 day holding period at 99% confidence interval is set out below. All the figures are in million SAR:

	2019			
	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2019	2.24	5.20	2.55	8.10
Average VaR for 2019	6.90	8.78	1.58	13.63
Maximum VaR for 2019	28.78	24.35	2.63	34.39
Minimum VaR for 2019	1.11	1.62	0.19	4.98

	2018			
	Foreign exchange rate risk	Special commission rate risk	Equity price risk	Overall risk
VaR as at December 31, 2018	3.71	2.83	5.54	10.33
Average VaR for 2018	7.87	1.31	5.04	13.54
Maximum VaR for 2018	27.39	4.34	5.54	32.97
Minimum VaR for 2018	1.58	0.04	4.82	6.41

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in special commission rates will affect either the fair values or the future cash flows of the financial instruments. The Group has established Net special commission Income at Risk and Market Value at Risk (MVaR) limits that are monitored by ALCO. There are gap limits to accommodate Forward FX and Money Market for USD, SAR and other major currencies. The Group monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in special commission rates, with other variables held constant, on the Group's consolidated statement of income or equity.

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

The sensitivity of equity is calculated by revaluing the fixed rate FVOCI financial assets, including the effect of any associated hedges as at December 31, 2019 and 2018 for the effect of assumed changes in special commission rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in SAR million.

2019

Currency	Increase in basis points	Sensitivity of net special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	309.65	-	-	-	-	-
USD	+ 100	(43.08)	(4.59)	(2.25)	(265.61)	(330.53)	(602.98)
EUR	+ 100	0.13	(0.26)	(2.03)	(4.38)	(3.73)	(10.40)
GBP	+ 100	(8.24)	-	-	-	-	-
JPY	+ 100	1.01	-	-	-	-	-
Others	+ 100	(0.60)	-	-	-	-	-

Currency	Decrease in basis points	Sensitivity of net special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(309.65)	-	-	-	-	-
USD	- 100	45.89	4.59	2.25	265.61	330.53	602.98
EUR	- 100	(0.13)	0.26	2.03	4.38	3.73	10.40
GBP	- 100	7.93	-	-	-	-	-
JPY	- 100	(0.95)	-	-	-	-	-
Others	- 100	0.59	-	-	-	-	-

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

i) Special commission rate risk (continued)

2018

Currency	Increase in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	+ 100	310.00	-	-	-	-	-
USD	+ 100	(50.00)	(0.64)	(0.70)	(44.81)	(303.27)	(349.42)
EUR	+ 100	(8.00)	(0.01)	-	(0.42)	(0.56)	(0.99)
GBP	+ 100	(0.60)	-	-	-	-	-
JPY	+ 100	4.96	-	-	-	-	-
Others	+ 100	(0.57)	-	-	-	-	-

Currency	Decrease in basis points	Sensitivity of special commission income	Sensitivity of equity				Total
			6 months or less	1 year or less	1-5 years	Over 5 years	
SAR	- 100	(310.00)	-	-	-	-	-
USD	- 100	50.00	0.64	0.70	44.81	303.27	349.42
EUR	- 100	-	0.01	-	0.42	0.56	0.99
GBP	- 100	0.40	-	-	-	-	-
JPY	- 100	(4.96)	-	-	-	-	-
Others	- 100	0.57	-	-	-	-	-

Special commission sensitivity of assets, liabilities and off statement of financial position items

The Group manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market special commission rates on its financial position and cash flows. The Group is exposed to special commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

The table below summarises the Group's exposure to special commission rate risks. Included in the table are the Group's assets, liabilities and shareholders' equity at carrying amounts, categorised by the earlier of contractual re-pricing or the maturity dates.

2019 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	14,628,798	-	-	-	14,560,689	29,189,487
Cash in hand	-	-	-	-	4,916,642	4,916,642
Balances with SAMA	14,628,798	-	-	-	9,644,047	24,272,845
Due from banks and other financial institutions	3,625,622	724,843	-	-	384,423	4,734,888
Current accounts	574,543	-	-	-	384,423	958,966
Money market placements	3,051,079	724,843	-	-	-	3,775,922
Positive fair value of derivatives	53,607	16,192	366,406	172,642	-	608,847
Investments, net	7,276,051	10,437,818	15,759,844	15,799,800	4,087,902	53,361,415
FVIS	-	-	-	-	1,038,918	1,038,918
FVOCI	627,141	398,823	5,469,978	10,636,027	3,048,984	20,180,953
Amortised cost	6,648,910	10,038,995	10,289,866	5,163,773	-	32,141,544
Investment in associates	-	-	-	-	702,882	702,882
Loans and advances, net	74,544,810	52,393,664	30,897,620	16,145,905	-	173,981,999
Overdraft	6,763,295	-	-	-	-	6,763,295
Credit cards	760,513	-	-	-	-	760,513
Consumer loans	4,414,493	11,369,452	24,428,101	15,179,935	-	55,391,981
Commercial loans	62,108,635	41,024,212	6,469,519	965,970	-	110,568,336
Others	497,874	-	-	-	-	497,874
Other real estate	-	-	-	-	233,057	233,057
Property and equipment, net	-	-	-	-	2,201,925	2,201,925
Other assets	430,429	-	-	-	343,949	774,378
Accounts receivable and others	430,429	-	-	-	343,949	774,378
Total assets	100,559,317	63,572,517	47,023,870	32,118,347	22,514,827	265,788,878
Liabilities and shareholders' equity						
Due to banks and other financial institutions	3,786,561	7,853,898	-	632,230	851,791	13,124,480
Current accounts	-	-	-	-	851,791	851,791
Money market deposits	3,786,561	7,853,898	-	632,230	-	12,272,689
Negative fair value of derivatives	6,724	11,652	340,518	290,332	-	649,226
Customer deposits	59,917,083	19,349,365	7,407,767	48,200	107,795,484	194,517,899
Demand	6,082,067	-	-	-	87,625,739	93,707,806
Saving	525,605	-	-	-	-	525,605
Time	53,309,411	19,349,365	7,407,767	48,200	-	80,114,743
Other	-	-	-	-	20,169,745	20,169,745
Debt securities in issue	-	4,003,029	-	-	-	4,003,029
Other liabilities	-	-	-	-	12,922,782	12,922,782
Accounts payable and others	-	-	-	-	12,922,782	12,922,782
Shareholders' equity	-	-	-	-	40,571,462	40,571,462
Total liabilities and shareholders' equity	63,710,368	31,217,944	7,748,285	970,762	162,141,519	265,788,878
Special commission rate sensitivity -On statement of financial position gap	36,848,949	32,354,573	39,275,585	31,147,585	(139,626,692)	-
Special commission rate sensitivity -Off statement of financial position gap	2,437,935	731,504	(1,116,556)	(2,052,883)	-	
Total special commission rate sensitivity gap	39,286,884	33,086,077	38,159,029	29,094,702	(139,626,692)	
Cumulative special commission rate sensitivity	39,286,884	72,372,961	110,531,990	139,626,692	-	

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

ii) Special commission rate risk (continued)

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Non special commission bearing	Total
Assets						
Cash and balances with SAMA	2,459,863	-	-	-	13,863,309	16,323,172
Cash in hand	-	-	-	-	5,212,780	5,212,780
Balances with SAMA	2,459,863	-	-	-	8,650,529	11,110,392
Due from banks and other financial institutions	10,198,199	275,000	-	-	555,977	11,029,176
Current accounts	1,427,452	-	-	-	555,977	1,983,429
Money market placements	8,770,747	275,000	-	-	-	9,045,747
Positive fair value of derivatives	11,156	12,641	200,866	61,962	-	286,625
Investments, net	7,455,110	8,687,858	19,910,977	9,550,226	2,388,601	47,992,772
FVIS	-	-	-	-	393,272	393,272
FVOCI	798,891	441,728	5,912,461	5,577,862	1,995,329	14,726,271
Amortised cost	6,656,219	8,246,130	13,998,516	3,972,364	-	32,873,229
Investment in associates	-	-	-	-	595,493	595,493
Loans and advances, net	70,156,997	50,221,294	27,615,205	3,031,334	-	151,024,830
Overdraft	5,997,031	-	-	-	-	5,997,031
Credit cards	730,947	-	-	-	-	730,947
Consumer loans	5,102,474	15,153,760	21,958,298	2,134,699	-	44,349,231
Commercial loans	58,045,155	35,067,534	5,656,907	896,635	-	99,666,231
Others	281,390	-	-	-	-	281,390
Other real estate	-	-	-	-	227,405	227,405
Property and equipment, net	-	-	-	-	1,699,462	1,699,462
Other assets	348,506	-	-	-	372,135	720,641
Accounts receivable and others	348,506	-	-	-	372,135	720,641
Total assets	90,629,831	59,196,793	47,727,048	12,643,522	19,702,382	229,899,576
Liabilities and shareholders' equity						
Due to banks and other financial institutions	6,742,481	373,058	-	632,070	832,905	8,580,514
Current accounts	-	-	-	-	832,905	832,905
Money market deposits	6,742,481	373,058	-	632,070	-	7,747,609
Negative fair value of derivatives	33,147	6,612	144,052	90,459	-	274,270
Customer deposits	55,242,009	13,368,807	2,294,172	-	98,917,168	169,822,156
Demand	4,141,012	-	-	-	82,701,183	86,842,195
Saving	459,724	-	-	-	-	459,724
Time	50,641,273	13,368,807	2,294,172	-	-	66,304,252
Other	-	-	-	-	16,215,985	16,215,985
Debt securities in issue	-	4,003,783	-	-	-	4,003,783
Other liabilities	-	-	-	-	10,444,637	10,444,637
Accounts payable and others	-	-	-	-	10,444,637	10,444,637
Shareholders' equity	-	-	-	-	36,774,216	36,774,216
Total liabilities and shareholders' equity	62,017,637	17,752,260	2,438,224	722,529	146,968,926	229,899,576
Special commission rate sensitivity -On statement of financial position gap	28,612,194	41,444,533	45,288,824	11,920,993	(127,266,544)	-
Special commission rate sensitivity -Off statement of financial position gap	2,677,733	750,180	(2,034,454)	(1,393,459)	-	
Total special commission rate sensitivity gap	31,289,927	42,194,713	43,254,370	10,527,534	(127,266,544)	
Cumulative special commission rate sensitivity gap	31,289,927	73,484,640	116,739,010	127,266,544	-	

31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

iii) Currency risk

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

The table below shows the currencies to which the Group has a significant exposure as at December 31, 2019 and 2018 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the consolidated statement of income(due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated statement of income or equity; whereas a negative effect shows a potential net reduction in consolidated statement of income or equity.

Currency Exposures As at December 31, 2019 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	±6.68
EUR	± 1	±0.34
GBP	± 1	±(0.07)
JPY	± 1	± 0.06
Others	± 1	±(0.02)

Currency Exposures As at December 31, 2018 (SAR million)	Change in currency rate in %	Effect on net income
USD	± 1	± 4.45
EUR	± 1	± 0.46
GBP	± 1	± 0.01
JPY	± 1	± 0.32
Others	± 1	± (0.04)

iv) Foreign currency risk

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

	2019 Long (short) SAR'000	2018 Long (short) SAR'000
US Dollar	749,299	759,314
Japanese Yen	351	1,795
Euro	79	414
Pound Sterling	(1,466)	(246)
Others	55,995	35,956

Long position indicates that assets in a foreign currency are higher than the liabilities in the same currency; the opposite applies to short positions.

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31. MARKET RISK (continued)

31.2 Market Risk - Non-trading or Banking Book (continued)

v) Banking Book - Equity Price risk

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

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

Market Index	December 31, 2019		December 31, 2018	
	Change in equity index %	Effect in SAR millions	Change in equity index %	Effect in SAR millions
Tadawul	+5	94.70	+5	59.61
	+10	189.41	+10	119.23
	-5	(94.70)	-5	(59.61)
	-10	(189.41)	-10	(119.23)

32. LIQUIDITY RISK

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

Management monitors the maturity profile the balance sheet to ensure that adequate liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Group. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2018: 7%) of total demand deposits and 4% (2018: 4%) of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Bonds, Treasury bills or assets which can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities with SAMA, from 85% to 100% of the nominal value of bonds/ bills held by the Bank.

32. LIQUIDITY RISK (continued)

a) The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2019 and 2018 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not affect the expected cash flows indicated by the Group's deposit retention history. The undiscounted maturity profile of the financial liabilities is as follows:

2019 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	4,697,862	7,938,807	66,464	688,355	13,391,488
Current accounts	851,791	-	-	-	851,791
Money market deposits	3,846,071	7,938,807	66,464	688,355	12,539,697
Customer deposits	165,744,777	20,959,856	8,346,040	102,404	195,153,077
Demand	93,707,806	-	-	-	93,707,806
Saving	525,606	-	-	-	525,606
Time	53,595,601	19,630,105	7,475,614	48,600	80,749,920
Other	17,915,764	1,329,751	870,426	53,804	20,169,745
Debt securities in issue	40,029	122,310	638,237	4,092,871	4,893,447
Derivative financial instruments (gross contractual amounts payable)	11,952	7,573	138,209	67,275	225,009
Total undiscounted financial liabilities	170,494,620	29,028,546	9,188,950	4,950,905	213,663,021

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities					
Due to banks and other financial institutions	7,598,134	387,701	66,447	703,639	8,755,921
Current accounts	832,905	-	-	-	832,905
Money market deposits	6,765,229	387,701	66,447	703,639	7,923,016
Customer deposits	152,411,341	14,607,249	3,319,674	38,145	170,376,409
Demand	86,842,195	-	-	-	86,842,195
Saving	459,726	-	-	-	459,726
Time	50,873,370	13,586,168	2,398,965	-	66,858,503
Other	14,236,050	1,021,081	920,709	38,145	16,215,985
Debt securities in issue	40,029	122,310	649,356	4,244,845	5,056,540
Derivative financial instruments (gross contractual amounts payable)	40,637	59,751	336,949	117,806	555,143
Total undiscounted financial liabilities	160,090,141	15,177,011	4,372,426	5,104,435	184,744,013

32. LIQUIDITY RISK (continued)

b) The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

2019 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	19,545,440	-	-	-	9,644,047	29,189,487
Cash in hand	4,916,642	-	-	-	-	4,916,642
Balances with SAMA	14,628,798	-	-	-	9,644,047	24,272,845
Due from banks and other financial institutions	4,010,045	724,843	-	-	-	4,734,888
Current accounts	958,966	-	-	-	-	958,966
Money market placements	3,051,079	724,843	-	-	-	3,775,922
Positive fair value of derivatives	53,607	16,192	366,406	172,642	-	608,847
Investments, net	1,452,805	7,753,664	17,611,814	22,455,229	4,087,903	53,361,415
FVIS	-	-	-	-	1,038,918	1,038,918
FVOCI	145,069	301,562	5,689,132	10,996,205	3,048,985	20,180,953
Amortised cost	1,307,736	7,452,102	11,922,682	11,459,024	-	32,141,544
Investment in associates	-	-	-	-	702,882	702,882
Loans and advances, net	50,970,560	30,184,094	43,660,866	49,166,479	-	173,981,999
Overdraft	6,763,295	-	-	-	-	6,763,295
Credit cards	760,513	-	-	-	-	760,513
Consumer loans	175,973	338,192	24,143,453	30,734,363	-	55,391,981
Commercial loans	42,772,905	29,845,902	19,517,413	18,432,116	-	110,568,336
Others	497,874	-	-	-	-	497,874
Other real estate	-	-	-	-	233,057	233,057
Property and equipment, net	-	-	-	-	2,201,925	2,201,925
Other assets	430,429	-	-	-	343,949	774,378
Accounts receivable and others	430,429	-	-	-	343,949	774,378
Total assets	76,462,886	38,678,793	61,639,086	71,794,350	17,213,763	265,788,878
Liabilities and shareholders' equity						
Due to banks and other financial institutions	4,638,352	7,853,898	-	632,230	-	13,124,480
Current accounts	851,791	-	-	-	-	851,791
Money market deposits	3,786,561	7,853,898	-	632,230	-	12,272,689
Negative fair value of derivatives	6,724	11,652	340,518	290,332	-	649,226
Customer deposits	165,458,586	20,679,116	8,278,193	102,004	-	194,517,899
Demand	93,707,806	-	-	-	-	93,707,806
Saving	525,605	-	-	-	-	525,605
Time	53,309,411	19,349,365	7,407,767	48,200	-	80,114,743
Other	17,915,764	1,329,751	870,426	53,804	-	20,169,745
Debt securities in issue	-	4,003,029	-	-	-	4,003,029
Other liabilities	12,352	37,058	212,083	646,565	12,014,724	12,922,782
Accounts payable and others	12,352	37,058	212,083	646,565	12,014,724	12,922,782
Shareholders' equity	-	-	-	-	40,571,462	40,571,462
Total liabilities and shareholders' equity	170,116,014	32,584,753	8,830,794	1,671,131	52,586,186	265,788,878

32. LIQUIDITY RISK (continued)

b) Analysis of assets and liabilities analysed according to when they are expected to be recovered or settled (continued).

2018 SAR'000	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	7,672,643	-	-	-	8,650,529	16,323,172
Cash in hand	5,212,780	-	-	-	-	5,212,780
Balances with SAMA	2,459,863	-	-	-	8,650,529	11,110,392
Due from banks and other financial institutions	10,754,176	275,000	-	-	-	11,029,176
Current accounts	1,983,429	-	-	-	-	1,983,429
Money market placements	8,770,747	275,000	-	-	-	9,045,747
Positive fair value of derivatives	11,156	12,641	200,866	61,962	-	286,625
Investments, net	5,343,882	1,345,109	21,343,815	17,571,365	2,388,601	47,992,772
FVIS	-	-	-	-	393,272	393,272
FVOCI	209,263	461,362	6,130,976	5,929,341	1,995,329	14,726,271
Amortised cost	5,134,619	883,747	15,212,839	11,642,024	-	32,873,229
Investment in associates	-	-	-	-	595,493	595,493
Loans and advances, net	50,246,419	26,432,328	37,924,610	36,421,473	-	151,024,830
Overdraft	5,997,031	-	-	-	-	5,997,031
Credit cards	730,947	-	-	-	-	730,947
Consumer loans	171,433	325,318	22,331,390	21,521,090	-	44,349,231
Commercial loans	43,065,618	26,107,010	15,593,220	14,900,383	-	99,666,231
Others	281,390	-	-	-	-	281,390
Other real estate	-	-	-	-	227,405	227,405
Property and equipment, net	-	-	-	-	1,699,462	1,699,462
Other assets	348,506	-	-	-	372,135	720,641
Accounts receivable and others	348,506	-	-	-	372,135	720,641
Total assets	74,376,782	28,065,078	59,469,291	54,054,800	13,933,625	229,899,576
Liabilities and shareholders' equity						
Due to banks and other financial institutions	7,575,386	373,058	-	632,070	-	8,580,514
Current accounts	832,905	-	-	-	-	832,905
Money market deposits	6,742,481	373,058	-	632,070	-	7,747,609
Negative fair value of derivatives	33,147	6,612	144,052	90,459	-	274,270
Customer deposits	152,179,242	14,389,888	3,214,881	38,145	-	169,822,156
Demand	86,842,195	-	-	-	-	86,842,195
Saving	459,724	-	-	-	-	459,724
Time	50,641,273	13,368,807	2,294,172	-	-	66,304,252
Other	14,236,050	1,021,081	920,709	38,145	-	16,215,985
Debt securities in issue	-	-	-	4,003,783	-	4,003,783
Other liabilities	6,818	20,136	146,596	543,553	9,727,534	10,444,637
Accounts payable and others	6,818	20,136	146,596	543,553	9,727,534	10,444,637
Shareholders' equity	-	-	-	-	36,774,216	36,774,216
Total liabilities and shareholders' equity	159,794,593	14,789,694	3,505,529	5,308,010	46,501,750	229,899,576

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with SAMA, items in the course of collection; loans and advances to banks; and loans and advances to customers. The cumulative maturities of commitments and contingencies are given in note 19 c) .

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based

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

Fair value and fair value hierarchy

2019 **SAR'000**	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Investments Held as FVIS	1,038,918	-		1,038,918
Investments Held as FVOCI	19,788,231	-	392,722	20,180,953
Positive fair value derivatives	-	608,847	-	608,847
Financial liabilities measured at fair value				
Negative fair value derivatives	-	649,226	-	649,226

2018 SAR'000	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Investments Held as FVIS	392,484	788		393,272
Investments Held as FVOCI	14,437,395	-	288,876	14,726,271
Positive fair value derivatives	-	286,625	-	286,625
Financial liabilities measured at fair value				
Negative fair value derivatives	-	274,270	-	274,270

The fair value of loans and advances amounts to SAR 178,286 million (2018: SAR 155,451 million).

The management uses discounted cash flow method, using the current yield curve adjusted for credit risk spreads to arrive at the fair value of loans and advances. Cash and balances with SAMA, due from banks with maturity of less than 90 days and other short term receivables, other assets and other liabilities are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature. The fair value of investments held at amortized cost amounted to SAR 32,750 million (2018: SAR 32,825 million)

The fair values of due from banks and other financial institutions, due to banks and other financial institutions, customer deposits and debt securities issued at 31 December 2019 and 2018 approximate their carrying values.

There were no transfers between the fair value hierarchy levels.

33. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Although the Group believes that its estimates of fair value of Level 3 securities are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. Level 3 consists of local and international unquoted equity securities. The Group uses net assets valuation and price to book value method based on most recent available audited financial statements to fair value these investments. Other methodology that could be used to value the securities is discounted cash flow model based on expected dividend yield for which no data is available. Therefore potential impact of using reasonably possible alternative assumptions for the valuation techniques is not quantified.

Reconciliation of movement in Level 3	2019 SAR'000	2018 SAR'000
Opening balance	288,876	315,912
Total gains or losses		
- recognised in consolidated statement of income	3	(477)
- recognised in other comprehensive income	5,178	(45,572)
Redemptions	-	-
Purchases	98,665	19,013
Closing balance	392,722	288,876

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:

a) In the principal market for the asset or liability, or

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

34. RELATED PARTY TRANSACTIONS

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

	2019 SAR'000	2018 SAR'000
a) Directors, key management personnel, other major shareholders' and their affiliates:		
Loans and advances	4,852,201	6,446,784
Customer deposits	29,307,754	26,552,085
Derivatives asset (at fair value)	172,374	6,378
Commitments and contingencies (irrevocable)	4,528,173	6,786,554
Executive end of service	31,997	32,671

Key management personnel are those persons, including a non-executive director, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

	2019	2018
b) **Bank's mutual funds:**		
Customer deposits	908,000	-

34. RELATED PARTY TRANSACTIONS (continued)

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

	2019 SAR'000	2018 SAR'000
Special commission income	210,739	322,129
Special commission expense	469,019	403,924
Fees from banking services, net	338,202	174,092
Directors and committees remuneration and expenses	5,912	5,772
Executive remuneration and bonus	80,775	67,621
Executive end of service	6,784	3,984
Other expenses	88,075	50,872

35. CAPITAL ADEQUACY

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

The Group monitors the adequacy of its capital using the methodologies and ratios established by the Basel Committee on Banking Supervision and as adopted by SAMA, with a view to maintain a sound capital base to support its business development and meet regulatory capital requirement as defined by SAMA.

The Group management reviews on a periodical basis its capital base and level of risk weighted assets to ensure that capital is adequate for risks inherent in its current business activities and future growth plans. In making such assessments, the management also considers the Group’s business plans along with economic conditions which directly and indirectly affect its business environment. SAMA has issued the framework and guidance regarding implementation of the capital reforms under Basel III - which are effective from January 1, 2013. Accordingly, the Group’s consolidated Risk Weighted Assets (RWA), total eligible capital and related ratios on a consolidated group basis are calculated under the Basel III framework.

The following table summarizes the Group's Pillar-1 Risk Weighted Assets, Tier 1 and Tier 2 capital and capital adequacy ratios.

	2019		2018	
	Capital SAR'000	Ratio %	Capital SAR'000	Ratio %
Top consolidated level				
Tier 1 capital	40,571,462	16.3%	36,774,216	16.1%
Tier 2 capital	4,513,360		4,383,731	
Total regulatory capital (Tier 1 + Tier 2)	45,084,822	18.1%	41,157,947	18.1%

	2019	2018
Risk weighted assets	SAR '000s	SAR '000s
Credit risk weighted assets	229,293,237	210,879,810
Operational risk weighted assets	16,561,830	14,705,072
Market risk weighted assets	3,701,400	2,330,200
Total Pillar 1 Risk Weighted Assets	249,556,467	227,915,082

36. STAFF INVESTMENT SAVINGS PLAN

The Group operates a Staff Savings Investment Plan. Under the terms of the Staff Savings Investment Plan, participating employees of the Group make monthly contributions by way of a deduction from their salary subject to a maximum of 15% of their basic salaries. The Group also contributes on a monthly basis a pre-determined percentage (subject to a maximum of 6%) of the basic salary of an employee based on the varying service periods. The proceeds are invested in the Group’s existing range of mutual funds for the benefit of the employees.

The cost of the above plan is charged to the consolidated statement of income over the term of the plan.

37. INVESTMENT MANAGEMENT SERVICES

The Group offers investment management services to its customers, which include management of certain investment funds with assets totalling SAR 50.0 billion (2018: SAR 33.0 billion).
The Bank's assets under management, include Shariah-approved portfolios amounting to SAR 27.9 billion (2018: SAR 8.6 billion).

38. IFRS ISSUED BUT NOT EFFECTIVE

The Group has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Group's accounting years beginning on or after 1 January 2020 and is currently assessing their impact.
Following is a brief on the new IFRS and amendments to IFRS

- IFRS 17 'Insurance Contracts' was issued by the IASB on 18 May 2017 and is effective for periods beginning on or after 1 January 2021.
- On 31 October 2018, the IASB issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after 1 January 2020.
- On 26 September 2019, the IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective annual reporting periods beginning on or after 1 January 2020.
- Together with the revised 'Conceptual Framework' published in March 2018, the IASB also issued 'Amendments to References to the Conceptual Framework in IFRS Standards'. The amendments are effective for annual periods beginning on or after 1 January 2020.
- On 22 October 2018, the IASB issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020

39. COMPARATIVE FIGURES

Certain other comparative amounts have been reclassified to conform with the current year presentation

40. BOARD OF DIRECTORS' APPROVAL

These consolidated financial statements were approved by the Board of Directors on Jumada Al-Awwal 27, 1441 (corresponding to January 22, 2020).