NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

1. GENERAL

A. INCORPORATION AND OPERATION

Bank Albilad ("the Bank"), a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia, was formed and licensed pursuant to Royal Decree No. M/48 dated 21 Ramadan 1425H (corresponding to 4 November 2004) in accordance with the Counsel of Ministers' resolution No. 258 dated 18 Ramadan 1425H (corresponding to 1 November 2004). The Bank operates under Commercial Registration No.1010208295 dated 10 Rabi Al Awal 1426H (corresponding to 19 April 2005). The Bank provides these services through 110 banking branches (31 December 2018: 111) and 179 exchange and remittance centers (31 December 2018: 180) in the Kingdom of Saudi Arabia.

The address of the Bank's head office is as follows:

Bank Albilad
P.O. Box 140
Riyadh 11411
Kingdom of Saudi Arabia

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, "Albilad Investment Company" and "Albilad Real Estate Company" (collectively referred to as "the Group"). Albilad Investment Company and Albilad Real Estate Company are 100% owned by the Bank. All subsidiaries are incorporated in the Kingdom of Saudi Arabia.

The Group's objective is to provide a full range of banking and investment services and conduct financing and investing activities through various Islamic instruments. The activities of the Bank are conducted in compliance with Islamic Shariah and within the provisions of the By-Laws and the Banking Control Law.

B. SHARIAH AUTHORITY

The Bank has established a Shariah Authority ("the Authority"). It ascertains that all the Bank's activities are subject to its approval and control.

2. BASIS OF PREPARATION

A. STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group have been prepared:

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

The consolidated financial statements of the Group as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with the IFRS respectively, as modified by Saudi Arabiam Monetary Authority (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") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, beginning period ended 30 June 2019, the Group changed its accounting treatment for Zakat by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors and the effects of this change are disclosed in note 23 to the consolidated financial statements.

The Bank has adopted IFRS 16 Leases from 1 January 2019. The change in accounting policies due to this new standard and treatment of Zakat are disclosed in the Note 3.

B. BASIS OF MEASUREMENT AND PRESENTATION

The consolidated financial statements are prepared under the historical cost convention except for the financial instruments held at Fair Value through Profit or Loss (FVTPL), Fair Value through Other Comprehinsive Income (FVOCI) investments, liabilities for cash-settled-share based payments and defined benefit obligations recorded at the present value.

The 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. Financial information presented in SAR has been rounded off to the nearest thousand.

D. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements in conformity with IFRS as endorsed in the KSA and other standards and pronouncements issued by SOCPA, requires the use of certain critical accounting judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Such judgments, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice, and expectations of future events that are believed to be reasonable under the circumstances.

Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

i) Impairment losses on financial assets

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

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

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

ii) Fair value measurement (note 32)
iii) Impairment of FVOCI debt investments (note 7)
iv) Classification of investments at amortized cost (note3)
v) Determination of control over investees (note 3)
vi) Depreciation and amortization (note 9)
vii) Defined benefit plan (note 24)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. CHANGE IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the following new standard and other amendments to the accounting treatment of Zakat mentioned below. Except for adoption of new accounting treatment of Zakat and adoption of IFRS 16, these amendments and adoption have had no material impact on the consolidated financial statements of the Group on the current period or prior periods and is expected to have an insignificant effect in future periods.

- **Adoption of New Standards**

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

IFRS 16 Leases

Prior to 1 January 2019, the Bank applied the following policy for the accounting of leases:

i) Where the Bank is the lessee

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

ii) Where the Bank is the lessor

When assets are transferred under the Ijara Muntahia Bittamleek contract, the present value of the lease payments is recognized as a receivable and disclosed under "Financing". The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

The Bank adopted IFRS 16 Leases. This 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 Bank's statement of financial position, unless the term is 12 months or less or the lease is for a low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Bank 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.

The Bank applied the weighted average incremental borrowing rate to lease liabilities recognized in the statement of financial position at the date of initial application.

- **Change in the accounting for Zakat**

As mentioned above, the basis of preparation has been changed beginning the period ended June 30, 2019 as a result of the issuance of latest instructions from SAMA dated July 17, 2019. Previously, Zakat was recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated April 11, 2017. With the latest instructions issued by SAMA dated July 17, 2019, Zakat is recognized in the consolidated statement of income. The Group has accounted for this change in the accounting for Zakat retrospectively and the effects of the change to the consolidated financial statements are disclosed below. The change has resulted in reduction of reported income of the Group, while the change has had no impact on the statement of cash flows for the year ended 31 December 2018.

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

- **Classification of financial assets**

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

Financial asset at amortized cost

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

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

Financial asset at FVOCI

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit 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 recognized in OCI. Profit income and foreign exchange gains and losses are recognized in profit or loss.

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

Financial asset at FVTPL

All other financial assets are classified as measured at FVTPL.

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

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

Business model assessment

The Group 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;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank changes the classification of the remaining financial assets held in that business model.

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

Assessments whether contractual cash flows are SPPI

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic financing risks associated with the principal amount outstanding during a particular period and other basic financing 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 profit, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

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

Designation at fair value through profit or loss

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

- **Classification of financial liabilities**

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

- **Derecognition**

- Financial assets

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

On derecognition, any cumulative gain or loss previously recognized in the consolidated statement of comprehensive income is included in the consolidated statement of income for the period. 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 rather it is transfered directly from other reserves to retained earnings.

- Financial liabilities

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

- **Modifications of financial assets and financial liabilities**

- Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized 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 amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In case the modification of asset does not result in de-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash-flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognized in statement of income for Asset Modification.

- Financial liabilities

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

- ## Impairment

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

- financial assets that are measured at amortized cost;
- debt instruments assets measured at FVOCI;
- financial guarantee contracts issued; and
- financing commitments issued

No impairment loss is recognized on equity investments.

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

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

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn financing commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover

Restructured financial assets

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

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt instruments 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 financing 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

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

- the rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance; and
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

Financing 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 other income.

- **Financial guarantees and financing commitments**

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

Financial guarantees are initially recognized in the consolidated financial statements at fair value in other liabilities, being the value of the premium received.

The Bank has issued no loan commitments that are measured at FVTPL, and for other loan commitments the Bank recognizes loss allowance.

- **Rendering of services**

The Group provides various services to its customers. 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. Whereas for free services related to credit card, the Bank recognizes revenue over the period of time.

- **Customer Loyalty Program**

The Bank offers a customer loyalty program (reward points) which allows card members to earn points that can be redeemed for certain Partner outlets. The Bank allocates a portion of transaction price (interchange fee) to the reward points awarded to card members, based on the relative stand-alone selling price.

The amount of revenue allocated to reward points is deferred and released to the income statement when reward points are redeemed.

The cumulative amount of contract liability related unredeemed reward points is adjusted over time based on actual experience and current trends with respect to redemption.

4. BASIS OF CONSOLIDATION

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as set forth in note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

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 ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which the control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank.

Inter-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

- **FOREIGN CURRENCIES**

The Group's consolidated financial statements are presented in SAR, which is also the Bank's and group companies' functional currency.

Transactions in foreign currencies are translated into SAR at exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into SAR at exchange rates prevailing at the reporting date.

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

- **REVENUE / EXPENSES RECOGNITION**

- **Income on investing and financing assets, and return on financial liabilities**

Income on investing and financing assets, and return on financing liabilities is recognized in the consolidated statement of income using the effective yield method on the outstanding balance over the term of the contract.

The calculation of effective yield takes into account all contractual terms of the financial instruments including all fees, transaction costs and discounts that are an integral part of the effective yield method but does not include the future financing loss. Transactional costs are incremental costs that are directly attributable to acquisition of financing assets and financial liabilities.

- **Fees and commission income**

Fees and commission income that are integral to the effective yield rate are included in the measurement of the relevant assets.

Fees and commission income that are not integral part of the effective yield calculation on a financial asset or liability are recognized when the related service is provided as follows:

- portfolio and other management advisory and service fees are recognized 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 recognized over the period when the service is being provided
- performance linked fees or fee components are recognized when the performance criteria are fulfilled
- financing commitment fees for financing that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective yield on the financing. When a financing commitment is not expected to result in the draw-down of a financing, financing commitment fees are recognized on a straight-line basis over the commitment period
- other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the transaction is completed or the service is received

- **Exchange income / (loss)**

Exchange income/ (loss) is recognized as detailed in foreign currencies policy above.

- **Dividend income**

Dividend income from investment is recognized when the Group's right to receive the dividend is established.

Fair value measurement

The Group measures financial instruments at fair value at each statement of financial position date.

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

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

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

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

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

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

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

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

Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/ guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's quarterly reporting schedule. However, some collateral, for example, cash or securities is valued daily.

The Bank's accounting policy for collateral assigned to it through its lending arrangements are in line with the requirements of IFRS 9. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, audited financial statements, and other independent sources.

Collateral repossessed

The Bank's accounting policy for collateral repossession is in line with the requirements of IFRS 9. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold.

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

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

- **Property and equipment**

Property and equipment is stated at cost less accumulated depreciation, and impairment, if any. The cost of property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Building	33 years
Leasehold improvements	Over lease period or economic life (10 years), whichever is shorter
Equipment, furniture and motor vehicles	4 to 6 years
Computer hardware	5 years

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

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

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

- **Provisions for liabilities and charges**

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

- **Accounting for leases**

- Right of Use ("RoU") asset / lease liability

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

- Right of Use asset

The Bank applies cost model and measures the RoU asset at cost:

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

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

- **Lease liability**

On initial recognition, the lease liability is the present value of all remaining payments to the lessor.

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

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

- **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash in hand, balances and murabaha with SAMA excluding statutory deposit, and due from banks and other financial institutions with original maturities of 3 months or less from the date of acquisition which is subject to insignificant changes in their fair value.

- **Treasury shares**

Treasury shares are recorded at cost and presented as a deduction from the equity as adjusted for any transaction costs, dividends and gains or losses on sale of such stocks. Subsequent to their acquisition, these shares are carried at the amount equal to the consideration paid.

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

- **Employees' share plan**

The Bank offers its eligible employees an equity-settled share-based payment plan as approved by SAMA. As per the plan, eligible employees of the Bank are offered stocks to be withheld out of their annual bonus payments.

The cost of the plan is measured by reference to the fair value at the date on which the stocks are granted.

The cost of the plan is recognized over the period in which the service condition is fulfilled, ending on the date on which the relevant employees become fully entitled to the stock option ('the vesting date'). The cumulative expense recognized for the plan at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of income for a year represents the movement in cumulative expense recognized as at the beginning and end of that year.

The Bank, with the approval from SAMA, has entered into an agreement with an independent third-party for custody of the shares under the plan, plus any benefits accrued there-on.

- **Defined benefit plan**

The Bank operates an end of service benefit plan for its employees based on the prevailing Saudi Labor laws. The liability is being accrued based on projected unit method in accordance with the periodic actuarial valuation.

- **Zakat and withholding tax**

As mentioned in note 2, the basis of preparation has been changed beginning the period ended 30 June 2019 as a result of the issuance of latest 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 latest instructions issued by SAMA dated 17 July 2019, Zakat is recognized in the consolidated statement of income.

The Group has accounted for this change in the accounting for Zakat retrospectively and the effects of the change to the consolidated financial statements are disclosed in note 23. The change has resulted in reduction of reported income of the Group, while the change has had no impact on the statement of cash flows for the year ended 31 December 2018.

The Group is subject to Zakat in accordance with the regulations of 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.

Withholding tax is withheld from payments made to non-resident vendors for services rendered and goods purchased according to the tax law applicable in Saudi Arabia and are directly paid to the GAZT on a monthly basis.

- **Going concern**

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

5. CASH AND BALANCES WITH SAMA

	Note	2019 SAR' 000	2018 SAR' 000
Statutory deposit	5.1	**3,553,372**	3,151,301
Cash in hand		**1,669,426**	1,702,065
Other balances	5.2	**2,693,054**	1,584,835
Total		**7,915,852**	6,438,201

5.1 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, saving, time and other deposits, calculated based on end of day monthly average balance. 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.

5.2 This includes mainly cash management account with SAMA.

6. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS, NET

	2019 SAR' 000	2018 SAR' 000
Demand	**210,763**	188,592
Commodity murabaha - performing	**3,832,058**	8,147,578
Commodity murabaha - non performing	**-**	90,923
	3,832,058	8,238,501
Less : ECL allowance	**(1,070)**	(92,809)
Total	**4,041,751**	8,334,284

An analysis of changes in loss allowance for Due from banks and other financial institutions is, as follows:

31 December 2019 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2019	**1,886**	**-**	**90,923**	**92,809**
Transfers to 12 month ECL	-	-	-	-
Transfers to lifetime ECL not credit impaired	-	-	-	-
Transfers to lifetime ECL credit impaired	-	-	-	-
Net reversal for the year	**(816)**	-	-	**(816)**
Write-offs	-	-	**(90,923)**	**(90,923)**
Loss allowance as at 31 December 2019	**1,070**	-	-	**1,070**

31 December 2018 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2018	2,590	6	90,923	93,519
Transfers to 12 month ECL	-	-	-	-
Transfers to lifetime ECL not credit impaired	-	-	-	-
Transfers to lifetime ECL credit impaired	-	-	-	-
Net reversal for the year	(704)	(6)	-	(710)
Write-offs	-	-	-	-
Loss allowance as at 31 December 2018	1,886	-	90,923	92,809

7. INVESTMENTS, NET

A. INVESTMENTS AS AT 31 DECEMBER COMPRISE THE FOLLOWING:

	2019				
	Domestic		International		
	Quoted SAR' 000	Unquoted SAR' 000	Quoted SAR' 000	Unquoted SAR' 000	Total SAR' 000
Fair value through other comprehensive income (FVOCI)					
Equities	**290,447**	**165,876**	**-**	**-**	**456,323**
Sukuk	**623,339**	**6,627,199**	**72,030**	**248,933**	**7,571,501**
	913,786	**6,793,075**	**72,030**	**248,933**	**8,027,824**
Fair value through profit or loss (FVTPL)					
Mutual funds	**326,443**	**395,170**	**-**	**144,679**	**866,292**
Amortized cost					
Commodity Murabaha with SAMA	**-**	**1,292,796**	**-**	**-**	**1,292,796**
Sukuk	**280,825**	**332,071**	**187,315**	**-**	**800,211**
	280,825	**1,624,867**	**187,315**	**-**	**2,093,007**
Total	**1,521,054**	**8,813,112**	**259,345**	**393,612**	**10,987,123**

	2018				
	Domestic		International		
	Quoted SAR' 000	Unquoted SAR' 000	Quoted SAR' 000	Unquoted SAR' 000	Total SAR' 000
Fair value through other comprehensive income (FVOCI)					
Equities	215,619	165,893	-	-	381,512
Sukuk	760,373	3,367,461	14,685	248,332	4,390,851
	975,992	3,533,354	14,685	248,332	4,772,363
Fair value through profit or loss (FVTPL)					
Mutual funds	21,509	360,489	-	18,085	400,083
Amortized cost					
Commodity Murabaha with SAMA	-	1,293,264	-	-	1,293,264
Total	997,501	5,187,107	14,685	266,417	6,465,710

B. THE ANALYSIS OF INVESTMENTS BY COUNTERPARTY IS AS FOLLOWS:

	2019 SAR' 000	2018 SAR' 000
Government and quasi government	**7,708,424**	4,611,162
Corporate	**3,278,699**	1,854,548
Total	**10,987,123**	6,465,710

C. Equities include unquoted shares of SAR 165.9 million (2018: SAR 165.9 million) carried at cost as management believes that cost of such investments approximate their fair value. Management also believes cost of commodity murabaha with SAMA and unquoted sukuk approximates its fair value.

An analysis of changes in loss allowance for Debt instruments carried at FVOCI and amortized cost, is as follows:

31 December 2019 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2018	**10,909**	**-**	**-**	**10,909**
Transfers to 12 month ECL	**-**	**-**	**-**	**-**
Transfers to lifetime ECL not credit impaired	**-**	**-**	**-**	**-**
Transfers to lifetime ECL credit impaired	**-**	**-**	**-**	**-**
Net charge for the year	**3,450**	**-**	**-**	**3,450**
Write-offs	**-**	**-**	**-**	**-**
Loss allowance as at 31 December 2019	**14,359**	**-**	**-**	**14,359**

31 December 2018 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2018	5,927	-	-	5,927
Transfers to 12 month ECL	-	-	-	-
Transfers to lifetime ECL not credit impaired	-	-	-	-
Transfers to lifetime ECL credit impaired	-	-	-	-
Net charge for the year	4,982	-	-	4,982
Write-offs	-	-	-	-
Loss allowance as at 31 December 2018	10,909	-	-	10,909

8. FINANCING, NET

A. HELD AT AMORTIZED COST

2019 SAR' 000	Commercial	Consumer	Total
Performing	32,229,091	28,311,232	60,540,323
Non-performing	452,224	283,689	735,913
Total	**32,681,315**	**28,594,921**	**61,276,236**
Allowance for impairment	(1,507,344)	(406,356)	(1,913,700)
Financing, net	**31,173,971**	**28,188,565**	**59,362,536**

2018 SAR' 000	Commercial	Consumer	Total
Performing	30,235,333	21,339,772	51,575,105
Non-performing	563,618	165,008	728,626
Total	30,798,951	21,504,780	52,303,731
Allowance for impairment	(1,352,102)	(363,514)	(1,715,616)
Financing, net	29,446,849	21,141,266	50,588,115

An analysis of changes in loss allowance for Financing is, as follows:

31 December 2019 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2019	**359,313**	**549,426**	**806,877**	**1,715,616**
Transfers to 12 month ECL	112,953	(84,158)	(28,795)	-
Transfers to lifetime ECL not credit impaired	(50,357)	53,722	(3,365)	-
Transfers to lifetime ECL credit impaired	(117,030)	(94,261)	211,291	-
Net charge / (reversal) for the year	(87,687)	523,311	96,262	**531,886**
Write-offs	-	-	(333,802)	**(333,802)**
Loss allowance as at 31 December 2019	**217,192**	**948,040**	**748,468**	**1,913,700**

31 December 2018 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Loss allowance as at 1 January 2018	467,969	314,648	529,140	1,311,757
Transfers to 12 month ECL	6,665	(6,665)	-	-
Transfers to lifetime ECL not credit impaired	(302,568)	304,778	(2,210)	-
Transfers to lifetime ECL credit impaired	(111,428)	(116,073)	227,501	-
Net charge for the year	298,675	52,738	134,768	486,181
Write-offs	-	-	(82,322)	(82,322)
Loss allowance as at 31 December 2018	359,313	549,426	806,877	1,715,616

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2019 and that are still subject to enforcement activity is SAR 334 million (2018: SAR 82 million).

B. FINANCING INCLUDING FINANCE LEASE RECEIVABLES, WHICH ARE AS FOLLOWS:

	2019 SAR' 000		2018 SAR' 000	
	Consumer	Commercial	Consumer	Commercial
Gross receivables from ijarah financing:				
Less than 1 year	**580,044**	**-**	409,036	-
1 to 5 years	**776,363**	**464,647**	904,861	209,917
Over 5 years	**163,146**	**-**	108,032	-
	1,519,553	**464,647**	1,421,929	209,917
Unearned finance income on ijarah financing	**(330,157)**	**422**	(319,521)	(3,540)
Net receivables from ijarah financing	**1,189,396**	**465,069**	1,102,408	206,377

	2019 SAR' 000		2018 SAR' 000	
	Consumer	Commercial	Consumer	Commercial
Net receivables from ijarah receivables:				
Less than 1 year	**465,984**	**-**	332,911	-
1 to 5 years	**609,631**	**465,069**	704,798	206,377
Over 5 years	**113,781**	**-**	64,699	-
	1,189,396	**465,069**	1,102,408	206,377

9. PROPERTY AND EQUIPMENT, NET

SAR' 000	Land and building	Leasehold improvements	Equipment, furniture and motor vehicles	Computer hardware	Right of Use (ROU) Asset	Total 2019	Total 2018
Cost:							
As at the beginning of the year	**691,536**	**712,474**	**416,110**	**441,027**	**-**	**2,261,147**	1,882,546
Additions during the year	**189,934**	**22,066**	**47,665**	**54,966**	**685,438**	**1,000,069**	379,582
Disposals	**(31,323)**	**(155)**	**(709)**	**(8,244)**	**-**	**(40,431)**	(981)
As at 31 December	**850,147**	**734,385**	**463,066**	**487,749**	**685,438**	**3,220,785**	2,261,147
Accumulated depreciation:							
At the beginning of the year	**11,810**	**451,340**	**292,088**	**359,061**	**-**	**1,114,299**	1,007,122
Charge for the year	**15,655**	**28,292**	**48,575**	**41,993**	**114,409**	**248,924**	108,092
Disposals	**(16)**	**-**	**(709)**	**(8,042)**	**-**	**(8,767)**	(915)
As at 31 December	**27,449**	**479,632**	**339,954**	**393,012**	**114,409**	**1,354,456**	1,114,299
Net book value:							
As at 31 December 2019	**822,698**	**254,753**	**123,112**	**94,737**	**571,029**	**1,866,329**	
As at 31 December 2018	679,726	261,134	124,022	81,966	-		1,146,848

Leasehold improvements include work in progress as at 31 December 2019 amounting to SAR 21.3 million (2018: SAR 18.1 million).

MOVEMENT IN RIGHT-OF-USE-ASSETS (ROU):

SAR' 000	Land and Building	Leasehold improvments	Equipment, furniture and motor vehicles	Computer hardware
Balance at beginning of the year	**-**	**-**	**-**	**-**
Add: Additions	**676,954**	**-**	**8,484**	**-**
Depreciation/amortization	**(112,712)**	**-**	**(1,697)**	**-**
Balance at the end of the year	**564,242**	**-**	**6,787**	**-**

10. OTHER ASSETS

	2019 SAR' 000	2018 SAR' 000
Prepaid expenses and advances to suppliers	**87,735**	120,233
Management fee receivable	**120,217**	63,379
Assets in transit subject to financing	**593,814**	207,530
Others	**1,100,074**	271,826
Total	**1,901,840**	662,968

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 SAR' 000	2018 SAR' 000
Demand	**212,045**	278,675
Direct investment	**433,075**	2,822,116
Total	**645,120**	3,100,791

12. CUSTOMERS' DEPOSITS

	2019 SAR' 000	2018 SAR' 000
Demand	**33,669,863**	29,290,547
Direct investment	**12,456,218**	11,023,615
Albilad account (Mudarabah)	**19,315,147**	15,781,512
Others	**1,356,337**	1,079,920
Total	**66,797,565**	57,175,594

The above includes foreign currency deposits as follows:

	2019 SAR' 000	2018 SAR' 000
Demand	**494,939**	469,169
Direct investment	**1,722,333**	401,896
Albilad account (Mudarabah)	**81,900**	-
Others	**48,120**	48,533
Total	**2,347,292**	919,598

13. SUKUK

On 30 August, 2016, the Bank issued 2,000 Sukuk Certificates (Sukuk) of SR 1 million each, payable quarterly in arrears on 28 February, 30 May, 30 August, 30 November each year until 30 August 2026, on which Sukuk will be redeemed. The Bank has a call option which can be exercised on or after 30 August 2021, upon meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon if certain other conditions, as per the terms specified in the related offering circular occur. The Bank has not defaulted on any payments (profit / principal) due during the year. The expected profit distribution on the sukuk is the base rate for 3 months in addition to the profit margin of 2%.

14. OTHER LIABILITIES

	2019 SAR' 000	2018 SAR' 000
Accounts payable	**3,544,777**	999,615
Accrued expenses	**747,190**	619,270
Lease liability	**532,465**	-
Others	**2,374,623**	1,899,320
Total	**7,199,055**	3,518,205

15. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (31 December 2018: 600 million shares of SAR 10 each).

The Board of Directors recommended in its meeting held on 17 December 2018, to the Extra-ordinary General Assembly an issuance of bonus shares of 1 share for every 4 shares held, thus increasing the Bank's capital from SAR 6,000 million to SAR 7,500 million, which was approved in the Extraordinary General Assembly meeting held on 9 April 2019.

The increase was done through capitalization of SAR 1,144 million and SAR 356 million from the statutory reserve and the retained earnings, respectively. The number of shares outstanding after the bonus issuance has increased from 600 million shares to 750 million shares.

16. STATUTORY RESERVE

In accordance with Article 13 of the Banking Control Law, a minimum of 25% of the annual net income is required to be transferred to the statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 311 million (2018: SAR 278 million) has been transferred to the statutory reserve. The statutory reserve is not available for distribution to shareholders.

The statutory reserve has been utilized for the issuance of bonus shares during the year ended 31 December 2018 as detailed in note 15.

17. DIVIDENDS

On 18 July 2019, the Board of Directors resolved on the distribution of cash dividend of SAR 300 million (SAR 0.4 per share). This was paid on 8 August 2019.

18. OTHER RESERVES

2019	FVOCI (Sukuk) SAR' 000	FVOCI (Equity) SAR' 000	Defined benefit (EOSB) SAR' 000	Total SAR' 000
Balance at beginning of the year	(47,050)	(22,782)	-	**(69,832)**
Net movement during the year	600,940	33,686	3,486	**638,112**
Balance at end of the year	**553,890**	**10,904**	**3,486**	**568,280**

2018	FVOCI (Sukuk) SAR' 000	FVOCI (Equity) SAR' 000	Defined benefit (EOSB) SAR' 000	Total SAR' 000
Restated balance at beginning of the year	(4,202)	(2,661)	-	(6,863)
Net movement during the year	(42,848)	(20,121)	-	(62,969)
Balance at end of the year	(47,050)	(22,782)	-	(69,832)

19. COMMITMENTS AND CONTINGENCIES

A. LEGAL PROCEEDINGS

As at 31 December 2019 and 2018, there were legal proceedings outstanding against the Bank. Provisions have been made for some of these legal cases based on the assessment of the Bank's legal advisers.

B. CAPITAL COMMITMENTS

As at 31 December 2019, the Bank had capital commitments of SAR 63 million (2018: SAR 124 million) relating to leasehold improvements and equipment purchases.

C. CREDIT RELATED COMMITMENTS AND CONTINGENCIES

The primary purpose of these instruments is to ensure that funds are available to customers 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 financing. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

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

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

Commitments to extend credit represent unused portions of authorization to extend credit, principally in the form of financing, guarantees or letters of credit. With respect to credit risk relating to commitments to extend credit, the Group is potentially exposed to a loss in an amount which is equal to the total unused commitments. The amount of any related loss, which cannot be reasonably estimated, is expected to be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) Contractual maturity structure of the Group's commitments and contingencies:

2019 SAR' 000	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Letters of credit	567,280	608,662	23,999	-	1,199,941
Letters of guarantee*	713,390	2,159,162	2,144,167	479,957	5,496,676
Acceptances	319,594	34,085	-	-	353,679
Irrevocable commitments to extend credit	120,471	-	-	1,029,495	1,149,966
Total	**1,720,735**	**2,801,909**	**2,168,166**	**1,509,452**	**8,200,262**

2018 SAR' 000	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Letters of credit	469,188	321,070	35,640	-	825,898
Letters of guarantee	707,086	2,177,617	1,199,203	192,251	4,276,157
Acceptances	417,740	36,309	362	-	454,411
Irrevocable commitments to extend credit	-	-	496,104	-	496,104
Total	1,594,014	2,534,996	1,731,309	192,251	6,052,570

The outstanding unused portion of commitments as at 31 December 2019 which can be revoked unilaterally at any time by the Group amounts to SAR 11.4 billion (2018: SAR 7.7 billion).

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

ii) Commitments and contingencies by counterparty:

	2019 SAR' 000	2018 SAR' 000
Corporate	6,656,231	4,571,693
Financial institutions	1,462,649	1,392,324
Others	81,382	88,553
Total	**8,200,262**	6,052,570

20. INCOME FROM INVESTING AND FINANCING ASSETS

	2019 SAR' 000	2018 SAR' 000
Income from investments and due from banks and other financial institutions		
Income from commodity murabaha with:		
SAMA	50,842	53,883
Banks and other financial institutions	160,257	189,261
Income from sukuk	242,403	118,302
Income from financing	**2,901,698**	2,362,302
Total	**3,355,200**	2,723,748

21. RETURN ON DEPOSITS AND FINANCIAL LIABILITES

	2019 SAR' 000	2018 SAR' 000
Return on:		
Due to banks and other financial institutions	**19,502**	61,130
Deposits	**523,336**	411,605
Sukuk	**95,391**	86,780
Total	**638,229**	559,515

22. FEES AND COMMISSION INCOME, NET

	2019 SAR' 000	2018 SAR' 000
Fees and commission income		
Remittance	**454,656**	453,171
ATM and point of sale	**274,583**	247,362
Facilities management fee	**73,516**	100,798
Letters of credit and guarantee	**48,337**	44,060
Management fee (mutual fund and others)	**84,181**	81,162
Brokerage income	**53,747**	51,769
Documentation fee	**110,275**	89,713
Others	**57,491**	75,599
Total fees and commission income	**1,156,786**	1,143,634
Fees and commission expenses		
ATM and point of sale	**182,797**	183,166
Brokerage expenses	**21,066**	23,314
Remittance	**10,733**	7,435
Others	**137,716**	86,819
Total fees and commission expenses	**352,312**	300,734
Fees and commission income, net	**804,474**	842,900

23. ZAKAT EXPENSE

23.1 During the year 2018, the Group reached an agreement with the General Authority of Zakat and Tax on the settlement of Zakat claims for the prior years from 2006 up to the end of the fiscal year of 2017, the settlement amount is SAR 392.8 million.

23.2 The change in the accounting treatment for Zakat (as explained in note 3) has the following impact on the line items of the statements of income, statement of financial position and changes in equity:

Financial statement impacted	Account	Before the restatement for the year ended 31 December 2018	Effect of restatement	Effect of issuance of bonus shares	As restated as at and for the year ended 31 December 2018
Statement of changes in equity	Provision for Zakat (retained earnings)	497,817	(497,817)	-	-
Statement of income	Zakat expense	-	497,817	-	497,817
Statement of income	Earnings per share	1.85	(0.82)	(0.21)	0.82

24. SALARIES AND EMPLOYEE RELATED BENEFITS

The following table summarizes compensation practices and includes total of fixed and variable compensation paid to employees during the year ended 31 December 2019 and 2018, and the form of such payments:

			Variable compensation paid		
2019	Number of employees	Fixed compensation SAR' 000	Cash	Shares	Total
			SAR' 000		
Senior executives requiring SAMA no objection	**9**	**16,213**	**11,658**	**3,832**	**15,490**
Employees engaged in risk taking activities	**254**	**91,103**	**27,319**	**1,490**	**28,809**
Employees engaged in control functions	**303**	**85,832**	**14,617**	**1,200**	**15,817**
Other employees	**3,053**	**457,806**	**61,263**	**3,253**	**64,516**
Outsourced employees	**761**	**107,104**	**-**	**-**	**-**
Total	**4,380**	**758,058**	**114,857**	**9,775**	**124,632**
Variable compensation accrued		**124,423**			
Other employee related benefits		**264,304**			
Total salaries and employee related expenses		**1,146,785**			

2018	Number of employees	Fixed compensation SAR' 000	Variable compensation paid Cash	Shares	Total
			SAR' 000		
Senior executives requiring SAMA no objection	9	14,385	9,285	3,110	12,395
Employees engaged in risk taking activities	267	88,567	19,305	1,171	20,476
Employees engaged in control functions	278	80,272	11,066	1,590	12,656
Other employees	2,998	440,576	61,596	3,237	64,833
Outsourced employees	680	93,269	64	-	64
Total	4,232	717,069	101,316	9,108	110,424
Variable compensation accrued		124,826			
Other employee related benefits		210,465			
Total salaries and employee related expenses		1,052,360			

EMPLOYEES COMPENSATION AND BENEFITS

1. Quantitative Disclosure:

This disclosure has to be bifurcated between the following categories, whereby the meaning of each category is mentioned below:

i) Senior executive requiring SAMA no objection:

Members of Managment Committee whom appointment is subject to approval of SAMA, such as: CEO, CFO (EVP Finance), COO (EVP Operations Management), CRO (EVP Risk Management), EVP Retail Banking, EVP Human Resource, etc.

ii) Employees engaged in risk taking activities:

This comprises of management staff within various business lines i.e. corporate, retail, treasury, trade services, private banking etc. who are responsible for executing and implementing the business strategy of the bank.

iii) Employees engaged in control functions:

This comprises of employees working in divisions that are not involved in risk taking activities but engaged in review functions i.e. risk management, compliance, internal audit, treasury operations, finance and accounting, etc.

iv) Other employees:

All regular employees other than those mentioned in (a) to (c) above.

v) Outsourced employees:

This includes staff employed by various agencies who supply services to the Bank on a full time basis in non-critical roles. None of these roles require risk undertaking or control.

2. Qualitative Disclosure:

The Bank has developed a Compensation Policy based on the 'Rules on Compensation Practices' issued by SAMA as well as the guidelines provided by the Financial Stability Board and the Basel Committee on Banking Supervision in this respect.

The Compensation Policy has been approved by the Board of Directors (BOD). The BOD have also established a Nominations and Remuneration Committee to oversee the implementation of the Policy.

The mandate of the Committee is to oversee the compensation system design and operation, prepare and periodically review the Compensation Policy and evaluate its effectiveness in line with the industry practice.

Policy Objectives

The policy sets guidelines for determination of both fixed and variable compensation to be paid to the employees of the Group. The scope of the Policy includes all compensation elements, approval and reporting process, stock options, bonus and its deferral, etc.

The objective of the Policy is to ensure that the compensation is governed by the financial performance evaluation and is linked to the various risks associated, at an overall level. Key staff members of the Bank are eligible to variable compensation which is derived from Risk Adjusted Net Income of the Bank which accounts for significant existing and potential risks in order to protect the Bank's Capital Adequacy and to mitigate the risk of potential future losses.

Compensation Structure

The compensation structure of the Bank is based on appropriate industry benchmarking and includes both fixed and variable components. The variable component is designed to ensure key employee retention and is based on 3 year vesting period.

- ### Fix Components:

Provide a competitive salary or wage according to annual market alignment. Including (Basic, Housing, Transportation and Fix allowance) which is written in the employee's contract.

- ### Variable Components:

Taking into account the risk associated with the Bank's performance and individual performance appraisal, all these factors are assessed on a periodical basis and the results are shared with the stakeholders based on which the incentive is announced at the close of each accounting period. Including (LTIP and deferral bonus and STIP as incentives scheme and annual bonus).

Performance Management System

The performance of all employees is measured by way of a balance score card methodology taking into consideration, financial, customer, process and people factors with appropriate weightage to each factor based on the respective assignments.

The Bank has the following share-based payment plans outstanding at the end of the year. Significant features of these plans are as follows:

	2019	2018
Grant date	**3 March 2019**	29 April 2018
Maturity date	**25% 1 January 2020**	25% 1 January 2019
	25% 1 January 2021	25% 1 January 2020
	50% 1 January 2022	50% 1 January 2021
Number of shares offered on the grant date	**482,698**	475,319
Share price on the grant date (SAR)	**24.63**	19.20
Value of shares offered on grant date (SAR' 000)	**11,889**	9,126
Vesting period	**3 years**	3 years
Vesting condition	**Employees to be in service**	Employees to be in service
Method of settlement	**Equity**	Equity

	2019	2018
The movement in the number of shares, during the year, under employees' share plan is as follows:		
Beginning of the year	**1,139,410**	1,117,089
Granted during the year	**603,401**	475,319
Forfeited	**(138,337)**	(40,179)
Exercised	**(466,024)**	(412,819)
After capital increase conducted in 2019	**168,387**	-
End of the year	**1,306,837**	1,139,410

The shares are granted only under service condition with no market condition associated with them.

25. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended 31 December 2019 and 2018 is calculated by dividing the net income for the period attributable to the equity holders by the weighted average number of outstanding shares 2019: 746 million shares (2018: 746 million shares) during the period adjusted for treasury shares. Also see note 23.

26. CASH AND CASH EQUIVALENTS

	Note	2019 SAR' 000	2018 SAR' 000
Cash and balances with SAMA (excluding statutory deposit)	5	**4,362,480**	3,286,900
Due from banks and other financial institutions (maturing within 90 days from acquisition)		**1,395,392**	5,988,016
Held at amortized cost (maturing within 90 days from acquisition)		**-**	300,050
Total		**5,757,872**	9,574,966

27. EMPLOYEE BENEFIT OBLIGATION

A. GENERAL DESCRIPTION

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

B. THE AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION AND MOVEMENT IN THE OBLIGATION DURING THE YEAR BASED ON ITS PRESENT VALUE ARE AS FOLLOWS:

	2019 SAR' 000	2018 SAR' 000
Defined benefit obligation at the beginning of the year	**223,590**	201,316
Current service cost	**36,707**	34,658
Finance cost	**12,565**	8,902
Benefits paid	**(22,641)**	(21,286)
Unrecognized actuarial loss / (gain)	**(3,486)**	-
Defined benefit obligation at the end of the year	**246,735**	223,590

C. CHARGE /(REVERSAL) FOR THE YEAR

	2019 SAR' 000	2018 SAR' 000
Current service cost	**37,611**	34,634
Past service cost	**(904)**	24
	36,707	34,658

D. PRINCIPAL ACTUARIAL ASSUMPTIONS (IN RESPECT OF THE EMPLOYEE BENEFIT SCHEME)

	2019 SAR' 000	2018 SAR' 000
Discount rate	**4.60%**	4.90%
Expected rate of salary increase	**4.50%**	4.50%
Normal retirement age		
• Male	**60 years**	60 years
• Female	**55 years**	55 years

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

E. SENSITIVITY OF ACTUARIAL ASSUMPTIONS

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at 31 December 2019 and 2018 to the discount rate 4.60% (2018: 4.90%), salary escalation rate 4.5% (2018: 4.50%), withdrawal assumptions and mortality rates.

	SAR' 000		
	Impact on defined benefit obligation – Increase / (Decrease)		
2019 Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**1%**	**(27,333)**	**32,655**
Expected rate of salary increase	**1%**	**32,350**	**(27,599)**
Normal retirement age	**20%**	**3,850**	**3,786**

	SAR' 000		
	Impact on defined benefit obligation – Increase / (Decrease)		
2018 Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	1%	(21,995)	32,694
Expected rate of salary increase	1%	32,509	(22,303)
Normal retirement age	20%	166	5,519

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

28. SEGMENTAL INFORMATION

Operating segments, based on customer groups are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Assets and Liabilities Committee (ALCO) in order to allocate resources to the segments and to assess its performance. The Group's main business is conducted in the Kingdom of Saudi Arabia.

There has been no change to the basis of segmentation or the measurements basis for the segment profit or loss since 31 December 2018.

For management purposes, the Group is divided into the following 5 operating segments:

RETAIL BANKING

Services and products to individuals, including deposits, financing, remittances and currency exchange.

CORPORATE BANKING

Services and products to corporate customers including deposits, financing and trade services.

TREASURY

Money market and treasury services.

INVESTMENT BANKING AND BROKERAGE

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

Transactions between the above operating segments are under the terms and conditions of the approved Fund Transfer Pricing (FTP) system. The support segments and Head Office expenses are allocated to other operating segments, based on an approved criteria.

a. **The Group total assets and liabilities, together with its total operating income and expenses, and net income /(loss), for the years ended 31 December 2019 and 2018 for each segment are as follows:**

2019 SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
Total assets	**36,097,504**	**30,556,136**	**18,623,502**	**798,289**	**86,075,431**
Total liabilities	**52,405,238**	**12,866,552**	**11,175,488**	**202,230**	**76,649,508**
Net income from investing and financing assets	**1,517,395**	**922,037**	**263,710**	**13,829**	**2,716,971**
Fee, commission and other income, net	**764,422**	**134,995**	**162,882**	**166,077**	**1,228,376**
Total operating income	**2,281,817**	**1,057,032**	**426,592**	**179,906**	**3,945,347**
Impairment charge for credit and other financial assets, net	**159,547**	**372,360**	**3,020**	**696**	**535,623**
Depreciation and amortization	**190,221**	**48,966**	**6,503**	**3,234**	**248,924**
Total operating expenses	**1,706,099**	**683,932**	**77,302**	**91,291**	**2,558,624**
Net income for the year before Zakat	**575,718**	**373,100**	**349,290**	**88,615**	**1,386,723**

2018 SAR' 000	Retail banking	Corporate banking	Treasury	Investment banking and brokerage	Total
Total assets	28,182,812	27,273,497	17,316,949	862,868	73,636,126
Total liabilities	41,433,181	11,755,989	12,268,513	345,494	65,803,177
Net income from investing and financing assets	1,081,276	842,301	225,270	15,386	2,164,233
Fee, commission and other income, net	815,228	120,556	164,528	151,475	1,251,787
Total operating income	1,896,504	962,857	389,798	166,861	3,416,020
Impairment charge for credit and other financial assets, net	222,248	263,934	3,738	533	490,453
Depreciation and amortization	94,366	8,522	2,596	2,608	108,092
Total operating expenses	1,577,615	554,310	78,437	95,148	2,305,510
Net income for the year before Zakat	318,889	408,547	311,361	71,713	1,110,510

b. Credit exposure by operating segments is as follows:

2019 SAR' 000	Retail	Corporate	Treasury	Total
Total assets	**28,188,565**	**31,173,971**	**13,706,259**	**73,068,795**
Commitments and contingencies	**-**	**3,525,780**	**-**	**3,525,780**

2018 SAR' 000	Retail	Corporate	Treasury	Total
Total assets	21,146,184	29,446,849	14,018,980	64,612,013
Commitments and contingencies	-	2,720,263	-	2,720,263

Group credit exposure is comprised of due from bank and other financial institutions, investments and financing. The credit equivalent value of commitments and contingencies are included in credit exposure as calculated in accordance with SAMA regulations.

29. FINANCIAL RISK MANAGEMENT

CREDIT RISK

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

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

The Group manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arrive principally in financing and investment activities. There is also credit risk in off-balance sheet financial instruments, such as letters of credit, letter of guarantees and financing commitments.

The Group assesses the probability of default of counterparties using internal rating tools. In addition, the Group uses external ratings from major rating agencies, where available.

The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the 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.

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

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

The Group seeks to manage its credit risk exposure through diversification and managing undue concentration of risks with individuals or groups of customers in specific locations or businesses. 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 facilities.

Management 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 of financings.

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

Concentration of risks of financial assets with credit risk exposure and financial liabilities.

a) Geographical concentration

The geographical distribution of assets, liabilities, commitments and contingencies and credit risk exposure as of 31 December:

2019 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Assets							
Cash and balances with SAMA	**7,835,872**	**10,521**	**4,064**	**64,986**	**284**	**125**	**7,915,852**
Cash in hand	1,589,446	10,521	4,064	64,986	284	125	1,669,426
Balances with SAMA	6,246,426	-	-	-	-	-	6,246,426
Due from banks and other financial institutions	**2,373,518**	**509,765**	**1,052,284**	**18**	**57,143**	**49,023**	**4,041,751**
Demand	-	65,000	39,567	18	57,143	49,023	210,751
Commodity murabaha	2,373,518	444,765	1,012,717	-	-	-	3,831,000
Investments, net	**10,334,624**	**628,783**	**-**	**23,716**	**-**	**-**	**10,987,123**
FVOCI	7,706,861	320,963	-	-	-	-	8,027,824
FVTPL	721,613	120,963	-	23,716	-	-	866,292
Amortized cost	1,906,150	186,857	-	-	-	-	2,093,007
Financing, net	**59,362,536**	**-**	**-**	**-**	**-**	**-**	**59,362,536**
Consumer	28,188,565	-	-	-	-	-	28,188,565
Commercial	31,173,971	-	-	-	-	-	31,173,971
Other assets	**1,719,493**	**-**	**-**	**-**	**-**	**-**	**1,719,493**
Total	**81,626,043**	**1,149,069**	**1,056,348**	**88,720**	**57,427**	**49,148**	**84,026,755**
Liabilities							
Due to banks and other financial institutions	**26,395**	**368,326**	**-**	**1,394**	**189,953**	**59,052**	**645,120**
Demand	-	140,331	-	1,394	11,268	59,052	212,045
Direct investment	26,395	227,995	-	-	178,685	-	433,075
Customer deposits	**66,797,565**	**-**	**-**	**-**	**-**	**-**	**66,797,565**
Demand	33,669,863	-	-	-	-	-	33,669,863
Direct investment	12,456,218	-	-	-	-	-	12,456,218
Albilad account (Mudarabah)	19,315,147	-	-	-	-	-	19,315,147
Other	1,356,337	-	-	-	-	-	1,356,337
Sukuk	**2,007,768**	**-**	**-**	**-**	**-**	**-**	**2,007,768**
Other liabilities	**6,428,090**	**-**	**-**	**-**	**-**	**-**	**6,428,090**
Total	**75,259,818**	**368,326**	**-**	**1,394**	**189,953**	**59,052**	**75,878,543**
Commitments and contingencies							
Letters of credit	1,199,941	-	-	-	-	-	1,199,941
Letters of guarantee	5,496,676	-	-	-	-	-	5,496,676
Acceptances	353,679	-	-	-	-	-	353,679
Irrevocable commitments to extend credit	1,149,966	-	-	-	-	-	1,149,966
	8,200,262	**-**	**-**	**-**	**-**	**-**	**8,200,262**
Credit risk (stated at credit equivalent amounts) on commitments and contingencies	**3,525,780**	**-**	**-**	**-**	**-**	**-**	**3,525,780**

2018 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Assets							
Cash and balances with SAMA	**6,372,971**	**7,404**	**3,953**	**53,205**	**548**	**120**	**6,438,201**
Cash in hand	1,636,835	7,404	3,953	53,205	548	120	1,702,065
Balances with SAMA	4,736,136	-	-	-	-	-	4,736,136
Due from banks and other financial institutions	**6,302,702**	**732,851**	**1,177,377**	**43,936**	**36,746**	**40,672**	**8,334,284**
Demand	-	40,016	27,174	43,936	36,746	40,672	188,544
Commodity murabaha	6,302,702	692,835	1,150,203	-	-	-	8,145,740
Investments, net	**6,184,143**	**263,482**	**-**	**18,085**	**-**	**-**	**6,465,710**
FVOCI	4,508,881	263,482	-	-	-	-	4,772,363
FVTPL	381,998	-	-	18,085	-	-	400,083
Amortized cost	1,293,264	-	-	-	-	-	1,293,264
Financing, net	**50,588,115**	**-**	**-**	**-**	**-**	**-**	**50,588,115**
Consumer	21,141,266	-	-	-	-	-	21,141,266
Commercial	29,446,849	-	-	-	-	-	29,446,849
Other assets	**463,666**	**-**	**-**	**-**	**-**	**-**	**463,666**
Total	**69,911,597**	**1,003,737**	**1,181,330**	**115,226**	**37,294**	**40,792**	**72,289,976**
Liabilities							
Due to banks and other financial institutions	**2,714,499**	**364,705**	**762**	**-**	**4,069**	**16,756**	**3,100,791**
Demand	-	257,088	762	-	4,069	16,756	278,675
Direct investment	2,714,499	107,617	-	-	-	-	2,822,116
Customer deposits	**57,175,594**	**-**	**-**	**-**	**-**	**-**	**57,175,594**
Demand	29,290,547	-	-	-	-	-	29,290,547
Direct investment	11,023,615	-	-	-	-	-	11,023,615
Albilad account (Mudarabah)	15,781,512	-	-	-	-	-	15,781,512
Other	1,079,920	-	-	-	-	-	1,079,920
Sukuk	**2,008,587**	**-**	**-**	**-**	**-**	**-**	**2,008,587**
Other liabilities	**3,225,575**	**-**	**-**	**-**	**-**	**-**	**3,225,575**
Total	**65,124,255**	**364,705**	**762**	**-**	**4,069**	**16,756**	**65,510,547**
Commitments and contingencies							
Letters of credit	825,898	-	-	-	-	-	825,898
Letters of guarantee	4,276,157	-	-	-	-	-	4,276,157
Acceptances	454,411	-	-	-	-	-	454,411
Irrevocable commitments to extend credit	496,104	-	-	-	-	-	496,104
	6,052,570	**-**	**-**	**-**	**-**	**-**	**6,052,570**
Credit risk (stated at credit equivalent amounts) on commitments and contingencies	**2,720,263**	**-**	**-**	**-**	**-**	**-**	**2,720,263**

Credit equivalent amounts reflect the amounts that result from translating the Group's commitments and contingencies into the risk equivalent of financing facilities using credit conversion factors prescribed by SAMA. Credit conversion factor is used to capture the potential credit risk resulting from the Group meeting its commitments.

b) The geographical distribution of the impaired financial assets and the allowance for impairment is set out as below:

2019 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Non-Performing financing	**735,913**	**-**	**-**	**-**	**-**	**-**	**735,913**
Allowance for financing impairment	**1,913,700**	**-**	**-**	**-**	**-**	**-**	**1,913,700**
Impaired other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Allowance for impairment for other financial assets	**16,010**	**516**	**-**	**1**	**5**	**-**	**16,532**

2018 SAR' 000	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Non-Performing financing	728,626	-	-	-	-	-	728,626
Allowance for financing impairment	1,715,616	-	-	-	-	-	1,715,616
Impaired available for sale investments and commodity murabaha	-	90,923	-	-	-	-	90,923
Allowance for impairment for other financial assets	11,227	91,652	802	5	12	20	103,718

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

31 December 2019 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Due from banks and other financial institutions				
Investment grade	**3,935,200**	**-**	**-**	**3,935,200**
Non-investment grade	**48,908**	**-**	**-**	**48,908**
Unrated	**58,713**	**-**	**-**	**58,713**
Carrying amount	**4,042,821**	-	-	**4,042,821**

31 December 2018 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Due from banks and other financial institutions				
Investment grade	8,287,166	-	90,923	8,378,089
Non-investment grade	33,685	-	-	33,685
Unrated	15,318	-	-	15,318
Carrying amount	8,336,169	-	90,923	8,427,092

31 December 2019 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Financing to customers at amortized cost				
Commercial				
Grades 1-15: Low – fair risk	22,323,028	4,709,859	-	**27,032,887**
Grades 16-20: Watch list	1,415,215	3,780,988	-	**5,196,203**
Grades 21: Substandard	-	-	45,428	**45,428**
Grades 22: Doubtful	-	-	57,206	**57,206**
Grades 23: Loss	-	-	349,591	**349,591**
Consumer				
Unrated	28,146,891	164,341	283,689	**28,594,921**
Carrying amount	**51,885,134**	**8,655,188**	**735,914**	**61,276,236**

31 December 2018 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Financing to customers at amortized cost				
Commercial				
Grades 1-15: Low – fair risk	20,949,078	5,371,121	-	26,320,199
Grades 16-20: Watch list	1,520,627	2,394,507	100,174	4,015,308
Grades 21: Substandard	-	-	58,023	58,023
Grades 22: Doubtful	-	-	40,696	40,696
Grades 23: Loss	-	-	364,726	364,726
Consumer				
Unrated	21,128,920	152,129	228,648	21,509,697
Carrying amount	43,598,625	7,917,757	792,267	52,308,649

31 December 2019 SAR in 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at amortized cost				
Investment grade	2,095,448	-	-	**2,095,448**
Carrying amount	**2,095,448**	**-**	**-**	**2,095,448**

31 December 2018 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at amortized cost				
Investment grade	1,294,422	-	-	1,294,422
Carrying amount	1,294,422	-	-	1,294,422

31 December 2019 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at FVOCI				
Investment grade	7,366,097	-	-	**7,366,097**
Unrated	217,322	-	-	**217,322**
Carrying amount	**7,583,419**	**-**	**-**	**7,583,419**

31 December 2018 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Debt investment securities at FVOCI				
Investment grade	4,049,487	-	-	4,049,487
Unrated	351,116	-	-	351,116
Carrying amount	4,400,603	-	-	4,400,603

31 December 2019 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Commitments and contingencies				
Grades 1-15: Low – fair risk	7,168,044	300,298	-	**7,468,342**
Grades 16-20: Watch list	114,527	468,901	-	**583,428**
Grades 21: Substandard	-	-	1,800	**1,800**
Grades 22: Doubtful	-	-	48,315	**48,315**
Grades 23: Loss	-	-	98,377	**98,377**
Carrying amount	**7,282,571**	**769,199**	**148,492**	**8,200,262**

31 December 2018 SAR' 000	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Commitments and contingencies				
Grades 1-15: Low – fair risk	5,008,057	387,135	-	5,395,192
Grades 16-20: Watch list	208,540	341,170	-	549,710
Grades 21: Substandard	-	-	23,304	23,304
Grades 22: Doubtful	-	-	-	-
Grades 23: Loss	-	-	84,364	84,364
Carrying amount	5,216,597	728,305	107,668	6,052,570

Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment 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 point in time PD at the reporting date; with
- the Point in time PD estimated at the time of initial recognition of the exposure

In addition to the above, other major quantitative consideration include days past due and rating of customer.

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 assessment of significant increase in credit risk, is assessed taking on account of:

- Days past due;
- Change in risk of default occurring since initial recognition;
- Expected life of the financial instrument; and
- Reasonable and supportable information, that is available without undue cost or effort that may affect credit risk

Lifetime expected credit losses are recognized against any material facility which has experienced significant increase in credit risk since initial recognition. Recognition of lifetime expected credit losses will be made if any facility is past due for more than 30 days.

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)

Credit risk grades

For the wholesale portfolio, the bank allocates each exposure (either through reliance on internal rating or external rating agencies) to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

Each 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 typically involves use of the following data.

Commercial 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, and compliance with covenants, quality management, and senior management changes • Data from credit reference agencies, press articles, changes in external credit ratings • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities • Business analysis of the borrower, including business risk, management, financial document and support, stability and behavior • Industry analysis in which the borrower is operating, including the phase of industry growth and industry failure rate	• Payment record – this includes overdue status as well as a range of variables about payment ratios • Utilization of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades (or the 4 aforementioned bucket created for consumer portfolio) are a primary input into the determination of the term structure of PD for exposures.

Using the realized default data for each grade or bucket, the bank employs statistical models to generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The Bank employs the following steps in order to generate term structure of the PD:

The Bank first calculates the observed default rates for its portfolios which involves monitoring customer behavior over next 12 months, then classifying default, which is then forecasted using acceptable actuarial method and thereafter adjusted for macroeconomic outlook (see below).

The Bank factors in forward looking information in its PD calibration through macroeconomic models for each portfolio. The impact of macroeconomic variables on default rates has been calculated using a multiple scenario-based modeling framework which factors upturn, downturn and baseline scenarios' forecast into the probability of default. This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors. The forecast is used to estimate the impact on the PD over the upcoming years.

The "Point in Time" PD, and later adjusted for macroeconomic overly to make it forward looking. Transition matrix approach is used to forecast grade wise PDs over the upcoming years transition matrix. This provides the grade wise PD over the upcoming years, thus the term structure of the PD.

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 actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank

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

- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Bank;
- based on data developed internally and obtained from external sources; and
- inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances

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

Modified financial assets

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

When the terms of the financial assets are modified that does not result into de-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognized in statement of income for asset modification.

To measure the Significant Increase in Credit Risk (for financial assets not de-recognized during the course of modification), the Bank will compare the risk of default occurring at the reporting date based on modified contract terms and the default risk occurring at initial recognition based on original and unmodified contract terms. Appropriate ECL will be recorded according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3.

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

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of financing covenants. Both consumer and commercial financing are subject to the forbearance policy.

The asset will be provided appropriate treatment according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3. No Asset Modification to be considered if the same were not driven by Credit Distress situation of Obligor.

During the period, no material losses were recognized on modification or restructuring of any facility.

Incorporation of forward looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

For the purpose of ECL measurement with respect to the consumer and commercial (including SME) portfolios, this is done through application of macroeconomic models which have been developed for the various portfolios of the banks. Through the macroeconomic models the banks assesses the impact of the macroeconomic variables on the default rates. The forecasts of the variables is gathered from the external sources.

The Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing 2 or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

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

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 8 to 10 years.

With respect to the listed, sovereign and Financial Institutions, the Bank utilizes a Credit Default Swap based methodology, which incorporates the market's forward looking view in order to arrive at the ECL.

Measurement of ECL

For Consumer and Commercial (including SME exposures), the key inputs into the measurement of ECL are the term structure of the following variables:

a. Probability of default (PD);
b. Loss given default (LGD); and
c. Exposure at default (EAD).

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

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

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD is calculated on a discounted cash flow basis using the contractual profit rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12 month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance, terminate a financing commitment, or guarantee.

For consumer overdrafts and credit card facilities that include both a financing and an undrawn commitment component, the Bank measures ECL over a period of contractual maturity, as the Bank considers that it has the contractual ability to demand repayment and cancel the undrawn commitment. Although these facilities do not have a fixed term or repayment structure and are managed on a collective basis, there is an annual review of the limits, where these can be cancelled.

For portfolios, such as listed exposures, Sovereign and FI exposures, in respect of which the Bank has limited historical data, credit default swap spreads are utilized to determine the Expected Credit Loss amount.

- **Economic Sector risk concentration for the financing and allowance for impairment are as follows**

	2019				2018			
SAR' 000	Performing	Credit-impaired	Allowance for impairment	Financing, net	Performing	Credit-impaired	Allowance for impairment	Financing, net
Commercial	**4,444,231**	**150,721**	**(540,373)**	**4,054,579**	4,633,522	283,649	(426,887)	4,490,284
Industrial	**5,611,212**	**82,256**	**(218,691)**	**5,474,777**	5,639,354	104,174	(224,377)	5,519,151
Building and construction*	**12,462,784**	**36,534**	**(340,702)**	**12,158,616**	10,872,621	73,853	(307,470)	10,639,004
Transportation and communication	**1,581,507**	**144**	**(20,344)**	**1,561,307**	1,570,853	144	(5,700)	1,565,297
Electricity, water, gas and health services	**572,582**	**1,402**	**(15,830)**	**558,154**	1,172,915	2,125	(3,956)	1,171,084
Services	**2,146,330**	**19,520**	**(128,804)**	**2,037,046**	1,423,689	19,259	(77,458)	1,365,490
Agriculture and fishing	**1,262,881**	**-**	**(4,342)**	**1,258,539**	759,342	-	(14,106)	745,236
Mining and quarrying	**1,025,127**	**-**	**(1,351)**	**1,023,776**	32,420	-	(125)	32,295
Consumer	**28,311,232**	**283,689**	**(406,356)**	**28,188,565**	21,339,772	165,007	(363,514)	21,141,265
Other	**3,122,437**	**161,647**	**(236,907)**	**3,047,177**	4,130,617	80,415	(292,023)	3,919,009
Total	**60,540,323**	**735,913**	**(1,913,700)**	**59,362,536**	51,575,105	728,626	(1,715,616)	50,588,115

* The building and construction economic sector includes concentration for the financing and allowance for impairment real estate and rental.

- **Collateral**

The banks in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the financing. 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 financing and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk.

The amount of commercial collateral held as security for financing that are credit-impaired as at 31 December 2019 are as follows:

SAR' 000	2019	2018
Total amount of collateral	**31,770,287**	29,817,363

30. MARKET RISK

Market risk is the risk that the fair value to future cash flows of the financial instruments will fluctuate due to changes in market variables such as profit rate, foreign exchange rates and equity prices.

A. PROFIT RATE RISK

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

B. FOREIGN EXCHANGE RATE RISK

Foreign exchange rate risk represents the risk of change in the value of financial instruments due to change in exchange rates. The Group is exposed to the effects of fluctuations in foreign currency exchange rates on both its financial position and on its cash flows. The Group's management sets limits on the level of exposure by individual currency and in total for intra day positions, which are monitored daily.

The Group had the following summarized exposure to foreign currency exchange rate risk as at 31 December:

	2019		2018	
SAR' 000	Saudi Riyal	Foreign currency	Saudi Riyal	Foreign currency
Assets				
Cash and balances with SAMA	**7,835,872**	**79,980**	6,372,968	65,233
Due from banks and other financial institutions, net	**3,642,538**	**399,213**	7,957,037	377,247
Investments, net	**9,658,094**	**1,329,029**	5,802,294	663,416
Financing, net	**58,628,406**	**734,130**	50,330,280	257,835
Other assets	**1,829,093**	**72,747**	638,273	24,695
Liabilities and equity				
Due to banks and other financial institutions	**135,909**	**509,211**	2,477,006	623,785
Customer deposits	**64,450,273**	**2,347,292**	56,255,996	919,598
Sukuk	**2,007,768**	**-**	2,008,587	-
Other liabilities	**7,188,079**	**10,979**	3,513,164	5,041
Equity	**9,373,859**	**52,064**	7,841,066	(8,117)

A substantial portion of the net foreign currency exposure to the Group is in US Dollars, where SAR is pegged to US Dollar. The other currency exposures are not considered significant to the Group's foreign exchange rate risks and as a result the Group is not exposed to major foreign exchange rate risks.

The Bank has performed a sensitivity analysis over 1 year time horizon for the probability of changes in foreign exchange rates, other than US Dollars, using historical average exchange rates and has determined that there is no significant impact on its net foreign currency exposures.

Currency position

At the end of the year, the Group had the following significant net exposures denominated in foreign currencies:

	2019 SAR' 000 Long/(short)	2018 SAR' 000 Long/(short)
US Dollars	**(345,234)**	(172,436)
Kuwaiti Dinars	**5,390**	4,198
Pakistani Rupees	**60,665**	26,423
Euro	**(50,188)**	(43,709)
UAE Dirhams	**13,965**	28,351
Bangladeshi Takas	**9,499**	(4,118)
Others	**1,456**	9,410
Total	**(304,447)**	(151,881)

C. INVESTMENT PRICE RISK

Investment risk refers to the risk of decrease in fair values of equities, mutual funds and sukuk in the Group's FVOCI investment portfolio as a result of possible changes in levels of market indices and the value of individual stocks.

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

	31 December 2019		31 December 2018	
Security types	**Change in investment price %**	**Effect in SAR' 000**	**Change in investment price %**	**Effect in SAR' 000**
Equity				
Quoted	**±10**	**29,045**	±10	21,562
Unquoted	**±2**	**3,318**	±2	3,318
Mutual Funds				
Quoted	**±10**	**32,644**	±10	2,151
Unquoted	**±2**	**10,797**	±2	7,571
Sukuk				
Quoted	**±10**	**116,351**	±10	77,506
Unquoted	**±2**	**144,164**	±2	72,316

31. LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able 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 immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

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

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% (2018: 7%) of total monthly average demand deposits and 4% (2018: 4%) of monthly average time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of its total deposits, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through special investment arrangements facilities with SAMA.

- ## ANALYSIS OF DISCOUNTED FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY EXPECTED MATURITIES

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

2019 SAR' 000	Within 3 months	3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	**4,362,480**	**-**	**-**	**-**	**3,553,372**	**7,915,852**
Cash in hand	1,669,426	-	-	-	-	1,669,426
Balances with SAMA	2,693,054	-	-	-	3,553,372	6,246,426
Due from banks and other financial institutions	**2,964,680**	**505,371**	**571,700**	**-**	**-**	**4,041,751**
Demand	210,751	-	-	-	-	210,751
Commodity murabaha	2,753,929	505,371	571,700	-	-	3,831,000
Investments, net	**-**	**248,933**	**981,728**	**8,433,847**	**1,322,615**	**10,987,123**
FVOCI	-	248,933	981,728	6,340,840	456,323	8,027,824
FVTPL	-	-	-	-	866,292	866,292
Amortized cost	-	-	-	2,093,007	-	2,093,007
Financing, net	**7,566,426**	**10,653,513**	**27,066,150**	**14,076,447**	**-**	**59,362,536**
Consumer	1,125,074	3,335,214	13,281,670	10,446,607	-	28,188,565
Commercial	6,441,352	7,318,299	13,784,480	3,629,840	-	31,173,971
Other assets	**-**	**-**	**-**	**-**	**1,719,493**	**1,719,493**
Total assets	**14,893,586**	**11,407,817**	**28,619,578**	**22,510,294**	**6,595,480**	**84,026,755**
Liabilities						
Due to banks and other financial institutions	**645,120**	**-**	**-**	**-**	**-**	**645,120**
Demand	212,045	-	-	-	-	212,045
Direct investment	433,075	-	-	-	-	433,075
Customer deposits	**10,127,326**	**2,328,892**	**-**	**-**	**54,341,347**	**66,797,565**
Demand	-	-	-	-	33,669,863	33,669,863
Direct investment	10,127,326	2,328,892	-	-	-	12,456,218
Albilad account (Mudarabah)	-	-	-	-	19,315,147	19,315,147
Other	-	-	-	-	1,356,337	1,356,337
Sukuk	**-**	**-**	**-**	**2,007,768**	**-**	**2,007,768**
Other liabilities	**-**	**-**	**-**	**-**	**6,428,090**	**6,428,090**
Total liabilities	**10,772,446**	**2,328,892**	**-**	**2,007,768**	**60,769,437**	**75,878,543**
Commitments and contingencies	**1,720,735**	**2,801,909**	**2,168,166**	**1,509,452**	**-**	**8,200,262**

The cumulative maturities of commitments and contingencies are given in note 19 of the financial statements.

2018 SAR' 000	Within 3 months	3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with SAMA	**3,286,900**	**-**	**-**	**-**	**3,151,301**	**6,438,201**
Cash in hand	1,702,065	-	-	-	-	1,702,065
Balances with SAMA	1,584,835	-	-	-	3,151,301	4,736,136
Due from banks and other financial institutions	**6,885,787**	**75,261**	**1,373,236**	**-**	**-**	**8,334,284**
Demand	188,544	-	-	-	-	188,544
Commodity murabaha	6,697,243	75,261	1,373,236	-	-	8,145,740
Investments, net	**-**	**248,811**	**706,647**	**4,728,657**	**781,595**	**6,465,710**
FVOCI	-	248,811	706,647	3,435,393	381,512	4,772,363
FVTPL	-	-	-	-	400,083	400,083
Amortized cost	-	-	-	1,293,264	-	1,293,264
Financing, net	**12,270,364**	**10,796,460**	**22,200,108**	**5,321,183**	**-**	**50,588,115**
Consumer	1,397,947	3,860,325	11,709,970	4,173,023	-	21,141,265
Commercial	10,872,417	6,936,135	10,490,138	1,148,160	-	29,446,850
Other assets	-	-	-	-	463,666	463,666
Total assets	**22,443,051**	**11,120,532**	**24,279,991**	**10,049,840**	**4,396,562**	**72,289,976**
Liabilities						
Due to banks and other financial institutions	**2,912,798**	**187,993**	**-**	**-**	**-**	**3,100,791**
Demand	278,675	-	-	-	-	278,675
Direct investment	2,634,123	187,993	-	-	-	2,822,116
Customer deposits	**9,309,766**	**1,713,849**	**-**	**-**	**46,151,979**	**57,175,594**
Demand	-	-	-	-	29,290,547	29,290,547
Direct investment	9,309,766	1,713,849	-	-	-	11,023,615
Albilad account (Mudarabah)	-	-	-	-	15,781,512	15,781,512
Other	-	-	-	-	1,079,920	1,079,920
Sukuk	**-**	**-**	**-**	**2,008,587**	**-**	**2,008,587**
Other liabilities	**-**	**-**	**-**	**-**	**3,225,575**	**3,225,575**
Total liabilities	**12,222,564**	**1,901,842**	**-**	**2,008,587**	**49,377,554**	**65,510,547**
Commitments and contingencies	**1,594,015**	**2,534,995**	**1,731,309**	**192,251**	**-**	**6,052,570**

The cumulative maturities of commitments and contingencies are given in note 19 of the financial statements.

A. ANALYSIS OF FINANCIAL LIABILITIES BY THE REMAINING UNDISCOUNTED CONTRACTUAL MATURITIES AS AT 31 DECEMBER, ARE AS FOLLOWS:

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2019 and 2018 based on contractual undiscounted repayment obligations whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

As investment and financing profit payments up to contractual maturity are included in the table, totals do not match with the statement of financial position.

2019 SAR' 000	Within 3 months	3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	**645,617**	**-**	**-**	**-**	**-**	**645,617**
Customers' deposits	**10,177,569**	**2,411,922**	**-**	**-**	**54,341,347**	**66,930,838**

2018 SAR' 000	Within 3 months	3 months to 1 year	Over 1 year to 5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
Due to banks and other financial institutions	2,914,620	190,903	-	-	-	3,105,523
Customers' deposits	9,324,034	1,737,470	-	-	46,151,979	57,213,483

32. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The fair values of on-balance sheet financial instruments are not significantly different from their carrying amounts included in the consolidated financial statements.

• DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

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

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

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

		Fair value			
31 December 2019 SAR' 000	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Held as FVTPL	**866,292**	**326,443**	**539,849**	**-**	**866,292**
Held as FVOCI	**8,027,824**	**985,816**	**-**	**7,042,008**	**8,027,824**
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	**4,041,751**	**-**	**-**	**4,041,751**	**4,041,751**
Investments held at amortized cost	**2,093,007**	**468,140**	**-**	**1,624,867**	**2,093,007**
Financing, net	**59,362,536**	**-**	**-**	**59,268,946**	**59,268,946**

		Fair value			
31 December 2018 SAR' 000	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Held as FVTPL	400,083	21,509	378,574	-	400,083
Held as FVOCI	4,772,363	990,676	-	3,781,687	4,772,363
Financial assets not measured at fair value					
Due from banks and other financial institutions, net	8,334,284	-	-	8,334,284	8,334,284
Investments held at amortized cost	1,293,264	-	-	1,293,264	1,293,264
Financing, net	50,588,115	-	-	50,014,077	50,014,077

31 December 2019 SAR' 000	Carrying value	Fair value Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	**645,120**	**-**	**-**	**645,120**	**645,120**
Customers' deposits	**66,797,565**	**-**	**-**	**66,797,565**	**66,797,565**
Sukuk	**2,007,768**	**-**	**-**	**2,007,768**	**2,007,768**

31 December 2018 SAR' 000	Carrying value	Fair value Level 1	Level 2	Level 3	Total
Financial liabilities not measured at fair value					
Due to banks and other financial institutions	3,100,791	-	-	3,100,791	3,100,791
Customers' deposits	57,175,594	-	-	57,175,594	57,175,594
Sukuk	2,008,587	-	-	2,008,587	2,008,587

The fair values of financial instruments which are not measured at fair value in these consolidated financial statements are not significantly different from the carrying values included in the consolidated financial statements.

Cash and balances with SAMA, due from banks with maturity of less than 90 days and other short-term receivables are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature.

The fair values, of profit bearing customer deposits, held at amortized cost investment, due from and due to banks and other financial institutions which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since either the current market profit rates for similar financial instruments are not significantly different from the contracted rates, or for the short duration of certain financial instruments particularly due from and due to banks and other financial institutions or a combination of both. An active market for these instruments is not available and the Group intends to realize the carrying value of these financial instruments through settlement with the counter party at the time of their respective maturities.

Financing classified as Level 3 have been valued using expected cash flows discounted at relevant SIBOR.

Fair Value Through Other Comprehensive Income (FVOCI) investments classified as Level 3 include unlisted sukuk which have been measured by the management at fair value using broker quotes or estimating present value by discounting cash flows using adjusted discount rate. The adjusted discount rate is calculated using CDS of a similar entity using publicly available information. The valuation method has been approved by ALCO.

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

- **RECONCILIATION OF LEVEL 3 FAIR VALUES HELD AS FVOCI**

	31 December 2019 SAR' 000	31 December 2018 SAR' 000
Balance at the beginning of the year	**3,781,687**	1,714,107
Purchase	**3,354,947**	2,086,171
Gain / (loss) included in OCI		
Net changes in fair value (unrealised)	**(94,625)**	(18,591)
Total	**7,042,009**	3,781,687

33. RELATED PARTY BALANCES AND TRANSACTIONS

In the ordinary course of activities, the Group transacts business with related parties. Related party transactions are governed by limits set by the Banking Control Law and the regulations issued by SAMA.

The nature and balances of transactions with the related parties for the years ended 31 December are as follows:

A. DIRECTORS, KEY MANAGEMENT PERSONNEL, OTHER MAJOR SHAREHOLDERS AND THEIR AFFILIATES BALANCES:

	2019 SAR' 000	2018 SAR' 000
Financing	**3,230,862**	2,274,067
Commitments and contingencies	**122,549**	78,726
Deposits	**271,235**	227,408

B. GROUP'S MUTUAL FUNDS:

These are the outstanding balances with Group's mutual funds as of 31 December:

	2019 SAR' 000	2018 SAR' 000
Customers' deposits	**32,954**	8,758
Investments – units	**428,552**	221,307

C. INCOME AND EXPENSE:

Directors, Key management personnel, other major shareholders and their affiliates and mutual funds managed by the Group:

	2019 SAR' 000	2018 SAR' 000
Income	**242,665**	114,106
Expenses	**10,936**	15,683

D. THE TOTAL AMOUNT OF COMPENSATION PAID TO KEY MANAGEMENT PERSONAL DURING THE YEAR IS AS FOLLOWS:

	2019 SAR' 000	2018 SAR' 000
Employee benefits	**75,802**	76,300

34. 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.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

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

The following table summarizes the Group's Pillar-I Risk Weighted Assets, Tier I and Tier II Capital and Capital Adequacy Ratios:

	2019 SAR' 000	2018 SAR' 000
Credit Risk RWA	**63,300,773**	55,268,406
Operational Risk RWA	**6,384,244**	5,572,623
Market Risk RWA	**414,729**	231,436
Total Pillar-I RWA	**70,099,746**	61,072,465
Tier I Capital	**9,473,031**	7,890,012
Tier II Capital	**2,791,260**	2,690,855
Total Tier I and II Capital	**12,264,291**	10,580,867
Capital Adequacy Ratio %		
Tier I ratio	**13.51%**	12.92%
Tier I and Tier II ratio	**17.50%**	17.33%

35. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank offers investment management services to its customers through its subsidiary, AlBilad Investment Company. These services include the management of 9 public mutual funds (2018: 7 public mutual funds) with assets under management (AUM) totaling SAR 1,995 million (2018: SAR 1,053 million). Al Bilad Investment acts as the fund manager of these funds. All of these funds comply with Shariah rules and are subject to Shariah controls on a regular basis. Some of these mutual funds are managed in association with external professional investment advisors.

The Group also manages private investment portfolios on behalf of its customers amounting to SAR 1,994 million (2018: SAR 1,240 million). The financial statements of these funds and private portfolios are not included in the consolidated financial statements of the Group. However, the transactions between the Group and the funds are disclosed under related party transactions (see note 33).

36. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with the current year presentation.

37. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on 12 Jumada "Al Thani1441H (corresponding to 6 February 2020)."