بنك الجزيرة
BANK ALJAZIRA

2019
ANNUAL REPORT

CONTENTS

بسم الله الرحمن الرحيم

In the Name of Allah,

The most gracious, the most merciful

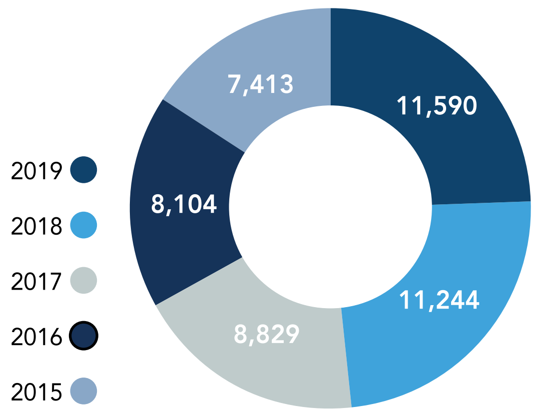
King Salman bin Abdulaziz Al Saud
Custodian of the Two Holy Mosques

HRH Prince Mohammed bin Salman bin Abdulaziz Al Saud
The Crown Prince & Deputy Prime Minister & Defense Minister

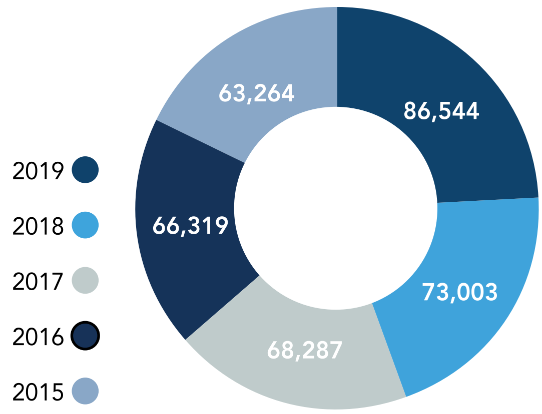
FINANCIAL HIGHLIGHTS

Financial highlights

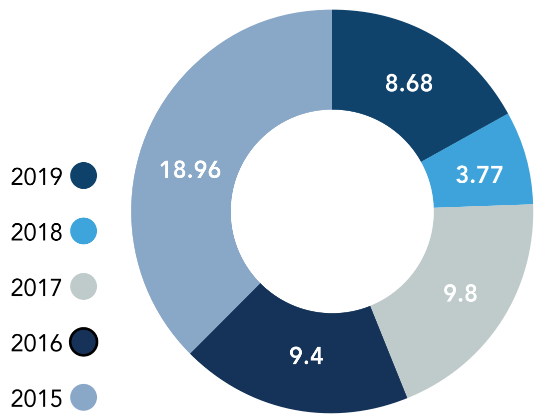
(In SAR millions, except where indicated)	2015	2016	2017	2018	2019
Loans and advances, net	42,174	42,099	39,790	40,897	49,660
Total assets	63,264	66,319	68,287	73,003	86,544
Customer deposits	49,765	51,602	50,278	51,804	62,697
Total Liabilities	55,851	58,216	59,459	61,759	74,955
Shareholders' equity	7,413	8,104	8,829	11,244	11,590
Net income before Zakat and income tax	1,287	872	858	1,000	1,122
Net income after Zakat and income tax	1,287	729	830	378	991
Total Operating income	2,922	2,519	2,580	2,665	2,977
Net income growth (%)	124.77	(43.33)	13.82	(54.42)	161.98
Total Operating income growth (%)	31.23	(13.79)	2.43	3.30	11.72
Return on average equity (%)	18.96	9.40	9.80	3.77	8.68
Return on average assets (%)	1.98	1.13	1.23	0.54	1.24
Earnings per share (SR)	2.27	1.28	1.46	0.50	1.21



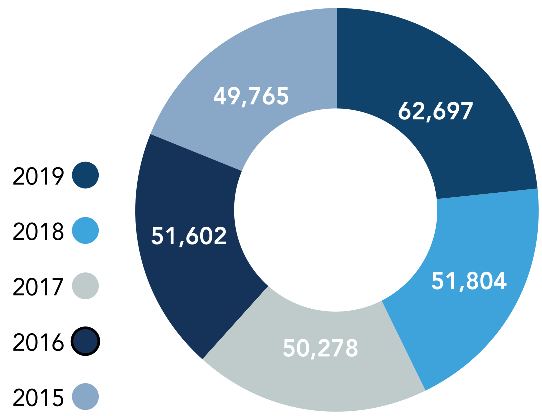
Shareholders' equity (In SAR millions)



Total Assets (In SAR millions)



Return on average equity (%)



Customer deposits (In SAR millions)

OUR MISSION

Be the core bankers to our chosen target customers, helping them grow their business and their wealth through:

- Offering exceptional client service
- Offering tailored products and services
- Be a trusted advisor

Board of Directors

Engr. Tarek Othman Al-Kasabi
Chairman of the Board

Engr. Abdulmajeed Ibrahim Al-Sultan
Deputy Chairman of the Board

Mr. Nabil Dawood Al-Hoshan
CEO and Managing Director

Mr. Abdullah Saleh Al-Rasheed
Member

Mr. Ibrahim Abdulaziz Al-Shaia
Member

Mr. Adel bin Saud Al-Dahlawi
Member

Mr. Ibrahim bin Abdullah Al-Hedaithi
Member

Mr. Turki bin Abdullah AlFawzan
Member

Chairman's Statement

Praise be to Allah, the Almighty, the Lord of the worlds, and Prayers and Peace be upon his Messenger Prophet Mohammed, and his Descendants and all his followers.

Dear Shareholders,

On behalf of the Board of Directors of Bank Aljazira, I am pleased to present to you the Bank's Annual Report for the year 2019.

The Saudi economy achieved growth for the second consecutive year, recording SAR 2.64 Trillion or 0.33%, compared to a growth of 2.43% in the year 2018, as per the preliminary data released by the Department of Statistics. With this growth, the Kingdom ranks the 18th in the list of largest global economies as of the end of 2019 and the largest Arab economy.

The economic growth recorded by the Kingdom was driven by a remarkable improvement in the non-oil sector, which grew by 3.3%, the highest ratio recorded since 2014, while the total oil output fell by 3.6%.

The Kingdom's 2019 budget, the largest in the Kingdom's history, reflects the strength of the national economy, as the announced figures reflect a solid increase in the public spending, emphasizing the government's determination to proceed towards achievement of the Kingdom's vision 2030 and the national programs emanating thereof as well as the achievement of sustainability and financial stability.

2019 saw a number of fundamental changes in the global economy. Accelerated interest-rate cuts and a policy of monetary easing by more than half of the global central banks, the largest ratio since the world financial crisis in 2008.

On the local economic side, the Saudi Arabian Monetary Authority (SAMA) also reacted to the decision to reduce base rates to stimulate the national economy and also to improve the market liquidity, encourage investment and enhance consumption.

The Aramco's IPO and listing on the stock market in 2019, represented a major change in the kingdom's history as the IPO proceeds, SAR 96 billion (US$25.6 billion) constituted the highest turnover in the history of world markets. Aramco IPO was the largest ever in the world. Bank Aljazira played a key role in facilitating Aramco's IPO through its multiple channels, including the digital platforms. Apart from its efforts to support Aramco IPO through its intensified awareness campaigns in the pre-IPO period, Bank Aljazira has provided free-of-administrative fee facilities to finance the subscription in Aramco's shares

The Bank saw its total assets increase by SAR 13.5 billion, or 18.5%, in the year 2019 to SAR 86.5 billion compared to SAR 73 billion as at the end of 2018. Total Liabilities increased by SAR 13.2 Billion, (year-on-year growth of 21.4%) to SAR 75 Billion in 2019, compared to SAR 61.8 Billion in 2018.

The Bank has recorded a net profit before zakat and income tax of SAR 1,122 billion for the year ended December 31, 2019. This represents an increase of SAR 121.7 million or 12.2% compared to SAR 1,000.3 million for the financial year 2018.

In terms of dividend distribution for 2019, the bank distributed, in the month of August 2019, provisional dividends to shareholders of SAR 246 Million, SAR 0.30 per share, or 3% of the nominal value of share.

The Board of Directors recommended to the AGM the payment of dividends to shareholders for the second half of 2019 of a total amount of SAR 246 Million, thereby bringing the total dividends distributed for the year to SAR 492 Million, SAR 0.60 per share, or 6% of the nominal value of share.

In 2019, Bank Aljazira continued to excel and consolidate its position in the Saudi banking market by introducing highest standard Sharia-compliant innovative products and digital banking solutions. In recognition of its pioneering role at the global level, Bank Aljazira received many awards and recognition certificates from world renowned institutions, most important of which was The Most Innovative Islamic Bank – Saudi Arabia 2019, by International Finance Magazine

In continuation of its efforts to maintain a fruitful cooperation relationship with the Ministry of Housing, the Bank's Real-Estate finance book grew by 26% in 2019, with a market share of 5.8% as of the end of the year.

In 2019, Bank Aljazira emphasized the continuation of its role as a key partner in the enhancement of sustainable development, through the activities, programs and other tasks it provides, thereby maintaining its role as a major contributor to the achievement of the objectives of Kingdom's Vision 2030 as evidenced by the social programs and partnerships it has entered into with non-profit ins titutions, charities and public sector institutions. Furthermore, Bank Aljazira continued, through its Khair Aljazira le Ahl Aljazira program, to sponsor and implement a number of projects in the field of community service which aim to meet the community's needs and aspirations around the Kingdom regions. To this effect, a total of 82 community projects were implemented in 32 cities, regions and centers.

In appreciation of its awareness of the positive implications of adopting the principles of corporate governance that require the bank to observe highest professional and ethical standards in its business by implementing disclosure and transparency rules, Bank Aljazira has received the Excellence Award for being one of the Best Performing Companies in the Corporate Governance Index awarded by Alfaisal University Corporate Governance Center.

The Board of Directors has adopted a new strategy which extends through 2023. The objective of the new strategy is to continue to record increased growth and fulfilment of shareholders aspirations through focusing on a number of key areas, including: innovation and digital transformation, investment and ongoing development of bank's technologies, increased cross selling of bank's products and services to retail and corporate customers and provision of such services on the bank's digital channels as well as provision of support to small and medium enterprises.

On Behalf of the Board of Directors and shareholders, I would like to express our appreciation and gratitude for the continuing support of the Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz Al-Saud, His Royal Highness Prince Mohammed Bin Salman Bin Abdulaziz Al Saud, Crown Prince, Deputy Premier and Defense Minister, Head of Economic and Development Affairs Council, His Excellency the Minister of Finance, SAMA, all government ministers, the Board of Directors, the executive management team, and all staff members for their support, guidance and efforts as we continue our journey in meeting all the financial needs of our customers and creating a strong and profitable bank for our shareholders.

In conclusion, we deeply extend all gratitude to Allah Almighty for this blessed success, and prayers upon our Messenger Prophet Mohammed – may peace be upon him, his descendants and all his followers.

Engr. Tarek Othman Al-Kasabi

Chairman

Executive Management

Mr. Nabil AlHoshan
Chief Executive Officer and Managing Director

Mr. Yasser Al Hedaithy
Head of Treasury Group

Mr. Tarek Al Shubaily
Head of Human Capital Group

Mr. Hamad Al-Ajaji
Head of Private Banking and Wealth Management Group

Mr. Khalid Al-Othman
Head of Retail Banking Group

Mr. Hazem Al Megren
Head of Corporate and Institutional Banking Group

Mr. Ahmed S. Alhassan
Chief Operating Officer

Mr. Shahid Amin
Chief Financial Officer

Mr. Khalid Al-Mogrin
Head of Legal Group

Dr. Fahad Al-Elayan
Head of Sharia and Social Responsibility Group

Mr. Osama Al-Ibrahim
Chief Risk Officer

Mr. Sami Al-Rahji
Head of Fawri Banking Services Group

Mr. Mohammed Al Obaid
Head of Corporate Governance and Board Secretariat Group

Mr. Abdulaziz Al Zammam
Chief Internal Audit Executive

CEO Statement

Praises be to Allah, the Almighty, the Lord of the worlds, and Prayers and Peace be upon his Messenger Prophet Mohammed, and his Descendants and all his followers

Dear Shareholders,

On behalf of the Senior Management of Bank Aljazira, I am pleased to present to you the financial performance for the year 2019.

In 2019, the bank achieved several significant milestones and has continued to post strong loan and investments growth. The bank grew its Loan Book by 21.4%. This has been driven by building a strong customer franchise with retail particularly in mortgages and corporate customers ranging from large to medium and small corporations applying extensive focus towards cross selling of the bank's retail, treasury, corporate, finance and investment banking franchise. Moreover, many initiatives launched earlier, mainly focused on enhancing the efficiency of the Bank's services and activities, were successfully completed and contributed in increasing the business profitability and customer service quality at all levels. The bank produced a profit of SAR 1.12bn, with a return on equity of 9.8% and a return of assets of 1.4%. In this period the bank maintained strong liquidity of 72% based on SAMA's definition of LDR and a provision coverage ratio of 151.8%.

The Bank also participated in the IPO of the world's most profitable company, Saudi Aramco. As a top broker in the country, BAJ supported its customers by extending margin lending to them to enable their purchases of shares in this world leading company. The float of Aramco capped a year of growth and stability in the Saudi economy.

In 2019, Bank Aljazira continued to excel by introducing the highest standard of Sharia-compliant innovative products and digital banking solutions which met the customer requirements and supported the bank's strategy through a growing network of different distribution channels. The bank has developed its electronic services platform to be one of the best platforms in the Saudi banking sector. The relaunch of Aljazira Smart and Aljazira Online applications had great effects on improving the customer experience and increased the number of electronic transactions performed, including online account opening, credit cards and personal finance in addition to a set of leading real-estate financing products.

In line with the kingdom's ambitious economic and social objectives as envisaged in the Kingdom's Vision 2030, the Bank has devoted a part of its strategy to focus on the provision of support to housing and SME's financing programs, as well as to promote long-term saving concepts, contribute to privatization and non-oil exports develop initiatives and enhance new industries and capital markets development.

In continuation of its efforts to maintain its cooperation with the Ministry of Housing, the Bank's Real-Estate finance book grew by 26% in 2019, with a market share of 5.8% as of the end of the year.

Despite the competition in the market, our Fawri network saw an outstanding year by acquiring a large market share through its 61 remittance centres around the Kingdom as well as through the bank's electronic platforms.

The Private Banking Group provides excellent services to the high net worth Individuals segment by providing a comprehensive array of private Sharia- compliant banking services and products. The group devotes all of its experience and capabilities to deliver and achieve the financial goals and objectives of its customers in a professional and timely manner, which translated into a rise of the total customer deposits as of the end of 2019.

During the year, the bank paid considerable attention to the Corporate sector and the various services they provide, which attention reflected in an increase in the portfolio of loans and advances extended to this sector. Corporate loans increased by 18% as of the year end.

Treasury Group ended another successful year by achieving higher year on year profitability, while optimally managing the balance sheet in terms of liquidity and risk, through efficient portfolio optimization and diversification of funding sources. Thus, Treasury continues to contribute strongly to the bank's net income.

In its endeavors to achieve digital transformation strategies, it is the aim of Bank Aljazira to increase the ratio of digital services and automated operations by 20% in 2020. Towards this aim, a number of major projects have been launched.

The Bank's new strategy 2019-2023 which has been recently drawn up and adopted, aims to enable the bank to record increased growth in performance and achieve shareholders objectives in terms of net profits and return on share, increased asset growth and loans and customer deposits portfolios. In achieving these objectives, the bank shall focus on four key areas: innovation and digital transformation, investment and ongoing development of bank's technologies, increase of cross selling of bank's products and services to retail and corporate customers, and provision of such services on the bank's digital channels; support small and medium enterprises and provide specialized services to specific segments. The bank will further continue its customer-oriented approach in its endeavors to achieve customer aspirations as well as to strengthen customer business relationships and loyalty to the bank.

In 2019, Bank Aljazira continued to enhance its work environment striving to become one of the best employers in the Kingdom by attracting and developing the highest competencies and qualifications which can contribute to the success of its business. Saudization ratio of Bank Aljazira stands at 94%, while female staff constitute 8.5% of the total human resources of the bank.

To consolidate its leading role in community service, Bank Aljazira continued in 2019, through its Khair Aljazira le Ahl Aljazira program, its contributions to social responsibility and sustainable development, looking forward to creating a positive effect on the community by sponsoring a wide number of activities and development programs. A total of 82 community projects were implemented in 32 cities, regions and centers, and the number of those who benefited from these centers amounted to over seven thousand and six hundred individuals. The objective of these programs is to enhance the building of community and sustainable development.

Bank Aljazira continued to support the Kingdom's Vision 2030 by building cooperation relationships with the public sector departments and specialized humanitarian and social centers to achieve the aspired goals.

The Bank will continue its efforts to lay the foundations for further growth and returns. Our continued commitment to enhancing customer offers, investing in technology, strengthening our core business and enhancing our competitive advantages will enhance our confidence in the ability to deliver strong results to our valued shareholders.

In addition, the Bank will continue to offer new and innovative services and products as well as to provide solutions for all customer segments with a strong focus on providing an easy and distinctive customer experience, while providing high quality services. These objectives are complemented by extensive efforts to strengthen the capabilities of sales teams to optimum levels, thereby contributing to the improvement of the Bank's market share, increase of revenues and reduction of expenses.

For business continuity purposes, Bank Aljazira has developed integrated business continuity plans which focus on building continuity and business recovery capabilities for key operations and assets. The program was prepared on the basis of, best practices in international standards and the requirements of the Saudi Arabian Monetary Authority.

In recognition of its pioneering role on the global level, Bank Aljazira received many awards and recognition certificates from world renowned institutions, most prominent of which was "Most Innovative Islamic Bank – Saudi Arabia 2019" by International Finance Magazine, "Best Customer Service" and " Best call Center in the world for 2019" by Contact Center World, and "Most Innovative E – Banking Platform in Saudi Arabia 2019" by Global Business Outlooks, and many other awards.

At the end, I would like to thank our customers for the trust that they have placed in the bank, the Ministry of Finance, SAMA, our Chairman and the Board of Directors, Senior Management and all staff for their untiring efforts in bringing Bank Aljazira to where it stands today and looking forward to continue our way of success in the years to come.

May Allah almighty guide us towards success in the times to come.

Nabil AlHoshan
CEO and Managing Director

Board of Directors Report

The Board of Directors is pleased to present the Bank' s annual report and consolidated financial statements for the financial year ended 31 December 2018

The Board of Directors is pleased to submit to the shareholders the annual report of Bank Aljazira for the fiscal year ending 31 December 2019.

Introduction

Bank Aljazira here-in-after referred to as "the Bank" or "BAJ" is a joint Stock Company incorporated in the Kingdom of Saudi Arabia and established pursuant to Royal Decree No. 46/M dated Jumada Al-Thani 12, 1395H (i.e. June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of the National Bank of Pakistan's (NBP) branches in the Kingdom of Saudi Arabia.

The bank operates under commercial registration No. 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The issued and fully paid share capital of the Bank amounts to SAR 8.2 billion divided into 820 million shares of SAR 10 each.

The objective of the Bank is to provide a full range of Shari'ah compliant banking products and services to retail and corporate customers including: current accounts, saving accounts, Murabaha, Istisna'a, Ijarah, Tawarruq, Musharaka, Wa'ad, foreign exchange, credit cards, and Sukuk which are approved and supervised by an independent Shari'ah board.

The bank conducts its business through the bank's departments and sectors all over the Kingdom and has no branches operating abroad.

The Bank is recognized as one of the leading Shari'ah compliant fast-growing financial institutions in Saudi Arabia, which provides individuals, businesses and institutions with innovative Shari'ah compliant financial services through professional and dedicated staff.

Five-year financial highlights

The table below depicts the five-year historical financial performance of the Bank:

Financial highlights

(In SAR millions, except where indicated)	2015	2016	2017	2018	2019
Loans and advances, net	42,174	42,099	39,790	40,897	49,660
Total assets	63,264	66,319	68,287	73,003	86,544
Customer deposits	49,765	51,602	50,278	51,804	62,697
Total Liabilities	55,851	58,216	59,459	61,759	74,955
Shareholders' equity	7,413	8,104	8,829	11,244	11,590
Net income before Zakat and income tax	1,287	872	858	1,000	1,122
Net income after Zakat and income tax	1,287	729	830	378	991
Total Operating income	2,922	2,519	2,580	2,665	2,977
Net income growth (%)	124.77	(43.33)	13.82	(54.42)	161.98
Total Operating income growth (%)	31.23	(13.79)	2.43	3.30	11.72
Return on average equity (%)	18.96	9.40	9.80	3.77	8.68
Return on average assets (%)	1.98	1.13	1.23	0.54	1.24
Earnings per share (SR)	2.27	1.28	1.46	0.50	1.21

Note:

1) The earning per share and other ratios for the current and prior years have been calculated based on net income for the year after Zakat and income tax. Starting from the quarter ended June 2019 the Bank changed its accounting policy for reporting zakat and income tax and has reported zakat and income tax through the statement of income for the year ended 2019 and restated the year ended 2018. Previously zakat and income tax were reported in the statement of changes in shareholders' equity.

2) The earning per share has been retrospectively adjusted for prior periods to reflect the effect of the changes in weighted average number of shares due to bonus shares issued in 2017 and bonus element included in the right shares issued in 2018.

Loans and Advances, net:

Totaled SAR 49.7 billion at the 2019 year-end, registering an increase of 21.4% compared to SAR 40.9 billion in 2018. The Bank continued to further diversify the loan portfolio over various economic sectors and broadened the client base, thus lowering the risk **of concentration.**

Placements with Other Banks and Other Financial Institutions:

Total outstanding as at the end of 2019 were SAR 1.4 billion versus SAR 1.3 billion in 2018. This is a short-term activity and represents the day to day liquidity / cash flow management.

Investments Book:

The investment portfolio comprises of Sukuks, investment in equities and mutual funds. Total portfolio at the year-end was SAR 27.6 billion versus SAR 24.1 billion in 2018, an increase by 14.8%. This increase is mainly due to increased investment in government Sukuks.

Total Assets:

Total assets amounted to SAR 86.5 billion at the end of 2019, as compared to SAR 73 billion in 2018, representing an increase of 18.5% over the past year.

Customer Deposits:

customer deposits increased by 21%, to SAR 62.7 billion as at the end of 2019, compared to SAR 51.8 billion in 2018. The increase is mainly due to the increase in term deposits by 26.6% from SAR 23.9 billion to SAR 30.3 billion and demand deposits by 15.9 % from SAR 26.6 billion to SAR 30.8 billion.

Total Liabilities:

amounted to SAR 75 billion as at the end of 2019, compared to SAR 61.8 billion in 2018, representing an increase of 21.4% over the past year.

Geographical Analysis of Income

The bank realizes its operational income from its activities in the Kingdom of Saudi Arabia and has no branches operating abroad. The table below depicts region-wise analysis of the total operating income of the bank. The operating profit of Bank Aljazira includes the operational income of Aljazira Capital (100 % subsidiary of the bank) which amounted to SAR 168 million for 2019.

'000 SAR

Regions	Central	Eastern	Western	Total
Total Groups Operating Income	1,184,277	429,374	1,363,508	2,977,159

Main Business Segments/Sectors

The Bank's activities consist mainly of the following business lines:

Personal banking	Deposit, credit and investment products for individuals.
Corporate banking	Loans, deposits and other credit products for corporate, small to medium sized business and institutional customers.
Treasury	Treasury includes money market, foreign exchange, trading and treasury services.
Brokerage and asset management	Provides shares brokerage services to customers (this segment includes the activities of the bank's subsidiary Aljazira Capital Company).
Takaful Ta'awuni	Provides protection and saving products services. As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity named AlJazira Takaful Ta'awuni Company (AJT). The current division represents the insurance portfolio of policies entered into by the Bank before 2014. During 2019, AJT has obtained from SAMA no objection to transfer the old insurance portfolio vide SAMA letter dated Rabi 'Al-Thani 26, 1441 (December 23, 2019). The insurance portfolio will be transferred with effect from January 1, 2020 at a value to be agreed between the Bank and AJT and the financial impact of transfer is expected to be reflected in the Group's consolidated financial statements for the year ending December 31, 2020.
Others	Others include investment in associate, inter segment income and expense eliminations and gain on sale of other real estate.

The table below depicts total operating income, total operating expenses, and net profit before Zakat and income tax for each sector:

2019 (SR'000)	Personal Banking	Corporate Banking	Treasury	Brokerage and Asset Management	Takaful Ta'awuni	Others	Total
Total operating income	1,402,208	556,712	1,138,666	167,642	17,599	(305,668)	2,977,159
Total operating expenses	(941,010)	(395,118)	(324,918)	(140,774)	(26,090)	(40,107)	(1,868,017)
Share in net income of associates	-	-	-	1,841	-	11,047	12,888
Net income/(loss) before Zakat and income tax	461,198	161,594	813,748	28,709	(8,491)	(334,728)	1,122,030

Subsidiaries and Associates

The following table summarizes the names of subsidiaries/associates, their share capitals, the Bank's holding percentage, their main business, their principal countries of operation and countries of incorporation as at 31st December 2019:

Subsidiaries / Associates	Country of incorporation	Country of operation	Nature of business	Share Capital	Ownership
Subsidiaries:					
Aljazira Capital Company (Closed Joint-Stock Company)	Saudi Arabia	Saudi Arabia	Brokerage and asset management	SAR 500 million	100%
Aman Development and Real Estate Investment Company (Limited-Liability Co.)	Saudi Arabia	Saudi Arabia	Holding and management of real estate collaterals on behalf of the Bank	SAR 1 million	100%
Aman Insurance Agency Company (Limited-Liability Co.)	Saudi Arabia	Saudi Arabia	Acting as an agent for bancassurance activities on behalf of the Bank	SAR 500 Thousands	100%
Al Jazira Securities Limited (Limited-Liability Co.)	Cayman Islands	Saudi Arabia	Carry out Shari'ah compliant derivative and capital market transactions	Authorized capital: USD 50,000, Paid up capital: USD 100	100%
Associate:					
Aljazira Takaful Ta'awuni Company (Listed Join-Stock Company)	Saudi Arabia	Saudi Arabia	Shari'ah compliant protection and custody products	SAR 350 million	35%

The issued share capital of Aljazira Capital amounts to SAR 500 million divided into 50 million shares of SAR 10 each. The issued share capital of Aman Development and Real Estate Investment Company amounts to SAR 1 million divided into 100 shares of SAR 10,000 each. The issued share capital of Aman Insurance Agency Company amounts to SAR 500.000 divided into 50.000 shares of SAR 10 each. The authorized capital of Al Jazira Securities Limited amounts to USD 50,000, and its paid-up capital is USD 100 divided into 100 shares of USD 1 each. The issued share capital of Aljazira Takaful Ta'awuni amounts to SAR 350 million divided into 35 million shares of SAR 10 each.
The bank confirms that there were no debt securities in issue for any of these subsidiaries.

Bank's Profitability and growth of financial assets and liabilities

The Bank has recorded a net profit before zakat and income tax of SAR 1,122 million for the year ended December 31, 2019. This represents an increase of SAR 121.7 million or 12.2% compared to SAR 1,000.3 million for the financial year 2018. The net profit after zakat and income tax for the year ended December 31, 2019 was SAR 991 million. This represents an increase of SAR 613 million or 162% compared to SAR 378.3 million for the financial year 2018. Net income has increased by 162% mainly due to decrease in Zakat charge for the current year compared to previous year. The zakat charge for the previous year was higher as a result of zakat settlement agreement entered into with GAZT in respect of assessment years from 2006 to 2017. Furthermore, there is an increase in operating income by 12%. This increase in operating income is mainly attributable to increase in net special commission income by SAR 148.1 million, or 7.8% from SAR 1,904 million to SAR 2,052.2 million, net gain on derecognition of financial assets measured at amortized cost by SAR 69.6 million, net fee and commission income by SAR 40.9 million, or 7.2% from SAR 564.4 million to SAR 605.2 million, net exchange income by SAR 38.1 million, or 19.9% from SAR 191.8 million to SAR 229.9 million, net gain on FVIS financial instruments by SAR 10.2 million, or 232.6% from a loss of SAR 4.4 million to a gain of SAR 5.8 million. Earnings per share were SAR 1.21 for the year ended 31 December 2019 against SAR 0.50 for the financial year 2018.

Total assets were SAR 86.5 billion as of 31 December 2019, compared to SAR 73 billion at 31 December 2018, an increase of 18.5% or SAR 13.5 billion. Net loans and advances to customers amounted to SAR 49.7 billion at 31 December 2019, an increase of SAR 8.8 billion, or 21.4% %, from SAR 40.9 billion at 31 December 2018. The Bank's investment portfolio totaled SAR 27.6 billion at 31 December 2019, an increase of SAR 3.6 billion or 14.8 % compared to SAR 24.1 billion at 31 December 2018. Total liabilities were SAR 75 billion at 31 December 2019, compared with SAR 61.8 billion at 31 December 2018, an increase of 21.4 % or SAR 13.2 billion. Customer deposits totaled SAR 62.7 billion at 31 December 2019, an increase of SAR 10.9 billion, or 21%, compared to SAR 51.8 billion at 31 December 2018. Subordinated Sukuk totaled SAR 2.0 billion at 31 December 2019 compared to SAR 2.0 billion at 31 December 2018.

Borrowings and Sukuk in issue

In the context of normal business practices, the Bank exchanges borrowings and funds with banks and SAMA, in accordance with the commission rate prevailing in the market and are appropriately disclosed in the consolidated financial statements of the Bank.

SAR 2,000 million 10-year subordinated sukuk

On June 2, 2016, the Bank issued 2,000 Subordinated Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 month Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 190 basis point per annum and payable semi-annually in arrears on June 2 and December 2 each year until June 2, 2026, on which date the Sukuk will expire. The Bank has a call option which can be exercised on or after June 2, 2021 on meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. These Sukuk are registered with the Saudi Stock Exchange (Tadawul).

As at

31 December 2019	SAR'000
SAR 2,000 million 10 year subordinated sukuk	2,000,000
Total	**2,000,000**

Borrowing from Banks

Total outstanding at the end of 2019 were SAR 8.3 billion versus SAR 6.4 billion in 2018, higher by 28.5%. This is a short-term activity and represents day to day liquidity / cash flow management.

Staff Benefits and Schemes

In line with the supervisory instructions issued by SAMA, and the principles of Financial Settlement Council, the bank conducts periodical reviews to ensure consistency of staff compensations and reports to the Nomination and Remuneration Committee on the results of such reviews.

Compensation and benefits levels and amounts are determined by conducting periodic salary benchmark surveys and through other means of market pay intelligence, in order to enable the bank to keep abreast of the local and regional market conditions relating to bank staff employed in the Kingdom including taking risk aspects into consideration.

The structure of compensation is composed of a pay mix of fixed and variable pay, allowances, periodic meritorious reward schemes and non-cash benefits in line with the standards and norms for the financial services industry in the Kingdom of Saudi Arabia.

According to the Labor Law of the Kingdom of Saudi Arabia and the Bank's internal policies, staff end of service benefits are due for payment at the end of a staff service period. The total accrued amount of End of Service Benefits outstanding at the end of December 2019 totaled SAR 274 million.

Key Risks faced by the Bank

Bank Aljazira (BAJ) has adopted a fair, transparent and prudent approach towards Risk Management and thus continues to invest into building an infrastructure that is able to pro-actively identify, assess, measure and control the risks the Bank is faced with on an enterprise wide basis.

As a core risk management practice, BAJ management keeps a close track of the top and emerging risks that are expected to emanate and challenge not only the international economies and financial markets but also their ripple effects on the Saudi economy and consequently the financial industry.

The following describes some of the most prominent regional and global issues that have occurred in the review period:

- Significant increase of regional tension, with implications on the stability of the oil market and sustainable oil prices.
- Despite the challenges, the Kingdom of Saudi Arabia has managed to maintain the fiscal deficit under control as the government makes extensive efforts to implement various reforms to reduce the economic reliance on oil, is in line with the Kingdom's vision for 2030.
- Among the challenges considered by the government are to support non-oil economic and financial growth and create new work opportunities.
- Economic growth is expected to pick up due to strong fiscal stimulus and diversification efforts to support the non-oil sector.

1. **Maintenance of Capital Adequacy:**

   Management ensures that the Bank continues to maintain adequate levels of quality capital, allowing it to support the envisaged growth in Risk Weighted Assets (RWA) and also to meet the regulatory capital adequacy expectations. In this regard, the Bank has developed a detailed and well thought of capital enhancement plan, which takes into consideration the underlying advantages, limitations, cost of capital generation and implementation timelines.

In its endeavor to strengthen the Bank's capital position, the management continues to remain at work and has chosen the optimal scenarios which would ensure not only the quantity of capital but also the quality of the capital whilst meeting the regulatory expectations.

2. Liquidity Management:

One of the key risks emanating from the recent global events and their impact on the regional and local financial markets has been the generation of liquidity / funds at a cost that does not outweigh the inflow of economic benefits derived from the financed assets. BAJ's management is cognizant of its liquidity requirements after taking into consideration the current and planned business requirements and has put in place a robust liquidity management framework which ensures a pro-active identification of current and assessed liquidity requirements and gauges the same against the cost of such liquidity. The Bank's ALCO team remains focused on ensuring that the funding / liquidity remains at reasonable costs providing the Bank an opportunity to finance the growth of high yielding assets. On the other hand, the bank has implemented the ILAAP comprehensive procedures (Institutional Liquidity Assessment) as per the supervisory requirements issued by SAMA. The ILAAP process focuses mainly on assessment of liquidity risks for the bank, structure of governance, related strategies and the emergency arrangements to deal with liquidity events.

3. Asset Quality:

BAJ's management focused on ensuring that the quality of assets, across its lines of businesses remains of an acceptable quality, thus rationalizing any unwarranted classifications, provisioning and / or write-offs. The Bank has remained selective across all business segments and has approached its target customer segments with a well-defined approach based on:

- Establishment of a clearly defined credit policy.
- Clearly defining target markets and levels of acceptable risks
- Identified industry segments in terms of risks, rewards, regulatory requirements and their performance trends.
- Risk Acceptance Criteria to ensure risk associated with a particular industry and/ or segment are assessed and managed through specific qualifying parameters and review, control and report same as per the approved limits set by the Board.
- Maintenance of a Target Obligor Risk Rating across its business segments and portfolios to ensure that the same supports the planned asset quality growth, probability of default and cost of credit.

The Bank has adopted a structured approach to adopt IFRS-9 as well as the expected credit losses framework in line with the regulatory mandate.

Market Risk Management

The Bank's willingness to accept risk is influenced by various factors including market volatility, business direction, macro-economic and subjective factors. This is managed and contained through relevant market risk limits and policies governed under the approved risk management framework and regulatory compliance. The Bank continually monitors its market risk by quantifying its capital requirement, profit rate risk, currency risk and by ensuring that its Treasury Business operates within its respective limits. Risk appetite covering Market Risk is subject to the following drivers:

- Capital Adequacy Ratio (CAR)
- Liquid Assets Ratio
- Net Stable Funding Ratio (NSFR)
- Liquidity Coverage Ratio (LCR)
- Loan-to-Deposit Ratio (LDR)
- Concentration of Funding Sources
- Market Risk Factors

Market Risks

Introduction

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

Management of Market Risks

Delegated by the Board, the Market Risk Policy Committee (MRPC) is responsible for the policies, limits and controls used in managing market risks. The Bank has an approved Market Risk Policy and Treasury Limits Package that clearly defines policies, procedures, and limits of market risk exposures.

The primary objective is to manage volatility in earnings and highlight the market risk and liquidity risk profile to Senior Management, Board Risk Committee (BRC), Asset and Liability Committee (ALCO), the Board of Directors and SAMA.

Foreign Exchange Risks

Foreign Exchange risk is the risk that financial assets that are denominated in foreign currency lose value, or financial liabilities that are denominated in foreign currency gain value. The MRPC has set limits on net open positions by currency. There are limits for USD, Other G10 Currencies, GCC Currencies, and currencies in other regions. The Bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals (SAR) and to a limited extent in United States Dollars (USD) or in USD-pegged currencies.

Equity Price Risk

Equity price risk refers to the risk of a decrease in fair values of the Bank's investments in equities. The Bank's portfolio of securities is regularly marked to market and positive/negative changes are taken into the Bank's equity or income statement.

Capital Treatment for Market Risk

Bank Aljazira computes the minimum capital requirements against market risk using the Standardized Approach. The capital serves as a financial buffer to withstand any adverse market risk movements. Profit rate risk and liquidity risks are covered under BASEL Pillar 2 risk assessments which are the primary risk factors experienced in the Bank's activities.

Stress Testing

The Bank performs Stress Testing semi-annually to further evaluate potential losses. By evaluating the size of the unexpected losses, the Bank is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal market conditions using multiple scenarios and undertake the appropriate measures. Given the current economic environment, a broad spectrum of scenarios including liquidity and impact on sources of funding are considered. These scenarios are updated and may be redefined on an ongoing basis. The Stress Test results are reported to Senior Management, Board Risk Committee, Executive Committee, the Board and SAMA to facilitate and manage risks with more transparency.

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up. To mitigate this risk, management actively pursues the diversification of funding sources, assets are priced taking liquidity into consideration while the Bank maintains an adequate balance of cash and cash equivalents.

The recent global financial crisis has resulted in a significant change in the regulation and supervision of liquidity risk in financial institutions. Arising from the Basel III liquidity risk management requirements, two ratios are used to manage liquidity risks: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

Liquidity Risk Management Approach

IIn terms of day-to-day liquidity management, Treasury Business Group ensures sufficient funding is available to meet the Bank's payment and settlement obligations on a timely basis. The process of managing liquidity risk also includes:

- Maintaining a sufficient amount of unencumbered high-quality liquidity buffer as a protection against any unforeseen interruption to cash flows.
- Managing short term and long-term cash flows via maturity mismatch report and various indicators.
- Monitoring depositor concentration at Bank level to avoid undue reliance on large fund providers.
- Diversifying funding sources to ensure proper funding mix which are considered a part of the contingency finance plan and examined periodically.
- Ensuring that regulatory ratios such as SAMA Liquidity Ratio, LCR and NSFR are maintained above the required levels.
- Conducting semi-annually liquidity stress testing under various scenarios as part of prudent liquidity control to examine the effectiveness and robustness of the liquidity plans.
- Adopt ILAAP (Institutional Liquidity Adequacy Assessment) in line with the organizational requirements to focus on the assessment of liquidity risks for the bank.

All liquidity policies and procedures are governed by the Market Risk Policy Manual which is subject to review and approval every year by the Market Risk Policy Committee. In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' term deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities in the form of cash and liquid assets which can be converted into cash within a period not exceeding 30 days.

The bank is currently holding an investment portfolio, with a large portion of it comprising of SAMA Floating Rate Notes and Government Sukuk. This portfolio is considered high quality and liquid with availability of funding (up to 85-90% depending on instrument) through SAMA's repo window.

Operational Risk

Introduction:

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risks and excludes reputational and strategic risks. Operational risks arise mostly from all activities conducted by the bank.

Management of Operational Risk

The established Operational Risk Management (ORM) Framework is designed to maintain a fruitful and effective cooperation between the risk management and the risk owners represented by the various business groups within the bank. While keeping the responsibility of managing the business within the business groups, common grounds were established to involve the operational risk management team in facilitating the risk identification, measurement and assessing of risks and relevant controls.

During the year, the operational risk management team conducted specialized data gathering through meetings with business heads and senior management endeavoring to gain a clear understanding of business directions by cascading the relevant business unit strategic objectives. The approach is designed to associate the management directions, with the allocated operational risk appetite, and the risk profile.

In preparation for and before commencing the risk identification and assessment activity across the bank, a comprehensive risk awareness program was developed and implemented involving management, risk champions and respective risk owners.

A detailed risk heat-map is formed in consultation with business group management to draw their attention to significant and key risks that requires management attention and action on a priority basis.

The key methods used to manage and monitor operational risks are as follows:

Risk & Control Self-Assessment (RCSA)

Risk and control self-assessment is a tool designed to control the performance of control procedures within a specific activity or business. As a part of this tool, a risk register and corresponding action plans are maintained and updated regularly. The review cycle involves discussions with the business groups and provision of periodical reports to the Risk Management Committee to seek directions on risk acceptance and treatment including decision for taking actions to review and to improve the control environment.

Under the Risk and Control Self-Assessment program, the operational risk management team holds workshops to identify and assess the risks and control measures at the level of business and support departments. Control measures are monitored periodically to ensure they perform according to the objectives for which it was designed.

A committee to review the policies and products and to supervise the development of new or existing policies and products has been established. The committee is responsible for holding discussions with the policy or products owners on all aspects of risks to ensure the treatment thereof in the proper way before these are launched.

Key Risk Indicators (KRIs)

Key Risk indicators represent a set of measures to gauge the risks of operation/activity through early warning signs which have been developed to indicate increased risk exposures in the bank. These indicators provide the directions of risk exposures by comparing the achieved results with the limits/indicators set and approved by the bank.

KRIs of business and support departments are defined and assessed through workshops and are periodically monitored by Operational Risk Management. Indicators which reflect the possibility of exposure to risks in excess of pre-set limits are analyzed and discussed in coordination with the respective business and support groups to adopt appropriate corrective plans.

Loss Data Management (LDM)

Loss Data Management is a structured central process to record the losses resulting from operational risks and events taking place in the bank. The purpose is to enable the bank to analyze failures of control measures and prevent recurrence of such events.

The bank has developed specific procedures for collection of data on internal losses through which the risk management group is advised of such losses to be recorded in the operational risk register. Risk Management Departments maintains a comprehensive data base on the operational losses from 2013 to date.

Business Continuity Management (BCM)

The Bank has developed and maintained a full-fledged Business Continuity Management (BCM) program that focuses on protecting the human life and building the continuity and recovery capabilities of key processes and assets. The program is structured based on international standards, best practices, and SAMA requirements and its scope extends to include:

- Crisis Management and Response
- Safety and Security
- People Continuity
- Business Recovery
- IT Disaster Recovery

The Bank's BCM program is ongoing and is regularly reviewed by internal and external stakeholders. These features enhance the Bank's readiness and the capabilities to respond to and manage adverse events, protect key assets, and continue critical processes. The results are minimized negative impacts, enhanced performance and reputation, and compliance to regulatory requirements.

Anti-Fraud Management Program

The bank, with the help of an external advisor reviews the anti-fraud program of the bank. The purpose of this initiative is to implement a comprehensive anti-fraud program that's capable of addressing the following elements:

- Review the structure of anti-fraud management governance and associated strategies.
- Development, Review and Updating of Anti-fraud management directory and policies and the controls contained therein.

- Upgrade the level of fraud risk assessment and measurements relating to fraud control.
- Implement a comprehensive solution for fighting and prevention of fraud as well as for disclosure of fraud in all bank parts.
- Establish a mechanism for transfer of related knowledge, capacities and expertise in the practices of Operational Risk Management in the bank and the bank's operational activities.

Outsourcing

Complying with SAMA regulations on outsourcing, the bank has established a special department to manage the activities of suppliers and external parties. The Operational Risk Management team is involved in reviewing the risk assessment related to outsourcing of material banking activities. This involves a diligent review of operational risks and business continuity requirements that are associated with the outsourced activity.

Measurement of Operational Risk (OR) Capital Charge

Operational Risk capital charge is calculated using the Basic Indicator Approach (BIA) as per SAMA and BASEL III rules. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the Bank. The Bank aims to move towards the approach recommended by Basel Banking Supervision in Basel 3 – Instructions for completion of reforms after the crisis – issued in December 2017 as well as the following instructions issued by SAMA. The bank is in the process of setting a detailed road map for adopting the new method according to the time schedules recommended by the organizing authorities.

The bank will also continue to collect losses data and linking thereof with the business lines in a bid to establish a comprehensive record of internal losses before shifting to the new approach subject to the final directions of SAMA.

Capital Adequacy under BASEL II and BASEL III

The Saudi Arabian Monetary Authority (SAMA) has been at the forefront of ensuring that the Saudi Banking Sector adopts and implements the best practices that Bank for International Settlements proposes and has accordingly issued various guidelines to that effect.

As per SAMA guidelines, BASEL III became effective January 1, 2013 and has brought significant amendments to the computation of regulatory capital and Pillar I risk weighted assets. Furthermore, the Pillar II and Pillar III requirements have also undergone an enhancement under this revised framework.

In December 2017, the Basel Committee on Banking Supervision (BCBS) issued comprehensive reforms to the present Basel III which reforms are meant to seek to restore credibility in the calculation of risk weighted assets (RWAs) and improve the comparability of banks' capital ratios.

The reforms of Basel Banking Control Committee seek to review the standard approach for calculation of credit and market risks and update the credit assessment and operational risks in order to create more sensitivity to risks and comparability. The levied controls on the use of internal forms aim to mitigate the unjustifiable contrast in the calculation of risk weighted assets by banks.

RWAs are an estimate of risk that determines the minimum level of regulatory capital a bank must maintain to deal with unexpected losses. A prudent and credible calculation of RWAs is an integral element of the risk-based capital framework.

With the foregoing in mind, the Bank therefore, monitors the adequacy of its capital using standards and their underlying ratios as set and enforced by SAMA. The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is designed to capture capital requirements for Pillar-II risks, on an as-is and forward-looking basis while taking into consideration the Bank's current exposures and future growth plans. The ICAAP also assesses the resilience of the Bank's business and capital models under various levels of plausible and severe stress scenarios. Based on the Pillar II framework and on a fully consolidated basis, it reflects a risk centric and realistic approach to the assessment of BAJ current and planned capital requirements.

The capital adequacy disclosures have been prepared in accordance with the Basel disclosure guidelines, as issued by SAMA from time to time and as applicable to the Bank.

As a new requirement for 2018, the Saudi Arabian Monetary Authority (SAMA) requires that Banks develop the Internal Liquidity Assessment Plan (ILAAP). The purpose of the ILAAP is to inform the Board of the Bank as well as the regulator of an assessment of the Bank's liquidity risks and the impact on regulatory requirements and capital, where relevant.

ILAAP is a tool that enables the Bank to systematically assess its liquidity requirements given its strategies, business plans, risks and policies. The Bank is in the development phase of ILAAP and on track to comply with regulatory guidelines in this regard.

Accounting Standards

The Bank maintains proper books of accounts and records in an accurate manner. The consolidated financial statements have been prepared in accordance with 'International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA); and in compliance with the provisions of Banking Control Law, the Regulations for Companies in the Kingdom of Saudi Arabia and By-Laws of the Bank.

The accounting policies used in the preparation of annual consolidated financial statements for the year ended December 31, 2019 are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018 except for changes in accounting policies due to adoption of IFRS 16 'Leases' and changes to the accounting treatment of Zakat and income tax.

Appointment of External Auditors

The External Auditors are responsible for the annual audit and quarterly review of the bank's financial statements. The Bank's Annual General Meeting held on 16 April 2019 (corresponding to 11/08/1440) approved the recommendation of the Board of Directors and the Audit Committee to re appoint EY and KPMG Al Fozan and partners as the external Auditors of the Bank for the financial year ended 31 December 2019.

Statutory Payments

The statutory payments paid by the bank in the year 2019 consisted mainly from zakat, income tax and amounts payable to GOSI as staff contributions. The following table includes details of such payments.

The Bank has made the following payments during the year in respect of the mentioned captions:

Type of Statutory Payments	SAR in million
Zakat (for 2018)	65.91
VAT and Withholding tax	75.32
Zakat and VAT paid for previous periods *	149.20
Advance income Tax (for the year 2019)	2.64
GOSI (including Bank and staff shares)	78.45
Visa, Iqama and related services etc.,	2.59

The bank announced on 20 December 2018 that it has agreed with Zakat and Income Tax Department on the settlement of zakat liabilities due for the previous periods up to the end of the fiscal year 2017 against payment of SAR 551 million. An advance payment of this settlement (20%) was paid in 2018, and the balance will be paid on five equal installments within five years commencing on 1 December 2019G (first installment of SAR 88.2 million was paid in 2019) and ending on 1 December 2023.

* This amount includes SAR 88.2 million as first installment of the agreement made with the Zakat and Income Tax Department for settlement of Zakat assessments payable for the previous years up to the end of the fiscal year 2017.

Penalties, fines and Regulatory Restrictions:

The bank acknowledges its full commitment to enforce all banking instructions and systems and the regulatory rules and regulations issued by the supervisory authorities in the conduct of its daily business. The following tables reflect details of the penalties imposed against the bank:

Saudi Arabian Monetary Authority penalties

Subject of violation	Fiscal year 2018		Fiscal year 2019	
	Number of Penalties	Total amount of Penalties SAR	Number of Penalties	Total amount of Penalties SAR
Violation of SAMA supervisory instructions	10	486,794	13	19,017,200
Violation of SAMA instructions for protecting customers	1	55,000	Nil	-
Violation of SAMA instructions related due diligence	2	570,000	Nil	-
Violation of SAMA instructions regarding the level of performance of ATMs and point of sale machines	Nil	-	Nil	-
Violation of SAMA instructions for due diligence in Anti money laundering and the financing of terrorism	1	75,000	Nil	-

The penalties imposed on the bank in the year 2019 relate to comments on the instructions of the Responsible Financing Principles for retail customers, the standard form of home finance contracts (Murabaha and Ijara) for retail customers and the delay in crediting the salaries of some customers till September 2019. Full clarifications on these points were submitted to SAMA, and the bank took the necessary measures to enhance the points raised, improve channels of internal communication as well as communication with the regulatory authorities in order to eliminate recurrence of any further violations.

Other Penalties, fines and Regulatory Restrictions

Zakat and Income Tax Department and other government related entities have imposed fines on the Bank with a total of SAR 217.5 thousand during 2019 as specified below:

Name of the Authority	SAR in thousand
Zakat and Income Tax Department	20.0
Riyadh municipality	189.6
Eastern Province municipality	2.5
Medina municipality	2.0
Ministry of Rural and Municipal Affairs	3.4
Total	**217.5**

Related Party Transactions

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the management and the Board of Directors, the related party transactions are conducted on approved terms. The related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA.

The balances as at December 31st, 2019 resulting from such transactions and included in the consolidated financial statements were as follows:

	2019 SR' 000	2018 SR' 000
Subsidiary companies		
Investments	**501,480**	501,480
Customer deposits	**20,730**	1,984
Due from banks and other financial institutions	**651,371**	505,825
Due to banks and other financial institutions	**290,117**	290,479
Receivables	**289,599**	210,184
Payables	**14,625**	15,369
Commitments and contingencies	**530,247**	530,247
Notional values of outstanding derivative contracts	**2,796,949**	2,958,992
Associate and affiliate entities with significant influence		
Investments	**148,332**	135,770
Customer deposits	**238,400**	374,417
Accrued expenses payables	**24,850**	3,700
Advance against sale of investments	**22,353**	-

Directors, key management personnel, other major shareholders and their affiliates

	2019 SR' 000	2018 SR' 000
Loans and advances	**28,955**	103,569
Customers' deposits	**4,139,319**	47,311
Contingencies and commitments	**977**	2,427

Other major shareholders represent shareholdings of more than 5% of the Bank's issued share capital.

	2019 SR' 000	2018 SR' 000
Mutual Funds under subsidiary's management		
Investments	**287,024**	33,456
Loans and advances, net	**418,182**	392,349
Customer deposits	**-**	548

Income, expenses and other transactions with related parties included in the consolidated financial statements:

	2019 SR' 000	2018 SR' 000
Special commission income	**128,861**	131,574
Special commission expense	**242,521**	155,321
Fees and commission income	**404**	31
Custody fee	**2,624**	839
Net share of expenses to associate	**22,850**	22,147
Insurance premium paid	**55,032**	40,311
Surplus distribution received from associate	**1,169**	1,450
Claims received	**10,729**	10,486
Directors' remuneration	**7,315**	7,834
Dividend received	**-**	7,350
Income under shared service agreements	**3,391**	3,391
Reimbursement of expense to a subsidiary	**117**	103
Reimbursement of rent expense	**7,983**	8,825
Rent expense for branches	**2,705**	2,457
Operating expenses	**-**	92
Sale of sukuk to an associate	**99,895**	-
Participation in DMO sukuk auction for an associate	**75,552**	-

Total amount of remunerations paid to directors and key management personnel during the year:

	2019 SR' 000	2018 SR' 000
Short-term employee benefits	**104,597**	98,467
Termination benefits	**33,416**	29,633

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

The contracts and dealings between the Bank and AlJazira Takaful Ta'awuni Company (AJT) in 2019 amounted to SAR 273.8 MM. These transactions are deemed to be related party transactions given that below member of the Board of directors of the Bank has direct or indirect interest in them as he is the Deputy Chairman of BAJ Board of Directors and Chairman of AJT:

- Engr. Abdulmajeed bin Ibrahim Al-Sultan

'000 SAR

Nature of Contract	Period of the Contract	Transaction amount in 2019
Cost & Resource allocation arrangement - net amount	Ended on 31 December 2019	22,850
Personal Dinar Insurance Policy	One Year	23,874
Mortgage Insurance Policy	One Year	28,091
Group Life Insurance Policy	One Year	2,351
Staff Credit Cover Policy	One Year	717
Special commission expense	Dealings	8,565
Claims received	Dealings	10,729
Surplus distribution received	One Year	1,169
Sale of Sukuks	Dealings	99,895
Participation in DMO Sukuk Auction through BAJ	Dealings	75,552
Total		**273,793**

The contracts and dealings between the Bank and AlJazira Capital in the year 2019 amounted to SAR 28.7 million. These transactions are deemed to be related party transactions given that below member of the Board of directors of the Bank has direct or indirect interest in them as he is board member of the Bank and AJC:

- Mr. Nabil bin Dawood Al-Hoshan

'000 SAR

Nature of Contract	Period of the Contract	Transaction amount in 2019
Service Level Agreement	Effective, unless terminated	3,391
Special Commission expense on time deposits	Dealings	1,159
Special Commission income on money market placements	Dealings	13,532
Rent for branches	Dealings	7,983
Custody fee	Effective, unless terminated	2,624
Total		**28,689**

List of rental contracts where the below listed members of board directors may have direct or indirect interest:

'000 SAR

Contractor	Name of the related party	Relationship	Nature of Contract	Period of the Contract	Amount Paid in Year 2019
Mr. Ahmed bin Othman Al-Kasabi	Eng. Tarek bin Othman Al-Kasabi	Brother of Mr. Ahmed bin Othman Al-Kasabi	Rental for Al-Hassan Bin Ali Road branch	10 years	290
Dallah Health Care Holding Company	Eng. Tarek bin Othman Al-Kasabi	Board member in Dallah Health Care Holding Company	Rental for ATM in Riyadh	5 years	32
Investor/ Consolidated Company for Real Estate Development Owner/ Consolidated Brothers Co.	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Owns part of Consolidated Brothers Co. for development	Rental for Al-Mather Branch	12 years	1,087
Investor/ Consolidated Company for Real Estate Development Owner / Mr. Ibrahim bin Abdul Mohsen Al-Sultan	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Son of Mr. Ibrahim bin Abdul Mohsen Al-Sultan	Rental for Heteen Branch	12 years	966
Consolidated Brothers Co.	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Owns part of Consolidated Brothers Co. for development	Rental for Al-Rehab Branch	12 years	330
Total					**2,705**

Note: The above amounts also include VAT wherever applicable.

Board of Directors Assurance:

The Board of Directors assures shareholders and other stakeholders that to the best of their knowledge and in all material aspects:

- Proper books of account have been maintained
- The system of internal control is sound in design and has been effectively implemented; and
- There are no significant doubts concerning the bank ability to continue as a going concern
- There are no business or contracts in which the bank is a party, or in which any board member, the CEO, Managing Director, Sinior Financial Officer, or senior executives of the bank, or any party dirctly related to them, hold large intersts, except as otherwise disclosed in the (Related Parties Transactions) herein and in the Note 35 - (Transactions with related parties) of the audited financial statements for 2019.
- The Board of Directors did not recommend replacment of the Bank's auditors prior th their term of appointment, and there have been no contradiction between the recommendations of the Audit Committee and the Board resolutions.

Deals with related parties and information relating to any businesses or contracts, in which the bank is a party, or in which any board member, the CEO, Managing Director, Senior Financial Officer, or any party related to them, hold large interests, are disclosed in the (Related Parties Transactions) herein and in Note 35 – (Transactions with related parties) of the financial statements for 2019.

Description of Company's Policy for dividend distribution

In line with the bank's Articles of Association and BAJ Governance document, the bank's dividends policy complies with the Banking Control Law and with the rules and regulations issued by the various competent regulatory authorities. The Bank pays dividends to shareholders as follows:

- Sums required for payment of the Zakat due on Saudi shareholders and the tax due on non-Saudi shareholders shall be calculated according to the laws and regulations in force in Kingdom of Saudi Arabia. Such sums shall be paid by the bank from the net profits paid to these parties
- 25% of net profits, after deduction of Zakat and Tax as hereinabove detailed will be transferred to statutory reserve until this reserve is equal to the paid-up capital of the bank.
- Based on the Board recommendation and AGM endorsement, dividends will be distributed to shareholders in accordance with the numbers of shares held by them.
- Net undistributed dividends will be held as retained profits or transferred to the statutory reserve.

2018 Dividends:

The Shareholders annual general meeting held on 16 April 2019 approved the recommendation of the board of directors to distribute cash dividends of SAR 410 million (net of Zakat) to shareholders for the year ended 31 December 2018, at the rate of SAR 0.5 per share, which represents 5% of the share nominal value. These dividends were distributed to shareholders effective May 5th, 2019.

Proposed way to distribute dividends for the year 2019:

The Board of Directors approved the distribution of a provisional dividend to shareholders for the first half of the fiscal year ended December 31, 2019, which was announced on Tadawul on August 1, 2019, in an amount of SAR 246 million, representing SAR 0.3 per share, or 3% of the share nominal value. The distribution and payment of these provisional dividends have been completed effective August 26, 2019.

For the proposed dividends for the second half of 2019, the Bank announced on Tadawul on January 26, 2020 the recommendation of the Board of Directors to the General Assembly to distribute cash dividends to the bank's shareholders, for the second half of fiscal year 2019, of SAR 246 million at the rate of SAR 0.3 per share, or 3% of the share nominal value.

This brings the total dividends distributed to shareholders for the fiscal year ended December 31, 2019, to SAR 492 million, at the rate of SAR 0.60 per share, or 6% of the share nominal value. Dividends due for the second half of 2019 will be entitled to shareholders registered in the Securities Depository Centre as at the end of the second trading day following the General Assembly date. Payment of dividends is subject to the approval of the AGM to be held on Wednesday, 22/08/1441 H, 15/04/2020. Cash dividend distributions transferred through the resident financial broker for non-resident foreign investors will be subject to a deduction tax of 5% as per Article (68) of the income tax rule and article (63) of executive regulations.

Banking Transactions with the Directors, CEO and CFO:
Notwithstanding the Related Parties Transactions (the details of which are as specified above) in this report which were conducted with third parties at an arm's length, no essential interests exist for any director, the CEO or the CFO.

Credit Ratings

The strength of the credit rating is a sign of the bank's relative financial strength and enhances the Bank's ability to access optimal sources of financing, particularly as credit ratings take into account the financial strengths, liquidity position and reputation of Aljazira Bank taking into consideration the local sovereign rating. The table below reflects the bank's latest credit assessment:

Credit Ratings	Fitch Rating	Moody's	Islamic Int'l Rating Agency
	Mar-19	Oct-19	Feb-19
Short term		F2	F2
Long term		+BBB	
Basic Credit rating (long Term)	baa3		
Outlook Rating	Stable	Stable	Stable
Bank Deposits (short term)	Baa1 / P-2		
International scale			A-/A2
Local scale			A+ / A1 SA

Local supervisory requirements and international standards:

In line with local and international supervisory standards, Bank Al Jazira has taken several measures to monitor the execution of the works in accordance with the instructions of the Saudi Arabian Monetary Authority and the related best international practices. The Compliance and Anti-Money-Laundering and Terrorism Finance Combating Group plays an active role as one of the three defense line systems in enabling Bank Al Jazira to achieve its strategic objectives that have been developed in line with the standards and regulations of the Compliance and Combating Financial Crimes Policy.

In its keenness to ensure the implementation of SAMA instructions and the recommendations of the Financial Action Group, bank Al Jazira has established sustainable controls at the level of the Bank and its various business sectors, which has been reflected significantly in all aspects, including the modifying of the know-your-customer policy and enhancing of staff awareness of the risks of non-compliance and financial crimes. This has been implemented through intensive training courses for staff and awareness messages through electronic channels, as well as review of all policies and strengthening of the automated system for monitoring the risks of non-compliance and anti-money laundering operations and financial crimes including bribery and corruption, and a timetable for reviewing and monitoring the effectiveness of those policies and procedures to comply with regional and global developments.

Board of Directors Secretariat and Governance Group:

The General Secretariat of the Board of Directors is responsible for arranging and organizing the work of the Board and its sub-committees, including preparation for and holding of meetings, keeping records of meetings, receiving

incoming correspondence and documenting the decisions related to the work of the Board and committees and following up on the implementation thereof; all tasks and responsibilities entrusted to the Group by the chairman and members of the Board. The Secretariat of the Board of Directors is also responsible for the works and reports concerning the bank's various business processes and the reporting to the Board of Directors and its committees thereon for review and appropriate decisions.

In addition, the Group is responsible for leading and managing the bank's governance aspects in line with the governance principles issued by the Saudi Arabian Monetary Authority (SAMA) and the CMA's Corporate Governance Regulations. The Group takes into account the formulation and alignment of the bank's governance guidelines and complementary policies relating to addressing conflicts of interest, disclosure, etc., in addition to aligning of the board and committees terms of reference to ensure consistency with the applicable rules and the best practices. The Group contributes to the assessment, suitability and training aspects of the Board of Directors and committees.

As part of the Board's keenness to comply with the supervisory requirements and to promote best governance practices by ensuring the effective implementation of these practices and in order to protect the interests of the Bank on one hand and the rights of shareholders and stakeholders on the other in all activities carried out by the Bank, the Board of Directors has resolved to form a governance committee to oversee the actions needed to promote governance practices perfectly and to ensure that these practices are implemented in all activities of the Bank.

Principles of Corporate Governance

Bank Al Jazira is aware of the positive implications of adopting the principles of corporate governance that require the bank to observe highest professional and ethical standards in its business by implementing disclosure and transparency rules, thereby contributing to the strengthening and improvement of the efficiency of bank's business and relations with its stakeholders. The Bank believes that adoption of these principles will enhance investor confidence in the Bank and positively reflect on the integrity of the banking industry in the Kingdom of Saudi Arabia.

In its keenness, as a financial institution operating in the Kingdom of Saudi Arabia, to align applicable governance principles with the rules and regulations of the supervisory and regulatory authorities and the best practices, Bank Aljazira conducted, in the year 2019, a comprehensive review of all aspects of governance in the bank, including an updated policy that regulates the potential conflict of interests for the board directors and senior executives, and an updated policy that governs disclosure mechanisms and requirements. These two policies were implemented after having been approved by the Bank's Board of Directors. In the Bank's endeavors to enhance channels of communication with its shareholders, the Bank continued its initiatives to urge shareholders holding share certificates, who did not receive their dividends for the past period, to contact the bank in order to update their information and arrange their share rights. A link in the bank's website has been provided for this purpose.

The Bank's Articles of Association and Governance Document guarantee shareholders' right to dividends and to attend, discuss and vote at the general meeting assemblies, and dispose of their shares. Based on the bank's disclosure policy, information and data relating to general meetings, balance sheets, financial statements and directors annual report are provided to shareholders on a continuous basis, published in newspapers and posted on the Bank's electronic website. In the bank's endeavors to further enhance the awareness of its shareholders, the papers relating to general meetings are printed and distributed to shareholders before the holding these general meetings.

In its keenness to comply with the supervisory requirements as provided for in the Corporate Governance Rules issued by CMA and the Governance Principles for banks issued by the Saudi Arabian Monetary Authority, as well as with the other best local and global practices, the bank, in order to satisfy these requirements in a documented framework and methodology, has conducted a comprehensive review, in the year 2019, to ensure that the bank's level of compliance with the governance requirements and with the best applicable practices is evaluated on a regular basis.

The aligned governance framework of Bank Aljazira covers the following policies:

a) Corporate Governance Policies

- Disclosure Policy – reformulated to cope with the regulatory environment variables and approved by the board of directors on 17 September 2019.
- Policy regulating relationships with stakeholders – this policy has been comprehensively reformulated to cover the regulation of relationships with stakeholders and was approved by the board of directors on 19 June 2019.
- Policy regulating relationships with related parties – approved by the board of directors on 16 December 2019
- Policy for remuneration and compensation of board members and members of the board committees and executive management – approved by the Bank's general meeting on 16 December 2019.
- Policy for addressing conflict of interests – approved by the board of directors on 19 June 2019
- Policy for verification of directors' independency – approved by the board of directors on 19 June 2019
- Policies and procedures governing membership of the board of directors – approved at the board's meeting held on 19 June 2019.
- Dividend Distribution Policy – approved at the board meeting held on 19 June 2019.
- Professional and Ethical Conduct Policy - approved at the board meeting held on 19 June 2019
- Bank AlJazira Updated Governance Document - approved at the board meeting held on 19 June 2019

b) Terms of reference of board committees:

The Bank conducted and completed, in 2019, a review of the rules and terms of reference of the board and board sub-committees including (Executive Committee, Audit Committee, Nominations and Remuneration Committee, Risk Committee, Governance Committee, Social Responsibility Committee) in a bid to align such terms with the rules of Corporate Governance, Banks Appointment Standards, Banking Control Law, Corporate Governance Rules and Companies Act. In 2019, the board of directors approved the terms of reference of the board and all board sub-committees, while the bank's general meeting held on 16 December approved the updated terms of reference of the Nomination and Remuneration Committee and Audit committee as per the supervisory requirements.

In accordance with their terms of reference, the board committees shall review their performance and terms of reference on an annual basis in order to ensure their business is carried out at the highest levels of efficiency and that they are committed to comply with the supervisory requirements, while they will recommend any changes deemed appropriate for the approval of the Board of Directors or the General Meeting Assembly.

c) Assessment of the effectiveness of the board, board members and board committees:

As per the supervisory directives contained in the Governance Principles Document, the Corporate Governance Rules and Bank Al Jazira Governance Document, the board of directors evaluates, on an annual basis, the effectiveness of its members and the volume of their participation in its business, both individually and as a group, as well as the effectiveness of the board sub-committees. In the fourth quarter of 2019 the bank designed, prepared and implemented the frameworks for evaluating the effectiveness of the committee business and the tasks performed within the scope of the missions assigned to them, and the result of assessment was submitted to the board. The board, under the directives of the Nomination and Remuneration Committee concluded a self-assessment of the effectiveness of the Board and members for the year 2019, and the results of the evaluation process were provided to the Nomination and Remuneration Committee and the Board of Directors. The bank seeks to entrust the evaluation process to an external consultant to be conducted every three years.

d) Training courses to board and sub-committee members:

In its keenness to enhance the skills of the members of the board and board committees in all aspects of banking industry, direct training and remote learning programs were designed for the whole board term (Jan 2019 – Dec 2021). These programs cover all members of the board and sub-committees. In addition, a number of special training functions were implemented in 2019 covering aspects of governance, compliance and financial crime fighting determinants, money laundering and terrorism financing, credit risks, cyber security.

e) Shareholders rights

Under the related supervisory directives, and as a general rule, the bank is keen to enable shareholders to exercise their legal rights relating to the shares, including the submission of comments and suggestions regarding the bank and performance. To this effect, an e-mail address (ssu@baj.com.sa) was assigned to receive inquiries from all shareholders, and the board was informed of all such inquiries and feedback. In addition, and as per the Bank's practices, the board addressed all questions and inquiries of shareholders raised at the bank's general meetings held in the year 2019 and through the shareholders unit. The board reviews such comments and reacts appropriately to them.

Shareholders Registry submissions

In 2019, submissions to shareholders registry were made as per following details:

No. of submissions made to shareholders register	Submission date	Reasons
(1)	01/01/2019	Others
(2)	24/02/2019	Others
(3)	18/03/2019	Others
(4)	31/03/2019	General Meeting
(5)	11/04/2019	Others
(6)	17/04/2019	Dividends File
(7)	02/05/2019	Others
(8)	28/05/2019	Others
(9)	11/06/2019	Others
(10)	04/08/2019	Dividends File
(11)	27/08/2019	Others
(12)	29/10/2019	Others
(13)	16/12/2019	General Meeting
(14)	02/01/2020	Others

In general, Bank Aljazira complies in letter and spirit with all mandatory provisions and directives contained in the CMA Corporate Governance Rules, which compliance is reflected by incorporating such mandatory requirements in the bank's articles of association, governance document and terms of reference of the board of directors and its sub-committees. Such requirements were also incorporated in the policies and governance frameworks of Bank Aljazira, and in the internal policies and business directories regulating the business of the bank's various departments. These requirements provide for guarantee of shareholders right to the shares and to participate in the general meetings and be provided with all information that enable them to exercise such rights; disclosure of financial and non-financial information; full compliance with transparency requirements within the legal limits; determination of the duties of the board and liabilities of its members and the formation of its various sub-committees in line with its terms of reference which are consistent with the regulatory directives.

1) Composition of the board of directors and membership categories

As per the provisions of the Bank's articles of association, the board of directors of Bank Aljazira consists of 9 members. On 19 Dec 2018, the bank's general meeting convened to select and elect the board directors for a new term from 01 January 2019 to 31 Dec 2021 based on the accumulative voting method. The following members were elected:

SN	Director's name
1	Eng. Tarek bin Othman Al-Kasabi
2	Eng. Abdul Majeed bin Ibrahim Al-Sultan
3	Mr. Nabil bin Dawood Al-Hoshan
4	Mr. Abdullah Bin Saleh Al Rasheed
5	Mr. Ibrahim Bin Abdulaziz Al Shaia
6	Mr. Adel bin Saud Dahlawi
7	Mr. Ibrahim bin Abdullah Alhdaithi
8	Mr. Turki bin Abdullah AlFawzan
9	Eng. Abdulkareem bin Ibrahim Al-Mayouf

In line with the supervisory instructions, after having obtained the consent of the regulatory authorities, a chairman, deputy chairman of the board and a managing director were selected from among the board members. The bank announced on Tadawul website, on 11 Jumada I, 1440 (17 Jan. 2019), SAMA approval of the appointment of :

- Eng. Tarek bin Othman Al-Kasabi – Chairman of the Board of Directors
- Eng. Abdulmajeed bin Ibrahim Al-Sultan – Deputy Chairman of the Board of Directors
- Mr. Nabil bin Dawood Al-Hoshan – Managing Director

The Board of directors has also selected and appointed the chairmen and members of the board sub-committees for the board term 01 Jan 2019 – 31 Dec 2021, as follows:

1. Executive Committee
2. Risk Committee
3. Nomination and Remuneration Committee
4. Governance Committee
5. Social Responsibility Committee (Khair AlJazira le ahl Al-Jazira program)
6. Audit Committee (members appointment was ratified by the general assembly meeting held on 19 Dec 2018).

On 21 Nov 2019, the membership of Eng. Abdulkareem bin Ibrahim Al-Mayouf ended, and the Board, as of 31 Dec 2019, consists of the following members:

SN	Director's name	Membership Classification (Executive – Non-Executive – Independent)
1	Eng. Tarek bin Othman Al-Kasabi	Non-Executive
2	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Non-Executive
3	Mr. Nabil bin Dawood Al-Hoshan	Executive
4	Mr. Abdullah Bin Saleh Al Rasheed	Independent
5	Mr. Ibrahim Bin Abdulaziz Al Shaia	Independent
6	Mr. Adel bin Saud Dahlawi	Independent
7	Mr. Ibrahim bin Abdullah AlHdaithi	Non-Executive
8	Mr. Turki bin Abdullah AlFawzan	Non-Executive

2) Names of board directors, board committee members and executive management and their present and past positions, qualifications and experience:

A. Board of directors:

S	Name	Present Position	Past Position	Qualifications	Experience
1	Eng. Tarek bin Othman Al-Kasabi	1. 2019 – Member, GOSI Board of Directors 2. 1998 - Member, BAJ Board of Directors 3. 2016 - Chairman, BAJ 4. 1995 – Chairman, Dallah Healthcare Company 5. 2010 - Chairman, Ataa Educational Company 6. 2008 – Chairman, Rozam Investment Company 7. 1998 - Chairman, Technical Technology Localization Company 8. 2018 – Member of the Board, Al-Balad Al-Amin Urban development Company 9. 2018 – Member of the Board, Dahiat Sumou Company 10. 2006 - Board Director, Kingdom University (Kingdom of Bahrain) 11. 2013 – Chairman RZM Gayrimenkul Anonim Sirketi (Turkey) 12. 2013 – Chairman, NEBA Gerimenkul Yatirimlari VE Ticaret A.S (Turkey)	1. 2008 -2013 – Chairman, Aljazira Capital 2. 1994-.2007 – Member of the Board, Aseer Trading, Tourism and Industry Company 3. 2007 –2019 – Vice Chairman, Aseer Trading, Tourism and Industry Company 4. 2012-2019 – Chairman, Serb real-Estate Investment Company	Bachelor of Civil Engineering, King Saud University - 1976.	Member of the Board of BAJ since 1998, member of Executive Committee, Previous Chairman of Risk Committee. Chairman and member of the Boards of Directors of many investment companies in and out of the Kingdom of Saudi Arabia.
2.	Eng. Abdul Majeed bin Ibrahim Al-Sultan	1. 1993 - Member of the Board of Consolidated Brothers for Development Co. 2. 2004 - Member of the Board, Aljazira Bank 3. 2013 - Chairman of the Board, Aljazira Takaful Ta'awuni Co. 4. 2013 – Member of the Board, Royal and Sun Alliance Insurance Company (Egypt). 5. 2019 - Chairman of the Board, Al-Durra Development Company	1. 1991 – 2007: Member of the Board, Saudi Packing Materials Manufacturing Company 2. 1998-2018: Member of the Board, Qassim Cement Company	1989 – Bachelor of Engineering– King Saud University, Riyadh	Member of the Board of Directors of Bank Aljazira since 2004. Chairman of the Board, Aljazira Takaful Ta'awuni Company. Member of the Boards of various other investment companies in and out of the Kingdom of Saudi Arabia.
3.	Mr. Nabil bin Dawood AlHoshan	1. 2010 – CEO, BAJ 2. 2013 – Managing Director, BAJ 3. 2013 – Member of the Board, Aljazira Capital 4. 2019 – Vice Chairman, AlJazira Capital	1. 1984 – 1998 – Head of Retail Banking Group, Central province, SABB 2. 1998 – 2001 : Head of Retail Banking Services, Eastern Province, SAMBA 3. 2001-2006: Head of Retail Banking, ANB 4. 2006-2010: Member of the Board, SABB Takaful 5. 2006-2010: Head of Retail Banking, SABB	1984- Bachelor of Accounting, University of King Saud, Riyadh	Wide past experience in a number of Saudi banks at corporate banking group, retail banking group and branch network.
4.	Mr. Abdullah Bin Saleh Al Rasheed	1. 2015 - CEO and Constituent Partner, , Adae Financial and Management Consulting Company 2. 2016 – Member of the Board, Bank Aljazira 3. 2018 – Member of the Board, Basma Real-Estate Marketing Company 4. 2018 – CEO and Chairman of Board of Governors, Insurance International Company	1. 1983-1984, Estimate Budgets Officer, ANB 2. 1984-1988: Financial Affairs Officer, Office of the Educational Attache of KSA in Canada 3. 1988-1992: Financial Affairs Officer, Ministry of Higher Education 4. 1992-2001- Assistant General Manager, Saudi Traveler Cheques Company 5. 2001-2005: Deputy Chief Financial Affairs and member of the Board, Al-Othaim Trading Company 6. 2006-2008: Deputy Chief of Finance and member of the Board of Abdullah Al-Othaim Markets Company 7. 2008-2014: Deputy Chief Officer, Khalid Al Baltan Group Co., Riyadh 8. 2017 - Member of the Board, Mahara Human resources Company	1989 – Bachelor of Engineering –King Saud University, Riyadh.	Member of the Board of Directors of Bank AlJazira since 2004. Chairman of the Board, Aljazira Takaful Company. Member of the Boards of various other investment companies in and out of the Kingdom of Saudi Arabia
5.	Mr. Ibrahim Bin Abdulaziz Al-Shaia	1. 2014 - Manager Finance, GOSI 2. 2016 - Member of the Board, Bank Aljazira. 3. 2019 – Member of the Board, Masdar Company	1. 2002 – 2004: Financial Auditor, Al-Rashid Accountants, Auditors and Legal Consultants. 2. 2008-2009: Part-time advisor for development of financial and electronic administrative work, International Accounting and Auditing Authority for GCC Countries. 3. 2011-2014: Member of the Board, Al Safwa, Elite Cement Company 4. 2011-2015: Head of Budget Department, GOSI	2004: Bachelor of Accounting, King Saud University 2008: Master of Professional Advanced Accounting, University of Queensland For Technology, Australia	Past and present experience in accounting and auditing fields at various financial and investment institutions
6.	Mr. Adel bin Saud Al-Dahlawi	1. 2018 – Assistant CEO For Investment, Dallah Holding Company 2. 2019- Member of the Board, Dallah Health Services Company 3. 2018- Member of the Board, Al-Buhaira Company 4. 2019- Member of the Board, Spanish Restaurants Company 5. 2018- Member of the Boardand general manager, Flower Palace Company 6. 2017- Partner and Constituent, Mawthooq Financil Consulting Company 7. 2019- Member of the Board, Bank Aljazira	1. 1994-2002: Manager Credit – Corporate Credit Dept., Saudi Faransi Bank 2. 2002-2006: Assistant Manager, Corporate Credit, SAMBA 3. 2006-2011: Assistant CEO for Investment, Dallah Holding Company 4. 2011-2017: Managing Director and CEO, Etqan Capital Company	1993 – Bachelor of Medical Science, King saud University	-Commercial banks -Corporate Credit -Investment Management, Banking Investment and Financial Advisory Services.

S	Name	Present Position	Past Position	Qualifications	Experience
7.	Mr. Ibrahim bin Abdullah Al-Hedaithi	1. 2019- CEO, Middle Easte Financial Investment Company (MEFC Capital) 2. 2019- Member of the Board, Bank Aljazira	1. 1983-1989: Finance Manager, Military Affairs, Secretariat General of GCC 2. 1985-1995: Financial Controller, Military Affairs, Secretariat General of GCC 3. 1995-1996 Assistant Director, Investment Department, Secretariat General of GCC 4. 1996-2009: Director, Investment Department, Secretariat general of GCC 5. June 2009 – Dec 2018: Managing Director, Middle East Financial Investment Company (MEFC Capital)	1983- Bachelor of Business Administration, King Saud University	Past and present eperience in financial and investment affairs.
8.	Mr. Turki bin Abdullah Al-Fawzan	1. Director, real-Estate Investment Department, Middle East Financial Investment Company (MEFC Capital)	1. 2004-2005: OIC, Mutual Funds Operations, SAMBA 2. 2006-2007: Assistant Manager, Mutual Funds Department, Bank Al-Bilad 3. 2007-2009: Director, Mutual Funds, Saudi faransi Credit Agricole Company 4. 2009-2011: Manager Mutual Funds, Al-Inmaa Investment Company 5. 2011-2012: Deputy Head of Mutual Funds, Rana Investment Company	2003 – Bachelor of Accounting, King Fahd University for Petroleum and Minerals	Wide experience in real-estate investment and mutual funds at the banking sector and specialized investment companies.
9.	* Eng. Abdulkareem bin Ibrahim Al-Mayouf	1. 2009 – CEO, Advanced Developpers Real-Estate Company 2. 2015- Managing Director, Tihama Advertising, Public Relations and Marketing Company 3. 2017- Member of the Board, National Company for Agricultural Marketing (Thimar)	1. 2012-2015: Director general, Business Development and Strategic Planning, Systems IT Company	2009- Master of Engineering Management, South California University, USA 2008- Bachelor of Electical Engineering, South California University, USA	Wide experience in the fields of Real-Estate and Agricultural Investment, marketing and Public Relations.

* The membership of Eng. Abdulkareem bin Ibrahim Al-Mayouf in the board of directors, Remunerationa and Nomination Committee and Governance Committee ended on 24 Rabi I, 1441 corresponding to 21 November 2019

B. Members of board committees

S	Name	Present Position	Past Position	Qualifications	Experience
I	Eng. Tarek bin Othman Al-Kasabi	1. 2016: Chairman of the Executive Committee, BAJ	1. 1998-2015: Member of BAJ Executive Committee 2. 2013-2015: Chairman of BAJ Risk Committee	Bachelor of Civil Engineering, King Saud University - 1976	Member of the Board of BAJ since 1998, member of Executive Committee, Previously Chairman of Risk Committee. Member of the Boards of many investment companies in and out of the Kingdom of Saudi Arabia
2	Eng. Abdul Majeed bin Ibrahim Al-Sultan	1. 2016: Member of BAJ Executive Committee 2. 2016-2017: Member of Khair Aljazira Le-Ahl Aljazira Committee. 3. 2018 - Chairman of Khair Aljazira Le-Ahl Aljazira Committee.	1. 2009-2012: Member of BAJ Executive Committee 2. 2004-2009: Chairman of BAJ Audit Committee	1989 – Bachelor of Engineering – King Fahd University For Petroleum and Minerals	Member of the Board of Directors of Bank Aljazira since 2004. Chairman of the Board, Aljazira Takaful Ta'awuni Company. Member of the Boards of other investment companies in and out of the Kingdom of Saudi Arabia
3	Mr. Nabil bin Dawood AlHoshan	1. 2013: Member of BAJ Executive Committee	1. 2013-2015: Member of of BAJ Risk Committee 2. 2013-2015: Member of BAJ Nomination and Remuneration Committee	1984- Bachelor of Accounting, University of King Saud, Riyadh	Various past experience in a number of Saudi banks at Corporate Banking Group, Retail Banking Group and branch network
4	Mr. Abdullah Bin Saleh Al Rasheed	1. 2017: Member of Audit Committee, Saudi Gas Cylinder Factory. 2. 2019: Chairman of BAJ Risk Management Committee 2. 2019: Chairman, BAJ Remuneration and Nomination Committee 4. 2018- Member of Audit Committee Majid Investment & Real Estate Development Company		1983 – Bachelor of Management, King Saud University, Riyadh.	Past experience at a number of financial, consulting, administrative and retail companies

S	Name	Present Position	Past Position	Qualifications	Experience
5	Mr. Ibrahim Bin Abdulaziz Al Shaia	1. 2016: Member of of BAJ Risk Committee 2. Member of Remuneration and Nomination Committee, BAJ 3. Member of Audit Committee, Hasana Company 4. Member of Audit Committee, Masdar Company	1. 2010-2013: Member of Audit Committee, Saudi Fransi Insurance Company. 2. 2013-2015: Chairman, Audit Committee – Elite Cement Company	2004: Bachelor of Accounting, King Saud University 2008: Master of Professional Advanced Accounting, University of Queensland For Technology, Australia	Previous and present experience in accounting and auditing fields at financial and investment institutions
6	Mr. Adel bin Saud Al-Dahlawi	1. 2019- Member of BAJ Executive Committee 2. 2019- Chairman of Audit Committee, BAJ	1- CEO – Etqan Capital	1993 – Bachelor of Medical Science, King saud University	Commercial banks, Corporate Credit, Investment Management, Banking Investment and Financial Advisory Services.
7	Mr. Ibrahim bin Abdullah Al-Hedaithy	1. 2019- Member of BAJ Executive Committee	1. Jan 2019-30 Jun 2019: Chairman of Baj Governace Committee	1983- Bachelor of Business Administration, King Saud University	Past and present eperience in financial and investment affairs.
8	Mr. Turki bin Abdullah Al-Fawzan	1. 2019- Member, Risk Committee, BAJ		2003 – Bachelor of Accounting, King Fahd University for Petroleum and Minerals	Wide experience in real-estate investment and mutual funds at the banking sector and specialized investment companies.
S	Name	Present Position	Past Position	Qualifications	Experience
9	* Eng. Abdulkareem bin Ibrahim Al-Mayouf	1. 2017- Present: Member of the Board, National Company for Agricultural Marketing (Thimar) 2. 2019- Member of Remuneration and Nomination Committee, BAJ	1. Director general, Business Development and Strategic Planning, Systems IT Company	2009- Master of Engineering Management, South California University, USA 2008- Bachelor of Electical Engineering, South California University, USA	Various experience in the firlds of Real-Estate and Agricultural Investment, marketing and Public Relations.
10	Mr. Fawaz Bin Mohammed Al-Fawaz	1. 2012: Member of BAJ Audit Committee 2. 2013: Member of Audit Committee, Malaz Insurance Company 3. 2015: Chief Financial Officer, National Industrialization	1. 1983-1999: Assistant Deputy Head of Finance, SABIC 2. 2000-2004: Director General of Services, Accounting Department, SABIC 3. 2004-2009: Director General of Finance, SABIC 4. 2007-2015: Deputy Chairman of the Board and Chairman of Audit Committee, Yanbu National Petrochemical Company	1983: Bachelor of Accounting, King Saud University	Wide past experience in accounting and auditing fields at investment institutions.
11	Mr. Taha Bin Mohammed Azhari	1. 2012: Member of BAJ Audit Committee 2. 2015: Senior Financial Officer, Saudi Civil Aviation Company Holding 3. 2017: Member of the Board of Directors, Batec Logistics and Investment Company 4. 2017: Director of the Board, Zahrat Al Waha Company.	1. 1993-1995: Financial Auditor, Arthur Anderson, Riyadh 2. 1995-1998: Internal Auditor, SAMBA Group 3. 1998-2001: Compliance and Quality Assurance Officer, SAMBA Group 4. 1999-2001: Internal Auditor, SAMBA Group 5. 2001-2004: Head of Internal Audit and Risk Group, Al-Othaim Trading Group. 6. 2004-2008: General Manager Finance Department, Saudi Super Stores Company (Carrefour) 7. 2008-20015: Economic Advisor to the CEO, National Water Company. 8. 2013-2016: member of Audit Committee, Aljazira Capital	1993: Bachelor of Accounting, King Saud University	Wide previous experience in accounting and auditing fields at many financial and investment institutions in and out of the Kingdom
12	Mr. Abdulaziz Bin Ibrahim bin Saad Al-Hadlaq	1. 2013: Member of Khair Aljazira Le-Ahl Aljazira Committee, BAJ	1. 1996-1998: Assistant General Manager, International Organizations Affairs, Ministry of Labor and Social Affairs. 2. 1998-2005: General Manager, International Organizations Affairs, Ministry of Labor and Social Affairs 3. 1996-2005: Member of the Board, International Work Organization 4. 2005-2006: General Supervisor of Public Affairs and Social Media Department, Ministry of Social Affairs 5. 2005-2007: Director of International Cooperation, Ministry of Social Affairs For Social Development 6. 2007-2011: Deputy Assistant Minister, Ministry of Social Affairs For Social Development 7. 2001-2013: Deputy Minister, Ministry of Social Affairs for Social Development 8. 2013-2017: Member of Shura Council	1982: Bachelor of Social Services, King Saud University 1984: Diploma of Community Development, Research and Training Center. 1991: Diploma of International Development, Missouri Columbia University, USA 1992: Masters of Community Development, Missouri Columbia University, USA	Past experience at various departments of the Ministry of Social Affairs in addition to membership of many international community-related organizations

c. Executive Management

Name: Mr. Nabil AlHoshan

Position: Chief Executive Officer and Managing Director

Educational and professional qualifications			
University	Field of Specialty	Qualifications	Year
King Saud University, Kingdom of Saudi Arabia	Accounting	Bachelor Degree	1984

Previous positions				
Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	SABB	Head of Retail Banking - Central Region	1984 – 1998
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Head of Retail Banking - Eastern Region	1998 – 2001
Banks and Financial Services	Listed Joint-Stock Company	ANB	Head of Retail Banking	2001 – 2006
Insurance	Listed Joint-Stock Company	SABB Takaful	Member of Board of Directors	2006 – 2010
Banks and Financial Services	Listed Joint-Stock Company	SABB	Head of Retail Banking	2006 – 2010
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Member of Nomination and Remuneration Committee	2013 – 2015
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Member of the Risk Management Committee	2013 – 2015

Current Positions				
Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	CEO and Managing Director	2010
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Executive Committee Member	2013
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Managing Director	2013
Securities	Closed Joint-Stock Company	Aljazira Capital	Member of Board of Directors	2013

Name: Mr. Yasser Al-Hedaithy

Position: Head of Treasury Group

Educational and professional qualifications			
University	Field of Specialty	Qualifications	Year
King Saud University, Riyadh, Kingdom of Saudi Arabia	Accounting	Bachelor Degree	1994

Previous positions				
Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Held several positions and the latest was Director of Derivatives Trading	1994 – 2001
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Head of Trading Department - Treasury Group	2001 – 2008
Banks and Financial Services	Listed Joint-Stock Company	ANB	Head of Treasury Group	2008 – 2009
Investment	Limited Liability Company	Emaar Investment	Private Business Management	2009 – 2010

Current Positions				
Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of Treasury Group	2010

Name: Mr. Tarek Al-Shubaily

Position: Head of Human Capital Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
Ohio State University, United States of America	Business Administration	Bachelor Degree	1981

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Oil	A Company owned by the Kingdom's Government	ARAMCO	Held several positions and the latest was Deputy Head of Finance and Administration	1982 – 1994
Trading	Limited Liability Company	Mada Trading Co. Ltd. - United Kingdom	Special Projects Deputy General Manager	1994 – 1995
Multi-investment	Limited Liability Company	Mawaridh Holding Co.	Assistant Vice Chairman	1996 – 1997
Banks and Financial Services	Listed Joint-Stock Company	SABB	Held several positions and the latest was Director General of Human Resources	1997 – 2008
Capital Market	Joint - Stock Company	Capital Market Authority (Tadawul)	Director General of Human Resources	March/ September 2009

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of Human Capital Group	2010

Name: Mr. Hamad Al-Ajaji

Position: Head of Private Banking and Wealth Management Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
University of Tennessee, Knoxville - USA	Business Administration	Bachelor Degree	1984

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	SABB	Chief Executive Officer - Credit Cards Divisions	1994 – 2002
Banks and Financial Services	Listed Joint-Stock Company	SABB	Chief Executive Officer - Consumer Credit Services	
Banks and Financial Services	Listed Joint-Stock Company	SABB	Chief Executive Officer - Credit Card Products Division	
Banks and Financial Services	Listed Joint-Stock Company	SABB	Chief Executive Officer - Premiere Division	2002 – 2004
Banks and Financial Services	Listed Joint-Stock Company	SABB	Head of Private Banking Group	2004 – 2011

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of Private Banking and Wealth Management Group	2012

Name: Mr. Khalid Al-Othman

Position: Head of Retail Banking Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
London Business School - UK	Business Administration	Master Degree	2012

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	Banque Saudi Fransi	Head of Retail Banking in Central Region	2003 – 2006
Banks and Financial Services	Listed Joint-Stock Company	NCB	Head of Retail Banking in Central Region	2006 – 2008
Banks and Financial Services	Listed Joint-Stock Company	Al Bilad Bank	Head of Retail Banking Branches	2008 – 2010
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of Retail Banking Branches	2010 – 2011

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of Retail Banking Group	2011

Name: Mr. Hazim Al Megren

Position: Head of Corporate and Institutional Banking Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
King Saud University - KSA	Computer Information Systems	B.A. Computer Science	1995

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Institution	Listed Joint Stock Company	SAMBA	Senior Relationship Manager (Assistant General Manager)	1995 – 2003
Banks and Financial Institution	Listed Joint Stock Company	Gulf International Bank	Corporate Banking Group (Vice President and Team Leader)	2003 – 2008
Banks and Financial Institution	Listed Joint Stock Company	Bank Aljazira	Regional Head Central Region Corporate Banking	2008 – 2018

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banking and Financial Institution	Listed Joint Stock Company	Bank Aljazira / Corporate & Institutional Banking Group	Head of Corporate and Institutional Banking Group	2018

Name: Mr. Ahmed Al Hassan

Position: Chief Operating Officer

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
King Saud University - Kingdom of Saudi Arabia	Computer Sciences	Bachelor Degree	2002

Previous positions

Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Governmental	Governmental Body	SAMA	Systems Analyst	2002 – 2005
Governmental	Governmental Body	SADAD	IT Director	2005 – 2009
Banks and Financial Services	Listed Joint-Stock Company	SABB	Director of Banking Channels Development	2009 – 2011
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of Logistics Transformation Department	Feb 2011- Jun 2011
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of IT Department	Jun 2011 – 2017

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Chief Operations Officer	2017

Name: Mr. Shahid Amin

Position: Chief Financial Officer

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
University of West London	Economics	Bachelor Degree	1990
The Association of Chartered Certified Accountants - UK	Accounting	Member FCCA	1997

Previous positions

Sector	Legal Entity	Company/Organization	Position	Duration of Service
Media	Government Body	British Broadcasting Corporation	Graduate Finance Trainee	1990 – 1993
Retail	Listed Joint-Stock Company	Dixons Carphone PLC	Branch Accountant	1993 – 1997
Distribution	Listed Joint-Stock Company	Hasbro	Northern European Analyst	1997 – 1998
Financial Consultations	Shareholding Company	Lauren Consulting Group - London Branch	Senior Consultant	1998 – 2000
Financial Consultations	Private Company	BA Consulting- London Branch	Senior Consultant	2000 -2002
Banks and Financial Services	Shareholding Company	HSBC Group - London Branch, has been authorized to work in the Group's branch in Saudi Arabia	Head of Cost Management and Finance Coordinator	2002 – 2007
Banks and Financial Services	Listed Joint-Stock Company	SABB	Head of Finance Products Development	2007 – 2010
Banks and Financial Services	Shareholding Company	Al Hilal Bank	Executive Vice President for Finance and Strategic Planning	2010 – 2012

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Chief Financial Officer	2012

Name: Mr. Khalid O. Al-Mogrin
Position: Head of Legal Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
King Saud University, Kingdom of Saudi Arabia	Law	Bachelor Degree	1990
American University, Washington D.C. U.S.A	Law	Master Degree	1998

Previous positions

Sector	Legal Entity	Company/Organization	Position	Duration of Service
Government	Government	Saudi industrial Development Fund, SIDF	Assistant Legal Advisor	1994 – 1995
Energy	Closed Joint-Stock Company	Arab petroleum Investment Corporation	Cases Researcher	1995 – 1999
Energy	Closed Joint-Stock Company	Arab petroleum Investment Corporation	Legal Counsel	1999 – 2001
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Senior Manager	2001 – 2002
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Deputy of Legal Department Head	2002 – 2004
Government	Government	Communication and Information Technology Commission	Legal Counsel & Manager of Dispute Resolution	2004 – 2005
Banks and Financial Services	Listed Joint-Stock Company	Bank Albilad	GM of Legal Affairs	2005 – 2010

Current Positions

Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of Legal and Board Secretary	2010

Name: Dr. Fahad Al-Elayan
Position: Head of Sharia and Social Responsibility Group

Educational and professional qualifications

University	Field of Specialty	Qualifications	Year
Faculty of Sharia- Al Imam University	Education	Bachelor Degree	1990
Applied Linguistics - Al Imam University	Education	Master Degree	1995
Ohio University, United States of America	Education	PhD	2001

Previous positions

Sector	Legal Entity	Company/Organization	Position	Duration of Service
Charity	Charity Foundation	King Abdul Aziz Public Library	Director of the National Cultural Project	2003
Education	Governmental Organization	Ministry of Education	Part time consultant	2003-2007
Education	Governmental Organization	Al Imam Mohammed Bin Saud Islamic University, Saudi Arabia	Vice Dean of the University Center for Community Service and Continuing Education	2005-2008
Education	Governmental Organization	Al Imam Mohammed Bin Saud Islamic University	Faculty member, Education and Social Science College	2001-2018

Current Positions

Sector	Legal Entity	Company/Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of Sharia and Social Responsibility	2008
Charity	Charity Foundation	Awareness and Social habilitation Society	Member of Board of Directors	2017
Sport and Youth	Governmental Organization	Al Shabab Club	Member of Board of Directors	2018

Name: Mr. Osama Al-Ibrahim

Position: Chief Risk Officer

Educational and professional qualifications			
University	Field of Specialty	Qualifications	Year
King Fahd University of Petroleum and Minerals	Industrial Management	Bachelor Degree	1994

Previous positions				
Sector	Legal Entity	Company/Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Customer Relations Manager and Head of Customer Relations	1996 – 2006
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of Corporate Banking Division - Central Region	2006 – 2008
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of Corporate Banking Division - KSA	2008 – 2014

Current Positions				
Sector	Legal Entity	Company/ Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Chief Risk Officer	2017

Name: Mr. Sami Al-Rajhi

Position: Head of Fawri Banking Services Group

Educational and professional qualifications			
University	Field of Specialty	Qualifications	Year
Nebras Commercial Secondary Institute, Riyadh, Saudi Arabia	Banking	Commercial Diploma	2002
The Arab Financial Academy for Banking & Financial Sciences - The Hashemite Kingdom of Jordan	Banking	Banking Diploma	2003

Previous positions				
Sector	Legal Entity	Company/Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	Al Rajhi Bank	Operations Management Supervisor	1990-1993
Banks and Financial Services	Listed Joint-Stock Company	Al Rajhi Bank	transfer center Supervisor	1993 – 1996
Banks and Financial Services	Listed Joint-Stock Company	Al Rajhi Bank	transfer centers Supervisor	1996 – 2006
Banks and Financial Services	Listed Joint-Stock Company	Al Rajhi Bank	Director of Brokerage Department	2006 – 2007
Banks and Financial Services	Listed Joint-Stock Company	NCB	Director of Transfer Department	2007
Banks and Financial Services	Listed Joint-Stock Company	Al Bilad Bank	Director General of Injaz Sector	2008 – 2013

Current Positions				
Sector	Legal Entity	Company/Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira	Head of Fawri Banking Services Group	2013

Name: Mr. Yaqoob Al Oraini
Position: Chief Compliance and AML Officer

Educational and professional qualifications			
University	Field of Specialty	Qualifications	Year
Northern Colorado	Social Science & Sociology	Bachelor Degree	1998

Previous positions				
Sector	Legal Entity	Company/Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Senior Relationship Manager, Corporate Banking	2005 – 2006
Banks and Financial Services	Listed Joint-Stock Company	SAMBA	Senior Manager, Compliance Department	2005 – 2006
Banks and Financial Services	Listed Joint-Stock Company	ANB	Senior Manager Private Services	2006 – 2008
Banks and Financial Services	Listed Joint-Stock Company	Alawwal Bank	Director of Support Group	2008 – 2011
Banks and Financial Services	Listed Joint-Stock Company	Alawwal Bank	Head of Compliance Group	2011 – 2018

Current Positions				
Sector	Legal Entity	Company/Organization	Position	Appointment Date
Banks and Financial Services	Listed Joint-Stock Company	Bank Aljazira / Compliance	Chief Compliance and AML Officer	08 April 2018

Name: **Mr. Mohammed Al Obaid**
Position: Head of Corporate Governance and Board Secretariat Group

Educational and professional qualifications			
University	Field of Specialty	Qualifications	Year
King Saud University	Administrative Sciences	BA	1990

Previous positions				
Sector	Legal Entity	Company/ Organization	Position	Duration of Service
Banks and Financial Services	Listed Joint-Stock Company	SABB	Various Posts	1993 – 2004
Banks and Financial Services	Listed Joint-Stock Company	SABB	Deputy Corporate Secretary and Head of Compliance	2004 – 2014
Banks and Financial Services	Listed Joint-Stock Company	SABB	Corporate Secretary	2015 – 2017

Current Positions				
Sector	Legal Entity	Company/Organization	Position	Appointment Date
Financial Services	Closed Joint-Stock Company	Amlak International Real Estate Finance Company	Member of Audit Committee	Oct 2017
Banking and Financial Institutions	Listed Joint-Stock Company	Bank Aljazira	Head of Corporate Governance and Board Secretariat Group	April 2019

Name: Mr. Abdulaziz Al Zammam

Position: Chief Internal Audit Executive

Educational and professional qualifications			
University	Field of Specialty	Qualifications	Year
University of London – Royal Holloway - UK	Information Security	Masters of Science	2007
King Saud University	Computer Science	Bachelor Degree	2001

Previous positions				
Sector	Legal Entity	Company/Organization	Position	Duration of Service
Government	Government	SAMA	Banking Inspector	2002 – 2010
Semi Government	Governmental Body	Ministry of Communication and IT	Audit and Compliance	2010 – 2013
Banking and Financial Services	Listed Joint Stock Company	Riyad Bank	VP – Audit Division Head	2013 – 2019

Current Positions				
Sector	Legal Entity	Company/Organization	Position	Appointment Date
Banking and Financial Institutions	Listed Joint-Stock Company	Bank Aljazira	Chief Internal Audit Executive	March 2019

3) Brief description of the responsibilities and functions of board committees such as Audit and Nomination and remuneration committees Details of Committee names, chairmen and members, number and dates of meetings and member attendance for each meeting are also listed:

1. Board Executive Committee

As per the bank's articles of association and its terms of reference, the executive committee of Bank Aljazira consists of 5 board members chosen by the board of directors and chaired for the board term by the chairman of the board of directors. The board of directors determines the authorities and powers of this committee. It is the responsibility of the executive committee, in accordance with the delegated powers, to monitor the implementation of the strategy and policies set by the board of directors, risk management and control of the bank's performance, recommend the balance sheet and action plan submitted for the fiscal year, and ensure proper implementation of the policies of the board of directors, in addition to monitoring the efficiency of internal control standards and policies implementation. The committee holds 6 meetings at least per year. The executive committee for the current term has been re-formed at the board of directors' meeting (211) held on 07 Jumada I, 1440H (13 January 2019). The committee held 11 meetings during 2019 which were attended by members of the committee as described in the table below:

	Name	Functional Duties	No. of meetings: 11 (eleven) meetings										
			1st. meeting 29/01 2019	2nd. meeting 07/02 2019	3rd. meeting 19/02 2019	4th. meeting 18/03 2019	5th, meeting 16/04 2019	6th. meeting 22/05 2019	7th. meeting 28/05 2019	8th. meeting 19/06 2019	9th. meeting 17/09 2019	10th. meeting 18/11 2019	11th. meeting 16/12 2019
1	Eng. Tarek bin Othman Al-Kasabi	Chairman of Executive Committee	√	√	√	√	√	√	√	√	√	√	√
2	Eng. Abdul Majeed bin Ibrahim Al-Sultan	Member	√	√	√	√	√	√	√	√	√	√	√
3	Mr. Nabil bin Dawood Al-Hoshan	Member	√	√	√	√	√	√	√	√	√	√	√
4	Mr. Adel bin Saud Al-Dahlawi	Member	√	√	√	√	√	√	√	X	√	√	√
5	Mr. Ibrahim bin Abdullah Al-Hedaithi	Member	√	√	√	X	√	√	√	√	√	X	√

2. Audit Committee:

This committee plays a key role in helping the Board of Directors to meet its supervisory duties regarding the integrity of the bank's financial statements and the independency and qualifications of auditors, effectiveness of disclosure controls and procedures, effectiveness of the internal audit and external auditors, adequacy of the Bank's internal accounting systems and financial controls, supervision of the bank's compliance department and evaluation of its alignment with the ethical policies and regulatory and supervisory requirements.

The Extra-ordinary general assembly, in its meeting held on 19 Rabia II,1441 (16 Dec 2019), ratified the terms of reference and duties of the audit committee. The committee reviews the quarterly financial statements and assists the board of directors in carrying out the evaluation and annual review pf the efficiency of internal controls, identifying potential risks and development of strategic plans to mitigate them.

The results of the annual audit of effectiveness of the bank's internal control procedures have reflected good and acceptable levels of controls. In this regard, BAJ adopts all policies and procedures required by the various statutory bodies and best international practices

The audit committee membership consists of the chairman to be chosen from among the non-executive members of the board of directors and two independent members at least from outside the bank. The committee holds 4 meetings at lease per year, and the meetings of audit committee are attended by the Chief Internal Audit and the Chief Financial Officer on a regular basis. The meetings are also attended by the CEO and senior executives as required. The audit committee was re-formed for this term at the board meeting No. 211 held on 07 Jumada I, 1440 (13 Jan 2019). The committee held 6 meetings during 2019 which were attended by the chairman and members, as shown in the table below:

	Name	Functional Duties	No. of meetings: 6 (Six) meetings					
			1st. meeting 28/01/2019	2nd. meeting 20.03.2019	3rd. meeting 15.04.2019	4th. meeting 21.07.2019	5th. meeting 10.09.2019	6th. meeting 20.10.2019
1	Mr. Adel bin Saud Al-Dahlawi	Chairman of Audit Committee	√	√	√	√	√	√
2	Mr. Fawaz Mohammed Al Fawaz	Member of Audit Committee	√	√	√	√	√	√
3	Mr. Taha Bin Mohammed Azhari	Member of Audit Committee	√	√	√	√	√	X

3. Nomination and Remuneration Committee

The board of directors, based on its powers and authorities, forms the Nomination and Remuneration Committee which consists of 3 members appointed by the board after having obtained SAMA non-objection. The functions and duties of the committee focus on recommending nominations to the Board of Directors as per the approved policies and standards, performing annual reviews on the skills required for the membership of the board of directors, performing reviews of the board of directors' structure and recommending those changes that could be carried out. The committee is also responsible for ensuring the independence of independent members and lack of any conflict of interests in case any director was also a member in any other company's board, ensuring recommended appointment is commensurate with the proper skills and required qualifications, and development and review of remuneration for the directors and senior executives.

The Extra-ordinary general meeting, in its 58th meeting held on 19 Rabia II,1441 (16 Dec 2019), ratified the terms of reference and duties of the Nomination and Remuneration Committee. The committee holds two meetings at least per year.

The members of the Nomination and Remuneration Committee were appointed for the present board term at the board's meeting No. 211 held on 07 Jumada I, 1440H (corresponding to January 13, 2019). The committee held two meetings during 2019 which were attended by the chairman and members of the committee as reflected in the table below:

	Name	Functional Duties	No. of meetings: 2 (Two) meetings	
			2nd.meeting 16/040/2019	1st. meeting 07.11.2019
1	Mr. Abdullah Bin Saleh Al Rasheed	Chairman of the Nomination and Remuneration Committee	√	√
2	Mr. Ibrahim Bin Abdulaziz Al Shaia	Member of the Nomination and Remuneration Committee	√	√
3	* Eng. Abdulkareem bin Ibrahim Al-Mayouf	Member of the Nomination and Remuneration Committee	√	√

4. Board Risk Committee

This committee assists the board of directors in fulfilling the responsibilities of overseeing the risks in the bank's businesses and controls. Its duties and responsibilities, as per its terms of reference aligned in 2019, are focused on supervision and control, review of the bank's ability to manage and undertake risks based on appropriate analysis, and formulation of appropriate risk management policies. It also approves the credit rating system in the bank and risk policies for assets and liabilities management as developed by the Assets and Liabilities Committee. The committee measures the exposures to financial risks and other significant exposures as well as the steps taken by the management to monitor, control and report cases of risks, including, but not limited to, review of credits, market, liquidity, reputational, operational, fraud and strategic risks in addition to evaluating exposures, tolerance levels and approval of appropriate transactions or commercial restrictions. The committee also reviews the scope of risk management and the targeted activities related to the functions of the Bank's risk management.

As per its terms of reference, the board risk committee holds 4 meetings at least per year.

The members of the board risk committee for the current term have been appointed at the board of directors' meeting No. 211 held on 07 Jumada I, 1440H (January 13, 2019). The committee held 6 meetings during 2019 which were attended by the chairman and members as stated in the table below:

	Name	Functional Duties	No. of meetings: 6 (Six) meetings					
			1st. meeting 20.02.2019	2nd. Meeting 28.03.2019	3rd. meeting 01.05.2019	4th. Meeting 11.09.2019	5th. meeting 26.09.2019	6th. Meeting 03.12.2019
1	Mr. Abdullah Bin Saleh Al Rasheed	Chairman of the Board Risk Committee	√	√	√	√	√	√
2	Mr. Ibrahim Bin Abdulaziz Al Shaia	Member of the Board Risk Committee	√	√	√	√	√	√
2	Mr. Turki bin Abdullah AlFawzan	Member of the Board Risk Committee	√	√	X	√	X	√

5. Committee of the 'Khair Aljazira le Ahl Aljazira' program

This committee plays an important role in assisting the board of directors in the fulfillment of its social responsibilities related to the 'Khair Aljazira le Ahl Aljazira' program. It is responsible for the formulation of policies and procedures related to the activities and social responsibility programs, approval of the annual budget for 'Khair Aljazira le Ahl Aljazira' program, approval of the annual plan for the program, creating solutions for the obstacles that might hinder the social responsibility programs and review of the objectives of the program by highlighting the bank's role in the community service. It also contributes and participates actively in many social responsibility programs in the Kingdom, builds cooperation and communication between the bank and the authorities related to those programs and establishes specific partnerships with associations and charities in the kingdom which contribute to highlighting the role of private sector in enhancing the process of social responsibility. The Committee also strives to create an appropriate environment to help the youth and rehabilitate them for the market, and it provides distinctive programs for rehabilitating disabled people. The committee of the 'Khair Aljazira le Ahl Aljazira' program reports annually to the Board of Directors about the activities and functions of 'Khair Aljazira le Ahl Aljazira' program.

As per its terms of reference, the social responsibility committee holds 4 meetings at least per year.

The members of the social responsibility committee for the current term have been appointed at the board of directors' meeting No. 211 held on 07 Jumada I, 1440H (January 13, 2019). The committee held 4 meetings during 2019 which were attended by the chairman and members as stated in the table below:

	Name	Functional Duties	No. of meetings: 4 (Four) meetings			
			1st. meeting 28.01.2019	2nd. meeting 16.05.2019	3rd. meeting 08.10.2019	4th. meeting 09.12.2019
1	Eng. Abdulmajeed bin Ibraheem Al-Sultan	Chairman of Social Responsibility Committee ('Khair Aljazira le Ahl Aljazira' program Committee)	√	√	√	√
2	Mr. Abdulaziz Bin Ibrahim bin Saad Al-Hadlaq	Member of Social Responsibility Committee ('Khair Aljazira le Ahl Aljazira' program Committee)	√	√	√	√
3	Dr. Fahd bin Ali Al-Olayan	Member of Social Responsibility Committee ('Khair Aljazira le Ahl Aljazira' program Committee)	√	√	√	√

6. Governance Committee

In line with the supervisory requirements of the Companies Act, the rules provided for in the Governance Principles for banks operating in the Kingdom, and the guidelines contained in the corporate governance rules issued by CMA, which call for the formation of committees emanating from the board of directors to undertake part of the board duties relating to governance affairs, the board of directors was keen to fulfill these supervisory requirements and to enhance best practices by ensuring the effective implementation of such practices in order to protect the bank's as well as shareholders' and stakeholders' interests in all activities conducted by the Bank.

The Board of Directors approved at its meeting No. 211 held on 07 Jumada I, 1440 (13 Jan 2019) the formation of the governance committee and appointment of its members. The committee held three meetings in 2019 as stated in the table below:

	Name	Functional Duties	No. of meetings: (3) Three meetings		
			1st. meeting 03.03.2019	2nd. meeting 20.03.2019	3rd. meeting 20.05.2019
1	Mr. Ibrahim bin Abdullah Al-Hedaithi (*)	Chairman of Governance Committee	√	√	√
2	Eng. Abdulkareem bin Ibrahim Al Mayouf (*)	Member of Governance Committee	√	√	√
3	Mr. Alwaleed bin Fahd Al-Sinani (*)	Member of Governance Committee	√	√	√

(*) Membership of Mr. Ibrahim bin Abdullah Al-Hedaithi in the Governancce Committee ended on 27 June 2019
(*) Membership of Mr. Abdulkareem bin Ibrahim Al Mayouf in the Governancce Committee ended on 21 Nov 2019
(*) Membership of Mr. Alwaleed bin Fahd Al-Sinani in the Governancce Committee ended on 18 June 2019

4. Details of the entities in/out of the Kingdom, in which members of BAJ Board of Directors hold/held board membership or management positions, excluding BAJ membership:

Director's name	Names of the companies in which members of the Bank Board hold present board membership or management positions	In /out of the Kingdom	Company type (Listed joint-stock/ unlisted joint-stock/ limited liability, etc...)	Names of companies in which members of the Bank Board held past board membership or management positions	In /out of the Kingdom	Company type (Listed joint-stock/ unlisted joint-stock/ limited liability, etc"
Tarek bin Othman Al-Kasabi	1. GOSI 2. Dallah Health Services Company 3. Ataa Educational Company 4. Rozam Investment Company 5. Technical Technology Localization Company 6. Al-Balad Al-Amin Company for Urban Development 7. Kingdom's University Company (Kingdom of bahrain) 8. RZM Gayrimenkul Anonim Sirketi (Turkey) 9. NEBA Gerimenkul Yatirimlari VE Ticaret A.S (Turkey)	In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom Out of Kingdom Out of Kingdom Out of Kingdom Out of Kingdom	Government Dept. Listed Joint-Stock Listed Joint-Stock Closed Joint-Stock Limited Liability Co. Closed Joint-Stock Limited Liability Co. Closed Joint-Stock Closed Joint-Stock	1. Aljazira Capital 2. Aseer Trading, Tourism and Industry Company 3. Serb Real-Estate Investment Company	In Kingdom In Kingdom In Kingdom	Closed Joint-Stock Closed Joint-Stock Closed Joint-Stock
Eng. Abdul Majeed bin Ibrahim Al-Sultan	1. Consolidated Brothers for Development Co. 2. Aljazira Takaful Ta'awuni 3. Royal and Sun Insurance Company (Egypt) 4. Al-Durrah Development Company	In Kingdom In Kingdom Out of Kingdom In Kingdom	Limited Liability Listed Joint-Stock Listed Joint-Stock Listed Joint-Stock	1. Packing and Wrapping Manufacturing Company 2. Qassim Cement Company	In Kingdom In Kingdom	Listed Joint-Stock Listed Joint-Stock
Mr. Nabil bin Dawood AlHoshan	1. Aljazira Capital	In Kingdom	Closed Joint-Stock			
Mr. Abdullah Bin Saleh Al Rasheed	1. Adae Financial and Management Consulting Co 2. Insurance World Company 3. Saudi Gas Cylinder Manufacturing Company 4. Majid Investment and Real Estate Development Company	In Kingdom In Kingdom In Kingdom In Kingdom	Limited Liability Limited Liability Closed Joint-Stock Closed Joint-Stock	1. ANB 2. Educational Attache of KSA in Canada 3. Ministry of Higher Education 4. Saudi Traveler Cheques Company 5. Al-Othaim Commercial Company 6. Al-Othaim Holding Company 7. Khalid Al Baltan Group, Riyadh 8. Mahara Human Resources Company	In Kingdom Out of Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom	Listed Joint-Stock Government Dept. Government Dept. Closed Joint-Stock Listed Joint-Stock Closed Joint-Stock Limited Liability Listed Joint-Stock
Mr. Ibrahim Bin Abdulaziz Al Shaia	1. GOSI	In Kingdom	Government Body	1. Al-Rashid Accountants, Auditors and Legal Consultants. 2. Accounting and Auditing Organization for GCC Countries. 3. Saudi Fransi Insurance Company	In Kingdom In Kingdom In Kingdom	Limited Liability Government Body Listed Joint-Stock

Director's name	Names of the companies in which members of the Bank Board hold present board membership or management positions	In /out of the Kingdom	Company type (Listed joint-stock/ ulisted joint-stock/ limited liability, etc…	Names of companies in which members of the Bank Board held past board membership or management positions	In /out of the Kingdom	Company type (Listed joint-stock/ ulisted joint-stock/ limited liability, etc…
Mr. Adel bin Saud Dahlawi	1. Dallah Health Services Company 2. Flower Palace International Company 3. Fast-Food Restaurants, Spain 4. Al-Buhaira Company, Tunisia	In Kingdom Out of Kingdom Out of Kingdom Out of Kingdom	Public Joint-Stock Public Joint-Stock Limited Joint-Stock Private Joint-Stock Anonymous Joint-Stock	1. Saudi Faransi Bank 2. SAMBA 3. Dallah Holding Company 4. Etqan Capital Company 5. Mawthooq Company	In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom	Public Joint-Stock Public Joint-Stock Limited Liability Saudi Closed Joint-Stock Office
Mr. Ibrahim bin Abdullah Al-Hedaithi	1. Middle East Financial Investment Company (MEFC) 2. Freshlink Company LTD 3. Beaat Alwatan National Environment Company	In Kingdom Out of Kingdom In Kingdom	Closed Joint-Stock Limited Liability	1. Body Masters Company 2. Albasar Medical Services Ltd. Co.	In Kingdom In Kingdom	Limited Liability Limited Liability
Mr. Turki bin Abdullah Al-Fawzan	1. Middle East Financial Investment Company (MEFC)	In Kingdom	Closed Joint-Stock	1. SAMBA 2. Rana Investment Company 3. Inma'a Investment Company 4. Saudi Faransi Credit Agricole Company	In Kingdom In Kingdom In Kingdom In Kingdom In Kingdom	
Eng. Abdulkareem bin Ibrahim Al-Mayouf	1. Advanced Developers Real-Estate Investment Company 2. Tihama Advertising, Public Relations and marketing Company 3. National Company for Agricultural Marketing (Thimar).	In Kingdom In Kingdom In Kingdom	Listed Joint-Stock Listed Joint-Stock	1. Systems Information Technology Company	In Kingdom	

5. Statement of Shareholders General meetings held during the past fiscal year and the names of attending directors:

Two shareholders general meetings were held in the year 2019G:

1) First Extra-Ordinary General Meeting held on 16 April 2019.

The following agenda was discussed:

1. To approve the directors report for the fiscal year ended 31 December 2018.
2. To approve the financial statements for the fiscal year ended 31 December 2018.
3. To approve the auditors' report for the fiscal year ended 31 December 2018.
4. To relieve the directors from their liability for the year ended 31 December 2018.
5. To approve the appointment of the auditors of the bank from the list of nominees based on the recommendation of the audit committee, to review and audit the financial statements of the first, second and third quarters, and the annual financial statements for the year 2019 and to fix their fees.
6. To approve the Board recommendation for distribution of dividends to shareholders for the fiscal year ended 31 December 2018 of SAR 0.5 per share after deduction of Zakat, which represents 5% of the paid-up capital, in the amount of SAR 410 Million. Eligibility for the dividends will be to the shareholders holding the shares as at the end of trading on the general meeting day and who are registered in the bank's share registry at the depository center as at the end of the second trading day following the due date. Dividend distribution date will be announced at a future date.
7. To approve amendment of article 20 of the bank's articles of association relating to Audit Committee
8. To approve amendment of article 24 of the bank's articles of association relating to the quorum and resolutions of the board of directors
9. To approve amendment of article 31 of the bank's articles of association relating to general assemblies
10. To approve amendment of article 43 of the bank's articles of association relating to annual reports
11. To approve amendment of article 46 of the bank's articles of association relating to disputes
12. To approve the transactions and contracts which will be concluded between the bank and AlJazira Takaful Ta'awuni Company (Related Party) as the board director, Eng. Abdulmajeed bin Ibrahim Al-Sultan (Non-Executive director), holds indirect interest therein, and also because he is a member of the board of AlJazira Takaful Ta'awuni Company. The contracts cover the collective insurance agreement for the personal finance

portfolio, collective insurance agreement for the real-estate finance portfolio, collective insurance services agreement for bank staff and agreement for protection of staff loan portfolio. The sum of this related transaction in the year 2018 amounted to SAR 92.2 Million. No preferential conditions apply to this transaction.

13. To approve the transactions and contracts which will be concluded between the bank and AlJazira Capital (Related Party) as the board director, Mr. Nabil bin Dawood Al-Hoshan (Executive director), holds indirect interest therein (being a member of the board of Aljazira Capital). This transaction covers common services, Tamam product partnership agreement, agreement for special commission expenses on term deposits and branch rental expenses agreement. The sum of this related transaction in the year 2018 amounted to SAR 26.4 Million. No preferential conditions apply to this transaction.

14. To approve the transactions and contracts which will be concluded between the bank and Mr. Ahmed bin Othman bin Abdullah Alkasabi as the bank's chairman, Eng. Tareq bin Othman Alkasabi, (Non-Executive director) holds indirect interest therein being the brother of the owner of the leased property. The transaction covers a lease contract of a property located at Al-Hasan bin Ali Street that is used as a branch of the bank. The rental for the year 2018 of this property amounted to SAR 276, 555 for the contract period 01.02.2018 – 31.01.2019G. No preferential conditions apply to this deal.

15. To approve the transactions and contracts which will be concluded between the bank and Consolidated Brothers Development Company as the director of the board, Eng. Abdulmajeed bin Ibrahim Al-Sultan (Non-Executive director), holds indirect interest therein being a shareholder of Consolidated Brothers Development Company. The transaction represents a lease contract of the property used as a branch of the bank, located in Al-Rehab District, Al-Arba'een Street opposite to National Guards Complex in Jeddah. The rental for the year 2018 of this property amounted to SAR 330, 000 for the contract period 30.04.2018 – 29.04.2019G. No preferential conditions apply to this transaction.

16. To approve the transactions and contracts which have been concluded between the bank and Consolidated Brothers Development Company as the director of the board, Eng. Abdulmajeed bin Ibrahim Al-Sultan (Non-Executive director), holds indirect interest therein being a shareholder of Consolidated Brothers Development Company. The transaction represents a lease contract of the property used by the bank's Al-Ma'athar Road branch in Riyadh. The rental for the year 2018 (1439H) of this property amounted to SAR 900,000 for the contract period 22.06.1439H – 21.06.1440H. No preferential conditions apply to this transaction.

17. To approve the transactions and contracts which have been concluded between the bank and United Company for Real-Estate Development as the latter has leased out the land plot located on Turki Al-Awal Street, Hiteen District, Riyadh, which is owned by Mr. Ibrahim bin Abdulmohsen Al-Sultan as the director of the board, Eng. Abdulmajeed bin Ibrahim Al-Sultan (Non-Executive director), holds indirect interest therein being the son of Mr. Ibrahim bin Abdulmohsen Al-Sultan. The transaction represents a lease contract of the bank branch in Hiteen District (Hiteen plaza), Riyadh. The rental of this property for the year 2018 amounted to SAR 920,000 for the contract period 06.04.1439H – 05.04.1440H. No preferential conditions apply to this transaction.

18. To approve the transactions and contracts concluded between the bank and Dallah Health Company, which represent a lease contract of an ATM location in which the director of the board, Eng. Tareq bin Othman Alkasabi (Non-Executive director), being the chairman of Dallah Health Company, holds an indirect interest. The transaction in the year 2018 represented a lease contract of an ATM location at Dallah Hospital in Riyadh. The rental for this property amounted to SAR 30, 000 for the contract period 01.05.2018 – 30.04.2019. No preferential conditions apply to this transaction.

The Bank published on 17 Sha'aban 1440 (17 April 2019), on Tadawul and BAJ sites, the resolutions taken at this General Meeting.

2) Second Extra-Ordinary General Meeting held on 16 Dec 2019.

The following agenda was discussed:

1. To approve amendment of article (22) of the bank's Articles of Association relating to the appointment of the chairman/deputy chairman/chief executive officer, managing director and secretary

2. To approve the remuneration policy for the board members, sub-committee members and senior executives.

3. To approve the social responsibility policy

4. To approve amendment of audit committee terms of reference

5. To approve amendment of remuneration and nomination committee terms of reference

6. To authorize the board of directors to pay dividends on half yearly or quarterly basis, for the year 2020, if any, and to fix due date and payment date as per the regulatory instructions issued, in implementation of the Companies Act and in line with the bank's financial position, cash flows and investment and expansion plans.

7. To vote on authorizing the board of directors of the powers of the ordinary general meeting, as per the authorization provided for in item 1 of article 71 of the Companies Act, for one year from the ordinary general meeting approval, or up to the end of the authorized board term, whichever occurs first, in line with the regulatory controls and instructions issued in implementation of the Companies Act provisions regarding listed joint-stock companies

The Bank published on 20 Rabi II, 1441H (17 Dec 2019), on Tadawul and BAJ sites the resolutions taken at this General Meeting.

The table below shows board directors attendance of the two meetings:

S	Name	1st. EOGM (16.04.2019)	2nd. EOGM (16.12.2019)
1	Eng. Tarek bin Othman Al-Kasabi	√	√
2	Eng. Abdul Majeed bin Ibrahim Al-Sultan	√	√
3	Mr. Nabil bin Dawood Al-Hoshan	√	√
4	Mr. Abdullah Bin Saleh Al Rasheed	√	√
5	Mr. Ibrahim Bin Abdulaziz Al Shaia	√	√
6	Mr. Adel bin Saud Dahlawi	√	√
7	Mr. Ibrahim bin Abdullah AlHdaithi	√	√
8	Mr. Turki bin Abdullah AlFawzan	√	√
9	Eng. Abdulkareem bin Ibrahim Al-Mayouf	√	X

6. Management Committees

The governance framework of Bank Aljazira is based on the structure of the board of directors, 6 board sub-committees and 11 management committees. The governance structure is also based on a series of governance empowerment factors which ensure achievement of required clarity and good discipline of governance, namely: institutional values, design of organizational structure, procedures and policies, bank's matrix of authorities as well as effective communication at internal and external levels.

Bank Aljazira formed the following management committees to undertake specific tasks and esponsibilities. Membership of these committees is restricted to the bank's employees and officials who are directly involved in the business of these committees:

- **Management Committee**
- **Credit Committee**
- **Asset and Liabilities Committee**
- **IT Steering Committee**
- **Risk Management Committee**
- **Market Risk Policies Committee**
- **Compliance Committee**
- **Product Review Committee**
- **Business Continuity Committee**
- **SMEs Committee**
- **Information Security Committee**

7. Notification relating to shareholding of major shareholders:

The Bank did not receive any notifications from shareholders and related parties regarding change of their shareholding in the bank as per the provisions of article 68 of the requirements for securities issuance and continuous liabilities issued by the Capital Market Authority. The following tables include description of the interests of major shareholders, board directors and senior executives and their spouses and minor children in the bank's shares or debt instruments:

Description of any interest, securities or subscription right held by major shareholders:

S	Name of interested person	Beginning of the year 2019		End of the year 2019		Net change	% change
		No. of share	Debt instruments	No. of share	Debt instruments		
1	Consolidated Brothers Development Company	54,070,295	-	54,070,295	-	-	0%

Description of any interest, securities and subscription rights held by the directors of the Board and their spouses and minor children

S	Name of interested person	Beginning of the year 2019		End of the year 2019		Net change	% change
		No. of share	Debt instruments	No. of share	Debt instruments		
1	Eng. Tarek bin Othman Al-Kasabi	25,093	-	-	-	-25,093	-100%
2	Eng. Abdulmajeed bin Ibrahim Al-Sultan	2,731	-	2,731	-	-	0%
3	Mr. Nabil bin Dawood Al- Hoshan	5,464	-	5,464	-	-	0%
4	Mr. Adel bin Saud Dahlawi	0	-	0	-	-	0%
5	Mr. Turki bin Abdullah AlFawzan	50	-	50	-	-	0%
6	(*) Mr. Abdulkareem Ibrahim Al-Mayouf	1,000	-	0	-	-1,000	-100%
7	Mr. Abdullah Bin Saleh Al Rasheed	2,050	-	2,050	-	-	0%
8	GOSI, represented by Mr. Ibrahim Bin Abdulaziz Al Shaia	25,890,372	-	7,390,992	-	-18,499,380	-71%
9	Mr. Ibrahim bin Abdullah Al-Hedaithi	10,172	-	10,172	-	-	0%

Description of any interest, securities or subscription right held by major shareholders:

S	Name of interested person	Beginning of the year 2019		End of the year 2019		Net change	% change
		No. of share	Debt instruments	No. of share	Debt instruments		
1	Mr. Nabil bin Dawood Al- Hoshan CEO and Managing Director	5,464	-	5,464	-	-	0%
2	Mr. Shahid Amin Senior Finance Officer	-	-	-	-	-	0%
3	Mr. Mohammed bin Ibrahim Al-Obaid Company Secretary and Head of Governance Group	-	-	-	-	-	0%

8. Number and dates of Board meetings held in the last fiscal year, and attendance record detailing names of attending directors:

As per the Bank's Articles of Association, the board of directors shall hold at least (4) four meetings at least per year. In 2019, the board held (8) eight meetings as detailed in the table below:

Director's name	No. of meetings: 5 (Five) meetings							
	1st. meeting 13.09.2019	2nd. meeting 16.04.2019	3rd. meeting 4.05.2019	4th. meeting 08.05.2019	5th. meeting 19.06.2019	6th. meeting 17.09.2019	7th. meeting 21.11.2019	8th. meeting 16.12.2019
Eng. Tarek Othman Al Kasabi	√	√	√	√	√	√	√	√
Eng. Abdulmajeed Ibrahim Al Sultan	√	√	√	√	√	√	√	√
Mr. Nabil Dawood Al-Hoshan	√	√	√	√	√	√	√	√
Mr. Abdullah bin Saleh Al Rasheed	√	√	√	√	√	√	√	√
Mr. Ibrahim bin Abdulaziz Al Shaia	√	√	√	√	√	√	√	√
Mr. Adel bin Saud Dahlawi	√	√	√	√	X	√	√	√
Mr. Ibrahim bin Abdullah Al-Hedaithi	√	√	√	√	√	√	√	√
Mr. Turki bin Abdullah AlFawzan	√	√	√	√	√	√	√	√
Mr. Abdulkareem Ibrahim Al-Mayouf	√	√	√	X	√	√	X	X

9) Details of any arrangements or agreement under which any director of the board or senior executive of the bank has waived any remuneration or right:

The Bank is not aware of any arrangements or agreements for the waiver by any of the directors of the board or senior executives of any of their rights to any remuneration.

10 Details of any arrangements or agreement under which any shareholder of the bank has waived any right to dividends:

The Bank is not aware of any arrangements or agreements for the waiver by any of the bank shareholders of any of their rights to any dividends.

11) Actions taken by the Board to notify its members – particularly non-executives – of shareholders suggestions and comments regarding the bank and its performance:

In line with the relevant supervisory directives and as a general rule, the Bank facilitates the full exercise of shareholders of all their statutory rights related to the shares, including the making of suggestions and comments about the Bank and its performance. In line with the Bank's practices, the Board has directly answered the questions and queries raised by Shareholders at the two AGMs held in 2019, or through Shareholders Unit. The Board reviews such suggestions and comments and takes the appropriate action in this regard.

Compensation Policy and Directors and Senior Executives Remuneration

The BAJ reward and compensation policy determined the rewards and compensations payable to members and non-members of the Board of Directors inaccordance with the rules setout by the supervisoryauthorities. The policy is based on the recommendations of the Remuneration and Nomination Committee; it is designed to be adequate to attract members for the board and sub-committee who hold the appropriate qualifications and experience to match the bank's activities. In general, the policy is subject to the rules of Companies Act, Principles of Governance of Banks operating in the Kingdom of Saudi Arabia, the Rewards and Compensation rulesissued by the Saudi ArabianMonetary Agency, Corporate Governance rules and the implementing rules of the Companies Act relating to listed joint-stock companies issued by CMA, BAJ Articles of Association, BAJ Governance Document and BAJ Compensation policy and SAMA Circular, which provide that the maximumreward, compensation orbenefits paid annually tomembers of the Board andsub-committees shall not exceed SAR 500.000, excluding the chairman and members of Audit Committee. During 2019, none of the board members or sub-committees did any work of a technical or advisory nature, and therefore did not receive any special benefits for that. The following table details the rewards and compensations paid to members of the Board and sub-committees for their membership, and for senior executives of the bank, during the year, emphasizing that there was no fundamental deviation from the rules and regulations governing such compensation:

(SAR thousands)

	Fixed compensation (divided into 6 categories)	Variable compensation (divided into 5 categories)	End-of-service award	Total	Expenses Allowance
Board members	4,001	70	-	4,071	33
Independent directors	1,751	45	-	1,796	28
Non-executive directors	1,800	25	-	1,825	5
Executive directors	450	-	-	450	-
5 senior executives including CEO and Senior Finance Officer	17,240	18,410	-	35,650	-
Audit Committee members	300	85	-	385	10
Remuneration and Nomination Committee members	-	30	-	30	-
Risk Management Committee members	-	85	-	85	-
Executive Committee members	-	215	-	215	-
Social Responsibility (Khair Aljazira Le Ahl Aljazira) Committee members	200	60	-	260	-
Governance Committee members	50	45	-	95	-

** The audit committee, Social Responsibility Committee and Governance Committee includes members who are not directors of the board.*

Internal Audit Group

The Bank's Internal Audit Group performs internal independent audit and control review function for the Bank, covering all businesses, functions, and geographies. The group uses standardized internal audit methodologies in providing confirmation and independent opinion in relation to assessment of risks and internal control systems including the submission of recommendations and follow up to optimize the internal control systems' efficacy end enhance awareness of their efficiency and importance.

The Chief Audit Executive manages the group and the Audit Committee has an oversight responsibility for ensuring that the group's objectives are achieved. Internal Audit pursues a risk-based approach in the planning and execution of audit evaluation engagements on risk-based prioritization. The scope of internal audit encompasses all aspects of internal systems, governance and risk management systems.

Internal Audit provides an independent and objective evaluation assurance of risk and control activity for senior management and furnishes them with recommendation and information concerning activities reviewed.

The Group maintains a Quality Assurance and Improvement Program that covers all aspects of the internal audit activity.

Annual Review of the Effectiveness of Internal Control Procedures

Being a financial institution, the Bank attached high importance to the internal control environment. At the Bank, effective internal control procedures are in place across the organization by applying the principle of 3 defense lines. This is adopted based on their suitability to the work patterns of the bank taking into consideration the best practices and international standards applicable in the banking and financial industry and by contracting with international organizations to provide advisory services to evaluate and optimize the efficiency of control systems, and their effectiveness is continuously monitored and tested by the control functions in the Bank, and additionally tested by the independent external auditors and regulatory inspection team.

The Board of Directors and its committees as well as the executive management play a vital role in the enhancement of internal control environment through direct supervision of the functions of the bank's control groups such as Internal Audit, Compliance and Risk groups. The internal control process relies basically on the efficacy of the control systems in the bank. The effective internal control increases confidence in the financial reports and audit processes.

The results of the annual audit of the effectiveness of the internal control procedures of the Bank have reflected good and acceptable levels of controls.

Audit Committee review of the adequacy of the bank's internal control systems.

During 2019, the Audit Committee reviewed various reports to assess and measure the adequacy of internal controls and systems, including the financial statements and risk reports. The committee also reviewed the minutes of the various management committees such as the Risk Management Committee and the Compliance Committee. The committee's discussions and resolutions are documented in the minutes of the meetings and issues that require attention are brought to the Board of Directors.

During the year, members of the Audit Committee held meetings with the heads of internal audit groups, risks, compliance, financial control and external auditors, where the Committee was briefed on the latest developments on issues requiring the committee's attention. The Committee also received internal audit reports, regulatory and supervisory reports, as well as the letters of external auditors made to the management during the year and reviewed the management's action plans for the issues filed.

The audit committee also reviewed the effectiveness of the internal control system, procedures for compliance with the Bank's internal policies and relevant regulatory and legal requirements in Saudi Arabia, and whether the management has fulfilled its duties in establishing an effective internal control system and seek independent confirmation by the internal audit for assessment of the adequacy and effectiveness of such internal controls.

The Audit Committee confirms to the Board of Directors and shareholders that, to their best knowledge and in all material respects, the bank's internal control system is adequate and effectively implemented. The committee also confirms that the recommendations relating to appointment, dismissal, assessment or fixing of the fees of the auditors were approved by the Board.

Retail Banking Group

The Retail Banking Group continues to redefine banking services and enhances BAJ position within the Saudi banking market by offering innovative products and digital banking solutions to the highest standards compliant with Islamic Sharia.

Our products and services are designed to satisfy the customer needs which reflect the bank's mission, from opening accounts through branches or via the Internet and to avail our products like debit cards, credit cards, personal finance, in addition to a leading group of real estate financing products.

The retail Group is striving to provide the best banking services through a growing network of distribution channels represented by 78 branches, 19 Ladies sections, 607 ATMs, and 10,192 Point of Sale devices. Furthermore, our Electronic Banking services are among the best in the Saudi Market with AlJazira Phone being awarded for being the best in contact center and customer service in the world. AlJazira SMART and Aljazira Online re-launch has made a great impact on usage and transaction-based returns. Overall,retail Liabilities portfolio has increased by 26% to reach SAR 42.038 million in Dec 2019. Meanwhile, the Group's Loans book has increased by 27% in Dec 2019 to SAR 27,568 million from SAR 21.659 million in Dec 2018.

Following the promising growth in the Real Estate finance market, the Bank's real estate finance portfolio grew by 26% in 2019, with an estimated market share of 5.8% by year end. This is due to the cooperation of the bank by launching all programs and initiatives of the Ministry of Housing and the Real Estate Development Fund, which would achieve the ambitious goals of Vision 2030 regarding the housing sector.

As the country witnessed the world's biggest initial public offering, BAJ played a major role in facilitating the subscription of ARAMCO IPO through its multiple channels, including digital platform. In addition, BAJ provided up to SAR 2 million IPO financing to the customers with no administration fees, while supporting the IPO via awareness campaigns throughout the subscription period.

Private Banking and Wealth Management Group

The Private Banking Group serves the high net worth Individuals segment by providing a comprehensive array of private Sharia-compliant banking services and products.

The group devotes all of its experience and capabilities to deliver & achieve the financial goals and objectives of its customers in a professional and timely manner.

Customer deposits amounted to SAR 11.572 Million as of the end of 2019.

The Group Collaborates closely with Aljazira Capital to provide advisory services and investment opportunities for HNW individuals. This continuous collaboration has led to a significant increase in the size of our customer investment portfolios, where the total value of the Group's customer Portfolios reached SAR 7, 618 Million as of the end of 2019.

The Group meets the credit needs of its customers through its credit unit with an objective to meet the credit requirements of all its customers in a way that meets their finance needs and purpose of investments. Total credit facilities portfolio increased by 140% to reach to SAR 1,985 million as of the end of 2019.

The Group serves its customers through 4 centers located in Riyadh, Jeddah, AlKhobar and Makkah. These centers offer all services and banking transactions needed by HNW individuals through highly qualified Saudi cadres.

And As Part of our continuous effort to grow and progress in a very competitive market and make sure we continue to provide our high net worth individual Family Office and endowment Clients with full suite of wealth products and services we have recently signed an advisory agreement with Royal Vision Group a DIFC licensed wealth advisory company to assist private banking in developing our sharia compliant wealth management proposition platform.

This Agreement also comes in line with the agreed action points recommended in the latest strategy paper that was approved by BAJ board of directors.

Banking Services Group - FAWRI

Fawri continued to excel its performances year on year but 2019 has been extremely remarkable, as Fawri managed to take substantial market share despite of stiff competition mainly from new entrants and made a landmark introduction of "Fawri Account Card', first of its kind in the history of Saudi Remittance Business.

Expanding remittance branch network to 61 centers Kingdom-wide, Fawri has also added electronic platforms to send money for both BAJ & Non-BAJ (Fawri) customers. Through "Fawri Account Card",

Fawri customers can send money at their fingertips Via JOL, BAJ ATMs and BAJ Smart App. In addition, this card can also be used for making Government & Utility payments and POS purchases (MADA).

In association with MTO Partners - MoneyGram and RIA, payout network has been expanded to 600,000+ locations across the World. Besides, Fawri now has 21 DIRECT CORRESPONDENT partners in 10 countries namely Philippines, Pakistan, Egypt, Nepal, Sri Lanka, Yemen, India, Jordan, Sudan and Indonesia.

On marketing front, Fawri continued to be pioneers and led from the front by strengthening its marketing team and by executing several promotional campaigns throughout the year, garnering utmost visibility and customer reach.

Moving forward in 2020, Fawri is determined to increase its market share and revenue pool by introducing cost-efficient products & services primarily; focus on digitalization of remittances and Social media platforms.

Enterprise Risk Management Group (ERMG)

During the year 2019 Bank Aljazira continued its drive to focus on strengthening the Risk Management culture and ensuring the same is institutionalized at an enterprise wide basis. With this objective set forth, the management remained committed to ensure that the bank adopts best in class risk management practices supported by necessary infrastructure, in terms of people, processes and systems so that the practices adopted become embedded in the cultural fabric of the bank.

The priority has been to strengthen the Enterprise Risk Management function with core emphasis on the following:

1. Building a robust architecture and risk strategy to facilitate not only the current business strategy but also to adapt to the changing business landscape and environment.

2. Investment in and development of risk analytics capabilities and technology to lay a strong foundation for the Risk Data Warehouse. In this regards the bank has planned to invest in relevant technology infrastructure to adopt the Basel Committee on Banking Supervision (BCBS) 239 practices. The ultimate vision of the bank is aimed at developing a state-of-the art Risk Data Warehouse serving as the single source of truth for all risk data and analytics needs.

3. Delineation of the approvals and review processes, ensuring that Risk Approvers and Reviewers remain independent with an objective of strict adoption to Credit Committee Culture and minimum four eyes principle.

4. Enterprise Information Security Function in line with the banks mission and strategy, continued its effort to strengthen, protect information and information systems to ensure that the confidentiality, integrity and availability of all information is commensurate with mission needs, information value, and associated threats.

5. Alignment and strategizing Capital Adequacy process in sync with bank's strategic direction. The Internal Capital Adequacy Assessment Process (ICAAP) goals are being continually rationalized in accordance with the existing strategic focus and the business plan on an annual basis. Capital adequacy assessment has been carried out in accordance with the nature, size and complexity of the Bank's Business Model along with detailed documentation.

6. The Bank has also developed its Internal Liquidity Adequacy Assessment Process (ILAAP) Framework in accordance with regulatory mandate. ILAAP primarily focuses on the Bank's Liquidity Risk Assessment, Governance structure, associated strategies and contingency arrangements to deal with both, foreseeable and unforeseen liquidity events.

7. mplementation of the Basel Program, perceived as a critical opportunity to:

   a. Upgrade and align the bank's risk management policies and procedures to ensure that the same are in line with the global best practices and local regulatory requirements.

   b. Develop, institutionalize and monitor detailed Risk Appetite Framework, which acts not only as a connection between the Board's strategy and Business execution of the same, but also serves as a feedback loop to ensure alignment of the strategy with the prevailing business and regulatory environment.

   c. Review, validate and improve the Pillar – 2 Risk Assessment Models, on a continuing basis, aligning them to the industry's best practices and SAMA guidelines and expectations.

   d. Continuously update Pillar-1 reporting to ensure that these reports are accurate, timely and remain in line with the regulatory expectations.

8. Refining and Strengthening the Stress Testing framework, prepared in light of best practices, SAMA and Basel guidelines enabling the bank to conduct Regulatory stress testing across various risk parameters and scenarios. Results of the stress testing are taken as a valuable feedback for business and capital planning purposes on a forward-looking basis.

9. Ensuring that the bank remains compliant with Financial Institution under IFRS-9.

10. Implementation of an Operational Risk Policy/ Framework that is compliant with the recommendations of the Basel Committee and SAMA. This framework aims to promote and encourage a culture of risk awareness and loss prevention across the Bank. It lays down the principles of how operational risks are identified, assessed, mitigated, monitored & reported within the Bank.

11. Ensuring through validation and calibration that Bank's credit risk rating models and score cards maintain their forecasting power to assess the risk associated with default of a prospective and / or existing customer. The bank has been at the forefront in successfully validating and implementing its recalibrated risk rating models.

12. Re-organization of Fraud Risk Management & Investigation Unit under the auspices of the Enterprise Risk Management. Bank is in the process of putting in place the best in class Fraud Risk Management Program capable of addressing both, SAMA requirements and international best practices.

Corporate and Institutional Banking Group (CIBG)

Corporate Banking Group (CBG)

With its unique Shari'a compliant corporate banking products and services, Bank AlJazira has positioned its self among the leading banks offering world class banking experience. The financial instruments offered to corporate and commercial clients have enabled the bank to be dynamic in accommodating the financial requirements of our clients. Moreover, the working environment structure and the swift decision making have paved the way to extend to our clients personalized financial banking services including but not limited to advisory solutions. All these initiatives and efforts has contributed to diversify our clients' base to include government and public sectors, financial institutions and top tier private sector companies.

Our endeavors in CBG are to pursue unmatched corporate banking expertise, thus helping to formulate a strategic partnership with our clients via offering standards continuing to receive appreciation from our partners.

BAJ's Corporate Banking Business demonstrated an excellent performance, growing its loan book by 18% and focused on developing new market segments. The overall client relationship became the key driver of performance and cross-sell of BAJ's powerful suite of Islamic products was emphasized. Corporate Banking Segment remains an active participant in public and private sector projects. We have built a well-diversified portfolio on the strength of our long-term relationships where we aim to contribute with a range of financing, trade, foreign exchange and other supporting services. The growth in advances remains cautious and selective in order to maintain our focus on asset quality and to minimize the risk of portfolio impairment given the overall macroeconomic environment.

Economic slowdown is now showing positive signs of recovery and we are well poised to gain momentum by capitalizing on our key strengths being our existing market position, strong brand name and relationship-driven business model combined with a dedicated approach, strong focus on risk management, resilient revenues and proven management track record. Going ahead, we aim to further consolidate our business by growing selectively in avenues offering an acceptable risk profile.

Specialized Finance (SFD)

In line with the overall focus of the Bank, the Specialized Finance Division (SFD) offers its expertise in project and structured financial solutions along with the agency functions to large corporate customers. It continues to achieve a solid performance in FY2019 which has been a turning point in its development and repositioning. Having re-strategized its resources, SFD has continued playing active roles in the project and syndication finance arena with other leading banks in major mega-deals. This year has offered many refinancing opportunities which have been considered on a selective basis.

During the year, Bank Aljazira was also conferred upon a Top Partner Award during the Strategic Partnership Conference held by the International Islamic Trade Finance Corporation (ITFC), the trading arm of Islamic Development Bank for its contribution to Syndicate Financing deals, which are a strong testament of the well diversified capabilities of the Division.

Commercial Banking Services (CBS)

Commercial Banking Services (CBS) was established in 2012 to provide a wide range of commercial banking products and services to small and medium enterprises in the Kingdom. Operating out of three regional offices, CBS provide a full suite of products connecting and serving all commercial banking clients around the Kingdom via its various channels. Accordingly, customer base reached a current level of around 800 clients.

Going forward, CBS will continue to provide enhanced services to play a pivotal role in delivering Shari'a compliant banking products and services that meet and exceed customer requirements.

SME's are the commercial backbone of any economy, and supporting their growth and prosperity remains one of BAJ's main goals. Accordingly, and along with the kingdom's 2030 vision, the bank endeavors to increase SME's contribution to the overall GDP from 20% to 35%. To help achieve that goal, the bank continues its strategic alliances with government bodies that help and support this sector, such as the Saudi Industrial Development Fund, through the Kafalah program, where the bank is considered a very decent contender within the banks ranked at the second highest tier with the aim to reach top tier ranking in 2020.

We are also working on increasing our alliances with other government bodies such as the General Authority for Small and Medium Enterprises (Monsha'at), Saudi Development Bank, Saudi agricultural Bank and MODON, which will be extremely helpful for all parties.

2019 was a difficult year, as BAJ had to manage various challenges both internally and externally. Internally, in the form of reaping the benefits of the complete overhaul of CBS personnel, policies & procedures & overall working environment, enforcing discipline, efficiency and hard work, and externally through working in difficult overall market conditions and commercial environment. Operationally, Profits were much higher than the previous year, with the bottom line surging into double digit growth.

Looking forward, we are to focus on growing this very important and profitable area of the bank, with the support and guidance of the banks higher management, whom are very confident that we can continue the very strong turnaround and have BAJ's CBS become the top service provider for SME's in the kingdom.

Financial Institutions Unit (FIU)

Financial Institutions Unit (FIU) manages the bank relationship with domestic and international banks, other financial institutions, as well as supra-national entities, FIU specializes in understanding regional trade, cash management business need along with the intensive insight into the dynamic variable of our correspondents home countries, The FIU succeeded in managing and developing a rapidly growing global partner bank network to enable BAJ to cater to its core clients' banking needs around the world by enhancing the capabilities of BAJ for meeting customer requirements and facilitating the finance of money remittances and commercial transactions, In addition, FIU has the ambition to make BAJ the partner bank of choice in the Kingdom.

Public Sector Unit (PSU)

Public Sector is a business unit within Corporate & Institutional Banking Group that manage Government and quasi-government entities. Our portfolio consists of various sectors such as industrial customers in the Power Sector, Energy, Petrochemical, Shipping, Transportation and Telecommunications. The complex nature and quality of the services required by Public Sector clients necessitates dedicated and well-established specialists team to serve the needs of Public customers, the services provided by the unit covers finance solutions, property finance, banking investment services, project finance, cash management solutions and latest e-banking technologies. The Public Sector Unit is also a gate for other modern products and services in Treasury and Investment Banking services.

Global Transaction Services (GTS)

Global Transaction Services (GTS) stands as the leading business in providing banking solutions, liquidity services, and commercial and investment transactions to the customer of commercial and financial institutions in all part of the Kingdom of Saudi Arabia.

GTS payment solutions cover a complete spectrum of domestic and international transactions which consist corporate e-banking

(E-Corporate) and (E-Trade) that aims to provide cash management and transaction service in the best cost – effective and time – efficient manner, aptly supported by state of the art technological platforms where its technical solutions are tuned to be error-free. GTS continuously works with the clients to enhance its services and delivery by addressing the change needs of its customers and by leveraging on the technological advancement in the Banking Industry.

GTS provides full support to all products available for corporate clients as well as the commercial finance services such as enabling the full sight of the account information and the establishment of local or foreign payment services within a secure environment around the clock. These futures are in addition to Payroll Services and wages protection system (WPS) offered under the name of "Rawatebcom", Payroll Services is dedicated to corporate customers in order to simplify payroll administrative activities for their employees. This service is provided in a high level of security to manage payroll data with simplicity rapidity and convenience.

The growth strategy of GTS is aligned with the fundamental trends that are driving change in terms of digitization and processing modernization across all business sectors in Saudi Arabia.

Micro, Small and Medium size Enterprises (MSMEs)

Currently approved definition of MSMEs

MSMEs customers have been categorized in line with the bank's internal policies and standards based on SAMA guidelines, as follows:

Entity Type	Annual Revenues (Sales)SR MM	Number of Employees (Full Time)*
Micro Small	0 to 3	01 to 05
Small	3 to 40	06 to 49
Medium	40 to 200	50 to 249
Large	Greater than the above criteria	

*Bank AlJazira considers Annual revenue as the main criteria, however, if these criteria are not available, then the number of full time employees becomes the main criteria for segmenting MSME clients.

Initiatives for MSMEs taken by the Bank

- BAJ has established 3 dedicated Units for SME located in 3 Regions (i.e. Central, Eastern & Western)
- Established Kafalah Team to cater the needs of Micro Small Entities clients.
- Established a new Risk Acceptance Criteria / Customer Selection Criteria for SME including a scoring mechanism for a fast track approval.
- Established a dedicated Call Centre (SME Phone Banking) to serve SME existing and new prospect clients. Toll free number "800 244 9090"
- A new unit to attract new customers and act as a central unit for reception and review of all special cases relating to MSMEs customers.
- Creation of new provisions in the Bank's Articles of Association for classification of customer categories and the needs of SME customers.
- Review of the overall performance of MEMEs on a monthly basis through a committee headed by the CEO.
- Develop a dedicated training programs for RM focusing on relationship, credit & risk management.
- SME is also in the final stage of concluding Credit Card for SME customers.
- In the final stages of launching the new "A'amal" (Businesses) program which represents a set of integrated banking and financial solutions to meet the requirements of enterprise customers.
- In the final stage of launching a 6-month training program for businessmen at small and medium projects to enable them change their ideas into real enterprises/companies.

MSMEs unit and staff in the unit

MSMEs unit is managed by CBS within the Institutional Corporate Banking Group. CBS has more than 58 dedicated staff serving MSMEs clients.

Number of training and workshop for staff and customers :

Number of training for Staff	286
Number of training for Customer	1

Loans, Commitments and Contingencies granted to micro, small and medium enterprises:

'000 SAR

	2019			
	Micro	Small	Medium	Total
Loans to MSMEs on BS	**48,896**	**215,111**	**550,354**	**814,361**
Loans to MSMEs off BS	**85,366**	**258,425**	**153,786**	**497,577**
On BS MSMEs Loans as a % of Total BS Loans	**0.1%**	**0.4%**	**1.1%**	**1.6%**
Off BS MSMEs Loans as a % of Total BS Loans	**0.2%**	**0.5%**	**0.3%**	**1.0%**
Number of Loans on and off BS	**131**	**533**	**558**	**1222**
Number of Customers for Loans	**322**	**240**	**143**	**705**
Number of Loans guaranteed by Kafalah program (on & Off BS)	**33**	**73**	**15**	**121**
Amount of Loans guaranteed by Kafalah program (on & Off BS)	**20,653**	**56,119**	**37,738**	**114,510**
	2018			
	Micro	Small	Medium	Total
Loans to MSMEs on BS	42,278	240,622	683,650	966,550
Loans to MSMEs off BS	52,091	331,049	203,530	586,670
On BS MSMEs Loans as a % on Total BS Loans	0.1%	0.6%	1.7%	2.4%
Off BS MSMEs Loans as a % on Total BS Loans	0.1%	0.8%	0.5%	1.4%
Number of Loans on and off BS	87	466	589	1,142
Number of Customers for Loans	347	249	141	737
Number of Loans guaranteed by Kafalah program (on & Off BS)	43	84	7	134
Amount of Loans guaranteed by Kafalah program (on & Off BS)	26,244	55,193	9,868	91,305

Treasury Group

Treasury ended another successful year by achieving higher year on year profitability, while optimally managing the balance sheet in terms of liquidity and risk, through efficient portfolio optimization and diversification of funding sources. Thus, Treasury continues to strongly contribute to bank's net income.

Liquidity shortage was witnessed by the market in the last quarter owing to issuance of ARAMCO's IPO that lead to significant deposit withdrawals. Additionally, as a Primary Dealer of NDMC Sukuk, Treasury continued to contribute towards the success of these Sukuk, in the primary and secondary market. Despite all, funding requirement were met at optimal cost.

Customer business, in particular foreign exchange income grew by 20% year on year on account of partnership with business groups and competitive pricing. The new initiative of selling NDMC Sukuk in the secondary market generated positive results and the targets were successfully achieved.

Treasury increased its investment portfolio by SAR 3.3 billion (15%) from SAR 24 billion to SAR 27.3 billion over prior year, net of redemptions, the majority of which are in Saudi government issuances, which are zero risk-weighted. These investments have further strengthened out investment book liquidity and credit profile.

Treasury continues to operate in resilient internal control environment with strict adherence to the policies, procedures and risk framework. The periodical assessments help enhance the policies and systems to comply with best practices and regulatory commitments.

Human Capital Group (HCG)

Following through from the goals and progress achieved in 2018, the HCG continued its vital strategic role in 2019 as a full practical, consultative, advisory and administrative partner to all business functions, while complying with all relevant regulatory guidelines and mandates, with continued focus on recruitment, development, systems application enhancements, leading to a mix of long term top talent retention and a noticeably improved performance excellence curve for the bank.

As before, the HCG continues to address the entire range of generalized and specialized HC roles and exercises line control oversight over all HC and staff issues and practices, including line HC management awareness and capability elevation, aimed at supporting and achieving the Bank's corporate goals and business targets to sustain continued growth and increased shareholder value, while enhancing BAJ reputation, as a workplace of choice.

In 2019, the HCG continued to collaborate with all business groups to increase proficiency and effectiveness of all available human capital by focusing on the HC's Relationship Management role in conveying all strategic and critically important business line staff initiatives and programs to all business areas. This emphasized the now well-established dynamic approach spearheaded by the completion and launch of more technology oriented initiatives designed to establish and enforce a cohesive and continual administrative self-services improvement and learning culture for all Bank personnel, and to advance the routine administrative capabilities and efficiencies of line managers by utilizing and expanding upon the latest technologies.

Additionally, 2019 was again a very regulatory intensive year for the HCG, which underwent, contributed to, and was a key participant in several bank wide thematic regulatory, independent, and internal audits, culminating a myriad of corrective policy, oversight and implementation actions undertaken to assure the highest possible HC practices regulatory and best practices compliance ratings, entailing an almost continual development and update of policy and practices approvals and submission of policy whitepapers to match the rapidly developing and changing regulatory and governance demands and environment, including completion of all necessary requisites for Board approval of no less than 21 HC Policy and Practices update and revision tracts, plus 84 Executive Job Description regulatory mandated new amendments and additions, and the submission of 20 separate thematic regulatory audit compliance reports throughout the entire year.

As was the case in 2018, the Recruitment Division continued its robust Saudi recruitment and training program in 2019, through the recruitment of (243) Saudi male and female staffers for all business lines bank wide, as well as continuing to be a great talent attractor in general, in keeping with the bank's continued commitment towards numerous new job and internship training opportunities for high school and trade school diploma holders, undergrads & post graduate candidates.

The Bank has accordingly maintained its already high success rate of effective Saudization of more than 93%. Furthermore, 2019, also reflected an optimum current bank needs and market demand training activity totals with more than (480) annual training events taking place, in addition to the administration of Bank and System wide required regulatory Compliance, Security and Anti-Fraud and Anti Money Laundering and other compliance and conduct requirement refreshers for the entire bank population.

As a cumulative result, impressive significant improvement across all categories and overall ratings serve to even further consolidate the strong strategic partnership ties between the HCG and all other BAJ banking units, and establishing one of the most dynamic, attractive and satisfying yet challenging banking work-environment.

Staff ethical and professional principles:

Bank Aljazira has a proven track record in taking the right actions towards its employees, customers, shareholders, regulators and regulatory and supervisory bodies. The values of Bank Aljazira represent the basis on which the bank relies in working to achieve the bank's overall objectives.

The bank has adopted a number of ethical and professional principles as set out in the staff "Code of Conduct" which encourage the creation of an appropriate work environment and help achieve the aspired growth, under the existing protection systems against financial crime, bribery and corruption..

The policies and standards embraced by the Bank Aljazira provide an appropriate framework for employees to conduct their business. These policies and standards help staff to take the best decisions in their endeavor to achieve long-term and sustainable growth. It is the responsibility of all Bank's employees to comply with these policies and to demonstrate the bank's values through their internal and external dealings and relations with colleagues, customers, regulators and the community as a whole at all times.

Sharia Group:

Sharia Quality: The Sharia Group of Bank Aljazira focuses on Sharia Quality control of the bank services and products with a view to achieve the expectations of its customers and shareholders as a pioneer Islamic bank through intensive review and audit of the bank's transactions to ensure all activities of the Bank and its subsidiaries are compliant with the Islamic Sharia rules. The Group submits quarterly reports to the bank's Sharia Board, and the review of the Bank's transactions is based on the international audit criteria for selection of samples.

Services and Products: The Sharia Group believes that innovation and development derived from the Islamic Sharia Rules is an essential requirement to promote Islamic banking industry in order to be able to grow, compete and meet the accelerating and renewable market requirements. Therefore, the Group permanently cooperates with business groups within the bank to innovate and develop their tools and services and seeks to automate a lot of their processes to facilitate customer's transactions and enable them to invest their time in a better manner avoiding human errors as far as possible. A prominent achievement of the Sharia group in the field of development was the innovation of Aramco IPO financing mechanism in collaboration with the Retail Banking Group and Aljazira Capital.

Research: The Group is aware that to maintain the Bank's status as a pioneer bank in the Islamic banking field, it is required to collect information and prepare reports and questionnaires about Islamic banking market and its products and the extent of customers' satisfaction about it as well as fields of competition, strengths and weaknesses and customers' expectations.

The Research Department of the Group continued to collect and analyze data and information, prepare various reports, particularly in respect of Islamic finance, Islamic insurance and investment in the Kingdom of Saudi Arabia. In this context, three reports on the Islamic Financing Activity in the Saudi market have been prepared, namely: (Islamic Banking, Islamic Insurance and Sukuk).

Learning and Training: The Bank considers its employees its most valuable assets and most important tools for conducting its business. Therefore, the Sharia Group focuses on the development of employees' skills in the Islamic Banking field. To this effect, the Group has- in cooperation with the HR Group- conducted direct training courses in the Islamic Banking Industry to all bank staff.

Publication of Books and Scientific Research Papers: The Group has adopted a plan to spread knowledge through publishing and distributing of books and scientific research papers which cater for financial developments, particularly the Islamic finance issues. Published books and scientific research papers are distributed to students and educational and financial institutions free of charge. This year, the Group published and distributed two research papers:

- Fikh rules for venture capital finance
- Special Purpose Vehicle, a Fikh Application Study

Support to Islamic financial Industry: The Bank, through its Sharia Group, continued its support to the infra-structure of Islamic Financial Industry, such as the Accounting and Auditing Organization for Islamic Financial Institutions, General Council of Islamic Banks and Financial Institutions, Council of Islamic Financial Services, based on the bank's belief in the importance of supporting these institutions to enable them develop Islamic Financial Industry and achieve the standardization thereof.

The role of the Bank's Sharia Group reflected positively on how the community and customers looked at the bank and enhanced the level of confidence in the Bank as an Islamic bank. It also contributed to the Bank's winning of many awards in the Islamic Financial Services field.

Our excellence and leadership in the Islamic banking industry is due to the Bank's compliance, in all its transactions, with the principles and rules of Islamic Sharia as well as with the decisions and recommendations of their honor the scholars, members of the bank's Sharia Board.

Support Group

During 2019 there were major restructuring in Support Group in order to achieve the objectives of the Bank and to keep pace with the development of the banking sector in the Kingdom, which is an important part of the Saudi Vision 2030. The Strategy and Business Transformation group was joined under the umbrella of the Support Group led by the Chief Operating Officer Mr. Ahmed Bin Sufian Al Hassan.

This management change has contributed to enhancing and continuing to provide the best services and support needed for all different groups and divisions to achieve the Bank's objectives.

Information Technology

Information Technology Group (ITG) is continuing to build and maintain the technology Platform corresponding with the best technology standards to support existing and new development of banking products and services in accordance with the Banks' strategic goals and directions, and meet business objectives, support expansions as well as the delivery of banks' internal improvement initiatives in addition to the challenging mandatory systems upgrade.

Examples of major achievements in 2019, expediting Equation end of day processing, completion of WAS, COGNOS, & TI upgrade, successfully concluded a group of Disaster Recovery drills, expanded AlJazira Online production infrastructure to support increased volumes, deployed major business projects in collaboration with PMO such as SAMA Tanfeeth services Phase I, FAWRI on ADC, FAWRI Cards, SAMA Mobile Payment Apple Pay/Mada Pay, VISA Loyalty, SME Segmentation and Credit Card, and Saudi Aramco IPO. This is in addition to huge ad hoc changes and regulatory reports that exceeded 579 changes into production.

Bank Operations Division

Bank Operation division processes through the different departments all types of bank's transactions such as incoming and outgoing local/swift/international payments, local and international check clearing/collection and direct debit mandates set up and requests. The division also handles customers' personal and mortgage loans, account opening review, maintenance and KYC. Treasury and trade finance operation departments provides services such as currency and commodity sales and purchase, time deposit execution of related to treasury products. While trade operation processes import and export letters of credit and guarantee, import and export bills of collection and other processing of services provided by the bank's different businesses.

Bank operations' transactions' volume has visibly increased in the 2019 due to the increase in sales and customers' acquisition especially in mortgage application by 142%, personal loans by 29%, Incoming local payments by 59%, Time Deposit 43%, DDMS 72% and import bills of collection by 20%.

Logistics & Shared Services

Is the specialized group to provide all services and logistical support to Aljazira Group in terms professional advice, consultation on the designs and construction of bank's network expansion programs (branches, FAWRIs, ATMs, premises, etc.), enhancement of existing workplaces to be more compliant to business needs, providing the safe use of all bank premises, clean environment and facilities, non-stop utility services to its staff and clients, providing security and safety to staff, clients and properties at all times and ensuring the smooth flow of businesses by ensuring that all government permits and licenses are valid at all times, provide other in-house services such, mailing, storage, e-scanning, filing and archiving of bank's daily transactions, etc.

During this year, 4 new Fawri remittance branches were delivered and number of modifications were carried out on some Fawri branches as per the business requirement, along-with other unplanned modifications needed by other businesses.

Successfully conducted 7 emergency evacuation drills in various locations across the Kingdom.

We have launched 3 significant operational automations serving different divisions in the Bank. For the Digital Archiving, we have scanned more than 24 million documents of customer records & stored in the local web application.

Replaced conventional lamps to LED lights in 16 main locations kingdom-wide for cost cutting initiative which reduces the power consumptions by approximately 30%.

LSSG is continuously supporting the bank's business of housing loan administered by Mortgage group by ensuring that the offered housing accommodations are free from structural defects thus fit for human consumption. This year we have rectified 38 properties for mortgage clients.

Strategy & Innovation division

The strategy division is managing the connection between executive management direction and business groups. Frequent meetings have been performed during the year to identify high priority opportunities as well as planning our next year projects plan. We have worked closely with all business groups and provided our full support to assure all projects are executed as planned and on time.

Performance measurement tools has been used to update and report the strategic and key project progress to the executive management and board members.

During this year, we have started the processes of evaluating and selecting a leading world class external strategy consulting firms to help formulating the bank's 2019-2023 strategy.

Strategy division will continue its major role in supporting all business achieving their plans and help driving the bank towards achieving its vision.

The innovation division will continue its role in supporting and motivating innovation and creativity across the bank as well as exploring and providing new innovative products/services by engaging/partnering with FinTech companies

Digitalization & Automation Division

Digitalization & Automation Division is responsible for executing and implementing Bank AlJazira digital transformation strategy. Our core mission is to drive the realization of our digitalization, optimization and automation goals and objectives to help the Bank thrive in the new era of digital transformation.

Therefore, we are targeting to raise the Bank's digital product and service offerings by 20% in the year 2020.

Consequently, in order to achieve this goal, a series of important projects were launched _such as but not limited_ to Mortgage Automation, SME Account Opening. Moreover, Digitalization & Automation has developed the relationship with SAMA Sandbox which is aimed to attract specialized companies to develop innovative financial products and services in order to contribute to transforming the Saudi market into a smart financial center, which in turn contributes to promoting economic growth by facilitating savings, investment, and financing.

Properties and Contracts Management

The property and contract management is composed of 5 units, namely: the asset and contract management unit, the business continuity unit, the special projects unit, the Aman Real Estate Development and Investment Company, and the real estate appraisal unit.

Contracts and Assets Management Unit

Its main achievements are managing 40 Real Estate properties with a total value of 704 million including signing, reviewing and archiving 397 contracts at a value of 68.7 million (average of 1.3 working days) while preparing contract models with a new structure and translating to Arabic all non – disclosure agreements.

In addition to adding to the assets and contracts management unit record, Contracts and Assets Management Unit managed to reduce the rent of 5 branches thereby saving 153,352 as a result, achieving a savings of 43.5 thousand on premium of Property Insurance Policies, as well as adding 1,261 assets, transferring 2,074, disposing of 681, and as a result extracted a savings of 239,375.

Business Continuity Management Unit:

Through the Business Continuity Management Unit, awareness and training workshops have been completed for 215 employees, updating and creating 45 BIA's, and 45 BCP's accordingly. In addition, tested all Critical Business functions for 115 employees (47 departments) and conducted a mandatory Crisis Management Training session for all Crisis Management Team members (CMT).

Special Projects Unit:

Achieved three unique designs through Architectural competition for Riyadh Regional Office Building, and announced P+W Consultant as a winner, in addition to analyzing all alternative sites under the supervision and approval of member of the Board of Directors, with a review of prices to raise final approval to establish the regional office Building in Riyadh.

Aman Real Estate Development and Investment Company:

The management of Aman has been able to carry out several operations as follows: 264 Ejarah Operations, 4,925 Murabaha Transactions, 309 Real Estate Returns, 95 Third Party Sales, 88 Bayt Al Hassan, 134 POA's, 687 Authorization letters and 21 Miscellaneous.

Real Estate Appraisal Unit:

The Real Estate Appraisal Unit invited 34 Valuation Companies after studying, analyzing and signing 18 contracts, and managed to reduce the appraisal fees by 14% that resulted to a financial savings of SAR 802,924.00. in addition a total of 8,595 valuation requests has been completed for RBG and 126 valuation requests completed for CIBG (total of 375 title deeds) including reduction fees of SAR500 (27%) for BAJ staff or a total of SAR1,300 instead of SAR 1,800.

Project Management Office

PMO has been providing vital support and organization to all BAJ annual projects in alignment with the concerned Businesses. We have delivered all SAMA required projects i.e. SAMA SMS Templates and Tanfeeth portal and Apple Pay. PMO also managed to deliver critical projects for the bank such as Aramco IPO, new BAJ Website, Coin dispensing machines, Fawri Cards and Ministry of Housing and Real estate Development Funds projects.

Supplier Management and Cost Rationalization

SMCR had a noticeable role in achieving many of the bank's goals, which was reflected by an increase in total savings amount to 25 million riyals, this increase came through a number of axes, that includes Achieved savings in: Information Technology Contracts by 15%, Insurance Costs by 11%, Purchasing Services by 4% and by reducing the recurring Supply Chain items cost by 9%

In terms of preparing work plans and strategies, SMCR completed and developed a Supplier Management Policy, and Supplier Code of Conduct and the selection declaration form for bank employees involved in selecting suppliers and in evaluating their offers.

In addition to the above, the supplier management automates purchase orders during the signing and delivery stages and issues annual purchase orders for lease and maintenance contracts.

SMCR also culminated their efforts in obtaining a certificate of appreciation from the government program (nine tenths) for their contribution in enhancing and improving the tender service in the platform (Forsa).

Social Responsibility Group: (Khair Aljazira le Ahl Aljazira program) 2019

Bank Aljazira emphasized the continuation of its role as a key partner in the enhancement of sustainable development and a major contributor to the achievement of the objectives of Kingdom's Vision 2030 as evidenced by the social programs and partnerships it has entered into with non-profit institutions, charities and public sector institutions. Furthermore, Bank Aljazira continued, through its Khair Aljazira le Ahl Aljazira program, to sponsor and implement a number of quality projects in the field of community service which aim to meet the community's needs and aspirations around the Kingdom regions. To this effect, a total of 82 community projects were implemented in 32 cities, regions and centers.

The bank has focused, in the year 2019, on the enablement and rehabilitation programs for the most needy segments of our community by providing support and finance to micro projects (interest-free loans) for productive families to enable them to establish their micro projects which success has consequently increased their income and improved their living and educational standards, enabling thereby the economic and social establishment of the individuals of such families.

In this context, Bank AlJazira program advocating innovation "Mubtakiroon" was implemented as one of major projects which helped to enable innovation, creativity and entrepreneurship skills. The project was implemented as a business platform for innovated projects in the renewable and alternate power with a wide contribution by a considerable number of female and male entrepreneurs.

During the holy month of Ramadan, the Bank, through "Tafreej" program participated in the release of a number of financial-rights prisoners in Al Jouf Region, in collaboration with the Governorate of Al Jouf (Emirah). The Bank also continued to participate in the project for establishment and operation of Al-Tamayoz Autism Center, in its second year of operation. This establishment and operation of this center was sponsored by Saudi banks for the first 5 years of launch.

Quality programs were also provided to the handicapped persons and their families covering training, rehabilitation and employment by introducing quality programs targeting disabled persons (Mobility disablement, Blind, Deaf, Down Syndrome, Hypertension, Autism). In addition, the bank continued to focus on providing educational and professional rehabilitation to male and female youths by introducing training programs to prepare them to the labor market and to enable them to own life basic skills.

In its continuous endeavors to develop non-profit sector, the Bank has implemented a set of leading development programs for the social work leaders. It has also established the infra-structure for charitable and community societies by providing them with the basic equipment, as well as giving attention to the spreading of financial, legal, health, educational and environmental awareness programs and others in the various cities and regions of the Kingdom.

The number of male and female youth who benefited from the various activities and functions of ('Khair Aljazira le Ahl Aljazira') program in 2019 amounted to 7,653 persons in the different cities and regions of the Kingdom of Saudi Arabia.

Aljazira Capital:

Aljazira Capital (AJC) successfully retained its 14% market share in local brokerage for its retail customer base. Although 2019 witnessed quieter trading conditions than the previous year, AJC delivered another profitable result for the year and is well placed to build on its solid business offerings.

AJC's business success is founded on its commitment to ensure a reliable and efficient trading experience on its proprietary trading systems for its customers. The Company continually seeks to improve its brokerage product offerings so that customers are always assured of a great trading experience. AJC's brokerage customers also benefited from the enhanced product offerings for margin finance during the year, allowing clients to enhance their trading returns with leverage. AJC's local brokerage business executed trades during 2019 amounting to SAR 143 billion (2018: SAR 201 billion).

Management focused its efforts during 2019 on the development of its investment banking services and custody business for institutional clients. At the same time, the Company successfully maintained its growth trajectory for asset management with the launch of a USD Murabaha Fund and an IPO Investment Fund. AJC was particularly proud to be associated with the historic initial public offering of Saudi Aramco shares (the IPO) to the market during December 2019. AJC clients confirmed their belief in the attractiveness of the IPO with bids to buy of SAR 31 billion. As expected, the offer was a success and well over subscribed due to its popularity with investors.

During the year, AJC, in recognition of its business development and management, was a proud recipient of two awards from International Finance: 'Most Innovative Islamic Brokerage House, Saudi Arabia' and 'Best Brokerage CEO, Saudi Arabia'.

AJC management is optimistic regarding the potential for further development and growth of local markets during 2020. Management believes that the economic prospects for the Saudi economy remain positive for the further development of the capital markets in the Kingdom of Saudi Arabia.

Future Plans:

Bank Aljazira is one of the leading Sharia compliant financial services institutions in the Kingdom of Saudi Arabia. Over the past years the bank has applied a strategic transformation plan to become a full-fledged bank with a wide range of banking and financial products and services. The bank's principal lines of business are Retail Banking, FAWRI (Remittance Business), Private Banking, Corporate Banking, Global Transaction Services and Treasury Services. These offerings are complimented by other financial services offered by the bank subsidiaries (Aljazira Capital) such as Investment banking, Asset management, Brokerage and Securities Services and Takaful insurance.

In 2019, the bank achieved several significant milestones and has continued to post strong asset growth. This has been driven by building a strong customer franchise with retail and corporate customers ranging from large to medium and small corporations applying extensive focus towards cross selling of the bank's retail, treasury, corporate, finance and investment banking franchise. Moreover, many initiatives launched earlier, which mainly focused on enhancing the efficiency of the Bank's services and activities, were successfully completed and contributed to increasing the business profitability and customer service quality at all levels.

In Retail Banking, we will continue our investments in leveraging new technologies to serve our existing and potential customers including our end to end "Online Account Opening" service and the use of our digital channels to perform all transactions and apply for the products and services of the bank.

Adding to that, we will continue to introduce new and innovative products and services that provide solutions to all customer segments with particular emphasis on providing an easy and distinct customer experience along with high quality of service levels. These objectives are coupled with our endeavors to optimize the capabilities of sales teams to the highest levels, which will ultimately contribute to increased market share and revenues and reduced expenses of the bank. The bank has also drawn up plans to expand its network of branches, Fawri centers and ATMs under a totally new concept which addresses the market's advanced trends and customers' needs.

Corporate Banking has strengthened their business model aiming at better serving the Bank's corporate customers in providing banking solutions for their corporate customers and businesses sectors through extensive packages of best finance trade products and import services, in addition to cash management services and e-banking, which have been instrumental in the overall growth of the Bank's assets and profitability.

Looking forward, based on the its strategy 2023 (continuous success), the bank will continue to record increased growth in performance and achieve shareholders aspirations in terms of net profits and return on share, increased asset growth and loans and customer deposits portfolios. In achieving these objectives, the bank shall rely on its plans for implementing its strategy programs and initiatives which focus on a number of key areas, including: innovation and digital transformation, investment and ongoing development of bank's technologies, increase of cross selling of bank's products and services to retail and corporate customers and provision of such services on the bank's digital channels (Aljazira Smart and Aljazira Online). The bank will continue its support to small and medium enterprises and provide specialized services to specific segments coupled with training of bank staff to offer specific services to them segments. The bank will further continue its customer-oriented approach in its endeavors to achieve customer requirements and ambitions as well as to strengthen customer business relationships and loyalty to the bank

Awards and Certification

- In recognition of its efforts in developing and educating its staff – Awarded to BAJ by IOF (Institute of Finance formerly known as Institute of Banking)
- Change Leaders Award for the Private Sector – Awarded to BAJ during the 10th Business Management Forum

- Call Center awards – Gold Medal and First Rank in three Categories, Best Customer Call Center, Best Customer Service and Best Branch Support Category in Europe Middle East and Africa 2019 – Awarded to BAJ by Contact Center World
- Most Innovative Islamic Bank – Saudi Arabia 2019, awarded to BAJ by International Finance Magazine
- Best Credit Card Offerings – Saudi Arabia 2019, Awarded to BAJ by Global Business Outlook Magazine
- Most Innovative E-Banking Platform – Saudi Arabia 2019, Awarded to BAJ by Global Business Outlook Magazine
- Award for being one of the Best Performing Companies in the Corporate Governance Index – Awarded to BAJ by Alfaisal University Corporate Governance Center
- Call Center Awards – Gold Medal and Rank 1 for Best Customer Service and Gold Medal and Rank 1 for Best Contact Center in the World 2019 – Awarded to BAJ by Call Center World
- Excellence Award in Syndicated Financing – Awarded to BAJ by International Islamic Trade Finance Corporation (ITFC)
- Top CEO in GCC 2018 – Awarded to BAJ by Trends Magazine and INSEAD Business School
- Princess Sitah bin Abdulaziz for Excellence in Social Work National Achievement Award – Awarded to BAJ by His Highness Prince Fahd bin Abdullah bin Saud Al Kabeer and the Ministry of Labor and Social Development
- Call Center Awards – Gold Medal and First Rank in Best Customer Service Category, Silver Medal for the Best Contact Center Category in Europe Middle East and Africa and Silver Medal for the Best Contact Center Manager in Europe Middle East and Africa – Contact Center World

- Critics Choice Best Islamic Digital Banking Award – Awarded to BAJ by Cambridge International Financial Advisory
- Critics Choice Best Islamic Retail Banking Innovation Award – Awarded to BAJ by Cambridge International Financial Advisory
- Best Customer Service Award Gold Medal and First Rank – Awarded to BAJ by Contact Center World
- Best Social Responsibility Program K.S.A. 2017 – CPI Financial
- Critics Choice Best Islamic Retail Bank in Saudi Arabia 2017 – Cambridge Analytica
- Contact Center Award – Silver Medal Best Customer Service 2017 in the Middle East, Europe and Africa
- Best Customer Service, Abshir Baezzak Program - Awarded to BAJ by Banker Middle East Product Awards
- Most Innovative Personal Banking Provider, Saudi Arabia – Awarded to BAJ by AI Global Media
- Top Three Banks with the Highest ATM Performance and Cash Management – Awarded to BAJ by Saudi Arabian Monetary Authority (SAMA)
- Best Private Bank in Saudi Arabia 2016 – Awarded to BAJ by Global Banking and Finance Review
- Best Regional Bank to Watch 2016 – Awarded to BAJ by Private Banker International
- Top 100 CEO in GCC – Awarded to BAJ by Trends Magazine and INSEAD Business School
- Best Donor Organization 2016 – Non Governmental Arab Grants Council
- Critics Choice Best Islamic Retail Bank in Saudi Arabia 2015 – Cambridge IF Analytica
- Best Remittance Middle East 2015 – CPI Financial
- Best Donor Organization – Non-Governmental Arab Grants Council
- Best Private Bank 2015 – Global Banking and Finance Review
- Best Call Center Awards in 2015 at the finals of the global call centers competition held in USA:
  - Golden medal – and first rank for (Best Call Center in the world for the year).
  - Silver medal and second rank for (Best Customer Service in the world for the year).

- Okaz Awards for Professional Excellence 2015 – Okaz Newspaper
- Award for Being among the Top 100 Saudi Brands for 2015 – offered by HRH Prince Faisal Bin Bandar Bin Abdulaziz, Governor of Riyadh, under the supervision of Al Watan Newspaper
- Best Retail Bank 2014 – World Finance banking
- Best Credit Card 2014 – The Banker Middle East.
- Best Real Estate Financing 2014 – The Banker Middle East.
- Best Islamic Bank in KSA – World Finance Magazine
- Best Mobile Banking Award – MENA region by "the EUROPEAN" Magazine
- Ideal Institution award for Support of Social and Developmental Actions – Bahrain / GCC Council of Ministers of Social Affairs.
- Award for being among the TOP 100 Saudi Brands in the presence of Prince Bandar Bin Khalid Al-Faisal, Chairman of Aseer Publishing, and Large Number of Government, Private and Media Representatives.
- Silver medal and second rank for "Best Call Center in the world", World Call Centers Company.
- 7 awards in the Call Center World Awards – MENA, for 2013, Vienna as follows:
    - Gold Medal – Best Call Center Awards

    - Gold Medal – Best Customer Service Award
    - Silver Medal – Sales Incentives Award
    - Gold Medal – Executive Leader Award
    - Gold Medal – Technical Support Award
    - Gold Medal – Supervisor Award
    - Silver Medal – Call Center Agent Award
- Best Call Center Manager in the Middle East – Dubai Insights Middle East
- Best Call Center worldwide for 2013, Rank 1 and Gold Medal.
- Best Customer Service worldwide for 2013, Rank 1 and Gold Medal
- Best Call Center in Europe, Middle east and Africa, Rank 1 and Gold Medal.

Gratitude

The Board of Directors of Bank Aljazira takes this opportunity to express their thanks and gratitude to our wise government under the leadership of the Custodian of the two Holy Mosques, King Salman bin Abdul Aziz Al Saud, HRH Prince Mohammad bin Salman Abdulaziz Al Saud, the Crown Prince and Deputy Prime Minister and Minister of Defense, and all Ministers.

We are also grateful for the continued support and guidance of the Ministry of Finance, the Ministry of Commerce and Industry, Saudi Arabian Monetary Authority and Capital Market Authority.

The Board of Directors wants also to take this opportunity to express its sincere thanks and appreciation to the Bank's Shareholders and customers for their confidence and continued support and to the Bank's management and all staff members for their performance and achievements.

بنك الجزيرة
BANK ALJAZIRA

Branches Network

Western Region

Makkah		
Aziziah Branch Tel: (+966) 12 5571010	**Al Shawqiya Branch** Tel: (+966) 12 5391826	**Al-Awali Branch** Tel: (+966) 12 5501453

Madinah		
Madinah Branch Tel: (+966) 14 8451111 Fax: (+966) 14 8451953		**Khalidiyah Branch** Tel: (+966) 14 8491328 Fax: (+966) 14 8692579
Madinah Branch (Ladies) Tel: (+966) 14 8451956 Fax: (+966) 14 8451952		**Khalidiyah Branch (Ladies)** Tel: (+966) 14 8693381

Jeddah		
Jeddah Main Branch (Al Nahda; formerly) Tel: (+966) 12 6098888 Fax: (+966) 12 2346838	**Al Bsateen Branch** (Alaya; formerly) Tel: (+966) 12 6949224	**Al Rehab Branch** Tel: (+966) 12 6756460
Jeddah Main Branch (Ladies) Tel: (+966) 12 6098888 Fax: (+966) 12 2347227	**Al Salama Branch** Tel: (+966) 12 6919719	**Al Rehab Branch (Ladies)** Tel: (+966) 12 6750190
Tahlia St. Branch Tel: (+966) 12 2610725	**Al Safa Branch** Tel: (+966) 12 6736712	**Makkah Road Branch** Tel: (+966) 12 6896600
Tahlia St. Branch (Ladies) Tel: (+966) 12 2610730 Fax: (+966) 12 2610731	**Sari Branch** Tel: (+966) 12 6901390	**Al Musa'adia Branch** Tel: (+966) 12 6610112
Khalid Bin Al-Waleed St. Branch Tel: (+966) 12 6518070	**Al Samer Branch** Tel: (+966) 12 2721870	**Al Musa'adia Branch (Ladies)** Tel: (+966) 12 6673700
Prince Sultan St. Branch Tel: (+966) 12 6075450	**Al Rabwa Branch** (Almakaronah; formerly) Tel: (+966) 12 6827683	**Al Noor Branch** Tel: (+966) 12 6098752
Prince Sultan St. Branch (Ladies) Tel: (+966) 12 6070828	**Al Naeem Branch** Tel: (+966) 12 6134333	**Al Balad Branch** Tel: (+966) 12 6485533

Taif		
Al Taif Main Branch Tel: (+966) 12 7600116 Fax: (+966) 12 7600116		**Shehar Branch** Tel: (+966) 12 7426678 Fax: (+966) 12 7401737

Rabigh	Tabouk	Yanbu
Rabigh Branch Tel: (+966) 12 4233311 Fax: (+966) 12 4233366	**Tabouk Branch** Tel: (+966) 14 4432676 Fax: (+966) 14 4218320	**Yanbu Branch** Tel: (+966) 14 3572953

بنك الجزيرة
BANK ALJAZIRA

Branches Network

Central Region

Riyadh

Al Worood Branch (Olaya) Tel: (+966) 11 2157000	**Al Malqa Branch** Tel: (+966) 11 4102998 Fax: (+966) 11 4103017	**Al Kharj Branch** Tel: (+966) 11 5476259 Fax: (+966) 11 5476273
King Fahad Road Branch Tel: (+966) 11 2051870	**Al-Rayyan Branch** Tel: (+966) 11 2080166	**Al Rawdah Branch** Tel: (+966) 11 2543847 Fax: (+966) 11 2543843
King Fahad Road Branch (Ladies) Tel: (+966) 11 2051865	**Al-Rayyan Branch (Ladies)** Tel: (+966) 11 2085366	**Al Shefa Branch** Tel: (+966) 11 2715589
King Abdullah Road Branch Tel: (+966) 11 2642123 Fax: (+966) 11 2071361	**West Ring Road Br.** (Dahrat Al-Badiah;formerly) Tel: (+966) 11 4338441	**Ishbilia Branch** Tel: (+966) 16 8124276
King Abdullah Road Br. (ladies) Tel: (+966) 11 2642047	**Al Takhasusi Branch** Tel: (+966) 11 2936599	**Al Sahafa Branch** Tel: (+966) 11 2251657
Al Qods Branch (Uqba Bin Nafe'a; formerly) Tel: (+966) 11 2781416	**Al-Suwaidi Branch** Tel: (+966) 11 4288695 Fax: (+966) 11 4493064	**Al Mrouj Branch** Tel: (+966) 11 4154893
Al Qods Branch (Ladies) Tel: (+966) 11 2784387	**Al-Suwaidi Branch (Ladies)** Tel: (+966) 11 4287523 Fax: (+966) 11 4288735	**Al Malaz Branch** Tel: (+966) 11 2915490
Khurais Road branch Tel: (+966) 11 2256399	**Al-Nafl Branch** Tel: (+966) 11 2751086	**Huteen Branch** Tel: (+966) 11 2145324
Al Nassem Branch Tel: (+966) 11 2357813 Fax: (+966) 11 2356876	**Al-Nafl Branch (Ladies)** Tel: (+966) 11 2751086 Fax: (+966) 11 2755681	**Qurtobah Branch** Tel: (+966) 11 2936599
Al Ma'ather Branch Tel: (+966) 11 8108058 Fax: (+966) 11 8108058		

Qasim		Hail
Buraidah Branch Tel: (+966) 16 3835310	**Onizah Branch** Tel: (+966) 16 3624121	**Hail Branch** Tel: (+966) 16 5712157

Southern Region

Khamis Mushait		Abha
Khamis Mushait Branch Tel: (+966) 17 2216465	**Khamis Mushait Branch (Ladies)** Tel: (+966) 17 2351441	**Abha Branch** Tel: (+966) 17 2260798 Fax: (+966) 17 2296243
Jazan		**Najran**
Jazan Branch Tel: (+966) 17 3228594	**Abu Areesh Branch** Tel: (+966) 17 3402129	**Najran Branch** Tel: (+966) 17 5236291 Fax: (+966) 17 5238267

بنك الجزيرة
BANK ALJAZIRA

Branches Network

Eastern Region

Dammam		
Dammam Main Branch Tel: (+966) 13 8321272 Fax: (+966) 13 8343314		**Al Jalawea Branch** Tel: (+966) 13 8153394 Fax: (+966) 13 8153379
Al Faisaliah Branch Tel: (+966) 13 8116653 Fax: (+966) 13 8116702		**Jarir Branch** Tel: (+966) 13 8420237 Fax: (+966) 13 8417226

Al Khobar		
Al-Hada District Branch Tel: (+966) 13 8820040 Fax: (+966) 13 8878653	**Al Shatee Branch** Tel: (+966) 13 8324838 Fax: (+966) 13 8084458	**King Khalid St. Branch** Tel: (+966) 13 8942512 Fax: (+966) 13 8985330
Al-Hada District Branch (Ladies) Tel: (+966) 13 8828848 Fax: (+966) 13 8828722	**Al Shatee Branch (Ladies)** Tel: (+966) 13 8326314 Fax: (+966) 13 8082283	**Al Khobar Main Branch** Tel: (+966) 13 8346928 Fax: (+966) 13 8348156

Dhaharan		
Al Doha Branch Tel: (+966) 13 8683512 Fax: (+966) 13 8912059	**Al Doha Branch (Ladies)** Tel: (+966) 13 8916927 Fax: (+966) 13 8912869	**Tilal Al Doha Branch** Tel: (+966) 13 8309188 Fax: (+966) 13 8309188

Al Ahsa		
Al Hofuf Main branch Tel: (+966) 13 5863555 Fax: (+966) 13 5843111	**Al Shahbiyah Branch** Tel: (+966) 13 5995530 Fax: (+966) 13 5889078	**Al Shahbiyah Branch (Ladies)** Tel: (+966) 13 5995570 Fax: (+966) 13 5995560
Al Mabraz Branch Tel: (+966) 13 5730616 Fax: (+966) 13 8084381		**Al Salmaniyah Br.** (Al Nakheel; formerly) Tel: (+966) 13 5754310 Fax: (+966) 13 5364987

Jubail		Hafer Al Baten
Jubail Industrial –AlFanateer Br. Tel: (+966) 13 3670157 Fax: (+966) 13 3670157	**Jubail Plaza Branch** Tel: (+966) 13 3672701 Fax: (+966) 13 3471426	**Hafer Al Baten Branch** Tel: (+966) 13 7313417 Fax: (+966) 137313417
Qateef		
Qateef Branch Tel: (+966) 13 8545463 Fax: (+966) 13 8545367		**Qateef Branch (Ladies)** Tel: (+966) 13 8558326 Fax: (+966) 13 8529877

Fawri فوري
خدمـــات تحـــويل الأمـــوال
Money Transfer Services

Central Region

Al Batha/ Gaghazali BR. - 6101 Tel : (+966) 11 4068467 11 4068524	Manfouha Br. - 6108 Tel : (+966) 11 4571278 11 4571329	Sultanah Br. - 6114 Tel : (+966) 11 4283873 11 4285096
AL-Balad (Manila) Br. - 6102 Tel : (+966) 11 8108056 11 8108058	Al Naseem Br. - 6111 Tel : (+966) 11 2324529 11 2328366	Al Yarmouk Br. - 6112 Tel : (+966) 11 8103904 11 8103905
AL-Askary Br. - 6105 Tel : (+966) 11 4774889 11 4776472	Al Badiah Br. - 6109 Tel : (+966) 11 4101878 11 4101890	Al Rass Br. - 6522 Tel : (+966) 16 3392670 16 3392680
AL-Morooj Br. - 6106 Tel : (+966) 11 2031861 11 2033058	Al Sulay Riyadh - 6113 Tel : (+966) 11 2415523 11 2415570	Al-Shamaisi Br. - 6118 Tel : (+966) 11 8103242 11 8403198
Al-Khalidiya Br. - 6103 Tel : (+966) 11 4469290 11 4469311	Anas Ibn Malek - Al Yasmine - 6115 Tel : (+966) 11 8120043 11 8120051	Al Margab Br. - 6116 Tel : (+966) 11 4023424 11 4023430 /11 4023435
Al-Kharj Br. - 6120 Tel : (+966) 11 5456467 11 5456476	Industrial 2 - 6119 Tel : (+966) 11 8104209 11 8109653	Al Atyaf Mall Br. - 6131 Tel : (+966) 11 8102703 11 8103714
Al-Mountazah Br. - 6107 Tel : (+966) 11 4083414 11 4083384	Buraidah Br. Qaseem 6501 Tel : (+966) 16 3694869 16 3271294	Al Rabea Br. - 6132 Tel : (+966) 11 8102443 11 8102342
Al-Rawdah Br. - 6110 Tel : (+966) 11 2278447 11 2277506	Haiel Br. - 6510 Tel : (+966) 16 5349317 16 5349318	
Al-Sulimania Br. - 6104 Tel : (+966) 11 4778350 11 4778541	Um Al Hammam Br. - 6117 Tel : (+966) 11 4824559 11 4824327	

Eastern Region

Jubail - 6705 Tel : (+966) 13 3448685 13 3448760	Al-Jalaweyah Br. - 6703 Tel : (+966) 13 8172190 13 8172623	Jubail - Industrial Br. - 6707 Tel : (+966) 13 3441119 13 3618118
Dammam Main - 6701 Tel : (+966) 13 8341347 13 8341976	Al Akrabiah Br. - 6714 Tel : (+966) 13 8984349 13 8949425	Hafr Al Batin Br. - 6747 Tel : (+966) 13 7310049 13 7310151
Block 91– 6702 Tel : (+966) 13 8190058 13 8190049	Industrial 2 Br. - 6709 Tel : (+966) 13 8021910 13 8021859	Lulu Al Dammam Br. - 6704 Tel : (+966) 13 8309023 13 8321202
Al Thouqba Br. - 6711 Tel : (+966) 13 8088319 13 8089747	Al Jubail 2 Br. - 6706 Tel : (+966) 13 3615383 13 3632256	
Al Eisa Mall – Al-Khobar Br. - 6710 Tel : (+966) 13 8084917 13 8088173	Al Ahsa Br. - 6731 Tel : (+966) 13 5732774 13 5732775	

Western Region

Al- Balad Br. - 6301 Tel : (+966) 12 2899757 12 2894596	Yanbu Br. - 6347 Tel : (+966) 14 3572748 14 3573406	Tabuk Br. - 6580 Tel : (+966) 14 4216147 14 4221603
Al- Heraa Br. - 6302 Tel : (+966) 12 6826902 12 6834007	Al Medina Al Menwara Br. - 6340 Tel : (+966) 14 8280357 14 8280328	Al Kakyah Br. - 6360 Tel : (+966) 12 5307034 12 5306986
Al- Bawadi Br. - 6303 Tel : (+966) 12 6558167 12 6558592	Al Salama Br. - 6304 Tel : (+966) 12 2861719 12 605 8581	Rabegh Br. - 6380 Tel : (+966) 12 4221246 12 4221247
Mishrifa Br. - 6306 Tel : (+966) 12 6737669 12 6736713	Najran Br. - 6620 Tel : (+966) 17 5221993 17 5221846	Al Joof Br.6570 Tel : (+966) 14 6222139 14 6222368 / 14 6222372
Abha Br. - 6605 Tel : (+966) 17 2240401 17 2283150	Bin Ladin Br. - 6316 Tel : (+966) 12 6811358 12 6811357	Baish Br.- 6661 Tel : (+966) 17 3340447 17 3340225
Taif Br. - 6330 Tel : (+966) 12 7322543 12 7327792	Khamis Musheit Br. - 6614 Tel: (+966) 17 2740534 17 2740535	Al Otaibiah Br. 6363 Tel : (+966) 12 5970058 12 5970289
Bani Malik Br. - 6307 Tel : (+966) 12 6727797 12 6727727	Al Sharafiah Br. - 6308 Tel : (+966) 12 6304023 12 6303762	Yanbu 2 Br. 6348 Tel : (+966) 14 3570124 14 3570190
Al-Hamdaniyah Br. - 6311 Tel : (+966) 12 6071194 12 6070316	Jizan Br. - 6646 Tel : (+966) 17 3220638 17 3220640	

الجزيرة كابيتال
ALJAZIRA CAPITAL

Central Region

King Fahd Road Tel: (+966) 11 2256000 Fax: (+966) 11 2256182	**King Fahd Road-Ladies** Tel: (+966) 11 2256000 Fax: (+966) 11 2256182	**Al-Nafel** Tel: (+966) 11 2751086 Fax: (+966) 11 2742590
Ocbah Bin Nafee Tel: (+966) 11 2780486 Fax: (+966) 11 2780486	**Ocbah Bin Nafee-Ladies** Tel: (+966) 11 2781416 Fax: (+966) 11 2780486	**Al-Suwaidi** Tel: (+966) 11 4288716 Fax: (+966) 11 4493064
Al-Riyan Tel: (+966) 11 2083385 Fax: (+966) 11 2080166 - Ext. 306	**Al-Riyan - Ladies** Tel: (+966) 11 2083449 Fax: (+966) 11 2080166 - Ext. 306	

Qasim Region

Oniza Tel: (+966) 16 3634615 Fax: (+966) 16 3618412		**Buraida** Tel: (+966) 16 3835230 Fax: (+966) 16 3835204

Eastern Region

Al-Khubar Alhada Tel: (+966) 13 8820040 Fax: (+966) 13 8820040		**Jubail** Tel: (+966) 13 3670190 Fax: (+966) 13 3471426
Qatif Tel: (+966) 13 8545370 Fax: (+966) 13 8529925		**Hafuf** Tel: (+966) 13 5861590 Fax: (+966) 13 5854092

Western and Southern Region

Mosaadia Tel: (+966) 12 6606020 Fax: (+966) 12 6606020 - Ext. 8887	**Mosaadia - Ladies** Tel: (+966) 12 6606020 Fax: (+966) 12 6606020 - Ext. 8887	**Al-Nahda** Tel: (+966) 12 6098560 Fax: (+966) 12 6098553
Madina Al-Monawara Tel: (+966) 14 8451959 Fax: (+966) 14 8457255	**Khamees Mushait** Tel: (+966) 17 2358385 Fax: (+966) 17 2219580	**Makkah Al-Mukarrama** Tel: (+966) 12 5230421 Fax: (+966) 12 5571010 - Ext. 600

P.O.Box 20438 Riyadh 11455

الجزيرة تكافل
Aljazira Takaful

Western Region		
Jeddah	Al Andalus Dist Madina Rd - South (Mosaedia Center 3)	Tel: (+966) 12 6688877 Fax: (+966) 12 6677319
Madinah	King Abdullah Rd. - Sultana St. Intersection – Entrepreneurship Bldg 2nd Floor	Tel: (+966) 14 8318311

Central Region		
Riyadh	King Abdullah Rd., Al Quds Dist.	Tel.: (+966) 11 2404052 Fax: (+966) 11 2784214 Ext : 381

Eastern Region		
Khobar	King Saud Rd with Prince Faisal bin Fahad Rd. Close to Abdulatif Jamil Co. Side of Mall of Dhahran	Tel:(+966) 13 8821142

Takaful Ta'awuni Toll free Number

800 244 0959

INTERNAL CONTROL STATEMENT

Management Responsibility

Management is responsible for establishing and maintaining an adequate and effective internal control system. An internal control system includes the policies, procedures and processes, which are designed under supervision of the Board of Directors (the Board) to achieve the strategic objectives of the Bank.

Scope of Internal Audit Department

The scope of internal Audit Department, independent from line management, includes the assessment of the adequacy and effectiveness of the internal control system across the Bank, as well as to ensure the implementation of the compliance with all prescribed policies and procedures. All significant and material findings of internal Audit assessments are reported to the Board audit committee of the Bank. The Audit committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interest of the Bank.

Concerted and integrated efforts are made by all functions of the Bank to improve the control environment at grass root level through continuous reviewing and streamlining of procedures to prevent and rectify any control deficiencies. Each function, under the supervision of the senior executive management, is entrusted with the responsibility to oversee rectification of control deficiencies identified by internal and external auditors. The Compliance function, through centrally automated applications and physical examinations, ensures adherence

to regulatory requirements and the Bank's internal policies and procedures.

Evaluation and Assessment of the Effectiveness of the Internal Controls

The Bank's Internal control system has been designed to provide reasonable assurance to the Board, on the management of risks to achieve the Bank's strategic objectives. Internal controls systems, no matter how well designed, have inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection

of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies or procedures. Management has adopted Internal Controls integrated framework as recommended by SAMA through its guidelines on Internal Controls.

Audit Committee also reviews the assessment report on the effectiveness of the internal control system, as prepared by the internal Audit department of the Bank. The report on assessment of internal controls does not contain

Material weaknesses in the Bank's internal control framework which has not been adequately addressed by the management.

Management Response on the Evaluation of Internal Controls

Based on the results of the ongoing evaluation of internal controls carried out by the Management during the year, the Management considers that the Bank's existing internal control system is adequately designed, operating effectively, and monitored consistently. Nevertheless, the Management continuously endeavors to enhance and further strengthen the internal control system of the Bank.

Board of Directors Response on the Evaluation of Internal Controls

Based on the above, the Board of Directors has duly endorsed Management's evaluation of the internal control system, as prescribed by SAMA.

Shahid Amin	**Abdulaziz Al-Zammam**	**Emad Al-Toukhi**
Chief Financial Officer	Chief Internal Audit Executive	Head of Compliance Division

SHARIA'H SUPERVISORY BOARD'S REPORT

Praise be to Allah, the Almighty, and Peace be upon Allah's Messenger Prophet Mohammed, his companions and all his followers.

The Shareholders of Bank Al-Jazira,

The Sharia'h Board of Bank Aljazira has reviewed and discussed the quarterly reports prepared by the Bank's Sharia Group which include, the results of auditing and inspection of the procedures used by the Bank based on randomly selected samples from all types of operations.

The Sharia Board has also reviewed the principles followed and contracts concluded relating to the transactions, applications and products launched by the Bank during the period from 01.01.2019 to 31.12.2019 to give the sharia opinion, the necessary fatwas, directions and decisions.

The responsibility for ensuring the Bank is operating in accordance with the rules and principles of Islamic Sharia'h lies with the executive management of the bank, whereas the Sharia'h Board's responsibility is restricted to providing an independent opinion based on its monitoring of the Bank's operations and presenting of this report to you.

We have done our auditing after having obtained all the necessary information and explanations which we considered necessary to provide reasonable assurance that the Bank did not violate the Sharia rules and principles of Islamic law, and It is our opinion that:

The contracts. Operations and transactions executed by the Bank during the period covered by the above-mentioned report are generally compliant with the rules of Islamic Sharia, and that the observations made on some of these operations do not materially affect the integrity thereof from the Sharia point of view. These instances were rectified by the management of the Bank,

The Sharia Supervisory Board would like to thank the Bank's sharia group and executive management for their dedication and cooperation.

May Allah guide us to the right path.

Assalamu'alaikum warahmatullahi wabarakatuh

Sheik Abdulla Bin Suleiman Al-Mane'e	**Chairman**
Dr. Abdullah Bin Mohammed Al-Mutlaq	**Vice Chairman**
Dr. Mohammed Bin Ali El-Gari	**Member**
Dr. Fahad Bin Ali Al-Elayan	**Rapporteur**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

CONTENTS

Building a better working world

Ernst & Young & Co. (Public Accountants)
General Partnership

13th Floor - King's Road Tower
King Abdulaziz Road
P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia
Registration Number: 45
Head Office - Riyadh

KPMG Al Fozan & Partners
Certified Public Accountant

9th Floor, Zahran Business Centre
Prince Sultan Street
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia
License No. 46/11/323 issued 11/3/1992

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

Opinion

We have audited the consolidated financial statements of Bank Aljazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and summary of significant accounting policies and other explanatory notes from 1 to 43.

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

Basis for Opinion

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements:

the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements:

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

Impairment of loans and advances:

As at December 31, 2019, the Group's gross loans and advances amounted to SR 50,669 million (2018: SR 41,830 million), against which an allowance for expected credit losses ("ECL") of SR 1,009 million (2018: SR 933 million) is held.

We considered this as a key audit matter as the assessement of expected credit losses ("ECL") involves significant management judgement, estimate and assumption and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement, estimate and assumption include:

1. Categorisation of loans in Stage 1, 2 and 3 based on identification of:

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

(b) individually impaired / default exposures.

2. Assumptions used in the ECL model such as financial condition of counterparty, expected future cash flows, forward looking macroeconomic factors, etc.

3. Computation of Probability of Default ("PD") and Loss Given Default ("LGD") percentages for counter parties.

4. The need to apply additional overlays to reflect current or future external factors that might not be captured by the expected credit loss model.

Refer to the significant accounting policies notes 3(c)(v) to the consolidated financial statements for IFRS 9 – Financial Instruments and significant accounting policy relating to impairment of financial assets, note 2(c)(i) which contains the disclosure of critical accounting judgement, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7 which contains the disclosure of impairment against loans and advances and note 30 for details of credit quality analysis and key assumptions and factors considered in determination of ECL .

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We obtained an understanding of management's assessment of impairment of loans and advances, internal rating model, impairment allowance policy and ECL modelling methodology.

We compared the impairment allowance policy and ECL methodology with the requirements of IFRS 9.

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

- the modelling process including governance over monitoring of the model and approval of key assumptions;
- the classification of borrowers in various stages and timely identification of significant increase in credit risk ("SICR") since initial recognition;
- integrity of data inputs into the ECL model; and
- for a sample of customers, assessed whether the internal ratings assigned by management is in line with the Group's internal policies and procedures.

We checked the completeness and accuracy of data underlying the ECL calculation as of December 31, 2019.

For a sample of customers, we assessed the underlying assumptions used by the Group in ECL calculations and:

- checked the criteria for determination of SICR and identification of "default" or "individually impaired" exposures and their classification into stages.
- for a sample of exposures, we checked the staging;
- checked the management's computations, across all the three stages of ELC assessment;
- checked the Probability of Default ("PD") and Loss Given Default ("LGD") used by the management in the ECL calculations: and
- where management's overlays were used, assessed their appropriateness and governance process around such overlays.

Where relevant, we used specialists including IT specialists and financial risk modelling specialists to gain comfort on the model, resultant ECL calculations and data integrity.

We assessed the disclosures included by management in the consolidated financial statements.

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Hedge accounting:

The Group hedges its exposure in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" to cash flow risk arising from variability of special commission rates associated with the forecast payment of special commission on Bank's funding activities. The hedging is achieved by entering into derivative (special commission rate swaps) contracts with third parties. Under IFRS as endorsed in KSA, in order to qualify for hedge accounting, among other criteria, the hedging transactions should be expected to be highly effective, i.e. the changes in cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. Hedge effectiveness test was significant to the audit because of strict requirement of IFRS as endorsed in KSA to qualify for the hedge accounting and volume and amounts of hedged items and instruments. In addition, management's assessment process is complex and highly judgmental and is based on assumptions, specifically, maturity of the hedged item and instrument estimated future special commission rates and fair valuation of the derivatives, which are affected by expected future market or economic conditions globally and in the Kingdom of Saudi Arabia.

The Group's accounting policy related to hedge accounting described in note 3(e), the carrying amount of derivative designated for hedge accounting in note 11 and movement in hedging reserves in note 18 to the consolidated financial statements.

</td><td>

Our audit procedures in response to the risk associated with the Our audit procedures in response to the risk associated with the application of hedge accounting included a detailed analysis of the Group's framework for financial risk management and hedge accounting.

We assessed and tested management's controls over the establishment of hedging relationships, related documentation and monitoring, including performance of prospective and retrospective effectiveness testing.

Moreover, for a selected sample of hedges, we also performed the following:

- assessed the appropriateness of the assumptions used by the management when performing hedge effectiveness test;
- while considering retrospective and prospective testing, checked the historic results with regard to existing hedging relationships, and evaluated forecasted analysis based on management's best estimates keeping in view future plans and budget to date.
- assessed the appropriateness of the fair values assigned by reference to third-party data as applicable.
- assessed how effectively the changes in cash flows of the hedging instrument offsets corresponding changes in the hedged item and whether the hedge remains effective in line with the requirements of the relevant accounting standards.
- involved our hedge accounting specialists to independently reperform the hedge effectiveness test.

Further, we assessed whether the consolidated financial statement disclosures appropriately reflect the Group's hedge accounting policy, as well as, it's exposures to derivatives designated under hedging relationships.

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</table>

Other Information included in the Group's 2019 Annual Report

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as endorsed in KSA, the Regulation for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's By-Laws, and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Bank is not in compliance with the requirements of the Regulation for Companies, the Banking Control law in the Kingdom of Saudi Arabia and the Bank's By-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young
(Public Accountants)
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Kingdom of Saudi Arabia

Ahmed I. Reda
Certified Public Accountant
Licence Number 356

for KPMG Al Fozan & Partners
Certified Public Accountants
P.O. Box 55078
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Kingdom of Saudi Arabia

Ebrahim Oboud Baeshen
Certified Public Accountant
Licence Number 382

Jumada Al Thani 16, 1441H
Corresponding to February 10, 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

	Notes	2019 SR '000	2018 SR '000
ASSETS			
Cash and balances with SAMA	4	**5,477,687**	4,965,122
Due from banks and other financial institutions	5	**1,429,004**	1,297,749
Investments	6	**27,618,764**	24,052,275
Positive fair value of derivatives	11	**101,626**	54,434
Loans and advances, net	7	**49,660,119**	40,896,891
Investment in an associate	8	**148,332**	135,770
Other real estate	7(g)	**468,992**	453,150
Property and equipment, net	9	**1,154,270**	761,247
Other assets	10	**485,550**	386,560
Total assets		**86,544,344**	73,003,198
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	12	**8,253,754**	6,423,430
Customers' deposits	13	**62,696,794**	51,804,098
Negative fair value of derivatives	11	**216,011**	151,789
Subordinated Sukuk	14	**2,006,921**	2,008,202
Other liabilities	15	**1,781,347**	1,371,207
Total liabilities		**74,954,827**	61,758,726
SHAREHOLDERS' EQUITY			
Share capital	16	**8,200,000**	8,200,000
Statutory reserve	17	**2,657,316**	2,409,560
General reserve	17	**68,000**	68,000
Other reserves	18	**(86,804)**	(96,284)
Retained earnings		**505,005**	253,196
Proposed dividend	26	**246,000**	410,000
Total shareholders' equity		**11,589,517**	11,244,472
Total liabilities and shareholders' equity		**86,544,344**	73,003,198

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	2019 SR '000	2018 SR '000
			Restated (note 3 (a)(II))
Special commission income	20	**3,227,547**	2,787,673
Special commission expense	20	**(1,175,383)**	(883,640)
Net special commission income		**2,052,164**	1,904,033
Fees and commission income	21	**932,633**	866,372
Fees and commission expense	21	**(327,403)**	(302,016)
Fees and commission income, net		**605,230**	564,356
Exchange income, net		**229,910**	191,789
Net gain / (loss) on FVIS financial instruments	22	**5,792**	(4,367)
Dividend income		**343**	286
Net gains on derecognition of financial assets measured at FVOCI - debt		**1,886**	-
Net gains on derecognition of financial assets measured at amortised cost		**69,654**	101
Other operating income, net	23	**12,180**	8,547
Total operating income		**2,977,159**	2,664,745
Salaries and employee-related expenses	36	**968,529**	896,716
Rent and premises-related expenses		**52,431**	140,950
Depreciation and amortisation	9	**201,026**	93,043
Other general and administrative expenses		**443,908**	414,814
Other operating expenses, net		**45,170**	22,543
Total operating expenses before impairment charge		**1,711,064**	1,568,066
Impairment charge for credit losses, net	7(e)	**156,953**	106,800
Total operating expenses		**1,868,017**	1,674,866
Net operating income		**1,109,142**	989,879
Share in net income of an associate	8	**12,888**	10,428
Net income for the year before Zakat and income tax		**1,122,030**	1,000,307
Zakat and income tax:			
Zakat	25 & 3(a)(II)	**(130,950)**	(613,356)
Income tax		**(57)**	(8,675)
Net income for the year		**991,023**	378,276
Basic and diluted earnings per share (expressed in SR per share)	24	**1.21**	0.50

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	2019 SR '000	2018 SR '000
			Restated (note 3 (a)(II))
Net income for the year		**991,023**	378,276
Other comprehensive income:			
Items that can be reclassified to consolidated statement of income in subsequent periods:			
Cash flow hedges:			
- Effective portion of change in the fair value	18	**(14,106)**	16,338
- Net amount transferred to consolidated statement of income	18	**62**	329
Net changes in fair value of investments classified as at FVOCI - Debt	18	**5,508**	-
Items that cannot be reclassified to consolidated statement of income in subsequent periods:			
Net changes in fair value of investments classified as at FVOCI – Equity	18	**-**	23
Actuarial gains on defined benefit obligation	18	**18,016**	2,014
Total other comprehensive income for the year		**9,480**	18,704
Total comprehensive income for the year		**1,000,503**	396,980

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	Share capital SR '000	Statutory reserve SR '000	General reserve SR '000	Other reserves SR '000	Retained earnings SR '000	Proposed dividend SR '000	Total SR '000
2019								
Balance at January 1, 2019 (audited)		**8,200,000**	**2,409,560**	**68,000**	**(96,284)**	**253,196**	**410,000**	**11,244,472**
Net income for the year		-	-	-	-	**991,023**	-	**991,023**
Other comprehensive income for the year		-	-	-	**9,480**	-	-	**9,480**
Total comprehensive income for the year		-	-	-	**9,480**	**991,023**	-	**1,000,503**
Transfer to statutory reserve	17	-	**247,756**	-	-	**(247,756)**	-	-
Interim dividend paid	26	-	-	-	-	**(246,000)**	-	**(246,000)**
Proposed dividend	26	-	-	-	-	**(246,000)**	**246,000**	-
2018 Final dividend paid		-	-	-	-	-	**(409,458)**	**(409,458)**
Adjustments in proposed dividend		-	-	-	-	**542**	**(542)**	-
Balance at December 31, 2019		**8,200,000**	**2,657,316**	**68,000**	**(86,804)**	**505,005**	**246,000**	**11,589,517**
2018								
Balance at January 1, 2018 (audited)		5,200,000	2,159,483	68,000	(125,185)	1,526,541	-	8,828,839
Impact of adoption of IFRS 9 at January 1, 2018		-	-	-	-	(636,157)	-	(636,157)
Balance at January 1, 2018 – restated		5,200,000	2,159,483	68,000	(125,185)	890,384	-	8,192,682
Net income for the year		-	-	-	-	378,276	-	378,276
Other comprehensive income for the year		-	-	-	18,704	-	-	18,704
Gain on sale of investment classified as at FVOCI	18	-	-	-	(10,951)	10,951	-	-
Total comprehensive income for the year		-	-	-	7,753	389,227	-	396,980
Right issue of shares	16	3,000,000	-	-	-	-	-	3,000,000
2017 Final dividend paid		-	-	-	-	(252,802)	-	(252,802)
Proposed dividend	26	-	-	-	-	(410,000)	410,000	-
Transfer to statutory reserve	17	-	250,077	-	-	(250,077)	-	-
Transfer of gain on investment at FVOCI to other liabilities		-	-	-	-	(1,540)	-	(1,540)
Right issue cost	18	-	-	-	(90,848)	-	-	(90,848)
Transfer of right issue cost to retained earnings	18			-	111,996	(111,996)	-	-
Balance at December 31, 2018		8,200,000	2,409,560	68,000	(96,284)	253,196	410,000	11,244,472

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2 019

	Notes	2019 SR '000	2018 SR '000
OPERATING ACTIVITIES			
Net income for the year before Zakat and income tax		1,122,030	1,000,307
Adjustments to reconcile net income to net cash from operating activities:			
Net (gain) / loss on FVIS financial instruments		(5,792)	9,704
Depreciation and amortisation	9	201,026	93,043
Dividend income		-	(286)
Gains on investments not held as FVIS, net		(71,540)	(101)
Gain on sale of property and equipment		(173)	(148)
Impairment charge for expected credit losses ("ECL"), net	7(e)	156,953	106,800
Share in net income of an associate	8	(12,888)	(10,428)
Special commission expense on Subordinated Sukuk		97,778	87,638
		1,487,394	1,286,529
Net (increase) / decrease in operating assets:			
Statutory deposit with SAMA		(646,845)	(55,193)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		(760,336)	66,485
Investments held at FVIS		(239,939)	10,418
Positive fair value of derivatives		(47,192)	49,587
Loans and advances		(8,979,929)	(1,695,238)
Other real estate, net		(15,842)	(8,104)
Other assets		(142,924)	(61,478)
Net increase / (decrease) in operating liabilities:			
Due to banks and other financial institutions		1,830,324	250,885
Customers' deposits		10,892,696	1,525,732
Negative fair value of derivatives		64,222	(69,198)
Other liabilities		124,228	(28,681)
Net cash from operating activities		3,565,857	1,271,744
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments not held as FVIS		1,713,317	1,256,322
Purchase of investments not held as FVIS		(4,962,535)	(4,968,071)
Dividend received from an associate	8	-	8,575
Acquisition of property and equipment	9	(77,871)	(69,784)
Proceeds from sale of property and equipment		348	168
Dividends received		-	286
Net cash used in investing activities		(3,326,741)	(3,772,504)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	2019 SR '000	2018 SR '000
FINANCING ACTIVITIES			
Proceeds from issue of right shares	16	**-**	3,000,000
Payment of right issue costs	18	**-**	(90,848)
Special commission paid on Subordinated Sukuk		**(99,059)**	(85,818)
Dividends paid		**(646,360)**	(250,864)
Zakat and income tax paid		**(155,360)**	(141,227)
Payment for principal portion of lease liabilities		**(100,806)**	-
Net cash (used in) / from financing activities		**(1,001,585)**	2,431,243
Net decrease in cash and cash equivalents		**(762,469)**	(69,517)
Cash and cash equivalents at the beginning of the year		**3,409,307**	3,478,824
Cash and cash equivalents at the end of the year	27	**2,646,838**	3,409,307
Special commission income received during the year		**3,116,192**	2,639,239
Special commission expense paid during the year		**959,386**	784,491
Supplemental non-cash information			
Net changes in fair value and transfers to the consolidated statement of income		**(14,044)**	16,667

The accompanying notes 1 to 43 form an integral part of these consolidated financial statements.

1. GENERAL

These financial statements comprise the financial statements of Bank Aljazira (the "Bank") and its subsidiaries (collectively referred to as the "Group"). Bank Aljazira is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia and formed pursuant to Royal Decree number 46/M dated Jumad Al-Thani 12, 1395H (June 21, 1975). The Bank commenced its business on Shawwal 16, 1396H (October 9, 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated Rajab 29, 1396H (July 27, 1976) issued in Jeddah. The Bank operates through its 78 branches (2018: 79 branches) and 61 Fawri Remittance Centres (2018: 57 Fawri Remittance Centres) in the Kingdom of Saudi Arabia and employed 2,387 staff as of December 31, 2019 (2018: 2,358 staff). The Bank's Head Office is located at the following address

Bank Aljazira
Nahda District, King Abdulaziz Road,
P.O. Box 6277, Jeddah 21442
Kingdom of Saudi Arabia

The objective of the Bank is to provide a full range of Shari'ah compliant (non-interest based) banking products and services comprising of Murabaha, Istisna'a, Ijarah, Tawaraq, Musharaka, Wa'ad Fx and Sukuk which are approved and supervised by an independent Shari'ah Board established by the Bank. The Bank's shares are listed on Tadawul in the Kingdom of Saudi Arabia.

The details of the Bank's subsidiaries and associate are as follows:

	Country of incorporation	Nature of business	Ownership (direct and indirect) December 31, 2019	Ownership (direct and indirect) December 31, 2018
Subsidiaries				
Aljazira Capital Company	Kingdom of Saudi Arabia	Brokerage, margin financing and asset management	**100%**	100%
Aman Development and Real Estate Investment Company	Kingdom of Saudi Arabia	Holding and managing real estate collaterals on behalf of the Bank	**100%**	100%
Aman Insurance Agency Company	Kingdom of Saudi Arabia	Acting as an agent for bancassurance activities on behalf of the Bank	**100%**	100%
Aljazira Securities Limited	Cayman Islands	Carry out Shari'ah compliant derivative and capital market transactions	**100%**	100%
Associate				
Aljazira Takaful Ta'awuni Company	Kingdom of Saudi Arabia	Fully Shari'ah compliant protection and saving products	**35%**	35%

2. BASIS OF PREPARATION

a) Basis of preparation

i. Statement of compliance

The consolidated financial statements of the Group have been prepared;

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

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

On July 17, 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 Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Group changed its accounting treatment for Zakat and income tax retrospectively, by 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 3(a)(II) to these consolidated financial statements. Further, the Bank has adopted IFRS 16 Leases from January 1, 2019. The change in accounting policies due to this new standard and change in treatment of Zakat and income tax are disclosed in the Note 3(n) and 3(q).

ii. Basis of measurement and presentation

The consolidated financial statements are prepared on the historical cost convention except for the measurement at fair value of derivatives, financial instruments held as Fair Value through Income Statement (FVIS) and Fair Value through Other Comprehensive Income (FVOCI). In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise carried at cost, are carried at fair value to the extent of the risk being hedged.

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

iii. Functional and presentation of currency

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

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of all the subsidiaries of the Bank is the Saudi Arabian Riyal (SR) except for Aljazira Securities Limited whose functional currency is US Dollars.

b) Basis of consolidation

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

The consolidated financial statements have been prepared using uniform accounting policies and valuation methods for like transactions and other events in similar circumstances. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

i. Subsidiaries

Subsidiaries are entities which are controlled by the Bank. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. To meet the definition of control, all the following three criteria must be met:

i. the Group has power over an entity;
ii. the Group has exposure, or rights, to variable returns from its involvement with the entity; and
iii. the Group has the ability to use its power over the entity to affect the amount of the entity's returns.

The Group re-assesses whether or not it controls an investee in case facts and circumstances indicate that there are changes to one or more of the criteria of control.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and cease to be consolidated from the date on which the control is transferred from the Bank. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

ii. Non-controlling interests

Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Bank in its subsidiaries and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from the Bank's equity. Any losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance. Changes in the Bank's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

iv. Investment in an associate

Associates are entities over which the Group exercises significant influence. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting and are carried in the consolidated statement of financial position at the lower of the equity-accounted value or the recoverable amount.

Equity-accounted value represents the cost-plus post-acquisition changes in the Group's share of net assets of the associate (share of the results, reserves and accumulated gains/ (losses) based on the latest available financial information) less impairment, if any.

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

The previously recognized impairment loss in respect of investment in associate can be reversed through the consolidated statement of income, such that the carrying amount of the investment in the consolidated statement of financial position remains at the lower of the equity-accounted (before allowance for impairment) or the recoverable amount.

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

c) Critical accounting judgements estimates and assumptions

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

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

i. Business model for managing financial assets (note 3(c)(i)(a))
ii. Contractual cashflows of financial assets (note 3(c)(i)(b))
iii. Classification of financial assets (note 3(c)(i))
iv. Impairment losses on financial assets (note 2(c)(i))
v. Fair value measurement (note 2(c)(ii))
vi. Impairment of non-financial assets (note 2(c)(iii))
vii. Determination of control over investees (note 2(c)(iv))
viii. Provisions for liabilities and charges (note 2(c)(v))
ix. Going concern (note 2(c)(vi))
x. Employee benefit obligation (note 2(c)(vii))
xi. Depreciation and amortisation (note (3)(k))

i. Impairment losses on financial assets

The measurement of impairment losses under both IFRS 9 and IAS 39 across all categories of financial assets requires judgement for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

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

ii. Fair value of financial instruments

The Group measures the financial instruments, such as derivatives, financial instruments held at fair value through income statement (FVIS) and fair value through other comprehensive income (FVOCI), at their fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 6 (c) and note 34 (b).

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 by the Group.

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques.

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

Financial instruments for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy (refer note 34).

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

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.

iii. Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative foreign currency translation reserve and unimpaired goodwill is recognised in the consolidated statement of income.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

iv. Determination of control over investment funds

The Group acts as Fund Manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the Fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated these funds.

v. Provisions for liabilities and charges

The Group receives legal claims in the ordinary course of business. Management makes judgments in assigning the risk that might exists in such claims. It also sets appropriate provisions against probable losses. The claims are recorded or disclosed, as appropriate, in the consolidated financial statements based on the best estimate of the amount required to settle the claim.

vi. Going concern

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

vii. Employee Benefit Obligation

The Group operates an end of service benefit plan (the plan) for its employees based on the prevailing Saudi Labour laws. The liability for the plan is estimated in accordance with International Accounting Standard (IAS) 19 – Employee Benefits, by a qualified actuary based on various assumptions. The key assumptions used to estimate the plan liability at the year end, are disclosed in note 28 to these consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in accounting policies

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

Adoption of New Standards

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

I. IFRS 16 Leases

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

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognise the special commission expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees are also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group has decided to apply the modified retrospective approach in adopting IFRS 16. In the modified retrospective approach, the comparable figures for the previous periods are not adjusted and all adjustments effects as of January 1, 2019. Upon initial application, the Group has also decided to recognise right-of-use assets corresponding to the lease liabilities with adjustment of prepaid and accrued rent to right-of-use asset. This has therefore not resulted in any impact on equity as of January 1, 2019. The Group has elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group has therefore not applied the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain equipments (i.e., POS terminals and notes counting machines) that are considered of low value. Group has also elected to use the following practical expedients that are available under modified retrospective approach:

- Leases with a short remaining term
- Discount rates

Impact on the statement of financial position increase/(decrease) as at January 1, 2019:

Assets	**SR '000**
Property and equipment, net (right of use assets)	470,563
Other assets (prepaid rent)	(43,934)
	426,629
Liabilities	
Other liabilities (lease liability)	426,629

Due to the adoption of IFRS 16, the Group's operating profit will deteriorate in initial years due to front loading of special commission expense however profit will improve in later years as the special commission expense reduces due to reduction in lease liability. This is due to the change in the accounting for expenses of leases that were classified as operating leases under IAS 17.

IFRS 16 transition disclosures also requires the Group to present the reconciliation of the off-balance sheet lease obligations as of December 31, 2018 with the lease liability as per IFRS 16 on the date of initial application as of January 1, 2019 which is as follows:

Reconciliation of lease liabilities

	2019
	(SR' 000)
Operating lease commitments disclosed as at December 31, 2018	**447,970**
Impact of termination options and related escalation not previously recognised	66,748
Operating lease commitments disclosed as at December 31, 2018 - adjusted	**514,718**
Discount using the Bank's incremental borrowing rate at the date of initial application	(68,720)
Short-term leases recognised on a straight-line basis as expense	(1,065)
Low-value leases recognised on a straight-line basis as expense	(18,304)
Lease liability recognised as at January 1, 2019	**426,629**

II. Zakat and income tax

a. Change in the accounting for Zakat and income tax

As mentioned in note 2 (a), the basis of preparation has been changed for the year ended December 31, 2019 as a result of the issuance of latest instructions from SAMA dated July 17, 2019. Previously, Zakat and income tax were recognized in the consolidated 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, the Zakat and income tax shall be recognized in the consolidated statement of income. The Group has accounted for this change in the accounting for Zakat and income tax retrospectively (see note 2(a) and the effects of the above change are disclosed in note 3(a)(II) (b) to the consolidated financial statements).

b. Impact of change in the accounting for Zakat and income tax

The change in the accounting treatment for Zakat and income tax has the following impact on the line items of the consolidated statements of income, consolidated statement of comprehensive income and consolidated changes in equity for the year ended December 31, 2019. The change has had no impact on the statement of consolidated financial position and consolidated statement of cash flows for the year ended December 31, 2018.

As at and for the year ended December 31, 2018:

Account	Financial statement impacted	Before the restatement for the year ended December 31, 2018 (SR' 000)	Effect of restatement (SR' 000)	As restated as at and for the year ended December 31, 2018 (SR' 000)
Zakat and income tax	Consolidated statement of income	-	(622,031)	(622,031)
Net income for the year	Consolidated statement of income	1,000,307	(622,031)	378,276
Earnings per share for the year (expressed in SR per share)	Consolidated statement of income	1.33	(0.83)	0.50
Zakat for current year (retained earnings)	Consolidated statement of changes in equity	(61,746)	61,746	-
Zakat for prior years (retained earnings)	Consolidated statement of changes in equity	(551,498)	551,498	-
Income tax for current year (retained earnings)	Consolidated statement of changes in equity	(8,633)	8,633	-
Share in Zakat of an associate (retained earnings)	Consolidated statement of changes in equity	(154)	154	-
Total comprehensive income for the year	Consolidated statement of comprehensive income and Consolidated statement of changes in equity	1,019,011	(622,031)	396,980

III. Deferred tax

The financial impact of adoption of accounting policy for deferred tax is not material to the consolidated financial statements. Therefore, prior year amounts have not been restated. As required under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the balances as of January 1, 2018 were not presented in the consolidated statement of financial position as change in the accounting policy has not resulted in restatement of the amounts relating to year ended December 31, 2017.

b) Trade date accounting

All regular-way purchases and sales of financial assets are initially recognised and derecognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

c) Financial assets and financial liabilities

i. Classification of financial assets

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

Financial asset at amortised cost

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

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

If a financial asset does not meet both of these conditions, then it is measured at fair value.

Income is recognised on an effective yield basis for debt instruments measured subsequently at amortised cost. Commission income is recognised in the consolidated statement of income.

Debt instruments that are measured at amortised cost are subject to impairment.

Financial assets at FVOCI

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

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

Equity instruments: On initial recognition, for an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in consolidated other comprehensive income (OCI). This election is made on an investment-by-investment basis.

Investments in debt instruments as FVOCI are initially measured at fair value plus transaction costs. These are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI and recycled to consolidated statement of income at the time of sale. Special commission income and foreign exchange gains and losses are recognised in consolidated statement of income.

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, these are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in other reserves. Gains and losses on such equity instruments are never reclassified to the consolidated statement of income and no impairment is recognised in the consolidated statement of income. Investments in unquoted equity instruments are measured at fair value. The cumulative gains or losses will not be reclassified to the consolidated statement of income on disposal of the investments.

On initial recognition the Group designates all investments in equity instruments that are not FVIS as FVOCI.

Dividends on these investments in equity instruments are recognised in the consolidated statement of income when the Group's right to receive the dividend is established, unless the dividend clearly represent a recovery of part of the cost of the investment.

Financial asset at FVIS

All other financial assets are classified as measured at FVIS (for example: equity held for trading and debt securities classified neither as amortised cost nor FVOCI).

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVIS 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 Group changes its business model for managing financial assets.

Financial assets at FVIS are measured at fair value at the end of each reporting period, with any gains or losses arising on measurement recognised in the consolidated statement of income.

Commission income on debt instruments as FVIS is included in the consolidated statement of income.

Dividend income on investments in equity instruments as FVIS is recognised in the interim condensed consolidated statement of income when the Group's right to receive the dividend is established and is included in the consolidated statement of income.

a. Business model assessment

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

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

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group 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 FVIS because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

b. Assessments whether contractual cash flows are solely payments of principal and special commission (SPPI)

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

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

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

Designation at fair value through income statement

At initial recognition, the Group may designate certain financial assets at FVIS if this designation eliminates or significantly reduces an accounting mismatch, which would otherwise rise.

ii. Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Yield Rate (EIR).

All money market deposits, customer deposits, term loans, subordinated debts and other debt securities in issue are initially recognized at fair value less transaction costs.

Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through income statement or the Group has opted to measure a liability at fair value through income statement as per the requirements of IFRS 9.

Financial liabilities classified as FVIS using fair value option, if any, after initial recognition, for such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI and all other fair value changes are presented in the consolidated statement of income.

Amounts in OCI relating to own credit are not recycled to the consolidated statement of income even when the liability is derecognized and the amounts are realized.

Financial guarantees and loan commitments that Group choose to measure at fair value through income statement (FVIS) will have all fair value movements recognized in consolidated statement of income.

Designation at fair value through income statement

The Group may designate certain financial liabilities as FVIS in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

iii. Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss. Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

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

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

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

Financial liabilities

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

iv. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized 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 this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as special commission income.

Financial liabilities

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

v. Impairment

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

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

No impairment loss is recognized on equity investments.

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

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

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

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

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

Measurement of ECL

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

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

Restructured financial assets

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

- if the expected restructuring will not result in derecognition of the existing asset, 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 yield rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

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

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

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

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision under "other liabilities"; 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 recognised in consolidated statement of income and changes between the amortised cost of the assets and their fair value are recognised in OCI.

Write-off

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

Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Group's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as professional evaluators or based on housing price indices.

d) Financial guarantees and loan commitments

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

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

The Group has issued no loan commitments that are measured at FVIS. For other loan commitments the Group recognizes loss allowance as a provision under "other liabilities".

e) Derivative financial instruments and hedge accounting

Derivative financial instruments including forward rate agreements, special commission rate swaps and commission rate options (both written and purchased) are initially measured at their fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the consolidated statement of financial position. The transaction costs associated with these agreements are recognised in the consolidated statement of income.

All derivatives are carried at their fair value as assets, where the fair value is positive, and as liabilities, where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

The treatment of changes in their fair value depends on their classification into the following categories:

i) Derivatives held for trading

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

ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value with all changes in fair value recognized in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship.

For financial assets, the requirements are whether the financial asset contains contractual terms that give rise on specified date to cashflows that are SPPI, and consequently the accounting of embedded derivatives are not applicable to financial assets.

iii) Hedge Accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to profit rates and foreign currencies. In order to manage risks, the Group applies hedge accounting for transactions that meet specific criteria.

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

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

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

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

Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect the consolidated statement of income, changes in fair value of the derivative are recognised immediately in the consolidated statement of income together with change in the fair value of the hedged item attributable to the hedged risk under non-trading gains / losses in the consolidated statement of income.

For hedged items measured at amortised cost, where the fair value hedge of a commission bearing financial instrument ceases to meet the criteria for hedge accounting or is sold, exercised or terminated, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective yield rate method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

Cash flow hedges

For designated and qualifying cash flow hedging, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognised directly as "other reserve" in consolidated statement of comprehensive income and the ineffective portion, if any, is recognised in the consolidated statement of income.

For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged item affects the consolidated statement of income. However, if the Group expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassifies into the consolidated statement of income as a reclassification adjustment the amount that is not to be recognized.

When the hedging instrument is expired or sold, terminated or exercised, or no longer qualifies for hedge accounting, or the forecast transaction is no longer expected to occur or the Group revokes the designation, then hedge accounting is discontinued prospectively. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in other comprehensive income from the period when the hedge was effective is transferred from equity to statement of income when the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur and affects the statement of income, the net cumulative gain or loss recognised in consolidated statement of comprehensive income is transferred immediately to the consolidated statement of income.

In accordance with risk management policies, the Group manages its cash flow profit rate risk on an entity-wide basis as well as variability of special commission rate on Wakala floating rates notes. The Group designate profit rate swaps as hedging instrument against the cash flow risk resulting from a change in profit rates that occurs up to the repricing of the swap.

The Group first assesses forecasting of the "net cash flow" exposures from existing yield bearing assets and liabilities, including the rollover of short-term assets and short-term liabilities. This is mainly achieved through yield sensitivity gap. During forecasting of the net cash flows, the Group take into account historic information and market trends for withdrawal of deposits, yield rates and refinancing's and repricing's. The net cash flows are then compared with existing hedging positions to provide a basis for considering whether adjustment of the hedging relationship should be made.

The notional amounts of the profit rate swaps that are outstanding at the analysis date are included in each of the periods in which the profit rate swaps are outstanding to assess the impact of the outstanding profit rate swaps on the identified cash flow exposures. While a portion of the forecast transaction is no longer being hedged, the profit rate swap is not de-designated, and it continues to be a hedging instrument for the remaining transactions in the series that have not occurred. However, if the next forecast transaction does not occur until specified period, the remaining after the repricing of the profit rate swap, is not hedged.

The Group designates the hedging relationship in a manner that also consider the extent to which ineffectiveness is expected to be recognised for accounting purposes. The hedged exposure percentage is computed as the ratio of the notional amount of the receive-fixed, pay-variable swaps that are outstanding divided by the gross exposure. The effective portion of the gain or loss on the hedging instrument is initially recognized directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in "trading income, net". For cash flow hedges affecting future transactions, the gains or losses recognised in other reserves are transferred to the consolidated statement of income in the same period in which the hedge transactions affect the consolidated statement of income.

f) Foreign Currencies

Transactions in foreign currencies are translated into Saudi Arabian Riyals (SR) at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities at the year-end (other than monetary items that form part of the net investment in a foreign operation), denominated in foreign currencies, are translated into SR at exchange rates prevailing at the reporting date.

Foreign exchange gains or losses from settlement of transactions and translation of year end monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment either in the consolidated statement of income or in other comprehensive income depending on the underlying financial asset.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

g) Offsetting financial instruments

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

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

h) Revenue / expense recognition

Special commission income and expenses

Special commission income and expense are recognized in consolidated statement of income using the effective yield method. The 'effective yield rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability.

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

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

Measurement of amortized cost and special commission income

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

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

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

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

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

When the Group enters into a special commission rate swap to change special commission from fixed to floating (or vice versa), the amount of special commission income or expense is adjusted by the net special commission on the swap to the extent the hedge is considered to be effective.

Exchange income / (loss)

Exchange income / (loss) is recognised when earned / incurred as disclosed in note 3(f).

Fees and commissions

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

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

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, remittance 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 customer loyalty program (reward points / air miles herein referred to as "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 standalone 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.

Trading income / (loss), net

Net income from other financial instruments at FVIS relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVIS and non-trading assets mandatorily measured at FVIS. The line item includes fair value changes, special commission, dividends and foreign exchange differences.

Dividend income

Dividend income is recognised when the right to receive income is established.

i) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated statement of financial position as the Group retains substantially all the risk and rewards of the ownership and are measured in accordance with related accounting policies for investments designated as FVIS, FVOCI and amortised cost, whichever is applicable. The transactions are treated as collateralised borrowings and counterparty liabilities and amounts received under these agreements are included in "SAMA cash borrowing" under "due to banks and other financial institutions", "due to banks and other financial institutions" or "customers' deposits", as appropriate. The difference between the sale and repurchase price is treated as special commission expense and is accrued over the life of the repo agreement using the effective yield rate.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in "cash and balances with SAMA", "due from banks and other financial institutions" or "loans and advances", as appropriate. The difference between the purchase and resale price is treated as special commission income and is accrued over the life of the reverse repo agreement using the effective yield rate.

j) Other real estate and repossessed assets

The Group, in the ordinary course of business, acquires certain real estate against settlement of due loans and advances. Such real estate are considered as assets held for sale and are initially stated at the lower of the net realizable value of due loans and advances and the current fair value of related properties, less any costs to sell. No depreciation is charged on such real estate. Rental income from other real estate is recognised in the consolidated statement of income.

Subsequent to the initial recognition, such real estate is revalued on a periodic basis. Any unrealised losses on revaluation, realized losses or gains on disposal and rental income are recognised in the consolidated statement of income. Any subsequent revaluation gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognised in the consolidated statement of income. Gains or losses on disposal are recognised in the consolidated statement of income.

k) Property and equipment

Property and equipment are measured at cost less accumulated depreciation / amortisation and accumulated impairment loss. Changes in the expected useful life are accounted by changing the period or method, as appropriate, and treated as changes in accounting estimates. Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the group. On-going repairs and maintenance are expensed as incurred.

Freehold land is not depreciated. The cost of property and equipment is depreciated / amortised using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	33 years
Leasehold improvements	Over the lease period or 10 years, whichever is shorter
Furniture, equipment and vehicles	4 to10 years
Computer softwares and automation projects	4 to 10 years

The assets' residual values, depreciation methods 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 amount. These are included in 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. Any carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

l) Deposits, debt securities issued and subordinated liabilities

When the Group designates a financial liability as at FVIS, the amount of change in the fair value of the liability that is attributable to changes in its own credit risk is presented in consolidated other comprehensive income (OCI) as a liability credit reserve. On initial recognition of the financial liability, the Group assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- The impact on profit or loss of expected changes in fair value of the related instruments.

m) Provisions

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

n) Accounting for leases

i. Where the Group is the lessee

Right of use asset / lease liabilities

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

Right of use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities for lease modifications. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. Right-of-use assets are subject to impairment.

Lease liability

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of special commission expense and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(Policy applicable before January 1, 2019)

Before January 1, 2019, the Bank's accounting policy for accounting of leases where the Group was a lessee was as follows:

Leases entered into by the Group as a lessee are all operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty, net of anticipated rental income (if any), is recognised as an expense in the period in which the termination takes place.

ii. Where the Group is the lessor

When assets are transferred under a finance lease, including assets under Islamic lease arrangement (Ijarah) the present value of the lease payments is recognised as a receivable and disclosed under "loans and advances, net". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets subject to operating leases are included in the consolidated financial statements as property and equipment. Income from operating lease is recognised on a straight-line (or appropriate) basis over the period of the lease.

o) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents includes notes and coins on hand, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair values.

p) Employees' benefits

Defined unfunded benefit plan

End-of-service benefits as required by Saudi Arabia Labour Law, are required to be provided based on the employees' length of service.

The Group's net obligations in respect of defined unfunded benefit plan ("the obligations") is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs. The discount rate used is the market yield on high quality corporate bonds at the reporting date that have maturity dates approximating the terms of the Group's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Group's present value of the obligation.

The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognized and any unrecognized actuarial gains/losses. The liability is included in 'other liabilities' in the consolidated statement of financial position.

Short term benefits

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

A liability is recognized for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

q) Zakat and income tax

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Bank and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and

- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank's and the subsidiaries' tax filings may include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognized.

Zakat

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

r) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the consolidated financial statements.

The financial statements of investment management mutual funds are not included in these consolidated financial statements of the Group. Transactions with the Funds' are disclosed under related party transactions. The Group's share of these Funds', if any, are included in FVIS investments.

s) Shari'ah compliant (non-interest based) banking products

The Bank offers its customers Shari'ah compliant (non-interest based) banking products, which are approved by its Shari'ah Board, as follows:

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

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

Musharaka is an agreement between the Bank and a customer to contribute to a certain investment enterprise or the ownership of a certain property resulting in the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

Tawaraq is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for financing requirements.

Wa'ad Fx is an agreement whereby a client in consideration for the payment of a fee agrees to enter into one or series of trades. One party (promisor) gives a commitment as unilateral undertaking to a second party (promisee).

Istisna'a is an agreement between the Bank and a customer whereby the Bank sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.

Sukuk are Islamic instruments which represents an individual proportionate ownership interest in an asset and corresponding right to the income streams generated by the asset.

All Shari'ah compliant (non-interest based) products are accounted for using International Financial Reporting Standards and in conformity with the accounting policies described in these consolidated financial statements.

4. CASH AND BALANCES WITH SAMA

	2019 SR'000	2018 SR'000
Cash in hand	**1,214,248**	1,175,558
Cash with SAMA	**862,958**	1,035,928
Cash and cash equivalents (note 27)	**2,077,206**	2,211,486
Statutory deposit with SAMA	**3,400,481**	2,753,636
Total	**5,477,687**	4,965,122

In accordance with the Article 7 of the Banking Control Law and regulations issued by the Saudi Arabian Monetary Authority (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, time and other deposits, calculated at the end of each Gregorian month (see note 33). 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. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 SR'000	2018 SR'000
Current accounts	**381,787**	297,346
Money market placements	**1,048,745**	1,001,039
	1,430,532	1,298,385
Less: impairment allowance (note (a) below)	**(1,528)**	(636)
Total	**1,429,004**	1,297,749

The money market placements represent funds placed on Shari'ah compliant (non-interest based) murabaha basis.

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

2019	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Loss allowance as at January 1, 2019	**122**	**514**	**-**	**636**
Transfer to 12-month ECL	**190**	**(190)**	**-**	**-**
Net re-measurement of loss allowance	**841**	**49**	**-**	**890**
New financial assets originated	**21**	**1**	**-**	**22**
Financial assets that have been derecognized	**(13)**	**(7)**	**-**	**(20)**
Loss allowance as at December 31, 2019	**1,161**	**367**	**-**	**1,528**

2018	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR'000)			
Loss allowance as at January 1, 2018	213	93	-	306
Transfers to life time ECL not credit Impaired	(21)	21	-	-
Net re-measurement of loss allowance	(71)	100	-	29
New financial assets originated	1	301	-	302
Financial assets that have been Derecognized	-	(1)	-	(1)
Loss allowance as at December 31, 2018	122	514	-	636

The credit quality of due from banks and other financial institutions is managed using reputable external credit rating agencies. For credit quality of outstanding exposure by rating category refer note 30.2.

6. INVESTMENTS

a) As of December 31, 2019, investments are classified as follows:

	2019 SR '000		
	Domestic	International	Total
i) FVIS			
Mutual funds	200,182	86,842	287,024

ii) FVOCI

	2019 SR '000		
	Domestic	International	Total
Equities	4,143	737	4,880
Sukuk investments	101,921	-	101,921
	106,064	737	106,801

iii) Amortised cost

	2019 SR '000		
	Domestic	International	Total
Sukuk investments	22,313,847	-	22,313,847
Wakala floating rate notes	4,911,092	-	4,911,092
	27,224,939	-	27,224,939
Total	27,531,185	87,579	27,618,764

a) As of December 31, 2018, investments were classified as follows (continued):

i) FVIS

	2018 SR '000		
	Domestic	International	Total
Mutual funds	23,968	9,488	33,456
Equities	7,837	-	7,837
	31,805	9,488	41,293

ii) FVOCI

	2018 SR '000		
	Domestic	International	Total
Equities	4,143	748	4,891

iii) Amortised cost

	2018 SR '000		
	Domestic	International	Total
Sukuk investments	19,092,916	-	19,092,916
Wakala floating rate notes	4,913,175	-	4,913,175
	24,006,091	-	24,006,091
Total	24,042,039	10,236	24,052,275

b) The composition of investments as quoted and unquoted is as follows:

	2019			2018		
	Quoted SR '000	**Unquoted SR '000**	**Total SR '000**	Quoted SR '000	Unquoted SR '000	Total SR '000
Sukuk investments	**16,791,941**	**5,623,827**	**22,415,768**	12,778,596	6,314,320	19,092,916
Wakala floating rate notes	**4,911,092**	**-**	**4,911,092**	-	4,913,175	4,913,175
Equities	**-**	**4,880**	**4,880**	7,837	4,891	12,728
Mutual funds	**286,205**	**819**	**287,024**	33,456	-	33,456
Total investments	**21,989,238**	**5,629,526**	**27,618,764**	12,819,889	11,232,386	24,052,275

c) The analysis of unrealized gains and losses and the fair values of investments carried at amortised cost are as follows:

	2019				2018			
	Carrying value SR '000	**Gross unrealized gains SR '000**	**Gross unrealized losses SR '000**	**Fair value SR '000**	Carrying value SR '000	Gross unrealized gains SR '000	Gross unrealized losses SR '000	Fair value SR '000
Sukuk investments	**22,313,847**	**481,572**	**(21,548)**	**22,773,871**	19,092,916	62,464	(21,446)	19,133,934
Wakala Floating rate notes	**4,911,092**	**-**	**-**	**4,911,092**	4,913,175	-	-	4,913,175
Total	**27,224,939**	**481,572**	**(21,548)**	**27,684,963**	24,006,091	62,464	(21,446)	24,047,109

d) The analysis of the Group's investments by nature of counterparty is as follows:

	2019 SR '000	2018 SR '000
Government and quasi Government	**26,926,011**	22,770,053
Banks and other financial institutions	**401,036**	764,252
Corporate	**291,717**	517,970
Total	**27,618,764**	24,052,275

The fair values of investments carried at amortised cost are not significantly different from their carrying values. Certain of the sukuk investments (disclosed in note 6(c)) are quoted in different markets but not actively traded.

Equities reported under FVOCI includes unquoted shares of SR 4.88 million (2018: SR 4.89 million) that are carried at cost, as their fair value cannot be reliably measured.

Mutual funds domiciled in the Kingdom of Saudi Arabia (disclosed in note 6(a)) with underlying investments outside the Kingdom of Saudi Arabia are classified under the "International" category.

Sukuk investments include SR 375 million (2018: SR 375 million), which have been pledged under repurchase agreements with other banks. The market value of such investment is SR 388.3 million (2018: SR 358.46 million).

7. LOANS AND ADVANCES, NET

Consumer includes loans and advances related to individuals for personal needs.

Commercial include loans and advances to corporate, medium and small sized business and institutional customers.

Others include loans and advances to staff.

a) Loans and advances, net comprised the following:

	SR '000				
	Credit cards	Consumer	Commercial	Others	Total
2019					
Performing loans and advances	725,560	23,376,999	25,486,099	407,546	49,996,204
Non-performing loans and advances	48,371	154,727	469,984	-	673,082
Total loans and advances	773,931	23,531,726	25,956,083	407,546	50,669,286
Allowance for expected credit losses ("ECL")	(57,779)	(155,928)	(795,460)	-	(1,009,167)
Loans and advances, net	716,152	23,375,798	25,160,623	407,546	49,660,119

	SR '000				
	Credit Cards	Consumer	Commercial	Others	Total
2018					
Performing loans and advances	623,484	18,973,268	21,137,891	431,133	41,165,776
Non-performing loans and advances	39,423	160,327	464,870	-	664,620
Total loans and advances	662,907	19,133,595	21,602,761	431,133	41,830,396
Allowance for expected credit losses ("ECL")	(43,078)	(164,257)	(726,170)	-	(933,505)
Loans and advances, net	619,829	18,969,338	20,876,591	431,133	40,896,891

Loans and advances, net represents Shari'ah compliant products in respect of Murabaha agreements, Ijarah, Istisna'a, Musharaka and Tawaraq.

Loans and advances include net receivables from Ijarah finance amounting to SR 9.90 billion (2018: SR 10.79 billion).

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

	2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Loans and advances				
ECL as at January 1, 2019	138,334	193,055	602,116	933,505
Transfer to 12-month ECL	21,040	(3,190)	(17,850)	-
Transfer to lifetime ECL not credit – impaired	(2,256)	5,667	(3,411)	-
Transfer to lifetime ECL credit impaired	(3,611)	(109,771)	113,382	-
Net re-measurement of loss allowance	(24,445)	7,265	249,848	232,668
New financial assets originated or purchased	50,245	6,426	7,316	63,987
Financial assets that have been derecognized	(8,560)	(4,632)	(20,035)	(33,227)
Write-offs	-	-	(187,766)	(187,766)
ECL as at December 31, 2019	170,747	94,820	743,600	1,009,167

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Loans and advances				
ECL as at January 1, 2018	142,292	167,506	867,215	1,177,013
Transfer to 12-month ECL	72,729	(53,505)	(19,224)	-
Transfer to lifetime ECL not credit – impaired	(7,298)	8,252	(954)	-
Transfer to lifetime ECL credit impaired	(936)	(23,834)	24,770	-
Net re-measurement of loss allowance	(113,113)	59,313	259,303	205,503
New financial assets originated or purchased	52,586	37,550	17,839	107,975
Financial assets that have been derecognized	(7,926)	(2,227)	(60,936)	(71,089)
Write-offs	-	-	(489,014)	(489,014)
Allowance written back upon restructuring of loan	-	-	3,117	3,117
ECL as at December 31, 2018	138,334	193,055	602,116	933,505

During the year, there was SR 8.84 billion movement in the gross carrying amounts which contributed to changes in the loss allowance. The significant changes are as follows:

There have been a net increase in the gross carrying amounts of loans amounting to SR 7.53 billion in stage 1 and SR 1.88 billion in stage 3 which resulted in an increase in net ECL by SR 32.41 million in Stage 1 and SR 141.48 million in stage 3. For stage 2 loans, there has been a decrease of SR 571.2 million resulting in decrease in stage 2 ECL by SR 98.24 million.

The written off of commercial loans during the year also resulted in net ECL movement of SR 95.03 million. The ECL for written-off loans was SR 87.36 million at the beginning of the year which was re-measured during the year to SR 182.39 million during the year before the loans were written-off.

c) An analysis of changes in ECL by each class of financial instrument is, as follows:

	2019			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR '000)			
Credit cards				
ECL as at January 1, 2019	**15,589**	**1,864**	**25,625**	**43,078**
Transfer to 12-month ECL	**2,290**	**(768)**	**(1,522)**	**-**
Transfer to lifetime ECL not credit – impaired	**(309)**	**554**	**(245)**	**-**
Transfer to lifetime ECL credit impaired	**(439)**	**(417)**	**856**	**-**
Net re-measurement of loss allowance	**(3,146)**	**24**	**8,811**	**5,689**
New financial assets originated	**12,352**	**1,136**	**2,984**	**16,472**
Financial assets that have been derecognized	**(1,828)**	**(559)**	**(3,981)**	**(6,368)**
Write-offs	**-**	**-**	**(1,092)**	**(1,092)**
ECL as at December 31, 2019	**24,509**	**1,834**	**31,436**	**57,779**

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Credit cards				
ECL as at January 1, 2018	5,569	481	13,512	19,562
Transfer to 12-month ECL	1,934	(312)	(1,622)	-
Transfer to lifetime ECL not credit –impaired	(134)	401	(267)	-
Transfer to lifetime ECL credit impaired	(175)	(119)	294	-
Net re-measurement of loss allowance	(2,928)	(141)	7,795	4,726
New financial assets originated	11,957	1,578	9,070	22,605
Financial assets that have been derecognized	(634)	(24)	(1,096)	(1,754)
Write-offs	-	-	(2,061)	(2,061)
ECL as at December 31, 2018	15,589	1,864	25,625	43,078

	2019			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR '000)			
Consumer loans				
ECL as at January 1, 2019	**92,205**	**2,517**	**69,535**	**164,257**
Transfer to 12-month ECL	**18,027**	**(1,699)**	**(16,328)**	**-**
Transfer to lifetime ECL not credit – impaired	**(427)**	**2,130**	**(1,703)**	**-**
Transfer to lifetime ECL credit impaired	**(335)**	**(179)**	**514**	**-**
Net re-measurement of loss allowance	**(40,394)**	**(1,303)**	**26,815**	**(14,882)**
New financial assets originated	**22,047**	**85**	**4,123**	**26,255**
Financial assets that have been derecognized	**(4,705)**	**(261)**	**(10,451)**	**(15,417)**
Write-offs	**-**	**-**	**(4,285)**	**(4,285)**
ECL as at December 31, 2019	**86,418**	**1,290**	**68,220**	**155,928**

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Consumer loans				
ECL as at January 1, 2018	96,121	3,283	70,957	170,361
Transfer to 12-month ECL	19,352	(1,750)	(17,602)	-
Transfer to lifetime ECL not credit –impaired	(736)	1,423	(687)	-
Transfer to lifetime ECL credit impaired	(281)	(250)	531	-
Net re-measurement of loss allowance	(53,688)	(306)	27,012	(26,982)
New financial assets originated	35,019	550	4,932	40,501
Financial assets that have been derecognized	(3,582)	(433)	(13,570)	(17,585)
Write-offs	-	-	(2,038)	(2,038)
ECL as at December 31, 2018	92,205	2,517	69,535	164,257

	2019			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR '000)			
Commercial loans				
ECL as at January 1, 2019	**30,540**	**188,674**	**506,956**	**726,170**
Transfer to 12-month ECL	**723**	**(723)**	**-**	**-**
Transfer to lifetime ECL not credit – impaired	**(1,520)**	**2,983**	**(1,463)**	**-**
Transfer to lifetime ECL credit impaired	**(2,837)**	**(109,175)**	**112,012**	**-**
Net re-measurement of loss allowance	**19,095**	**8,544**	**214,222**	**241,861**
New financial assets originated	**15,846**	**5,205**	**209**	**21,260**
Financial assets that have been derecognized	**(2,027)**	**(3,812)**	**(5,603)**	**(11,442)**
Write-offs	**-**	**-**	**(182,389)**	**(182,389)**
ECL as at December 31, 2019	**59,820**	**91,696**	**643,944**	**795,460**

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Commercial loans				
ECL as at January 1, 2018	40,602	163,742	782,746	987,090
Transfer to 12-month ECL	51,443	(51,443)	-	-
Transfer to lifetime ECL not credit –impaired	(6,428)	6,428	-	-
Transfer to lifetime ECL credit impaired	(480)	(23,465)	23,945	-
Net re-measurement of loss allowance	(56,497)	59,760	224,496	227,759
New financial assets originated	5,610	35,422	3,837	44,869
Financial assets that have been derecognized	(3,710)	(1,770)	(46,270)	(51,750)
Write-offs	-	-	(484,915)	(484,915)
Allowance written back upon restructuring of loan	-	-	3,117	3,117
ECL as at December 31, 2018	30,540	188,674	506,956	726,170

d) Movements in allowance for ECL are as follows:

	SR '000			
<u>2019</u>	**Credit Cards**	**Consumer**	**Commercial**	**Total**
Opening ECL allowance as at 1 January 2019	**43,078**	**164,257**	**726,170**	**933,505**
Impairment charge for the year	**15,793**	**76,794**	**292,899**	**385,486**
Bad debts written off during the year	**(1,092)**	**(4,285)**	**(182,389)**	**(187,766)**
Recoveries / reversals of amounts previously provided	**-**	**(80,838)**	**(41,220)**	**(122,058)**
Balance at the end of the year	**57,779**	**155,928**	**795,460**	**1,009,167**

	SR '000			
<u>2018</u>	Credit Cards	Consumer	Commercial	Total
Opening ECL allowance as at 1 January 2018	19,562	170,361	987,090	1,177,013
Impairment charge for the year	25,577	84,787	328,149	438,513
Bad debts written off during the year	(2,061)	(2,038)	(484,915)	(489,014)
Recoveries / reversals of amounts previously provided	-	(88,853)	(107,271)	(196,124)
Allowance written back upon restructuring of loan	-	-	3,117	3,117
Balance at the end of the year	43,078	164,257	726,170	933,505

The contractual amount outstanding on financial assets that were written off during the year ended December 31, 2019 and that are still subject to enforcement activity is SR 174.6 million (2018: SR 445.2 million).

e) Net impairment charge for ECL for the year in the consolidated statement of income is as follows:

	2019 SR'000	2018 SR'000
Impairment charge for ECL on loans and advances for the year	**385,486**	438,513
Recoveries / reversal of amounts previously provided	**(122,058)**	(196,124)
Recoveries from debts previously written off	**(46,727)**	(126,481)
Net impairment charge for ECL in respect of due from banks and other financial institutions	**892**	330
Reversal of amounts previously impaired in respect of credit related contingent liabilities	**(60,640)**	(9,438)
Impairment charge for ECL, net	**156,953**	106,800

f) Economic sector risk concentrations for the loans and advances and allowance for impairment are as follows:

2019	**Performing SR '000**	**Non performing SR '000**	**Allowance for impairment SR '000**	**Loans and advances, net SR '000**
Government and quasi Government	**1,741,356**	**-**	**(6,672)**	**1,734,684**
Banks and other financial institutions	**1,557,879**	**-**	**(3,606)**	**1,554,273**
Agriculture and fishing	**25,000**	**-**	**(32)**	**24,968**
Manufacturing	**4,298,634**	**14,464**	**(237,229)**	**4,075,869**
Building and construction	**915,081**	**70,225**	**(60,924)**	**924,382**
Commerce	**9,905,979**	**207,066**	**(311,460)**	**9,801,585**
Transportation and communication	**119,097**	**-**	**(1,165)**	**117,932**
Services	**1,369,659**	**162,799**	**(114,352)**	**1,418,106**
Consumer loans and credit cards	**24,102,559**	**203,098**	**(213,707)**	**24,091,950**
Share trading	**1,270,654**	**-**	**-**	**1,270,654**
Others	**4,690,306**	**15,430**	**(60,020)**	**4,645,716**
Total	**49,996,204**	**673,082**	**(1,009,167)**	**49,660,119**

2018	Performing SR '000	Non performing SR '000	Allowance for impairment SR '000	Loans and advances, net SR '000
Government and quasi Government	729,624	-	(1,693)	727,931
Banks and other financial institutions	661,499	-	(932)	660,567
Agriculture and fishing	37,523	-	(13)	37,510
Manufacturing	4,958,667	10,307	(168,333)	4,800,641
Building and construction	943,685	173,607	(127,577)	989,715
Commerce	8,256,352	146,512	(248,088)	8,154,776
Transportation and communication	29,784	-	(59)	29,725
Services	1,384,982	118,602	(111,080)	1,392,504
Consumer loans and credit cards	19,596,752	199,750	(207,335)	19,589,167
Share trading	1,273,710	-	-	1,273,710
Others	3,293,198	15,842	(68,395)	3,240,645
Total	41,165,776	664,620	(933,505)	40,896,891

g) Other real estate, net

	2019 SR'000	2018 SR '000
Balance at the beginning of the year	**453,150**	445,046
Additions during the year	**18,285**	11,046
Disposals during the year	**(2,443)**	(2,942)
Balance at the end of the year	**468,992**	453,150

8. INVESTMENT IN AN ASSOCIATE

The Group holds 35% shareholding in Aljazira Takaful Ta'awuni Company ("ATT"). The details related to ATT are explained in note 29 and 40 to these consolidated financial statements. The market value of investment in ATT as of December 31, 2019 is SR 217.32 million (2018: SR 214.62 million).

The following table summarises the latest available financial information of ATT as of December 31 and for the year then ended:

	2019 SR '000	2018 SR '000
Total assets	**680,825**	613,368
Total liabilities	**(256,936)**	(225,455)
Total shareholders' equity	**423,807**	387,913
Proportion of the Group's ownership	**35%**	35%
Carrying amount of the investment	**148,332**	135,770

	2019 SR '000	2018 SR '000
Total profit for the year before Zakat and income tax	**36,821**	29,794
The Group's share of profit for the year	**12,888**	10,428

The following table summarises the movement of the investment in associate during the year:

	2019 SR '000	2018 SR '000
Balance at the beginning of the year	**135,770**	134,071
Share in profit for the year before Zakat and income tax	**12,888**	10,428
Share of Zakat and income tax	**(326)**	(154)
Dividend received	**-**	(8,575)
Balance at the end of the year	**148,332**	135,770

9. PROPERTY AND EQUIPMENT, NET

	2019 SR '000	2018 SR '000
Property and equipment, net (note a)	**582,426**	606,973
Right of use assets, net (note b)	**419,657**	-
Intangible assets (note c)	**152,187**	154,274
Total	**1,154,270**	761,247

a) Property and equipment, net

	Land and buildings SR '000	Leasehold improve-ments SR '000	Furniture, equipment and vehicles SR '000	Capital work in progress SR '000	Total 2018 SR '000
Cost					
At January 1, 2018	**241,126**	**534,561**	**574,015**	**33,352**	**1,383,054**
Additions during the year	**-**	**2,219**	**10,863**	**19,401**	**32,483**
Transfers during the year	**-**	**6,007**	**10,530**	**(16,537)**	**-**
Disposals during the year	**-**	**-**	**(2,109)**	**-**	**(2,109)**
At January 1, 2019	**241,126**	**542,787**	**593,299**	**36,216**	**1,413,428**
Additions during the year	**-**	**2,893**	**4,192**	**33,703**	**40,788**
Transfers during the year	**-**	**3,062**	**6,227**	**(9,289)**	**-**
Disposals during the year	**-**	**-**	**(3,385)**	**-**	**(3,385)**
At December 31, 2019	**241,126**	**548,742**	**600,333**	**60,630**	**1,450,831**
Accumulated depreciation					
At January 1, 2018	**5,040**	**292,524**	**444,562**	**-**	**742,126**
Charge for the year	**-**	**27,074**	**39,344**	**-**	**66,418**
Disposals	**-**	**-**	**(2,089)**	**-**	**(2,089)**
At January 1, 2019	**5,040**	**319,598**	**481,817**	**-**	**806,455**
Charge for the year	**-**	**27,481**	**37,679**	**-**	**65,160**
Disposals	**-**	**-**	**(3,210)**	**-**	**(3,210)**
At December 31, 2019	**5,040**	**347,079**	**516,286**	**-**	**868,405**
Net book value At December 31, 2019	**236,086**	**201,663**	**84,047**	**60,630**	**582,426**
At December 31, 2018	236,086	223,189	111,482	36,216	606,973

b) Right of use assets, net

	Land and buildings SR'000	Office Equipment SR'000	Vehicles SR'000	Total SR'000
Cost				
Adjustments on transition to IFRS 16 at January 1, 2019	462,825	6,573	1,165	470,563
Additions during the year	45,193	530	67	45,790
At December 31, 2019	508,018	7,103	1,232	516,353
Accumulated depreciation				
Charge for the year	93,764	2,345	587	96,696
At December 31, 2019	93,764	2,345	587	96,696
Balance at the end of the year	161,459	-	161,459	134,834
Net book value				
At December 31, 2019	414,254	4,758	645	419,657

c) Intangible assets

	Computer softwares SR'000	Work in progress SR'000	Total SR'000
Cost			
At January 1, 2018	203,395	75,037	278,432
Additions during the year	802	36,499	37,301
Transfers during the year	72,727	(72,727)	-
At January 1, 2019	276,924	38,809	315,733
Additions during the year	510	36,573	37,083
Transfers during the year	28,153	(28,153)	-
At December 31, 2019	305,587	47,229	352,816

	Computer softwares SR'000	Work in progress SR'000	Total SR'000
Accumulated amortisation			
At January 1, 2018	134,834	-	134,834
Charge for the year	26,625	-	26,625
At January 1, 2019	161,459	-	161,459
Charge for the year	39,170	-	39,170
At December 31, 2019	200,629	-	200,629
Net book value			
At December 31, 2019	104,958	47,229	152,187
At December 31, 2018	115,465	38,809	154,274

10. OTHER ASSETS

	2019 SR'000	2018 SR'000
Advances, prepayments and other receivables	**198,315**	227,553
Margin deposits against financial instruments	**111,731**	104,344
Value Added Tax (VAT) receivable	**105,899**	-
Others	**69,605**	54,663
Total	**485,550**	386,560

11. DERIVATIVES

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

11.1 Nature/type of derivatives held

a) Swaps

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

b) Options (Wa'ad Fx)

Foreign exchange options are transactions, whereby a client, in consideration for the payment of a fee agrees to enter into one or a series of trades in which one party (promisor) gives a commitment as a unilateral undertaking, to a second party (promisee).

An option can be a unilateral promise or combination of promises. The Group enters into the option depending on the client's risk profile, whereby the client may promise to buy, sell or buy and sell a currency with or without conditions for hedging its exposure.

11.2Purpose of derivatives

a) Held for trading purposes

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

b) Held for hedging purposes

The Group uses Shari'ah compliant derivatives for hedging purposes in order to reduce its exposure to commission rate risk and foreign exchange risk.

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

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risk. This is generally achieved by hedging specific transactions.

Cash flow hedges

The Group is exposed to variability in future special commission cash flows on non-trading assets and liabilities which bear special commission rate risk. The Group uses special commission rate swaps as hedging instruments to hedge against these special commission rate risks. Below is the schedule indicating as at December 31, the periods when the hedged cash flows are expected to occur and when they are expected to affect the consolidated statement of income:

2019 SR '000	**Within 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Cash inflows (assets)	**42,068**	**90,196**	**80,241**	**52,328**
Cash out flows (liabilities)	**(188,512)**	**(386,189)**	**(385,133)**	**(2,124,239)**
Net cash outflow	**(146,444)**	**(295,993)**	**(304,892)**	**(2,071,911)**

2018 SR '000	Within 1 year	1-3 years	3-5 years	Over 5 years
Cash inflows (assets)	41,963	90,301	85,936	91,730
Cash out flows (liabilities)	(248,713)	(522,042)	(542,708)	(3,320,285)
Net cash outflow	(206,750)	(431,741)	(456,772)	(3,228,555)

The losses on cash flow hedges reclassified to the consolidated statement of income during the year are as follows:

	2019 SR '000	2018 SR '000
Special commission income	**1,760**	2,145
Special commission expense	**(1,822)**	(2,474)
Net losses on cash flow hedges reclassified to the consolidated statement of income	**(62)**	(329)

	2019 SR '000	2018 SR '000
Balance at the beginning of the year	**(96,367)**	(113,034)
(Losses)/gains from change in fair value recognised directly in equity, net (effective portion)	**(14,106)**	16,338
Losses removed from equity and transferred to consolidated statement of income	**62**	329
Balance at the end of the year	**(110,411)**	(96,367)

During the prior years, the Bank sold certain of its special commission rate swaps used for cash flows hedges. However, the gain / (loss) would continue to be classified in consolidated statement of comprehensive income as the related hedge items are still outstanding. In accordance with the IFRS as endorsed in KSA requirements, the gain / (loss) will be reclassified to consolidated statement of income in the period when the cash flows pertaining to hedged items will affect the consolidated statement of income.

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

	2019 SR '000							
				Notional amounts by term to maturity				
	Positive fair value	**Negative fair value**	**Notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Monthly average**
Held for trading:								
Currency swaps	**-**	**172**	**112,500**	**112,500**	**-**	**-**	**-**	**382,813**
Currency forwards	**14**	**138**	**301,899**	**301,899**	**-**	**-**	**-**	**254,054**
Special commission rate swaps	**26,717**	**26,717**	**1,795,603**	**261,801**	**224,498**	**1,309,304**	**-**	**2,029,018**
Structured deposits	**2,000**	**2,000**	**800,000**	**-**	**800,000**	**-**	**-**	**800,000**
Held as cash flow hedges:								
Special commission rate swaps	**72,895**	**186,984**	**3,550,625**	**-**	**-**	**1,778,750**	**1,771,875**	**3,550,625**
Total	**101,626**	**216,011**	**6,560,627**	**676,200**	**1,024,498**	**3,088,054**	**1,771,875**	**7,016,510**

	2018 SR '000							
				Notional amounts by term to maturity				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Options	-	-	-	-	-	-	-	86,244
Currency swaps	138	37	225,000	-	225,000	-	-	65,625
Currency Forwards	8	138	201,408	201,408	-	-	-	135,319
Special commission rate swaps	29,215	29,215	2,649,073	400,000	39,207	2,209,866	-	3,699,015
Structured deposits	2,000	2,000	800,000	-	-	800,000	-	1,350,000
Held as cash flow hedges:								
Special commission rate swaps	23,073	120,399	3,550,625	-	-	1,685,000	1,865,625	3,350,625
Total	54,434	151,789	7,426,106	601,408	264,207	4,694,866	1,865,625	8,686,828

Held for trading special commission rate swaps include special commission income receivable and payable amounting to SR 4.63 million (2018: SR 11.04 million). Held as cash flow hedge special commission rate swaps include special commission income receivable amounting to SR 16.32 million (2018: SR 19.28 million) and special commission payable amounting to SR 19.99 million (2018: SR 20.29 million).

During the years ended on December 31, 2019 and December 31, 2018, there was no ineffectiveness in the cash flow hedges.

Pursuant to changes in certain international laws, the Bank has established a Special Purpose Vehicle (SPV) namely Aljazira Securities Limited and intends to transfer all of its Profit rate swaps ("PRS") derivatives, hedged or traded, to this SPV. In this connection, initially, a novation agreement has been signed among the Bank, the SPV and one of the counter party. Going forward, the SPV will execute all the derivatives with counterparties with a back to back transaction with the Bank. As the change was necessitated by laws, management believe that existing hedging relationships continue to be effective.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 SR '000	2018 SR '000
Current accounts	**199,366**	145,257
Money market deposits from banks and other financial institutions	**7,764,271**	5,987,694
Repo agreement borrowings	**290,117**	290,479
Total	**8,253,754**	6,423,430

13. CUSTOMERS' DEPOSITS

	2019 SR '000	2018 SR '000
Demand	**30,839,375**	26,607,390
Time	**30,259,540**	23,907,276
Other	**1,597,879**	1,289,432
Total	**62,696,794**	51,804,098

Time deposits comprise deposits received on Shari'ah Compliant Murabaha and Wakala.

Other customers' deposits include SR 600.22 million (2018: SR 687.34 million) of margins held for irrevocable contingencies and commitments.

The above includes foreign currency deposits as follows:

	2019 SR '000	2018 SR '000
Demand	**1,092,593**	1,034,396
Time	**2,002,712**	2,936,421
Other	**88,460**	16,404
Total	**3,183,765**	3,987,221

The foreign currency deposits are mainly in US Dollars to which the SR is pegged. Accordingly, the sensitivity with respect to foreign currency risk is not material.

14. SUBORDINATED SUKUK

On June 2, 2016, the Bank issued 2,000 Subordinated Sukuk Certificates (Sukuk) of SR 1 million each, with a profit distribution rate based on 6 month Saudi Inter-Bank Offered Rate (SIBOR), reset semi-annually in advance, plus a margin of 190 basis point per annum and payable semi-annually in arrears on June 2 and December 2 each year until June 2, 2026, on which date the Sukuk will expire. The Bank has a call option which can be exercised on or after June 2, 2021 on meeting certain conditions and as per the terms mentioned in the related offering circular. The Sukuk may also be called upon occurrence of certain other conditions as per the terms specified in the offering circular. These Sukuk are registered with Saudi Stock Exchange (Tadawul).

15. OTHER LIABILITIES

	2019 SR'000	2018 SR '000
Accounts payable	**344,758**	259,031
Employee benefit obligation (refer note 28)	**273,833**	265,599
Lease Liability (note a below)	**371,613**	-
ECL allowance for loan commitments and contingencies (refer note 19(c)(ii))	**93,489**	154,129
Dividend payable	**39,259**	30,161
Aljazira Philanthropic Program (note b below)	**16,263**	30,028
Others (note c below)	**642,132**	632,259
Total	**1,781,347**	1,371,207

a) The maturity analysis of lease liabilities based on contractual undiscounted cash flows is as follows:

	2019 SR'000
Less than one year	82,081
One to five years	288,077
More than five years	58,518
Total undiscounted lease liabilities at December 31	**428,676**
Lease liabilities included in the consolidated statement of financial position at December 31	**371,613**
Current	66,823
Non-Current	304,790

b) During 2006, the Board of Directors approved the contribution to a philanthropic program to carry out the Group's social responsibilities towards the Saudi society, through the charitable contributions to various benevolent efforts that promote the general welfare of the society. For this purpose, the Group contributed SR 100 million to this program.

A Social Committee has been established to coordinate this program, consisting of three Board members, and it is the intention of the Board of Directors to seek assistance of other independent members from the business community and the Shari'ah Board of the Group to overview and provide guidance for the activities of the program.

c) This includes an amount of SR 352.96 million (2018: SR 441.20 million) accrued as a result of Zakat settlement agreement entered into with GAZT in respect of assessment years from 2006 to 2017. The amount is payable in four (2018: five) instalments as more fully explained in note 25.

16. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Bank consists of 820 million shares of SR 10 each (2018: 820 million shares of SR 10 each).

The shareholders of the Bank in their Extra Ordinary General Assembly meeting held on March 19, 2018 (corresponding to Rajab 2, 1439H), approved the increase in number of shares of the Bank from 520 million shares to 820 million shares through a rights issue of 300 million shares at an exercise price of SR 10 per share amounting to SR 3,000 million. During 2018, the Bank, after completing all legal formalities issued the rights shares.

The ownership of the Bank's share capital is as follows:

	2019	2018
Saudi shareholders	**78.13%**	84.23%
Non-Saudi shareholder - National Bank of Pakistan (NBP)	**3.70%**	3.70%
Non-Saudi shareholder - others	**18.17%**	12.07%

17. STATUTORY AND GENERAL RESERVES

Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SR 247.76 million has been transferred from net income (2018: SR 250.08 million). The statutory reserve is not available for distribution.

General reserve

In addition, when considered appropriate, the Bank set aside its profits to cater general banking risks.

18. OTHER RESERVES

2019	Cash flow hedges SR' 000	Fair value reserve – FVOCI debt SR' 000	Actuarial gains/ losses (note 28) SR' 000	Right issue costs SR' 000	Total SR' 000
Balance at beginning of the year	(96,367)	-	83	-	(96,284)
Net change in fair value	(14,106)	5,508	-	-	(8,598)
Transfer to consolidated statement of income	62	-	-	-	62
Actuarial gains on defined benefit obligation	-	-	18,016	-	18,016
Net movement during the year	(14,044)	5,508	18,016	-	9,480
Balance at the end of the year	(110,411)	5,508	18,099	-	(86,804)

2018	Cash flow hedges SR' 000	Fair value reserve - equity SR' 000	Actuarial gains/ losses (note 28) SR' 000	Right issue costs (note below) SR' 000	Total SR' 000
Balance at beginning of the year	(113,034)	10,928	(1,931)	(21,148)	(125,185)
Net change in fair value	16,338	23	-	-	16,361
Transfer to consolidated statement of income	329	-	-	-	329
Gain on sale of FVOCI equity investments transferred to retained earnings	-	(10,951)	-	-	(10,951)
Actuarial gains on defined benefit obligation	-	-	2,014	-	2,014
Rights issue cost incurred during the year	-	-	-	(90,848)	(90,848)
Transfer of right issue cost to retained earnings	-	-	-	111,996	111,996
Net movement during the year	16,667	(10,928)	2,014	21,148	28,901
Balance at the end of the year	(96,367)	-	83	-	(96,284)

The rights issue cost represents expenses incurred in respect of the legal and professional services for the right issue. During 2018, the cumulative right issue costs incurred in prior and current periods was charged directly in retained earnings on completion of right issue (refer note 16).

19. COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at December 31, 2019, there were legal proceedings of routine nature outstanding against the Group. No significant provision has been made as related professional legal advice indicated that it is unlikely that any significant loss will eventually arise.

b) Capital commitments

As at December 31, 2019, the Group had capital commitments of SR 179.90 million (2018: SR 67.23 million) in respect of the construction of branches and IT related projects.

c) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the related 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 credit 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 customers.

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

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

(SR '000)

2019	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	412,464	416,232	11,912	-	840,608
Letters of guarantee	1,905,183	1,217,627	672,102	17,900	3,812,812
Acceptances	239,871	-	-	-	239,871
Irrevocable commitments to extend credit	-	314,618	150,000	-	464,618
Total	2,557,518	1,948,477	834,014	17,900	5,357,909
Allowance for impairment					(93,489)
Net exposure					5,264,420

(SR '000)

2018	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	438,117	349,989	11,113	-	799,219
Letters of guarantee	912,826	2,449,592	555,906	13,100	3,931,424
Acceptances	338,053	-	-	-	338,053
Irrevocable commitments to extend credit	-	-	150,000	-	150,000
Total	1,688,996	2,799,581	717,019	13,100	5,218,696
Allowance for ECL					(154,129)
Net exposure					5,064,567

The outstanding unused portion of commitments as at December 31, 2019, which can be revoked unilaterally at any time by the Group, amounts to SR 6.24 billion (2018: SR 5.36 billion).

ii) An analysis of changes in allowance for ECL for loan commitments and contingencies is, as follows:

2019

	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
ECL as at January 1, 2019	13,265	1,683	139,181	154,129
Transfer to 12-month ECL	72	(72)	-	-
Transfer to lifetime ECL not credit –Impaired	(54)	54	-	-
Transfer to lifetime ECL credit impaired	(1,633)	(138)	1,771	-
Net re-measurement of loss allowance	5,664	1,017	(3,280)	3,401
New financial assets originated or purchased	2,295	61	-	2,356
Financial assets that have been derecognized	(979)	(3)	(65,415)	(66,397)
ECL as at December 31, 2019	18,630	2,602	72,257	93,489

	2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Loss allowance as at January 1, 2018	11,897	554	151,116	163,567
Transfer to 12-month ECL	132	(132)	-	-
Transfer to lifetime ECL not credit –Impaired	(193)	193	-	-
Transfer to lifetime ECL credit impaired	(36)	-	36	-
Net re-measurement of loss allowance	1,342	1,158	(3,635)	(1,135)
New financial assets originated or purchased	967	8	-	975
Financial assets that have been derecognized	(844)	(98)	(8,336)	(9,278)
Loss allowance as at December 31, 2018	13,265	1,683	139,181	154,129

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

	2019 SR '000	2018 SR '000
Corporate	**5,294,059**	5,149,058
Banks and other financial institutions	**63,850**	69,638
	5,357,909	5,218,696
Allowance for ECL	**(93,489)**	(154,129)
Total	**5,264,420**	5,064,567

d) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases where the Group is the lessee are as follows:

	2019 SR '000	2018 SR '000
Less than 1 year	**6,609**	96,390
1 to 5 years	**5,085**	256,989
Over 5 years	**-**	94,591
Total	**11,694**	447,970

20. NET SPECIAL COMMISSION INCOME

	2019 SR '000	2018 SR '000
Special commission income		
Loans and advances	**2,255,640**	1,980,870
Investments held at amortised cost	**839,627**	698,879
Investments held at FVOCI	**1,796**	-
Derivatives	**100,303**	88,667
Due from banks and other financial institutions	**30,181**	19,257
Total	**3,227,547**	2,787,673
Special commission expense		
Customers' deposits	**773,966**	550,717
Due to banks and other financial institutions	**180,382**	156,034
Derivatives	**101,272**	87,811
Subordinated Sukuk	**99,111**	88,971
Finance cost on leased assets	**18,159**	-
Others	**2,493**	107
Total	**1,175,383**	883,640
Net special commission income	**2,052,164**	1,904,033

21. FEES AND COMMISSION INCOME, NET

	2019 SR '000	2018 SR '000
Fees and commission income		
Cards business	**314,729**	258,978
Loan commitment and management fees	**185,955**	155,345
Fees from remittance business	**140,818**	119,231
Local share trading	**124,604**	167,075
Mutual funds fees	**66,121**	63,735
Trade finance	**43,165**	46,676
Takaful Ta'awuni (insurance) Wakala fees	**19,046**	18,271
International share trading	**6,632**	4,229
Others	**31,563**	32,832
Total fees and commission income	**932,633**	866,372
Fees and commission expense		
Cards related expenses	**(201,687)**	(163,813)
Brokerage fees	**(71,418)**	(100,793)
Loans related expenses	**(39,594)**	(21,909)
Mutual funds related expenses	**(12,408)**	(12,286)
Remittance business fee expense	**(1,203)**	(2,032)
International share trading	**(1,002)**	(1,010)
Trade finance	**(90)**	(172)
Takaful Ta'awuni – sales commission	**(1)**	(1)
Total fees and commission expense	**(327,403)**	(302,016)
Total	**605,230**	564,356

22. NET GAIN / (LOSS) ON FVIS FINANCIAL INSTURMENTS

	2019 SR '000	2018 SR '000
Mutual funds	5,670	(7,278)
Equities	122	(2,426)
Derivatives	-	5,337
Total	5,792	(4,367)

Net gain / (loss) on FVIS financial instruments includes unrealized gain of SR 5.58 million (2018: unrealised loss of SR 4.25 million).

23. OTHER OPERATING INCOME, NET

	2019 SR '000	2018 SR '000
Gain on sale of other real estate	1,107	1,073
Gain on sale of property and equipment	216	168
Others	10,857	7,306
Total	12,180	8,547

24. EARNINGS PER SHARE

Basic earnings per share for the years ended December 31, 2019 and December 31, 2018 is calculated by dividing the net income for the year attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding, as follows. The weighted average number of shares for prior year have been adjusted to reflect the increase in the Bank's capital due to right issue.

	2019 SR '000	2018 SR '000
Profit attributable to ordinary share holders		Restated
For basic and diluted earnings per share	991,023	378,276
	Shares	Shares
Weighted-average number of ordinary shares		Restated
Issued ordinary shares as at January 1	820,000,000	520,000,000
Adjusted right issue	-	234,495,130
For basic and diluted earnings per share	820,000,000	754,495,130
Basic and diluted earnings per share (in SR)	1.21	0.5

The calculations of basic and diluted earnings per share are same for the Bank.

25. ZAKAT AND INCOME TAX

	2019 SR '000	2018 SR '000
Zakat		
Current year	**126,790**	61,861
Prior year	**4,160**	551,495
	130,950	613,356
Income tax		
Current year	**5,642**	8,701
Prior year	**(5,585)**	(26)
	57	8,675
Total	**131,007**	622,031

Status of assessments:

During 2018, the Bank reached a Settlement Agreement (the "Agreement") with the GAZT to comply with the directives provided by Royal Decree No. (26/M) dated Rabi Al-Awaal 20, 1440 H (November 28, 2018) and the Ministerial Resolution No. 1260 dated Rabi Al-Thani 5, 1440 H (December 12, 2018), in order to settle outstanding Zakat liabilities for the years from 2006 to 2017 against a full and final payment of SR 551 million, payable in 6 instalments over a period of 5 years ending December 1, 2023. The Bank paid the first and second instalment of SR 110 million and SR 88.2 million during the month of December 2018 and November 2019 respectively. Under the Agreement, the Bank and GAZT also agreed to settle Zakat for the year 2018 in accordance with the settlement framework provided by the Royal Decree and the Ministerial Resolution. As a result of the Agreement, all Zakat related disputes between the Bank and the GAZT pertaining to the years 2006 to 2017 stand resolved.

The Bank will continue to contest its appeals before the Appellate Committee for Resolution of Tax Disputes and Violations for the years 2006 through 2011. The Bank is confident of a favourable outcome from the appeal process.

The Bank has filed its Zakat and income tax returns with the GAZT and paid Zakat and income tax for the years up to and including the year 2018, except for the amounts agreed as a liability under the Agreement which will be paid to GAZT as and when they fall due.

During the year, the Bank received VAT assessments with an additional Value Added Tax (VAT) of SR 61 million and associated delay fines amounting to SR 29 million. The Bank has objected to the imposition of additional VAT and associated delay fines and has paid the additional VAT "under protest" in order to adhere to the regulations. The settlement of additional VAT has been recorded as a receivable from the customers and Ministry of Housing in the consolidated financial statements. The Bank is confident of a favourable outcome from the appeal process.

26. DIVIDENDS

The Board of Directors on January 26, 2020 has proposed a final dividend (net of Zakat) of SR 246 million equal to SR 0.3 per share for the year 2019 (2018: SR 410 million). This dividend is calculated based on 820 million shares and will be paid to the shareholders after obtaining the approval in the Annual General Meeting. The share of dividend of non-Saudi shareholders will paid after deducting the related income taxes due.

In addition, On August 1, 2019 an interim dividend of SR 246 million equal to SR 0.3 per share (2018: Nil) was also proposed and paid. The share of dividend of non-Saudi shareholders was paid after deducting the related income taxes due.

27. CASH AND CASH EQUIVALENTS

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

	2019 SR '000	2018 SR '000
Cash and balances with SAMA, excluding statutory deposit (note 4)	**2,077,206**	2,211,486
Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition	**569,632**	1,197,821
Total	**2,646,838**	3,409,307

28. EMPLOYEE BENEFIT OBLIGATION

28.1 Defined Benefit obligation

a) General description

The Group 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 consolidated statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2019 SR '000	2018 SR '000
Defined benefit obligation at the beginning of the year	**265,599**	244,024
Charge for the year	**34,993**	33,953
Special commission cost	**11,214**	9,042
Benefits paid	**(19,957)**	(19,406)
Unrecognized actuarial gains	**(18,016)**	(2,014)
Defined benefit obligation at the end of the year	**273,833**	265,599

c) Charge for the year

	2019 SR '000	2018 SR '000
Current service cost	**34,885**	33,953
Past service cost	**108**	-
	34,993	33,953

d) Re-measurement recognised in consolidated other comprehensive income

	2019 SR '000	2018 SR '000
Changes in experience assumptions	**(23,385)**	(2,938)
Changes in financial assumptions	**5,369**	924
	(18,016)	(2,014)

e) Principal actuarial assumptions used in estimating the defined benefit obligation included:

	2019	2018
Discount rate	**2.55%p.a**	4.50% p.a
Expected rate of salary increase	**2.55%p.a**	3.50% p.a
Withdrawal rate	**8%p.a**	8% p.a
Average duration	**7.58 years**	7.9 years
Normal retirement age	**60 years**	60 years

f) The table below illustrates the sensitivity of the defined benefit obligation due to changes in the key assumptions and holding all other variables constant:

		2019 SR '000	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(18,539)	21,244
Expected rate of salary increase	1%	22,422	(19,920)
Withdrawal rate	10%	(3,040)	3,384

		2018 SR '000	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	(19,150)	22,017
Expected rate of salary increase	1%	23,396	(20,683)
Withdrawal rate	10%	(316)	299

g) Expected maturity analysis of undiscounted defined benefit obligation for the end of service plan is as follows:

	SR '000				
	Less than a year	years 1-2	years 2-5	Over 5 years	Total
December 31, 2019	**44,740**	**20,993**	**64,630**	**203,886**	**334,249**
December 31, 2018	29,975	27,764	64,342	272,533	394,614

h) The expected contribution for next year amounts to SR 38.05 million (2018: SR 44.71 million) comprising of service cost and special commission cost.

28.2 Defined Contribution obligation

The Group makes contributions for a defined contribution retirement benefit plan to the General Organization for Social Insurance in respect of its Saudi employees. The total amount expensed during the year in respect of this plan was SR 43.42 million (2018: SR 41.39 million).

29. OPERATING SEGMENTS

The operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and to assess their performance.

All of the Group's operations are based in the Kingdom of Saudi Arabia, except Aljazira Securities Limited (SPV).

Transactions between the operating segments are on normal commercial terms and conditions. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities.

Personal banking
Deposit, credit and investment products for individuals.

Corporate banking
Loans, deposits and other credit products for corporate, small to medium sized business and institutional customers.

Treasury
Treasury includes money market, foreign exchange, trading and treasury services.

Brokerage and asset management

Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary Aljazira Capital Company).

Takaful Ta'awuni

Provides protection and saving products services. As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity named Aljazira Takaful Ta'awuni Company (ATT) formed under the new Insurance Law of Saudi Arabia. Current segment represents the insurance portfolio which will be transferred to ATT as explained in note 40 to these consolidated financial statements.

Others
Others include investment in associate, inter segment income and expense eliminations and gain on sale of other real estate.

The Group's total assets and liabilities and its income from operations and net income for the year by operating segment are as follows:

(SR'000)

2019	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	27,568,359	22,083,463	34,908,570	1,734,127	101,493	148,332	86,544,344
Total liabilities	42,038,284	20,757,629	11,283,423	773,998	101,493	-	74,954,827
Total operating income	1,402,208	556,712	1,138,666	167,642	17,599	(305,668)	2,977,159
Net special commission income	747,725	444,704	833,172	53,127	472	(27,036)	2,052,164
Fee and commission income, net	405,329	96,293	746	109,863	17,127	(24,128)	605,230
Net gain on FVIS financial instruments	-	-	-	-	5,792	-	5,792
Share in net income of an associate	-	-	-	1,841	-	11,047	12,888
Impairment charge for credit losses, net	15,765	(172,718)	-	-	-	-	(156,953)
Depreciation and amortisation	(124,830)	(15,865)	(36,810)	(14,520)	(871)	(8,130)	(201,026)
Total operating expenses	(941,010)	(395,118)	(324,918)	(140,774)	(26,090)	(40,107)	(1,868,017)
(Net income / (loss before Zakat and income tax	461,198	161,594	813,748	28,709	(8,491)	(334,728)	1,122,030

(SR '000)

2018	Personal banking	Corporate banking	Treasury	Brokerage and asset manage-ment	Takaful Ta'awuni	Others	Total
Total assets	21,658,836	18,738,072	30,956,832	1,455,777	57,911	135,770	73,003,198
Total liabilities	33,317,306	18,666,181	9,124,052	593,276	57,911	-	61,758,726
Total operating income	1,185,477	433,391	1,092,328	172,135	19,140	(237,726)	2,664,745
Net special commission income	658,787	300,815	889,681	56,074	1,002	(2,326)	1,904,033
Fee and commission income, net	333,021	116,524	3,127	120,339	18,139	(26,794)	564,356
Net gain / (loss) on FVIS financial instruments	-	-	5,337	(6,504)	-	(3,200)	(4,367)
Share in net income of an associate	-	-	-	1,490	-	8,938	10,428
Impairment charge for credit losses, net	26,860	(133,330)	(330)	-	-	-	(106,800)
Depreciation and amortisation	(51,647)	(11,438)	(19,594)	(9,663)	(701)	-	(93,043)
Total operating expenses	(833,322)	(380,059)	(299,096)	(137,638)	(28,144)	3,393	(1,674,866)
Net income / (loss) before Zakat and income tax	352,155	53,332	793,232	35,987	(9,004)	(225,395)	1,000,307

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

(SR '000)

2019	**Personal banking**	**Corporate banking**	**Brokerage and asset management**	**Treasury**	**Total**
Assets	**26,796,800**	**21,465,518**	**1,300,298**	**28,853,368**	**78,415,984**
Commitments and contingencies	**-**	**4,610,911**	**-**	**-**	**4,610,911**
Derivatives	**-**	**-**	**-**	**383,351**	**383,351**

(SR '000)

2018	Personal banking	Corporate banking	Brokerage and asset management	Treasury	Total
Assets	21,173,809	18,226,483	1,307,629	25,492,810	66,200,731
Commitments and contingencies	-	4,744,087	-	-	4,744,087
Derivatives	-	-	-	383,516	383,516

Credit exposure comprises the carrying value of the consolidated assets excluding cash, property and equipment, other real estate, investment in equities and mutual funds and certain other assets. Additionally, the credit equivalent values of commitments, contingencies and derivatives are also included in the credit exposure.

30. FINANCIAL RISK MANAGEMENT

30.1 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 set up Board Risk Committee (BRC) which has the responsibility to monitor the overall risk process within the Bank.

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

The BRC is responsible for supervising risk management decisions and monitoring risk levels and reviewing Risk Management reports / Dashboards on a regular basis. BRC is mandated to escalate to the Board any risk management issue which warrants attention of the Board of Directors of the Bank.

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 arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

The Group assesses the probability of default of counterparties using internal rating tools. Also, the Group uses the external ratings, of the major rating agency, 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 and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

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

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counter-party is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 19. The information on banks maximum credit exposure by business segment is given in note 29.

30.2 Credit quality analysis

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

	December 31, 2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Due from banks and other financial institutions				
Investment grade	1,260,077	66,505	-	1,326,582
Non-investment grade	12,150	2,762	-	14,912
Unrated	68,601	20,437	-	89,038
	1,340,828	89,704	-	1,430,532
Allowance for ECL	(1,161)	(367)	-	(1,528)
Carrying amount	1,339,667	89,337	-	1,429,004
Loans and advances to customers at amortized cost				
Grades 1- 6: Low – fair risk	43,726,824	-	-	43,726,824
Grades 7: Watch list	-	3,862,170	2,407,210	6,269,380
Grades 8 – 10: Default	-	-	673,082	673,082
	43,726,824	3,862,170	3,080,292	50,669,286
Allowance for ECL	(170,747)	(94,820)	(743,600)	(1,009,167)
Carrying amount	43,556,077	3,767,350	2,336,692	49,660,119

	31 December 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Due from banks and other financial institutions				
Investment grade	1,080,893	82,782	-	1,163,675
Non-investment grade	940	3,883	-	4,823
Unrated	20,871	109,016	-	129,887
	1,102,704	195,681	-	1,298,385
Allowance for ECL	(122)	(514)	-	(636)
Carrying amount	1,102,582	195,167	-	1,297,749
Loans and advances to customers at amortized cost				
Grades 1- 6: Low – fair risk	36,199,180	-	-	36,199,180
Grades 7: Watch list	-	4,433,403	533,193	4,966,596
Grades 8 – 10: Default	-	-	664,620	664,620
	36,199,180	4,433,403	1,197,813	41,830,396
Allowance for ECL	(138,334)	(193,055)	(602,116)	(933,505)
Carrying amount	36,060,846	4,240,348	595,697	40,896,891

a) The following table sets out information about the credit quality of loans and advances to customers at amortized cost on a product basis.

Credit cards	December 31, 2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Loans and advances to customers at amortized cost				
Grades 1- 6: Low – fair risk	**706,396**	**-**	**-**	**706,396**
Grades 7: Watch list	-	**19,164**	**-**	**19,164**
Grades 8 – 10: Default	**-**	**-**	**48,371**	**48,371**
	706,396	**19,164**	**48,371**	**773,931**
Allowance for ECL	**(24,509)**	**(1,834)**	**(31,436)**	**(57,779)**
Carrying amount	**681,887**	**17,330**	**16,935**	**716,152**

Credit cards	31 December 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Loans and advances to customers at amortized cost				
Grades 1- 6: Low – fair risk	600,362	-	-	600,362
Grades 7: Watch list	-	23,122	-	23,122
Grades 8 – 10: Default	-	-	39,423	39,423
	600,362	23,122	39,423	662,907
Allowance for ECL	(15,589)	(1,864)	(25,625)	(43,078)
Carrying amount	584,773	21,258	13,798	619,829

Consumer loans	December 31, 2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Loans and advances to customers at amortized cost				
Grades 1- 6: Low – fair risk	**23,211,637**	**-**	**-**	**23,211,637**
Grades 7: Watch list	-	**165,362**	**-**	**165,362**
Grades 8 – 10: Default	**-**	**-**	**154,727**	**154,727**
	23,211,637	**165,362**	**154,727**	**23,531,726**
Allowance for ECL	**(86,418)**	**(1,290)**	**(68,220)**	**(155,928)**
Carrying amount	**23,125,219**	**164,072**	**86,507**	**23,375,798**

Consumer loans	31 December 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Loans and advances to customers at amortized cost				
Grades 1- 6: Low – fair risk	18,740,415	-	-	18,740,415
Grades 7: Watch list	-	232,853	-	232,853
Grades 8 – 10: Default	-	-	160,327	160,327
	18,740,415	232,853	160,327	19,133,595
Allowance for ECL	(92,205)	(2,517)	(69,535)	(164,257)
Carrying amount	18,648,210	230,336	90,792	18,969,338

Commercial loans	**December 31, 2019**			
	12 month ECL	**Life time ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**
	(SR '000)			
Loans and advances to customers at amortized cost				
Grades 1- 6: Low – fair risk	**19,401,245**	**-**	**-**	**19,401,245**
Grades 7: Watch list	-	**3,677,644**	**2,407,210**	**6,084,854**
Grades 8 – 10: Default	**-**	**-**	**469,984**	**469,984**
	19,401,245	**3,677,644**	**2,877,194**	**25,956,083**
Allowance for ECL	**(59,820)**	**(91,696)**	**(643,944)**	**(795,460)**
Carrying amount	**19,341,425**	**3,585,948**	**2,233,250**	**25,160,623**

Commercial loans	31 December 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Loans and advances to customers at amortized cost				
Grades 1- 6: Low – fair risk	16,427,269	-	-	16,427,269
Grades 7: Watch list	-	4,177,429	533,193	4,710,622
Grades 8 – 10: Default	-	-	464,870	464,870
	16,427,269	4,177,429	998,063	21,602,761
Allowance for ECL	(30,540)	(188,674)	(506,956)	(726,170)
Carrying amount	16,396,729	3,988,755	491,107	20,876,591

	December 31, 2019			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Due from banks and other financial institutions				
Grades 1- 6: Low – fair risk	27,224,939	-	-	27,224,939
Allowance for ECL	-	-	-	-
Carrying amount	27,224,939	-	-	27,224,939
Commitments and contingencies				
Grades 1-6: Low – fair risk	4,726,321	-	-	4,726,321
Grades 7: Watch list	-	166,455	356,472	522,927
Grades 8-10: Default	-	-	108,661	108,661
	4,726,321	166,455	465,133	5,357,909
Allowance for ECL	(18,630)	(2,602)	(72,257)	(93,489)
Carrying amount (net of provision	4,707,691	163,853	392,876	5,264,420

	December 31, 2018			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
	(SR '000)			
Debt investment securities at amortized cost				
Grades 1- 6: Low – fair risk	24,006,091	-	-	24,006,091
Allowance for ECL	-	-	-	-
Carrying amount	24,006,091	-	-	24,006,091
Commitments and contingencies				
Grades 1-6: Low – fair risk	4,748,375	-	-	4,748,375
Grades 7: Watch list	-	239,979	9,639	249,618
Grades 8-10: Default	-	-	220,703	220,703
	4,748,375	239,979	230,342	5,218,696
Allowance for ECL	(13,265)	(1,683)	(139,181)	(154,129)
Carrying amount (net of provision)	4,735,110	238,296	91,161	5,064,567

30.3 Amounts arising from ECL – Significant increase in credit risk ("SICR")

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12 months ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk ("SICR") since origination, the Bank records an allowance for the Lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The bank records an allowance for the Lifetime ECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and special commission income is subsequently recognised based on a credit-adjusted effective yield rate. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

a) Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modeling, the remaining lifetime PD is determined to have increased by more than a predetermined percentage/range.

Using its expert credit judgment and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Significant increase in credit risk is also evaluated based on the credit monitoring framework, including decrease in internal rating and macroeconomic factors and is subject to management overrides.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify SICR by regular reviews to confirm that:

• the criteria are capable of identifying SICR 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 ECL from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

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

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. • Data from credit reference agencies, press articles, changes in external credit ratings • Quoted bond and credit default swap (CDS) prices for the borrower where available • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	• Internally collected data and customer behavior – e.g. utilization of credit card facilities • Affordability metrics • External data from credit reference agencies including industry-standard credit scores	• 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

b) Generating the term structure of PD

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

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

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

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

c) Definition of 'Default'

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

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

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

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 Group for regulatory capital purposes.

d) Modified financial assets

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

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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

The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance/remedial policy. The Bank Board Risk Committee regularly reviews reports on forbearance activities.

The following table provides information on financial assets that were modified while they had an ECL measured at an amount equal to lifetime ECL.

	2019 SR '000	2018 SR '000
Financial assets modified during the year		
Amortized cost before modification	**1,366,666**	1,169,678
Financial assets modified since initial recognition		
Gross carrying amount at December 31 of financial assets for which loss allowance has changed to 12-month measurement during the year	**563,779**	521,936

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

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

e) Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Bank Market Risk Policy Committee, Asset and Liability Committee ("ALCO") and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Saudi Arabia and selected private-sector and academic forecasters.

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

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2019 included the following key indicators.

- GDP
- Oil prices
- Unemployment rates
- Real wages

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets are being developed based on analyzing historical data over the past 10 to 15 years. The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by Bank:

2019	Due from Bank and other financial institutions	Loans and advances	Loan commitment and financial guarantees	Total
	SR '000'			
Most likely	1,528	1,009,167	93,489	1,104,184
More optimistic (Upside)	1,417	993,559	89,428	1,084,404
More pessimistic (Downside)	1,905	1,101,545	100,435	1,203,885

2018	Due from Bank and other financial institutions	Loans and advances	Loan commitment and financial guarantees	Total
	SR '000'			
Most likely	636	933,505	154,129	1,088,270
More optimistic (Upside)	467	908,464	148,403	1,057,334
More pessimistic (Downside)	894	979,607	164,118	1,144,619

f) Measurement of ECL

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

i. probability of default (PD);

ii. loss given default (LGD);

iii.exposure at default (EAD).

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

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD for each line of business based on expert judgment and historical experience. For wholesale exposures LGD is estimated to be 50%, for personal finance it is estimated to be 50%, for credit cards it is estimated to be 65% and retail mortgages it is estimated to be 40%.

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

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits. Cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

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

- instrument type;
- credit risk grading;
- collateral type;
- LTV (Loan to value) ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The Grouping is subject to regular review to ensure that exposures within a particular Group remain appropriately homogeneous.

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

		External benchmarks used	
	Exposure (SR '000)	PD	LGD
Due from Banks and other financial institutions	1,429,004	Moody's / FITCH – lower of the two ratings for each bank is considered for assignment of Risk Weights under Standardised Approach	N/A

30.4 Ageing of loans and advances (past due but not impaired)

	(SR '000)			
	2019			
	Credit Cards	**Consumer loans**	**Commercial loans**	**Total**
From 1 day to 30 day	19,735	1,004,157	133,990	1,157,882
From 31 Days to 90 days	14,680	161,577	21,664	197,921
From 91 Days to 180 days	-	484	111,009	111,493
More than 180 days	-	-	432,584	432,584
Total loans & advances	34,415	1,166,218	699,247	1,899,880

	(SR '000)			
	2018			
	Credit Cards	Consumer loans	Commercial loans	Total
From 1 day to 30 days	20,749	737,796	421,554	1,180,099
From 31 Days to 90 days	18,398	226,203	39,020	283,621
From 91 Days to 180 days	-	-	71,748	71,748
More than 180 days	-	678	82,269	82,947
Total loans & advances	39,147	964,677	614,591	1,618,415

30.5 Economic Sector risk concentration

Economic Sector risk concentration for the loans and advances and allowance for impairment has been disclosed in note 7(f).

30.6 Collateral

The Bank in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net 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 collateral held as security for loans along with loan to collateral value percentage that are credit-impaired are as follows:

	2019 SR '000	2018 SR '000
Less than 50%	**30,862**	34,587
51-70%	**2,700**	3,491
More than 70%	**424,202**	541,603
Total	**457,764**	579,681

30.7 Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2019 SR '000	2018 SR '000
Assets		
Due from banks and other financial institutions (note 5)	**1,429,004**	1,297,749
Investments at FVOCI (note 6)	**101,921**	-
Investments at amortised cost (note 6)	**27,224,939**	24,006,091
Loans and advances, net (note 7)	**49,660,119**	40,896,891
Other assets - margin deposits against financial instruments (note 10)	**111,731**	104,344
Total assets	**78,527,714**	66,305,075
Contingencies and commitments, net (note 19)	**5,264,420**	5,064,567
Derivatives - positive fair value (note 11)	**101,626**	54,434
Total maximum exposure	**83,893,760**	71,424,076

31. GEOGRAPHICAL CONCENTRATION

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

(SR '000)

2019	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Assets							
Cash and balances with SAMA							
Cash in hand	1,214,248	-	-	-	-	-	1,214,248
Balances with SAMA	4,263,439	-	-	-	-	-	4,263,439
Due from Banks and other financial institutions							
Current accounts	41,979	34,179	190,201	62,191	17,793	33,916	380,259
Money market placements	1,048,745	-	-	-	-	-	1,048,745
Investments							
Held as FVIS	287,024	-	-	-	-	-	287,024
Held as FVOCI	106,064	187	550	-	-	-	106,801
Held at amortised cost	27,224,939	-	-	-	-	-	27,224,939
Positive fair value of derivatives							
Held for trading	26,729	-	2,002	-	-	-	28,731
Held as cash flow hedges	39,645	-	33,250	-	-	-	72,895
Loans and advances, net							
Credit Cards	716,152	-	-	-	-	-	716,152
Consumer Loans	23,375,798	-	-	-	-	-	23,375,798
Commercial Loans	24,912,741	-	-	-	-	247,882	25,160,623
Others	407,546	-	-	-	-	-	407,546
Investment in an associate	148,332	-	-	-	-	-	148,332
Other assets	303,980	-	111,731	-	-	-	415,711
Total	84,117,361	34,366	337,734	62,191	17,793	281,798	84,851,243

(SR '000)

2019	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Liabilities Due to banks and other financial institutions							
Current accounts	46,817	80,152	11,961	40,499	2,388	17,549	199,366
Money market deposits	7,175,881	550,888	37,502	-	-	-	7,764,271
Repo agreement borrowing	-	-	290,117	-	-	-	290,117
Customer deposits							
Demand	30,838,943	419	4	6	-	3	30,839,375
Time	30,259,540	-	-	-	-	-	30,259,540
Other	1,591,755	-	4,524	-	-	1,600	1,597,879
Negative fair value of derivatives							
Held for trading	7,752	513	20,762	-	-	-	29,027
Held as cash flow hedges	19,992	45,794	121,198	-	-	-	186,984
Subordinated Sukuk	2,006,921	-	-	-	-	-	2,006,921
Other liabilities	1,269,888	-	-	-	-	-	1,269,888
Total	73,217,489	677,766	486,068	40,505	2,388	19,152	74,443,368
Commitments and Contingencies							
Letters of credit	831,483	226	-	-	-	8,899	840,608
Letters of guarantee	3,538,328	223,392	36,111	3,855	2,526	8,600	3,812,812
Acceptances	229,786	-	-	-	-	10,085	239,871
Irrevocable commitments to extend credit	150,000	-	-	-	-	314,618	464,618
	4,749,597	223,618	36,111	3,855	2,526	342,202	5,357,909
Credit exposure (credit equivalent) Commitments and contingencies							
Letters of credit	415,741	113	-	-	-	4,450	420,304
Letters of guarantee	3,538,328	223,392	36,111	3,855	2,526	8,600	3,812,812
Acceptances	229,786	-	-	-	-	10,085	239,871
Irrevocable commitments to extend credit	75,000	-	-	-	-	62,924	137,924
Derivatives							
Held for trading	139,583	130	97,068	-	-	-	236,781
Held for hedging	59,071	2,517	84,982	-	-	-	146,570
	4,457,509	226,152	218,161	3,855	2,526	86,059	4,994,262

(SR'000)

2018	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial Assets Cash and balances with SAMA							
Cash in hand	1,175,558	-	-	-	-	-	1,175,558
Balances with SAMA	3,789,564	-	-	-	-	-	3,789,564
Due from Banks and other financial institutions							
Current accounts	5,655	32,371	108,755	88,452	27,312	34,165	296,710
Money market placements	900,474	100,565	-	-	-	-	1,001,039
Investments							
Held as FVIS	41,293	-	-	-	-	-	41,293
Held as FVOCI	4,143	187	561	-	-	-	4,891
Held at amortised cost	24,006,091	-	-	-	-	-	24,006,091
Positive fair value of derivatives							
Held for trading	31,361	-	-	-	-	-	31,361
Held as cash flow hedges	23,073	-	-	-	-	-	23,073
Loans and advances, net							
Credit Cards	619,829	-	-	-	-	-	619,829
Consumer Loans	18,969,338	-	-	-	-	-	18,969,338
Commercial Loans	20,876,591	-	-	-	-	-	20,876,591
Others	431,133	-	-	-	-	-	431,133
Investment in an Associate	135,770	-	-	-	-	-	135,770
Other assets	278,350	-	-	-	-	-	278,350
Total	71,288,223	133,123	109,316	88,452	27,312	34,165	71,680,591

(SR'000)

2018	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Financial liabilities							
Due to banks and other financial institutions							
Current accounts	35,017	75,289	17,198	4,956	-	12,797	145,257
Money market deposits	5,552,802	263,737	-	-	171,155	-	5,987,694
Repo agreement borrowing	-	-	290,479	-	-	-	290,479
Customer deposits							
Demand	26,606,421	930	4	6	-	29	26,607,390
Time	23,907,276	-	-	-	-	-	23,907,276
Other	1,285,207	-	-	-	-	4,225	1,289,432
Negative fair value of derivatives							
Held for trading	31,390	-	-	-	-	-	31,390
Held as cash flow hedges	120,399	-	-	-	-	-	120,399
Subordinated Sukuk	2,008,202	-	-	-	-	-	2,008,202
Other liabilities	835,069	-	-	-	-	-	835,069
Total	60,381,783	339,956	307,681	4,962	171,155	17,051	61,222,588
Commitments and Contingencies							
Letters of credit	798,993	226	-	-	-	-	799,219
Letters of guarantee	3,720,260	134,871	45,089	4,953	3,126	23,125	3,931,424
Acceptances	338,053	-	-	-	-	-	338,053
Irrevocable commitments to extend credit	150,000	-	-	-	-	-	150,000
	5,007,306	135,097	45,089	4,953	3,126	23,125	5,218,696
Credit exposure (credit (equivalent							
Commitments and contingencies							
Letters of credit	399,497	113	-	-	-	-	399,610
Letters of guarantee	3,720,260	134,871	45,089	4,953	3,126	23,125	3,931,424
Acceptances	338,053	-	-	-	-	-	338,053
Irrevocable commitments to extend credit	75,000	-	-	-	-	-	75,000
Derivatives							
Held for trading	165,199	1,486	120,980	-	-	32	287,697
Held for hedging	24,784	28,519	42,516	-	-	-	95,819
	4,722,793	164,989	208,585	4,953	3,126	23,157	5,127,603

Certain international mutual funds domicile in the Kingdom of Saudi Arabia that have been classified under international category in note 6(a) to these consolidated financial statements have been classified in the Kingdom of Saudi Arabia region for the purpose of this note.

Credit equivalent of commitments and contingencies is calculated according to SAMA's prescribed methodology.

b) The distributions by geographical concentration of non-performing loans and advances and allowance for ECL are as follows:

	Non-performing loans, net		Allowance for impairment	
	2019 SR '000	2018 SR '000	**2019 SR '000**	2018 SR '000
Kingdom of Saudi Arabia				
Credit cards	**48,371**	39,423	**57,779**	43,078
Consumer loans	**154,727**	160,327	**155,928**	164,257
Commercial loans	**469,984**	464,870	**795,460**	726,170
Total	**673,082**	664,620	**1,009,167**	933,505

32. MARKET RISK

Market risk is the risk that the Group's earnings or capital, or its ability to meet business targets, will be adversely affected by changes in the level or volatility in market prices, such as special commission rates, credit spreads (not relating to changes in the obligor's / issuer's credit standing), equity prices and foreign exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury division and include equity investments and mutual funds that are managed on a fair value basis.

The Board approves market risk appetite for trading and non-trading activities. The Market Risk Policy Committee is responsible for the Market Risk Framework and under the delegated authority of the Board sets a limits framework within the approved market risk appetite. A daily market risk report details the Group's market risk exposures against agreed limits. This daily report is reviewed by the Treasurer and Chief Risk Officer. The market risk for the trading book is managed and monitored using Value at Risk (VaR) methodology and sensitivity analysis. The market risk for the non-trading book is managed and monitored using sensitivity analysis.

a) MARKET RISK - TRADING BOOK

Market risk on trading mainly arises from the foreign currency exposures and changes in equity prices and the net asset values of mutual funds.

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

A VaR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses historical methodology models to assess the possible changes in the market value of the trading book based on historical data. The VaR that the Group measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

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

To overcome the VaR limitations mentioned above, the Group also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the Bank's Board Risk Committee for their review.

The Group's VaR related information is as under.

	2019 SR '000	2018 SR '000
Foreign exchange rate		
VaR as at end of the year	**249**	690
Average VaR for the year	**338**	349

i) FOREIGN EXCHANGE RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board has set limits on positions by currency. Positions are monitored daily to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant exposure in its trading book, denominated in foreign currencies as at December 31:

	2019 SR '000	2018 SR '000
US Dollar	**78,397**	2,531
Hong Kong Dollar	**3,793**	2,632
Taiwan Dollar	**2,111**	1,652

The table below indicates the extent to which the Group was exposed to currency risk at December 31, on its foreign currency positions. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2019**		2018	
	Increase/ decrease in currency rate in %	**Effect on net income SR '000**	Increase/ decrease in currency rate in %	Effect on net income SR '000
US Dollar	**± 0.7**	**549**	± 0.4	± 10
Taiwan Dollar	**± 3.64**	**77**	± 3.28	± 54
Hong Kong Dollar	**± 0.77**	**29**	± 2.47	± 65

ii) EQUITY PRICE RISK

Equity price risk is the risk that the fair values of mutual funds decrease as a result of changes in the levels of equity index and the value of individual stocks deriving the net asset value of the funds.

The financial instruments included in the FVIS portfolio are equity securities held by mutual funds owned by the Group. The Group manages the risk relating to the mutual funds by monitoring changes in net asset value of the mutual funds. The investments in equity securities and mutual funds held by the Group are managed by the Group in conjunction with professional investment advisors, and the equity price risk is monitored by the Group on a portfolio basis for each mutual fund. The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held for trading at December 31 due to reasonably possible changes in the underlying respective fund's net asset value, with all other variables held constant, is as follows:

	2019		2018	
Portfolio	**Increase / decrease in equity price %**	**Effect on consolidated statement of income SR '000**	Increase / decrease in equity price %	Effect on consolidated statement of income SR '000
Global Emerging Markets	**± 22.32%**	**± 2,637**	± 11.2%	± 1,063
Others	**± 7.19%**	**± 19,779**	± 8.31%	± 1,991

The effect on the consolidated statement of income as a result of a change in the fair value of equity instruments held at FVIS at December 31, 2019 due to reasonably possible changes in the following market index, with all other variables held constant, is as follows:

Market index	2018 Increase / decrease in index %	2018 Effect on consolidated statement of income SR '000	2017 Increase / decrease in index %	2017 Effect on consolidated statement of income SR '000
Tadawul	± 7.19%	-	± 8.31%	± 651

b) MARKET RISK – NON TRADING OR BANKING BOOK

Market risk on non-trading or banking positions mainly arises from the special commission rate, foreign currency exposures and equity price changes.

i) SPECIAL COMMISSION RATE RISK

Special commission rate risk arises from the possibility that changes in special commission rates will affect future cash flows or the fair values of financial instruments. The Group's Market Risk Policy Committee (MRPC) has established limits on the special commission rate gap. Positions are monitored on a daily basis and reported regularly to senior management and MRPC to ensure positions are maintained within the established limits. In case of stressed market conditions, the asset-liability gap may be reported to MRPC more frequently.

The following table depicts the sensitivity due to reasonably possible changes in special commission rates, with other variables held constant, on the Group's consolidated statement of income. The sensitivity of the income is the effect of the assumed changes in special commission rates on the net special commission income for one year, based on the special commission bearing non-trading financial assets and financial liabilities held as at December 31, 2019 including the effect of hedging instruments. All the non-trading book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in local currency. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	2019 Increase / decrease in basis points	2019 Sensitivity of special commission income SR '000	2018 Increase / decrease in basis points	2018 Sensitivity of special commission income SR '000
SR	± 25	± 20,077	± 25	± 1,459
USD	± 25	± 2,330	± 25	± 2,655
INR	± 25	± 4	± 25	± 5
PKR	± 25	± 1	± 25	± -
AED	± 25	± -	± 25	± 1

Commission rate sensitivity of assets, liabilities and off-balance sheet items

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

The table below summarizes the Group's exposure to commission rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of the contractual re-pricing or the maturity dates. The Group is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies

(SR '000)

2019	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	1,214,248	1,214,248	-
Balances with SAMA	862,958	-	-	-	3,400,481	4,263,439	1.75%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	380,259	380,259	-
Money market placements	437,500	600,000	-	-	11,245	1,048,745	2.63%
Investments							
Held as FVIS	-	-	-	-	287,024	287,024	-
Held as FVOCI	-	-	-	101,147	5,654	106,801	4.23%
Held at amortised cost	6,765,000	373,099	10,454,578	9,405,374	226,888	27,224,939	3.29%
Positive fair value of derivatives							
Held for trading	-	-	-	-	28,731	28,731	-
Held as cash flow hedges	-	-	-	-	72,895	72,895	-
Loans and advances, net							
Credit cards	716,152	-	-	-	-	716,152	24.81%
Consumer loans	2,344,868	5,522,776	11,730,123	3,721,072	56,959	23,375,798	4.60%
Commercial loans	12,474,679	12,407,214	-	-	278,730	25,160,623	5.17%
Others					407,546	407,546	-
Investment in an associate	-	-	-	-	148,332	148,332	-
Other real estate, net	-	-	-	-	468,992	468,992	-
Property and equipment, net	-	-	-	-	1,154,270	1,154,270	-
Other assets	-	-	-	-	485,550	485,550	-
Total assets	23,601,157	18,903,089	22,184,701	13,227,593	8,627,804	86,544,344	

(SR'000)

2019	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	199,366	199,366	-
Money market deposits	6,720,000	1,000,000	-	-	44,271	7,764,271	2.23%
Repo agreement borrowings	-	288,671	-	-	1,446	290,117	2.37%
Customer deposits							
Demand	-	-	-	-	30,839,375	30,839,375	-
Time	18,563,109	11,255,711	186,000	-	254,720	30,259,540	2.69%
Other	-	-	-	-	1,597,879	1,597,879	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	29,027	29,027	-
Held as cash flow hedges	-	-	-	-	186,984	186,984	-
Subordinated Sukuk	-	2,000,000	-	-	6,921	2,006,921	4.30%
Other liabilities	-	-	-	-	1,781,347	1,781,347	-
Equity	-	-	-	-	11,589,517	11,589,517	-
Total liabilities and Equity	25,283,109	14,544,382	186,000	-	46,530,853	86,544,344	
Commission rate sensitivity on consolidated statement of financial position gap	(1,681,952)	4,358,707	21,998,701	13,227,593	(37,903,049)	-	
Commission rate sensitivity off consolidated statement of financial position gap	750,625	-	(1,378,750)	628,125	-	-	
Total commission rate sensitivity gap	(931,327)	4,358,707	20,619,951	13,855,718	(37,903,049)	-	
Cumulative commission rate sensitivity gap	(931,327)	3,427,380	24,047,331	37,903,049	-	-	

(SR'000)

2018	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Assets							
Cash and balances with SAMA							
Cash in hand	-	-	-	-	1,175,558	1,175,558	-
Balances with SAMA	1,035,928	-	-	-	2,753,636	3,789,564	2.50%
Due from Banks and other financial institutions							
Current accounts	-	-	-	-	296,710	296,710	-
Money market placements	1,000,000	-	-	-	1,039	1,001,039	2.50%
Investments							
Held as FVIS	-	-	-	-	41,293	41,293	-
Held as FVOCI	-	-	-	-	4,891	4,891	-
Held at amortised cost	7,301,455	527,646	9,150,648	6,825,570	200,772	24,006,091	3.30%
Positive fair value of derivatives							
Held for trading	-	-	-	-	31,361	31,361	-
Held as cash flow hedges	-	-	-	-	23,073	23,073	-
Loans and advances, net							
Credit cards	619,829	-	-	-	-	619,829	24.72%
Consumer loans	1,831,692	4,869,245	12,160,176	40,366	67,859	18,969,338	4.83%
Commercial loans	10,070,090	10,521,024	-	-	285,477	20,876,591	5.66%
Others	-	-	-	-	431,133	431,133	-
Investment in an associate	-	-	-	-	135,770	135,770	-
Other real estate, net	-	-	-	-	453,150	453,150	-
Property and equipment, net	-	-	-	-	761,247	761,247	-
Other assets	-	-	-	-	386,560	386,560	-
Total assets	21,858,994	15,917,915	21,310,824	6,865,936	7,049,529	73,003,198	

(SR'000)

2018	Within 3 months	3-12 months	1-5 years	Over 5 years	Non commission bearing	Total	Effective commission rate
Liabilities and equity							
Due to banks and other financial institutions							
Current accounts	-	-	-	-	145,257	145,257	-
Money market deposits	4,576,000	781,625	584,000	-	46,069	5,987,694	2.80%
Repo agreement borrowings	-	288,671	-	-	1,808	290,479	3.01%
Customer deposits							
Demand	-	-	-	-	26,607,390	26,607,390	-
Time	18,383,237	4,631,117	763,077	-	129,845	23,907,276	3.01%
Other	-	-	-	-	1,289,432	1,289,432	-
Negative fair value of derivatives							
Held for trading	-	-	-	-	31,390	31,390	-
Held as cash flow hedges	-	-	-	-	120,399	120,399	-
Subordinated Sukuk	-	2,000,000	-	-	8,202	2,008,202	4.92%
Other liabilities	-	-	-	-	1,371,207	1,371,207	-
Equity	-	-	-	-	11,244,472	11,244,472	-
Total liabilities and Equity	22,959,237	7,701,413	1,347,077	-	40,995,471	73,003,198	
Commission rate sensitivity on consolidated statement of financial position gap	(1,100,243)	8,216,502	19,963,747	6,865,936	(33,945,942)	-	
Commission rate sensitivity off consolidated statement of financial position gap	750,625	-	(1,285,000)	534,375	-	-	
Total commission rate sensitivity gap	(349,618)	8,216,502	18,678,747	7,400,311	(33,945,942)	-	
Cumulative commission rate sensitivity gap	(349,618)	7,866,884	26,545,631	33,945,942	-	-	

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

ii) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure positions are maintained within established limits.

At the end of the year, the Group has the following significant net exposures denominated in foreign currencies as at December 31:

	2019 SR' 000 Long / (Short)	2018 SR'000 Long /(Short)
USD	**1,070,911**	643,190
INR	**21,036**	31,761
PKR	**7,002**	5,429
AED	**355**	13,274

The table below indicates the currencies to which the Group has significant exposure as at December 31, 2019. The analysis is performed for a reasonable possible movement of the currency rate against the Saudi Arabian Riyal with all other variables held constant, including the effect of hedging instrument, on the consolidated statement of income. A negative amount in the table reflects a potential net reduction in consolidated statement of income, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions that might be taken by the Group to mitigate the effect of such changes.

Currency	**2019**		2018	
	Increase / decrease in currency rate in %	**Effect on net income SR'000**	Increase/ decrease in currency rate in %	Effect on net income SR'000
USD	±0.05	± 535	**±0.05**	**± 322**
INR	±0.05	± 11	**±0.05**	**± 16**
PKR	±0.05	± 4	**±0.05**	**± 3**
AED	±0.05	± -	**±0.05**	**± 7**

33. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to be less readily available. To mitigate this risk, management has diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities and monitors future cash flows and liquidity gaps on a daily basis. The Group also has committed lines of credit that it can access to meet liquidity needs.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA at 7% of total demand deposits and 4% of savings and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of not less than 20% of the deposit liabilities, in the form of cash or assets that can be converted into cash within a period not exceeding 30 days. The Bank has the ability to raise additional funds through repo facilities available with SAMA up to 88.5% of the value of debt securities issued by the government (Ministry of Finance), SAMA or guaranteed by government.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. One of these methods is to maintain limits on the ratio of liquid assets to deposit liabilities, set to reflect market conditions. Liquid assets consist of cash, short term bank deposits, murabaha placements with SAMA and liquid debt securities available for immediate sale. Deposit liabilities include both customers and banks, excluding non-resident bank deposits in foreign currency. The Bank also monitors the loan to deposit ratio.

a) Analysis of financial liabilities by remaining undiscounted contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2019 and December 31, 2018 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take into account the effective expected maturities as shown in note (b) below (maturity analysis of assets and liabilities for the expected maturities). Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

(SR' 000)

	with in months 3	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
As at December 31, 2019						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	199,366	199,366
Money market deposits	6,723,689	1,065,688	-	-	-	7,789,377
Repo agreement borrowing	-	6,848	-	338,427	-	345,275
Customers' deposits						
Demand	-	-	-	-	30,839,375	30,839,375
Time	18,744,122	11,513,964	207,680	-	-	30,465,766
Other	1,597,879	-	-	-	-	1,597,879
Negative fair value of derivatives						
Held for trading	5,103	2,534	21,390	-	-	29,027
Held as cash flow hedges	19,992	-	43,522	123,470	-	186,984
Subordinated Sukuk	-	84,441	337,074	2,126,201	-	2,547,716
Other liabilities	23,937	146,384	552,796	58,518	1,056,775	1,838,410
Total undiscounted financial liabilities	27,114,722	12,819,859	1,162,462	2,646,616	32,095,516	75,839,175
Derivatives	562,332	587,096	2,733,935	2,063,321	-	5,946,684

(SR' 000)

	with in months 3	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Financial liabilities						
As at December 31, 2018						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	145,257	145,257
Money market deposits	4,623,860	806,481	604,297	-	-	6,034,638
Repo agreement borrowing	-	-	-	377,415	-	377,415
Customers' deposits						
Demand	-	-	-	-	26,607,390	26,607,390
Time	18,335,748	4,940,696	805,464	-	-	24,081,908
Other	1,289,432	-	-	-	-	1,289,432
Negative fair value of derivatives						
Held for trading	11,278	234	19,878	-	-	31,390
Held as cash flow hedges	20,291	-	5,188	94,920	-	120,399
Subordinated Sukuk	24,607	75,187	399,172	2,241,964	-	2,740,930
Other liabilities	-	88,240	352,959	-	930,008	1,371,207
Total undiscounted financial liabilities	24,305,216	5,910,838	2,186,958	2,714,299	27,682,655	62,799,966
Derivatives	420,050	330,804	3,599,348	2,251,812	-	6,602,014

The contractual maturity structure of the Group's credit-related contingencies and commitments are shown under note 19 (d).

b) Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. See note (a) above for the Group's contractual undiscounted financial liabilities. For presentation purposes demand deposits are included in "No fixed maturity" category.

(SR' 000)

2019	Within 3 Months	3-12 months	Within year 1	1-5 years	Over 5 years	More than year 1	No fixed maturity	Total
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	1,214,248	1,214,248
Balances with SAMA	-	-	-	-	-	-	4,263,439	4,263,439
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	380,259	380,259
Money market placements	-	438,632	438,632	610,113	-	610,113	-	1,048,745
Investments								
Held as FVIS	-	-	-	-	-	-	287,024	287,024
Held as FVOCI	-	10	10	763	101,148	101,911	4,880	106,801
Held at amortised cost	-	155,410	155,410	11,753,451	15,316,078	27,069,529	-	27,224,939
Positive fair value of derivatives								
Held for trading	4,807	2,534	7,341	21,390	-	21,390	-	28,731
Held as cash flow hedges	16,321	-	16,321	4,333	52,241	56,574	-	72,895
Loans and advances, net								
Credit cards	273,923	-	273,923	-	-	-	442,229	716,152
Consumer loans	125,520	178,555	304,075	11,151,453	11,920,270	23,071,723	-	23,375,798
Commercial loans	12,075,424	10,836,773	22,912,197	980,761	1,267,665	2,248,426	-	25,160,623
Others	-	407,546	407,546	-	-		-	407,546
Investment in an associate	-	-	-	-	-	-	148,332	148,332
Other real estate, net	-	-	-	-	-	-	468,992	468,992
Property and equipment, net							1,154,270	1,154,270
Other assets	62,562	65,125	127,687	-	-	-	357,863	485,550
Total assets	12,558,557	12,084,585	24,643,142	24,522,264	28,657,402	53,179,666	8,721,536	86,544,344

(SR' 000)

2019	Within 3 Months	3-12 months	Within year 1	1-5 years	Over 5 years	More than year 1	No fixed maturity	Total
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	199,366	199,366
Money market deposits	-	6,719,665	6,719,665	1,044,606	-	1,044,606	-	7,764,271
Repo agreement borrowing	-	1,446	1,446	-	288,671	288,671	-	290,117
Customer deposits								
Demand	-	-	-	-	-	-	30,839,375	30,839,375
Time	5,608,658	16,495,745	22,104,403	8,155,137	-	8,155,137	-	30,259,540
Other	-	-	-	-	-	-	1,597,879	1,597,879
Negative fair value of derivatives								
Held for trading	5,103	2,534	7,637	21,390	-	21,390	-	29,027
Held as cash flow hedges	19,992	-	19,992	43,522	123,470	166,992	-	186,984
Subordinated Sukuk	-	6,921	6,921	-	2,000,000	2,000,000	-	2,006,921
Other liabilities	19,832	135,232	155,064	517,047	52,461	569,508	1,056,775	1,781,347
Total liabilities	5,653,585	23,361,543	29,015,128	9,781,702	2,464,602	12,246,304	33,693,395	74,954,827

(SR' 000)

2018	Within 3 months	3-12 months	Within year 1	1-5 years	Over 5 years	More than year 1	No fixed maturity	Total
Assets								
Cash and balances with SAMA								
Cash in hand	-	-	-	-	-	-	1,175,558	1,175,558
Balances with SAMA	-	-	-	-	-	-	3,789,564	3,789,564
Due from Banks and other financial institutions								
Current accounts	-	-	-	-	-	-	296,710	296,710
Money market placements	-	1,001,039	1,001,039	-	-	-	-	1,001,039
Investments								
Held as FVIS	-	-	-	-	-	-	41,293	41,293
Held as FVOCI	-	-	-	-	-	-	4,891	4,891
Held at amortised cost	-	361,903	361,903	9,213,704	14,430,484	23,644,188	-	24,006,091
Positive fair value of derivatives								
Held for trading	11,148	335	11,483	19,878	-	19,878	-	31,361
Held as cash flow hedges	19,275	-	19,275	3,798	-	3,798	-	23,073
Loans and advances, net								
Credit cards	224,127	-	224,127	-	-	-	395,702	619,829
Consumer loans	102,239	214,832	317,071	9,204,442	9,447,825	18,652,267	-	18,969,338
Commercial loans	9,957,346	8,125,422	18,082,768	1,774,162	1,019,661	2,793,823	-	20,876,591
Others	-	431,133	431,133	-	-	-	-	431,133
Investment in an associate	-	-	-	-	-	-	135,770	135,770
Other real estate, net	-	-	-	-	-	-	453,150	453,150
Property and equipment, net	-	-	-	-	-	-	761,247	761,247
Other assets	64,144	94,385	158,529	-	-	-	228,031	386,560
Total assets	10,378,279	10,229,049	20,607,328	20,215,984	24,897,970	45,113,954	7,281,916	73,003,198

2018	Within 3 Months	3-12 months	Within year 1	1-5 years	Over 5 years	More than year 1	No fixed maturity	Total
				(SR' 000)				
Liabilities								
Due to banks and other financial institutions								
Current accounts	-	-	-	-	-	-	145,257	145,257
Money market deposits	-	4,615,021	4,615,021	1,372,673	-	1,372,673	-	5,987,694
Repo agreement borrowing	-	-	-	-	290,479	290,479	-	290,479
Customer deposits								
Demand	-	-	-	-	-	-	26,607,390	26,607,390
Time	5,482,383	14,251,852	19,734,235	4,173,041	-	4,173,041	-	23,907,276
Other	-	-	-	-	-	-	1,289,432	1,289,432
Negative fair value of derivatives								
Held for trading	11,278	234	11,512	19,878	-	19,878	-	31,390
Held as cash flow hedges	20,291	-	20,291	5,188	94,920	100,108	-	120,399
Subordinated Sukuk	-	8,202	8,202	-	2,000,000	2,000,000	-	2,008,202
Other liabilities	-	88,240	88,240	352,959	-	352,959	930,008	1,371,207
Total liabilities	5,513,952	18,963,549	24,477,501	5,923,739	2,385,399	8,309,138	28,972,087	61,758,726

34. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

Determination of fair value and fair value hierarchy

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

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

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

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

a) The following table presents the Group's financial assets and liabilities that are measured at fair values:

	(SR'000) 2019	
	Level 2	**Total**
Financial assets		
FVIS		
Mutual Funds	**287,024**	**287,024**
FVOCI		
Debt	**101,921**	**101,921**
Derivatives	**101,626**	**101,626**
Total	**490,571**	**490,571**
Financial liabilities		
Derivatives	**216,011**	**216,011**
Total	**216,011**	**216,011**

(SR'000) 2018	Level 1	Level 2	Total
Financial assets			
FVIS			
Mutual Funds	-	33,456	33,456
Equities	7,837	-	7,837
Derivatives	-	54,434	54,434
Total	7,837	87,890	95,727
Financial liabilities			
Derivatives	-	151,789	151,789
Total	-	151,789	151,789

Fair value of quoted investments is based on price quoted on the reporting date. Level 2 trading and hedging derivatives comprise foreign exchange, options, profit rate swaps and structured deposits. These foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Profit rate swaps, options and structured deposits are fair valued using forward special commission rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

There were no changes in valuation techniques during the period.

There were no transfers between levels 1 and 2 during the year. New investments acquired during the year are classified under the relevant levels. There were no financial assets or financial liabilities classified under level 1 and level 3 (2018: level 3).

Investments amounting to SR 4.88 million (2018: SR 4.89 million) are carried at cost and, accordingly, are not fair valued.

b) Following table represent fair values of financial assets and liabilities measured at amortised cost. There are no financial assets and liabilities that are measured as level 1 fair value.

December 31, 2019 (SR'000)	**Amortised cost**	**Level 2**	**Level 3**
Financial assets:			
Due from banks and other financial institutions	**1,429,004**	**-**	**1,441,363**
Investment held at amortised cost	**27,224,939**	**27,684,963**	**-**
Loans and advances, net	**49,660,119**	**-**	**51,282,736**
Total	**78,314,062**	**27,684,963**	**52,724,099**
Financial liabilities:			
Due to banks and other financial institutions	**8,253,754**	**-**	**8,304,612**
Customers' deposits	**62,696,794**	**-**	**62,986,854**
Total	**70,950,548**	**-**	**71,291,466**

December 31, 2018 (SR'000)	Amortised cost	Level 2	Level 3
Financial assets:			
Due from banks and other financial institutions	1,297,749	-	1,297,307
Investment held at amortised cost	24,006,091	24,047,109	-
Loans and advances, net	40,896,891	-	42,208,458
Total	66,200,731	24,047,109	43,505,765
Financial liabilities:			
Due to banks and other financial institutions	6,423,430	-	6,419,789
Customers' deposits	51,804,098	-	51,805,378
Total	58,227,528	-	58,225,167

The fair value of the cash and balances with SAMA, other assets and other liabilities and subordinated Sukuks approximate to their carrying amount. The fair values of level 2 and level 3 financial instruments are estimated as at December 31, 2019 at the current applicable yield curve taking into account the counterparty risks and applicable market rate.

35. RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Group transacts business with related parties. In the opinion of the management and the Board of Directors, the related party transactions are conducted on approved terms. The related party transactions are governed by the limits set by the Banking Control Law and regulations issued by SAMA.

The balances as at December 31 resulting from such transactions included in the consolidated financial statements are as follows:

	2019 SR' 000	2018 SR' 000
Subsidiary companies		
Investments	**501,480**	501,480
Customer deposits	**20,730**	1,984
Due from banks and other financial institutions	**651,371**	505,825
Due to banks and other financial institutions	**290,117**	290,479
Receivables	**289,599**	210,184
Payables	**14,625**	15,369
Commitments and contingencies	**530,247**	530,247
Notional values of outstanding derivative contracts	**2,796,949**	2,958,992
Associate and affiliate entities with significant influence		
Investments	**148,332**	135,770
Customer deposits	**238,400**	374,417
Accrued expenses payables	**24,850**	3,700
Advance against sale of investments	**22,353**	-
Directors, key management personnel, other major shareholders and their affiliates		
Loans and advances	**28,955**	103,569
Customers' deposits	**4,139,319**	47,311
Contingencies and commitments	**977**	2,427

Other major shareholders represent shareholdings of more than 5% of the Bank's issued share capital.

	2019 SR' 000	2018 SR' 000
Mutual Funds under subsidiary's management		
Investments	**287,024**	33,456
Loans and advances, net	**418,182**	392,349
Customer deposits	-	548

Income, expenses and other transactions with related parties included in the consolidated financial statements are as follows:

	2019 SR '000	2018 SR '000
Special commission income	128,861	131,574
Special commission expense	242,521	155,321
Fees and commission income	404	31
Custody fee	2,624	839
Net share of expenses to associate	22,850	22,147
Insurance premium paid	55,032	40,311
Surplus distribution received from associate	1,169	1,450
Claims received	10,729	10,486
Directors' remuneration	7,315	7,834
Dividend received	-	7,350
Income under shared service agreements	3,391	3,391
Reimbursement of expense to a subsidiary	117	103
Reimbursement of rent expense	7,983	8,825
Rent expense for branches	2,705	2,457
Operating expenses	-	92
Sale of sukuk to an associate	99,895	-
Participation in DMO sukuk auction for an associate	75,552	-

The total amount of compensation paid to directors and key management personnel during the year is as follows:

	2019 SR '000	2018 SR '000
Short-term employee benefits	104,597	98,467
Termination benefits	33,416	29,633

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

36. SALARIES AND EMPLOYEE RELATED EXPENSES

	2019			
Categories of employees	Number of employees	Fixed compensation (on accrual basis) SR '000	Variable compensation (on cash basis) SR '000	Total SR '000
Senior executives that require SAMA no objection	16	43,270	22,312	65,582
Employees involved in control functions	213	85,816	9,886	95,702
Employees involved in risk taking activities	202	77,192	13,987	91,179
Other employees	2,186	530,764	76,156	606,920
Outsourced employees	609	85,970	3,500	89,470
Total	3,226	823,012	125,841	948,853
Variable compensation (accrual basis)		124,859		
Other employee related benefits		20,658		
Total salaries and employee-related expenses		968,529		

Categories of employees	2018 Number of employees	Fixed compensation (on accrual basis)	Variable compensation (on cash basis)	Total
		SR '000	SR '000	SR '000
Senior executives that require SAMA no Objection	16	38,145	19,350	57,495
Employees involved in control functions	195	73,914	8,392	82,306
Employees involved in risk taking activities	202	74,386	13,425	87,811
Other employees	2,127	497,288	73,449	570,737
Outsourced employees	609	75,162	3,086	78,248
Total	3,149	758,895	117,702	876,597
Variable compensation (accrual basis)		114,239		
Other employee related benefits		23,582		
Total salaries and employee-related expenses		896,716		

The compensation and benefits program philosophy

Compensation and benefits levels and amounts are determined by conducting periodic salary benchmark surveys and through other means of market pay intelligence, in order to enable the Group to keep abreast of the local and regional market conditions relating to the Group's staff employed in the Kingdom of Saudi Arabia, which are contrasted to cyclical performance levels and mitigated for any associate risks.

The distribution of compensation is composed of a mix of fixed and variable pay, allowances, periodic meritorious reward schemes and non-cash benefits in line with the standards and norms for the financial services industry in the Kingdom of Saudi Arabia.

According to labour law of the Kingdom of Saudi Arabia and Group's internal policies, staff end of services benefits is due for payment at the end of an employee's period of services. The end of service benefit outstanding at end of December 2018 amounted to SR 265.60 million (2017: SR 244.02 million).

The compensation and benefits program is applicable to all regular (Headcount) Saudi national and expatriate employees of the Bank, and its subsidiaries within all applicable regulatory and corporate governance limitations.

- **Fixed compensation** includes salaries and wages, and job/position specific allowances and related benefits, which are fixed in employment contracts and are given irrespective of performance;
- **Variable compensation** includes performance bonuses, incentives and other variable performance related allowances which are not fixed by the employment contracts, and which vary from year to year, and have a direct correlation with individual, group and institutional performance success.

37. 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 on a periodic basis by the Bank's management. SAMA requires holding the minimum level of the regulatory capital and maintaining a ratio of total eligible capital to the risk-weighted assets 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, commitments and notional amount of derivatives at a weighted amount to reflect their relative risk.

The following table summarizes the Group's Pillar-I Risk Weighted Assets (RWA), Regulatory Capital and Capital Adequacy Ratios calculated in accordance with the Basel III Framework:

	2019		2018	
	Eligible capital SR '000	**Capitalad equacy ratio %**	Eligible capital SR '000	Capital adequacy ratio % (Restated – note 42)
Core capital (Tier 1)	**12,081,624**	**20.68%**	11,849,764	22.93%
Supplementary capital (Tier 2)	**2,300,699**	**-**	2,348,955	-
Core and supplementary capital (Tier 1 + Tier 2	**14,382,323**	**24.62%**	14,198,719	27.48%

Common Equity Tier 1 capital of the Bank at the year-end comprises of share capital, statutory reserve, general reserves, other reserves, retained earnings and certain regulatory capital adjustments in accordance with the requirement of SAMA Basel III Framework. The other component of regulatory capital is Tier 2 capital, which comprises subordinated sukuk issued by the Group and eligible collective allowances.

A strong capital position is essential to the Group's business strategy and competitive position. The Group's capital strategy focuses on long-term stability, which aims to build and invest in core banking activities.

The Group seeks to maintain adequate levels of capital in order to:

- Optimize assets growth in target business segments to support its strategic objectives
- Support the underlying risks of the bank's business;
- Be able to withstand capital demands under prevailing market and stress conditions.

Strategic business plans, ICAAP and ILAAP are drawn up annually covering at least three years horizon. This ensures that risks based on the Bank's Risk Appetite Framework & Policy are assessed and adequate levels of capital are maintained by the Group to support its strategy. The above takes the following into account:

- Growth of core financing and investment business based on business plans of the various business units such as Corporate Banking (includes Commercial and SME Segment), Global Transactions Services, Financial Institutions, Retail Banking, Treasury and Private Banking;
- The funding structure and sources of funding, liabilities and equity, to support the asset growth taking into consideration the need to maintain strong liquidity position based on Basel III Liquidity Management guidelines;
- Maintenance of Regulatory capital requirements and Capital Adequacy Ratios.

For the purpose of calculating risk weighted assets, the Group uses the Standardized Approach for credit risk and market risk and the Basic Indicator Approach for operational risk. The Group's Risk Management Division is responsible for ensuring that the Group's capital adequacy ratios meet the minimum requirement specified by SAMA. The Group is required to submit Capital Adequacy Prudential Returns on quarterly basis to SAMA showing the capital adequacy position.

	2019 SR '000	2018 SR '000
Credit risk	**51,675,067**	46,061,300
Operational risk	**5,059,741**	4,816,379
Market risk	**1,677,030**	799,342
Total pillar-1 – risk weighted assets	**58,411,838**	51,677,021

38. INVESTMENT MANAGEMENT AND BROKERAGE SERVICES

The Bank's subsidiary, Aljazira Capital Company (AJC) offers investment management and advisory services to its customers, compliant with the principles of Shari'ah (non-interest based). These services include portfolio management on a discretionary and non-discretionary basis and management of investment funds in conjunction with professional investment advisors. Fourteen such funds for which AJC acts as the manager are Aljazira International Equities Fund, Aljazira European Equities Fund, Aljazira Japanese Equities Fund, Aljazira Saudi Equities Fund, Aljazira Saudi Riyal Murabaha Fund, Aljazira USD Murabaha Fund, Aljazira Residential Projects Fund, Aljazira Residential Projects Fund 2, Aljazira GCC Income Fund, Aljazira Diversified Aggressive Fund, Aljazira Diversified Balanced Fund, Aljazira Diversified Conservative Fund, Aljazira Global Emerging Markets Fund and Aljazira Mawten REIT Fund. All of the above are open ended funds except for Aljazira Residential Projects Fund and Aljazira Residential Projects Fund 2 which are closed-ended funds and Aljazira Mawten REIT Fund which is a public traded fund on Tadawul. Aljazira International Equities Fund, Aljazira European Equities Fund, Aljazira Japanese Equities Fund invests in foreign equities, while Aljazira Saudi Equities Fund invests in local equities. Aljazira Saudi Riyal Murabaha Fund and Aljazira USD Murabaha Fund trade in commodities through Murabaha.

The Group also provides investment management and other services to the policy holders of its Takaful Ta'awuni program.

Total assets under administration held by the Group related to its brokerage services business amounted to SR 55.4 billion (2018: SR 47 billion).

Assets held in public funds in a fiduciary capacity by the Group related to its asset management services business amounted to SR 5.6 billion (2018: SR 4.6 billion).

39. UNCONSOLIDATED ENTITIES

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Group	Total assets
Investment in funds	Mutual Funds managed by Alazira Capital Company (Subsidiary of the Bank Aljazira)	% of holding	SR '000
	Aljazira Saudi Riyal Murabaha Fund	4.85%	3,683,502
	Aljazira Dawaween Fund	0.24%	802,800
	Aljazira USD Murabaha Fund	27.81%	266,730
	Aljazira Global Emerging Markets Fund	20.59%	57,834
	Aljazira GCC Income Fund	10.81%	37,186
	Aljazira Residential Projects Fund	43.64%	16,916
	Aljazira Residential Projects Fund 2	13.05%	73,989

The table below sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held.

Investment in funds – Carrying Amount	SR ' 000
Aljazira Saudi Riyal Murabaha Fund	178,486
Aljazira USD Murabaha Fund	75,025
Aljazira Global Emerging Markets Fund	11,817
Aljazira Residential Projects Fund	8,093
Aljazira Residential Projects Fund 2	8,784
Aljazira GCC Income Fund	4,000
Aljazira Dawaween Fund	819

40. TAKAFUL TA'WUNI

Takaful Ta'awuni provides protection and saving products services that are fully Shari'ah compliant.

As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity formed under the new Insurance Law of Saudi Arabia.

Aljazira Takaful Ta'awuni Company (ATT) was formed and listed on the Saudi Stock Exchange (Tadawul). ATT also received its insurance license from SAMA in December 2013 and started writing business from January 2014. The Group collectively holds a 35% share in ATT as at December 31, 2019. The current division represents the insurance portfolio of policies entered into by the Bank before 2014.

During the year, ATT has obtained from SAMA no objection to transfer the insurance portfolio through letter dated Rabi 'Al-Thani 26, 1441 AH (corresponding to December 23, 2019). The insurance portfolio will be transferred with effect from January 1, 2020 at a value to be agreed between the Bank and ATT and the financial impact of transfer is expected to be reflected in the Group's consolidated financial statements for the year ending December 31, 2020.

41. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). The Group has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is uncertainty over the timing and the methods of transition. The Group anticipates that IBOR reform will have operational, risk management and accounting impacts across all of its business lines. The Group established a cross-functional IBOR Committee to manage its transition to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which loans and advance and liabilities have reference to IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The IBOR Committee reports to the ALCO and collaborates with other business functions as needed. The business Groups and Treasury are in the process of identifying operational risks arising from IBOR reform.

Financial assets:

The Group's IBOR exposures on floating-rate loans and advances to customers and investments is SR 39.76 billion. The IBOR Committee is in the process of evaluating policies for amending the interbank offered rates on its existing floating-rate loan portfolio indexed to IBORs that will be replaced as part of IBOR reform. The Group expects that retail products will be amended in a uniform way. However, the Group expects to participate in bilateral negotiations with the counterparties in its bespoke products, such as loans and advances issued to corporates. The Group expects to begin amending the contractual terms of its existing floating-rate assets in the Q3 2020; however, the exact timing will vary depending on the extent to which standardized language can be applied across certain loan types and the extent of bilateral negotiations between the Group and loan counterparties.

Financial liabilities:

The Group has floating-rate liabilities indexed to IBORs of SR 2.29 billion. The IBOR Committee and the Group's treasury team will initiate discussions with the counterparties of our financial liabilities to amend the contractual terms in preparation for IBOR reform.

Derivatives held for risk management purposes and hedge accounting:

The Group holds derivatives for risk management purposes, some of which are designated in hedging relationships. The profit rate and foreign exchange derivative instruments have floating legs that are indexed to various IBORs SR 5.35 billion.

Profit Rate Benchmark Reform Amendments to IFRS 9 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by profit rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of profit rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing profit rate benchmark with an alternative risk-free profit rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing profit rate benchmark with an alternative risk-free profit rate (an "RFR"). The effective date of the amendments is for annual periods beginning on or after January 1, 2020, with early application permitted. The requirements must be applied retrospectively. However, any hedge relationships that have previously been de-designated cannot be reinstated upon application, nor can any hedge relationships be designated with the benefit of hindsight.

With phase one completed, the IASB is now shifting its focus to consider those issues that could affect financial reporting when an existing profit rate benchmark is replaced with an RFR. This is referred to as phase two of the IASB's project.

The Group has not early adopted the amendments and has concluded that the uncertainty arising from IBOR reform is not affecting its hedge relationships to the extent that the hedge relationships need to be discontinued.

42. COMPARATIVE FIGURES

During the year, following reclassifications have been made for better presentation:

- Staff incentives that are directly attributable to new loans disbursements or collection of defaulted loans have been reclassified from salaries and employee related expenses to fee and commission income, net and impairment charge for credit losses respectively.

- Property evaluation fee expenses that are directly attributable to real estate loans have been reclassified from general and administrative expenses to fee and commission income, net.
- Insurance costs incurred to cover the credit risk in respect of personal & housing loans have been reclassified to special commission income from other general and administrative expenses as this cost essentially represents part of the loan yield.
- Special commission income and expense on Trading Profit Rate Swaps has been reclassified to net gain / (loss) on FVIS financial instruments.

The impact of these reclassifications on the consolidated statement of income is disclosed below.

	As originally reported	Reclassification	Amounts reported after reclassification
		SR '000	
For the year ended December 31, 2018			
Special commission income	2,987,608	(199,935)	**2,787,673**
Special commission expense	1,049,346	(165,706)	**883,640**
Fee and commission income, net	583,480	(19,124)	**564,356**
Salaries and employee-related expenses	915,904	(19,188)	**896,716**
Other general and administrative expenses	453,586	(38,772)	**414,814**
Impairment charge for credit losses, net	102,193	4,607	**106,800**

Capital adequacy disclosure has been revised to account for the impact of above reclassifications on total operating income. Further Operating Segment disclosure has been revised to account for the impact of above reclassifications. Certain immaterial amounts have been reclassified so as to align with the current year presentation.

43. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were authorized for issue by the Board of Directors on Jumada Al Thani 5, 1441H, corresponding to January 30, 2020.


5%

BASEL III Pillar 3 Disclosures
for FY 2019

1. OVERVIEW

The Pillar 3 Disclosure for financial year ending 31st December 2019 for Bank AlJazira (the Bank) complies with the Saudi Arabian Monetary Authority (SAMA) Disclosure Requirements (Pillar 3)," which is based on the guidelines issued by the Basel Committee on Banking Supervision (BCBS).

2. SCOPE OF APPLICATION

The report is prepared after full-consolidation of the Bank and the following fully-owned subsidiaries (the Bank):

	Business	Capital [SAR]	BAJ Ownership%
Entity			
Aman Development and Real Estate Investment Company	Collateral holder trustee Company	1 Million	100%
Aljazira Capital Company	Asset Management & Advisory	500 Million	100%
Aman Insurance Agency Company	Acting as an agent for bancassurance activities on behalf of the bank	SAR 500 Thousand	100%
Aljazira Securities Limited	Carry out Sharia'h Compliant derivative and Capital market transactions	Authorized Capital 50,000 USD paid up capital: 100 USD	100%

3. MEDIUM AND LOCATION OF DISCLOSURE

The bank's Pillar 3 disclosure will be made available under the Financial Reports (Basel III section) on the bank's website at www.baj.com.sa and as a separate report in the annual financial reports, after the notes to the financial statements.

4. BASIS AND FREQUENCY OF DISCLOSURE

This Pillar 3 disclosure document has been designed to be in compliance with SAMA's Pillar 3 Guidelines, and is to be read in conjunction with the Bank's Financial Statements for financial year ending 31st December 2019.

The Qualitative Disclosure Requirements are reported annually.

5. CAPITAL STRUCTURE

The authorized share capital of the Bank is SAR 8.2 billion. As of 31st December 2019, the shareholders' equity is SAR 11.24 billion. The total Tier 1 and Tier 2 capital of the Bank is SAR 14.2 billion including Sukuk issuance of SAR 2.0 billion as of 31st December 2019.

A. SUBSIDIARIES AND ASSOCIATES

Aljazira Capital Company:

Based in Riyadh, the company is authorized to deal in securities as principal as well as agent, and to provide underwriting, custodianship, asset management, margin financing advisory and arranging services. The company has a paid up capital of SAR 500 million wholly subscribed by the Bank.

Aman Development and Real Estate Investment Company:

Based in Jeddah, formed as an SPV to facilitate mortgage financing and to only hold on behalf of the Bank, the title for real-estate transferred as collateral against commercial financing extended by the Bank. The company has an authorized capital of SAR 1 million wholly subscribed by the Bank.

Aman Insurance Agency Company:

Based in Saudi Arabia, the company is acting as an agent for bancassurance activities on behalf of the Bank. The Company has not yet commenced commercial operations. The issued share capital amounts to SAR 500 Thousand Comprising of 50 Thousand Shares of SAR 10 each

Aljazira Securities Limited:

Based in Cayman Islands, the company is formed to carry out Sharia'h compliant derivative and capital market transactions. The authorized capital amounts to USD 50,000 and its paid up capital is USD 100 comprising of 100 Shares of USD 1 each.

Aljazira Takaful Ta'wuni (ATT):

Based in Jeddah, the company is authorized to conduct insurance business in accordance with Sharia'h and SAMA guidelines. The bank has acquired 35% stake in the company's capital of SAR 350 million. ATT commenced its commercial operations from January 2014.

B. CAPITAL TRANSFERABILITY

There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.

6. CAPITAL ADEQUACY

The table below illustrates the various approaches that are currently adopted at Bank AlJazira for capital requirements calculation under Basel III in relation to the various risk types under Pillar 1:

Credit Risk	Market Risk	Operational Risk
The Standardized Approach (TSA)	The Standardized Approach (TSA)	Basic Indicator Approach (BIA)

For Operational Risk, the Bank has plans of migrating from BIA to the approach recommended by BCBS (Basel Committee on Banking Supervision) through its "Basel III – Finalizing post-crisis reforms" document issued in December 2017 and subsequent SAMA guidelines. The Bank is in the process of defining a detailed road map to adopt the new approach as per the timelines suggested by the regulators.

The bank will continue to collect loss data and map it against the business lines to establish a comprehensive Internal Loss data history before migrating to the new methodology subject to receiving SAMA's final guidelines on the same.

CAPITAL MANAGEMENT

- A strong capital position is essential to the bank's business strategy and competitive position. The bank's capital strategy focuses on long-term stability, which aims to build and invest in core banking activities.
- The bank seeks to maintain adequate levels of capital in order to:
- Optimize assets growth in target business segments to support its strategic objectives
- Support the underlying risks of the bank's business;
- Be able to withstand capital demands under prevailing market and stress conditions.

Strategic business plans, ICAAP and ILAAP are drawn up annually covering at least three years horizon. This ensures that risks based on the bank's Risk Appetite Framework & Policy are assessed and adequate levels of capital are maintained by the bank to support its strategy. The above takes the following into account:

- Optimize assets growth in target business segments to support its strategic objectives;
- Support the underlying risks of the bank's business;
- Be able to withstand capital demands under prevailing market and stress conditions.
- Maintenance of Regulatory capital requirements and Capital Adequacy Ratios.

During 2017, Basel Committee on Banking Supervision (BCBS) issued comprehensive reforms to the existing Basel III framework. These new reforms seek to restore credibility in the calculation of Risk Weighted Assets (RWAs) and improve the comparability of bank's capital ratios. BCBS reforms seek revision to the standardized approaches for calculating Credit Risk, Market Risk, Credit Valuation Adjustment (CVA) and Operational Risk to bring about greater risk sensitivity and comparability. Constraints on using internal models aim to reduce unwarranted variability in banks' calculations of RWAs.

RWAs are an estimate of risk that determines the minimum level of regulatory capital a bank must maintain to deal with unexpected losses. A prudent and credible calculation of RWAs is an integral element of the risk-based capital framework. With the foregoing in mind, the Bank therefore, monitors the adequacy of its capital using standards and their underlying ratios as set and enforced by SAMA. The Bank's Internal Capital Adequacy Assessment Process (ICAAP) is designed to capture capital requirements for Pillar-II risks, on an as-is and forward looking basis while taking into consideration the Bank's current exposures and future growth plans. The ICAAP also assesses the resilience of the Bank's business and capital models under various levels of plausible and severe stress scenarios. Based on the Pillar II framework and on a fully consolidated basis, it reflects a risk centric and realistic approach to the assessment of BAJ's current and planned capital requirements.

The capital adequacy disclosures have been prepared in accordance with the Basel disclosure guidelines, as issued by SAMA from time to time and as applicable to the Bank.

7. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) AND INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS (ILAAP)

The bank's ICAAP addresses issues of capital planning, assessment of all types of material risks, testing the capital requirement under different stress scenarios, capital required for covering all material risks due to current as well as prospective business profile and internal organization and processes to manage the above on an on-going basis.

At the group level, the overall capital adequacy is assessed through the ICAAP Framework. The ICAAP is also a reflection of the Bank's short to medium term strategy taking into consideration the prevailing macroeconomic scenarios and how the Bank fares against the same, whilst maintaining adequate capital buffers. As a result the organization has identified material risks and assessed the capital levels consistent with the risks identified.

The ICAAP framework determines the level of capital required to support the group's current and projected activities for capital under normal and stressed conditions.

As a new requirement since 2018, the Saudi Arabian Monetary Authority (SAMA) requires that Banks develop the Internal Liquidity Assessment Process (ILAAP) to be submitted annually. The purpose of the ILAAP is to inform the Board of the Bank as well as the regulator of an assessment of the Bank's liquidity risks and the impact on regulatory requirements and capital, where relevant. ILAAP is a tool that enables the Bank to systematically assess its liquidity requirements given its strategies, business plans, risks and policies. The Bank duly follows ILAAP as per the regulatory mandate.

The ICAAP and ILAAP reports are updated on an annual basis and reviewed by the Board Risk Committee (BRC) before being approved by the Board of Directors (BOD).

A. COMPREHENSIVE RISK ASSESSMENT UNDER ICAAP FRAMEWORK

Under the ICAAP methodology, the following risk types are identified and measured:

- Risks captured under Pillar 1 of BASEL III (credit risk, market risk and operational risk);
- Risks not fully captured under Pillar 1 of BASEL III (e.g. Residual Risks); Risks not taken into account by Pillar 1 of BASEL III (e.g. profit rate risk in the banking book, liquidity risk, business/strategic risk, reputational risk, macroeconomic risk and credit concentration risk);

B. RISK ASSESSMENT UNDER ILAAP FRAMEWORK

The Bank develops the Internal Liquidity Adequacy Assessment Process (ILAAP) in accordance with the guidelines issued by Saudi Arabia Monetary Authority (SAMA) on ILAAP in August 2017. The ILAAP helps the Bank identify, measure, manage and monitor liquidity and funding risks across different time horizons and stress scenarios.

The purpose of the ILAAP is to ensure that the Bank has sufficient liquidity necessary for its survival during a period of market-wide and bank-specific stress scenarios. In addition, the Bank also assesses its Liquidity Risk Management Framework and Risk Appetite to ensure that they are adequate and in proportion to the Bank's business model, size, complexity, structure of the balance sheet and market expectations.

C. ASSESSMENT OF PILLAR 1 AND PILLAR 2 RISKS UNDER BASEL III REGIME

The Bank quantifies its risks using methodologies that have been reasonably tested and deemed to be accepted in the industry.

Where risks are not easily quantified, due to the lack of commonly accepted risk measurement techniques, expert judgment is used to determine the size and materiality of the risk. The bank's Capital Adequacy and Liquidity Adequacy processes then focus on the qualitative controls in managing such material, non-quantifiable risks within the established governance framework of the Bank. These qualitative measures include the following:

- Adequate governance process through BRC, EXCOM and Board;
- Adequate systems, procedures and internal controls;
- Effective risk mitigation strategies;
- Regular monitoring and reporting through various committees and management forums.

D. STRESS TESTING PROGRAM

The bank's stress testing program is in compliance with the applicable SAMA Stress Testing guidelines encapsulated in a Board approved Stress Testing Policy. It is embedded in the risk and capital management processes. The program serves as a forward looking risk and capital management tool to understand the bank's risk profile under extreme but plausible conditions. Such conditions may arise from macroeconomic, strategic, political and business environmental factors.

The Stress Testing methodology and assertions undergo comprehensive review and challenging process to ensure that these remain in sync with the prevailing regulatory and global best practices.

The stress testing exercise at the Bank is viewed as a means to review bank's capital allocation strategy based on different extreme stress scenarios and the Bank makes necessary adjustments to its strategy where warranted, based on the stress testing results. Under Bank's Stress Testing Policy, the potential unfavorable effects of stress scenarios on the bank's profitability, asset quality, liquidity, risk weighted assets and capital adequacy are modeled and evaluated for impact on Bank's capital requirements.

Specifically, the stress test program is designed with an objective to assess the resilience, solvency, liquidity and profitability of the Bank to various stressed events. Depending on the nature of the risk factor, the impact of the stress testing exercise, where applicable, are measured on the following indicators of the Bank:

- Assets quality – increase/decrease in non-performing assets measured in terms of ratio to financing assets;
- Profitability – increase/decrease in the accounting profit/loss;
- Capital adequacy – measured in terms of changes in total amount of capital and the Capital Adequacy Ratio (CAR);
- Liquidity position – measured in terms of changes in key liquidity indicators.

The Enterprise Risk Management Group presents the stress testing reports to the CEO and Board Risk Committee before seeking approval from Board and discusses the results with regulators during annual / scheduled bilateral meetings

E. INTERNATIONAL FINANCIAL REPORTING STANDARD NO.9 (IFRS-9)

The bank had adopted a project centric approach to ensure that IFRS-9 implementation is given the focus and attention that it warrants. Accordingly, the bank has now fully implemented ECL calculation methodologies, appropriate scenarios and models to ensure impairments and Expected Credit Loss (ECL) calculations are in compliance with the IFRS-9 requirements set forth by SAMA.

The Bank endeavors to ensure, through validation and calibration that the Bank's credit risk rating models and score cards maintain their predictive power / accuracy to assess the potential risk associated with the default of a prospective and / or existing customer. The bank has been at the forefront in successfully validating and implementing its recalibrated risk rating models. As the Bank's enhanced and IFRS-9 compliant risk rating models have moved into production and have now completed two full years of implementation, the models have undergone and extensive and independent validation exercise to ensure that models' parameters remain current and forecasting abilities of the models are in sync with the behavior of the Bank's portfolios.

8. RISK MANAGEMENT

The ERM framework of the Bank aims to establish a Risk based strategy for all its products and banking services, driving operational efficiency across the Bank, with guidance on identifying and addressing various forms of risks (including credit, market, operational, liquidity, reputational, compliance risk, etc.), with risk based capital utilization forming the key criteria for design and implementation of services, where applicable.

The ERM framework of the Bank is managed centrally for implementing the following elements:

Risk based Strategy	Establish Risk Management as the key driver, driving credit, operations, pricing and other product strategies of the Bank, through Risk Appetite statements at enterprise level.
Operational Efficiency	Establish Risk based approach for businesses and product design of the Bank, to enable effective allocation of capital for businesses, and deploying monitoring tools or controls for risks.
Risk reporting & Communication	Reporting to external stakeholders including regulators, shareholders, and drive risk based communication for businesses, operations and management of the Bank,
Compliance	Ensure compliance to SAMA directives on risk based reporting, and aligning to Basel stipulated reporting standards.
Identification of Risks & Provisioning	Enterprise Risk Management facilitates effective response to the interrelated impacts, and integrated responses to multiple risk, mitigating risk of losses, and provisioning in line with IFRS 9 principles.

THE BANK'S SIX BROAD PRINCIPLES OF RISK MANAGEMENT

The following Six Broad Principles define the key elements on accountability, independence, structure and scope.

1. The risk management approach is premised on three lines of defense – risk taking business units, risk control units and internal audit.
2. The risk taking units are responsible for the day-to-day management of risks inherent in their business activities while the risk control units are responsible for setting-up the risk management frameworks and developing tools and methodologies for the identification, measurement, monitoring, control and testing of risk. Complementing this is internal audit which provides independent assurance of the effectiveness of the risk management approach.
3. At BAJ, the Risk Management through the Chief Risk Officer, Chief Credit Officer, and the Credit Risk Managers assumes the independent responsibility of reviewing and co-signing the approval through the the Executive Committee (Excom) and Management Credit Committee (MCC) , of all major credit proposals of the Bank which are prepared, sponsored and recommended by the Business Units. In addition, Enterprise Risk Management Group (ERMG) provides risk management and advisory to all lines of business for the major risk categories including credit risk, market risk, liquidity risk, operational risk (including fraud risk) and other industry-specific risks that are discussed under Pillar II of the Basel regime.
4. ERMG ensures that the core risk policies of the bank are consistent and current, sets the risk tolerance level through the approved Risk Appetite Framework & Policy. ERMG is also responsible for the development and implementation of various risk policies and related business decisions as delegated by the Board.
5. ERMG is functionally and organizationally independent of the business units and other risk taking units within BAJ.
6. BAJ's Board, through the ALCO, MRC, FCC, MRPC, BRC and EXCOM, maintains overall responsibility for risk management within the Bank.

9. RISK APPETITE FRAMEWORK & POLICY

The Risk Appetite Framework & Policy is reviewed by BRC and the Board on a periodic basis and takes into consideration the bank's Risk Taking-Capacity, its desired financial position based on institutional and regulatory guidelines, the strength of its core earnings and the resilience of its reputation and brand. The risk appetite defines the key risk measures of the Bank and which are periodically reported to MRC, BRC,EXCOM and to the Board through specific reports.

A. CREDIT RISK MANAGEMENT

Risk appetite for credit risk is an expression of the amount of risk that the bank is willing to take in pursuing its strategic objectives. Credit risk arises when the bank deals with an obligor or counterparty and the obligor or counterparty fails to fulfill its part of the agreement. In mitigating credit risk, the Bank performs extensive due diligence on the obligor or counterparty analyzing both qualitative and quantitative (usually financial and business) information. The Bank uses internal rating models to determine an Obligor Risk Rating (ORR) that reflects the Bank's judgment regarding the probability of default. Ratings by the major credit rating agencies are also used whenever available.

Through the Credit Risk Officers, the Chief Credit Officer and the Chief Risk Officer, the credit risk is monitored by means of continuous review, monitoring and assessment of the obligor or counterparty's ability to meet obligations through a regular customer calling program, visits to project sites and a formal annual review of the obligors' financial position and business status. The credit process seeks to identify problems early on and to take effective remedial action, if needed, to protect the Bank's interests. The Bank sets credit limits to restrict the exposure to a single obligor or counterparty. Further restrictions are defined by type of transaction, tenor, repayment terms, and conditions precedent and subsequent. The Bank also mitigates its credit risk by requiring tangible collateral where necessary.

The Bank also seeks to control portfolio risk - various risks that arise from concentrations that are sensitive to certain parameters such as economic activity, geography, collateral, industry, risk rating etc. To mitigate these concentration risks the Bank seeks to diversify its portfolio through customer acquisition across economic sectors, diversification of type of financing in terms of short term working capital financing and longer term fixed capital financing and project financing through syndication arrangements to meet needs of its clients. Obligor and Sector Financing Concentrations are monitored by ERMG periodically or as per applicable regulatory guidelines through the CRO Dashboards and are regularly reviewed by the Chief Credit Officer, the Chief Risk Officer, the business heads and the MRC. The concentration levels are also reported to the Board Risk Committee (BRC) on a regular basis.

Concentrations in terms of funding sources are also monitored and diversification strategies in terms of reducing dependency on the large funds providers are regularly followed.

The Bank continually updates its credit polices to reflect economic, market and legal realities.

B. MARKET AND LIQUIDITY RISK MANAGEMENT

The bank's willingness to accept risk is influenced by various factors including market volatility, business direction, macro-economic and subjective factors. This is managed and contained through relevant market risk limits and policies governed under the approved risk management framework and regulatory compliance. The bank continuously monitors its market risk by quantifying its capital requirement, profit rate risk, currency risk and by ensuring that its Treasury Business operates within its respective limits.

One of the key risks emanating from the recent global events and their impact on the regional and local financial markets has been the generation of liquidity / funds at a cost that does not outweigh the inflow of economic benefits derived from the financed assets. BAJ's management is cognizant of its liquidity requirements after taking into consideration the current and planned business requirements and has put in place a robust liquidity management framework which ensures a proactive identification of current and assessed liquidity requirements and gauges the same against the cost of such liquidity. The Bank's ALCO team remains focused on ensuring that the funding / liquidity remains at reasonable costs providing the Bank an opportunity to finance the growth of high yielding assets. The Bank has also implemented a comprehensive ILAAP (Internal Liquidity Adequacy Assessment Process) regime in accordance with regulatory mandate. ILAAP primarily focuses on the Bank's Liquidity Risk Assessment, Governance structure, associated strategies and contingency arrangements to deal with liquidity events.

C. OPERATIONAL RISK MANAGEMENT

The bank's operational risk appetite has been defined in the Risk Appetite and Operational Risk policies of the Bank and expressed through the following measures and limits as part of semi-annual stress testing exercise:

- Impact and materiality in terms of limits;
- Tolerance and thresholds that reflects bank's tolerance for acceptable risks and operational losses;
- Profile for the purpose of identifying material operational risks and losses.
- To support the Bank's risk tolerance, each business / support unit is required to set their respective key risk indicators (KRIs) facilitated by the Operational Risk Management Department along with associated policies and procedures.

The Bank is in the process of reviewing its Anti-Fraud Risk Management framework with the assistance of an external consultant. The objective of this initiative is to implement a comprehensive Anti-Fraud Risk Management program capable of addressing following aspects:

1. Review Fraud Risk Management Governance structure and associated strategy.
2. Develop, review and update Fraud Risk Management policies, procedures, processes and Manuals.
3. Conduct and upgrade Fraud Risk Assessments and anti-fraud diagnosis.
4. Implement a comprehensive Fraud Prevention and Detection solution across the bank.
5. Build knowledge transfer mechanism and related capacity in Bank's Operational Risk practices and operations.

10. CREDIT RISK

A. OVERVIEW

Credit risk is the potential that the bank's obligor or counterparty will fail to meet its obligations in accordance with agreed terms. It also includes the risk arising in the settlement and clearing transactions.

The principal bank units responsible for taking credit risk are:
- Corporate and Institutional Banking Group (CIBG)
- Commercial Banking Services-SME (CBS)
- Retail Banking Group (RBG)
- Treasury Group (TG)
- Private Banking (PBG)

Each credit risk taking unit has developed policies and guidelines governing their credit risk taking functions which are contained in the Credit Risk Policy, Retail Risk Policy and Market / Liquidity Risk Policy documents.

B. PROVISIONS FOR LOANS/FINANCING

Ensuring that the bank remains the most compliant Financial Institution under IFRS-9. In this regards, the bank has delivered this key project to ensure that IFRS-9 implementation is given the focus and attention that it warrants. Accordingly, the bank is now fully compliant with IFRS-9 Expected Credit Loss (ECL) methods, appropriate scenarios and models well within SAMA guidelines. The bank makes provisions according to guidelines set by SAMA under IFRS-9. The provisioning strategies are governed by Credit Policy and IFRS-9 Charter of the bank and are regularly reviewed for appropriateness by the Chief Credit Officer, the Chief Risk Officer, the Heads of the Business Units, the Chief Financial Officer, the Chief Executive Officer and Management Risk Committee. All risk management policies are reviewed and approved by Board Risk Committee and Board of the Bank.

The IFRS-9 standard has introduced revised rules for classification of assets of financial institutions, their accounting, rules for considering provision and reporting in accordance with new standards, with the objective of addressing the shortcomings with regard to recognition and provisioning for stressed assets. The three main modules of IFRS-9 principles are:

1. Classification and measurement of financial instruments;
2. Impairment of financial assets;
3. Hedge accounting.

The rules of the IFRS 9 standards aim for classification and measurement of all the financial instruments of the Bank across specified measurement categories of Amortized Cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). This includes business model development for all the financial instruments at an aggregate level and assessment of cash flow characteristics test (SPPI test) at an individual instrument level.

The impairment computation is initiated with the stage assessment exercise, to identify the applicability of the assets to the three prescribed stages, based on the levels of Credit Risk.

The following summarizes the stage types and the assessment rules.

Stage	Definition	Description
Stage 1	Characterizes low Credit Risk assets	This stage includes performing assets with no signs of impairment. This would also include newly originated assets, taking into consideration assessment in the appraisal process.
Stage 2	Assets where there has been a Significant Increase in Credit Risk (SICR)	The criteria for this stage is 'significant increase in credit risk', which is evaluated based on the credit monitoring framework, including internal and macroeconomic factors, or the Early Warning Signals (EWS) framework of the Bank.
Stage 3	sset category of impaired and non-performing assets	Categorization of assets in Stage 3 is based on objective evidence of impairment, based on the credit monitoring and overdue status of the accounts. Stage 3 categorization can also be based on qualitative assessments, based on internal or external information available pertaining to accounts or obligors.

SAMA has issued draft Rules Governing Credit Risk Exposure Classification and Provisioning which are expected to mandate significant changes to existing provisioning guidelines.

11. MARKET RISK

A. INTRODUCTION

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

B. Management of Market Risk

Delegated by the Board, ALCO and MRPC (Market Risk Policy Committee) are responsible for the policies, limits and control used in managing market risk. The bank has an approved Market Risk Policy that clearly defines policies, procedures, and limits for managing market risk exposures.

The primary objective is to manage volatility in earnings, highlight transparent market risk and liquidity risk profile to senior management, MRC, BRC, ALCO, the Board of Directors and the national supervisor (SAMA).

Foreign Exchange Risk

Foreign Exchange Risk is the risk that financial assets that are denominated in foreign currency lose value, or financial liabilities that are denominated in foreign currency gain value. The Market Risk Policy has set limits on Net Open Positions by currency groups. There are limits for USD, other G10 currencies, GCC currencies, and all the other currencies. The bank has negligible exposure in foreign exchange because its assets and liabilities are mainly denominated in Saudi Riyals (SAR) and to a smaller extent in United States Dollars (USD) or in USD-pegged currencies.

Equity Price Risk

Equity price risk refers to the risk of decrease in fair values of the bank's investments in equities. The bank's portfolio of listed securities is periodically marked to market. This trading portfolio mostly relates to strategic investments of seed capital by AlJazira Capital in various funds under their management. All these funds are listed on the Tadawul exchange. BAJ also holds a small and immaterial, legacy equity portfolio in its banking book; most of these equities are unquoted. Investments in unquoted equity instruments are measured at fair value. Any changes are taken into the bank's equity and other comprehensive income.

C. CAPITAL TREATMENT FOR MARKET RISK

Bank AlJazira computes the minimum capital requirements against market risk using The Standardized Approach. The capital serves as a financial buffer to withstand any adverse market risk movements. Profit rate risk, foreign currency risk and liquidity risk are the primary risk factors experienced in the bank's activities.

D. STRESS TESTING

The bank performs Stress Testing semi-annually to further evaluate potential losses. By evaluating the size of the unexpected losses, the bank is able to understand the risk profiles and potential exposures to unlikely but plausible events in abnormal markets using multiple scenarios and undertake the appropriate measures. Scenarios are updated and may be redefined on an ongoing basis to reflect current market conditions. The bank carries out Stress Testing assessments based on both regulatory guidelines and also ad hoc basis based on purpose built scenarios to test the resilience of specific portfolios. The Stress Test results are reported to Senior Management, BRC, EXCOM and the Board to facilitate and manage risk with more transparency.

12. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk has an enterprise wide presence and can arise from any activity within the Bank. Operational risk excludes Credit risks – the risks arising from financial transactions entered into with obligors or counterparties in which the obligor or counterparty fails to honor its part of the transaction.

The bank has an independent Operational Risk Team under Enterprise Risk Management Group (ERMG) which is tasked with monitoring, measuring and management of operational risks within the Bank. Functions of this unit are guided by the Operational Risk Policy. In addition, the Bank has implemented Business Continuity and Disaster Recovery programs, tested at regular intervals with results of testing communicated to relevant management forums.

A. MANAGEMENT AND MONITORING OF OPERATIONAL RISK

The OR Framework is designed to establish an effective association between the risk management and the risk owners represented by various business & support groups within the bank. Business & support groups are responsible to manage their activities and the risks within their respective groups, however processes have been established to involve the Operational Risk Division to facilitate risk identification, measurement, assessment and control.

During the year, the Operational Risk Division conducted specialized data gathering through meetings with business & support groups endeavoring to gain a clear understanding of business directions by cascading the strategic objectives. The approach is designed to associate the management directions with the allocated operational risk appetite and the risk profile.

In preparation for and before commencing the risk identification and assessment activity across the bank, a comprehensive risk awareness program was developed and implemented involving management, risk champions and respective risk owners.

Assessment of risks and categorizing them into levels of significance is conducted in consultation with business and support groups to draw their attention to risks that require management attention.

The tools used to manage and monitor operational risks are as follows:

Risk & Control Self-Assessment (RCSA)

Risk & Control Self-Assessment (RCSA) is a tool to monitor the performance of controls within a process. A risk register with controls is maintained and updated regularly as a part of this tool. The RCSA review cycle involves discussions with the business & support groups and periodic submissions to the Management Risk Committee (MRC) to seek directions on risk acceptance and treatments including decision for taking actions to review and to improve the control environment.

The bank's comprehensive RCSA program involves facilitation of workshops by Operational Risk Division to identify risks and controls within each business & support function level. The controls are periodically assessed to ensure the processes are functioning as per the design.

The bank has also established a Policy and Product Review Committee (PPRC) to oversee the development of new or existing policies and products. Responsibility of the committee is to challenge the policy or product owners on various aspects of risks to ensure they are adequately addressed before operationalization.

Key Risk Indicators (KRI)

Key Risk Indicators (KRI) is a metric to measure how risky a process is through early warning signals developed to indicate increasing risk exposures within the enterprise. KRI provides a trend of risk exposure by comparing it against the thresholds defined and accepted by the bank.

KRIs for business & support groups are defined through workshops and periodically monitored through Operational Risk Division. Trends highlighting risk exposures over the defined thresholds are analyzed and discussed with respective business or support groups to develop appropriate corrective action plans.

Loss Data Management (LDM)

Loss Data Management is a centralized process to methodically record operational loss incidents occurring in the bank to enable analysis of control failures and ensure such incidents do not recur.

The bank has established an internal loss data collection process through which incidents are reported to Operational Risk Division for recording purpose. A comprehensive Loss Database from 2013 till date is maintained by ORD.

Business Continuity Management (BCM)

The bank has developed and maintained a full-fledged Business Continuity Management (BCM) program that focuses on protecting the human life and building the continuity and recovery capabilities of key processes and assets. The program is structured based on international standards, best practices and SAMA requirements with its scope encapsulating:

- Crisis Management and Response
- Safety and Security
- People Continuity
- Business Recovery
- IT Disaster Recovery

The bank's BCM program is ongoing and is regularly reviewed by internal and external stakeholders. These features enhance the Bank's readiness and the capabilities to respond to and manage adverse events whilst protecting key assets. The results are minimized negative impacts, enhanced performance and reputation, and compliance to regulatory requirements.

Outsourcing

To ensure compliance to the SAMA regulations on outsourcing, the bank ensures that its outsourcing engagements are reviewed from various risk perspectives covering compliance, operational, business continuity and information security risk.

Anti-Fraud Management

The Bank is in the process of reviewing its Anti-Fraud Risk Management framework with the assistance of an external consultant. The objective of this initiative is to implement a comprehensive Anti-Fraud Risk Management program capable of addressing following aspects:

1. Review Fraud Risk Management Governance structure and associated strategy.
2. Develop, review and update Fraud Risk Management policies, procedures, processes and Manuals.
3. Conduct and upgrade Fraud Risk Assessments and anti-fraud diagnosis.
4. Implement a comprehensive Fraud Prevention and Detection solution across the bank.
5. Build knowledge transfer mechanism and related capacity in Bank's Operational Risk practices and operations..

B. MEASUREMENT OF OPERATIONAL RISK (OR) CAPITAL CHARGE

Operational Risk capital charge is calculated using the Basic Indicator Approach (BIA) as per SAMA and BASEL III regime. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the bank. The bank has the intent of migrating from BIA to the approach recommended by BCBS (Basel Committee on Banking Supervision) through its "Basel III – Finalizing post-crisis reforms" document issued in December 2017 and subsequent SAMA guidelines. The bank is in the process of defining a detailed road map to adopt the new approach as per the timelines suggested by the regulators.

The bank will continue to collect loss data and map it against the business lines to establish a comprehensive Internal Loss data history before migrating to the new methodology subject to receiving SAMA's final guidelines on the same.

13. SHARIA'H COMPLIANCE

Being an Islamic enitity, the bank is exposed to the risk of Sharia'h non-compliance. In order to monitor such risks the bank established an independent Sharia'h Board and a Sharia'h Compliance Division under Shariah Group.

A. SHARIA'H GOVERNANCE

The Sharia'h Compliance Framework was formulated to enable the bank to achieve its strategies towards the effective and efficient Sharia'h compliance risk management throughout the organization in line with the Sharia'h principles. The Sharia'h Compliance Framework is the enterprise-wide Sharia'h Group plan consisting of Sharia'h Governance Structure, systems processes and control to be undertaken by relevant business entities across the group. The Sharia'h governance is affected through the following Divisions:

- Sharia'h Board Secretary;
- Research and Development;
- Sharia'h Compliance;

B. SHARIA'H BOARD

The operation of the Islamic Bank is governed by Sharia'h Governance Standards of Islamic Financial Institutions which stipulates that any licensed Islamic Bank is required to provide for the establishment of Sharia'h Board, which is responsible for directing, supervising and monitoring the activities of the Bank to ensure compliance with Islamic Sharia'h rules and principles .

The Sharia'h Board is responsible to:

- Approve the Articles of Association, the regulations, the models and the policies of used in the Bank.
- Study the forms of contracts, documents and applications existing with the Bank, and determine the results of the Commission and correct the products subject to modification.
- Looking into all transactions and products executed by the Bank for the first time to indicate the extent of their compliance with Sharia'h rules and principles. And put the basic principles for drafting their contracts and documents.
- Provide Sharia'h alternatives to conventional products and develop the basic principles for the formulation of contracts and documents and contribute to the development to enrich the experience of the bank in this field.

- Periodic review by the Sharia'h Compliance Division in the Sharia'h Group to the Bank transactions to verify the validity of the application and ensure that it conforms to the rules of the Islamic Sharia'h and the Fatwas issued by the Sharia'h Board on the new transactions by examining the files and documents of transactions, contracts and agreements concluded thereon.
- Answer questions, inquiries and clarifications received from the senior management of the bank or from various other technical departments as well as from the customers of the bank.
- Provide an annual report to the general assembly showing the extent of compliance with the rules and principles of Sharia in the light of the views expressed and guidance and through the review of transactions, and the annual budget of the Bank.
- Ensure that the gains made from sources or in ways that are contrary to the rules and principles of Sharia'h are avoided and disbursed to Charity according to the reports prepared by the Sharia Compliance Division of the Sharia'h Group.
- Ensure that Zakat is calculated in accordance with the rules and principles of Islamic Sharia.

C. Rectification Process of Sharia'h Non-Compliance Income

The control structure for handling and reporting Sharia'h non-compliance and Potential Sharia'h non-compliance has already been put in place.

Key measures undertaken by the Bank for managing Sharia'h Compliance risk include having in place the following processes:

- Awareness and Communication;
- Identification and assessment;
- Mitigation and control;
- Monitoring and reporting.

14. LIQUIDITY RISK

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up. To mitigate this risk, management actively pursues the diversification of funding sources, assets are priced taking liquidity into consideration while the bank maintains an adequate balance of cash and cash equivalents.

The recent global financial crisis has resulted in a significant change in the regulation and supervision of liquidity risk in financial institutions. Arising from the Basel III liquidity risk management requirements, two ratios are used to manage liquidity risks: Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

A.LIQUIDITY RISK MANAGEMENT APPROACH

In terms of day-to-day liquidity management, the Treasury Business Support unit ensures sufficient funding to meet the Bank's intraday payment and settlement obligations on a timely basis. The process of managing liquidity risk also includes:

- Maintaining a sufficient amount of unencumbered high quality liquidity buffer as a protection against any unforeseen interruption to cash flow;
- Managing short- and long-term cash flows via maturity mismatch report and various indicators;
- Monitoring depositor concentration at bank level to avoid undue reliance on large fund providers;
- Diversifying funding sources to ensure proper funding mix;
- Ensuring that regulatory ratios such as SAMA Liquidity Ratio, LCR and NSFR, are maintained at the required minimum.
- Conducting semi-annually liquidity stress testing under various scenarios as part of prudent liquidity control to examine the effectiveness and robustness of the plans.

All liquidity policies and procedures are covered by the Market Risk Policy which is subject to review and approval by the Market Risk Policy Committee.

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time investments.

In addition to the statutory deposit, the bank also maintains liquid reserves of no less than 20% of it's deposit liabilities, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The bank is currently holding an investment portfolio, with a large portion of it comprising of SAMA Floating Rate Notes and Government Sukuk. This portfolio is considered high quality and liquid with availability of funding (up to 85-90% depending on instrument) through SAMA's repo window.

Furthermore, the bank undertakes a detailed assessment of its liquidity risks under the annual ILAAP review process.

15. PROFIT RATE RISK IN BANKING BOOK

Profit Rate Risk in Banking Book arises from changes in profit rates which affect either the fair values or the future cash flows of Profit-rate sensitive financial instruments in the Banking Book.

Yield sensitivity of assets, liabilities and off balance sheet items

The bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The bank uses the SAIBOR for lending as a benchmark rate for different maturities. At times when these benchmark rates are not representative of the actual transactions in the market, marginal cost-of-fund is provided by Treasury. The bank charges profit rates based on the maturity of loans (longer term financing requires a higher profit rate).

Profit rate risk is measured as per industry best practices and reported on a daily basis to senior management. The bank uses behavioral models for non-maturity deposits; these models employ statistical time series data. Respective assumptions are derived from the model results in conjunction with other qualitative factors. Essentially, a small percentage of the non-maturity deposits (based on business segment) are then placed in the short term gap bucket while the remainder goes to a longer term gap bucket.

The revised guidelines from the Basel Committee on Banking Supervision/ SAMA on Profit Rate Risk in the Banking Book have been implemented by the Bank. These guidelines have updated both the principles and methods expected to be used by Banks for measuring, managing, monitoring and controlling this risk.

16. MACROECONOMIC AND BUSINESS CYCLE RISK

The Macroeconomic and business cycle risk is a risk factor that will in turn give rise to other risk types like credit, market or liquidity. The bank has assessed this risk using hypothetical but plausible scenario based analysis. The major activity of the bank is financing, so it is assumed that the impact of such risks would be primarily on the credit risk.

17. STRATEGIC RISK

Strategic Risk of the bank refers to the risk to its earnings and profitability arising from its strategic decisions, changes in the business conditions and improper implementation of decisions. Thus, Strategic Risk arises due to external causes, arising out of adopting wrong strategies and choices that can cause loss to the bank in the form of reduction in shareholder value, loss of earnings, etc.

The bank has assessed its Strategic Risk based on a very conservative scorecard approach considering various risk drivers / factors related to strategic planning process and implementation capabilities.

18. REPUTATIONAL RISK

Reputational Risk refers to the potential adverse effects, which can arise from the bank's reputation being sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, negative/ adverse publicity etc.

The bank has assessed the Reputational Risk based on a scorecard approach. The scorecard benchmarks various risk drivers to best practices and generates an overall score.

19. ENTERPRISE RISK MANAGEMENT GROUP – THE ROAD AHEAD

The Bank remains focused on fortifying its risk management practices and culture. In this regards the Bank has managed to reengineer its risk management organization enabling it to provide assurance to both internal and external stakeholders as regards to sound risk management practices being implemented in letter and spirit. Furthermore, a detailed review to all policies and procedures has also been undertaken to ensure these remain up to date and fit for purpose.

The bank initiates a model validation exercise of its statistical Obligor Risk Rating models periodically to ensure that the models remain in sync with the broad strategic objectives and are predictive of the obligor and portfolio risk profile. A separate set of score cards is under development with respect to the Retail Portfolio of the Bank to ensure that obligor's risk assessment is carried out at both application (pre-approval) and behavioral (post approval) basis.

The Bank is also in the process of upgrading its Internal Risk Rating model platform to a new and improved version. This will assist the bank in implementing a Credit Flow module in its Credit Risk Management and approval processes. Once implemented, the Bank's lending process will be automated to remove undue procedural and manual bottle-necks, streamline operational flow and cut down on Turn Around Time.

In addition to the above, the Bank is gearing up to implement the Basel III Post Crises norms and aims to comply with the same by 1st January 2022 as per Basel and SAMA guidelines.

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