BANK ALJAZIRA

(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019 AND AUDITORS' REPORT

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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:

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of Bank AlJazira (A Saudi Joint Stock Company)

Key audit matter	How our audit addressed the key audit matter
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*	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.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of Bank AlJazira (A Saudi Joint Stock Company)

Key audit matter	How our audit addressed the key audit matter
quality analysis and key assumptions and factors considered in determination of ECL .	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.
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.*	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.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of Bank AlJazira (A Saudi Joint Stock Company)

Key audit matter	How our audit addressed the key audit matter
	• 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.

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.

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of Bank AlJazira (A Saudi Joint Stock Company)

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.

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KPMG Al Fozan & Partners
Certified Public Accountant

Independent Auditors' Report on the Audit of the Consolidated Financial Statements (continued)

To the Shareholders of Bank AlJazira (A Saudi Joint Stock Company)

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

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.

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

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS
PROFESSIONAL LICENCE No. 45

كي بي ام جي الفوزان وشركاه
C.R: 46
KPMG
KPMG Al Fozan & Partners
Certified Public Accountants

Bank AlJazira

(A Saudi Joint Stock Company)

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

Tarek Al-Kasabi Chairman	Nabil Al-Hoshan CEO and Managing Director	Shahid Amin Chief Financial Officer

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

Bank AlJazira

(A Saudi Joint Stock Company)

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 &	(130,950)	(613,356)
Income tax	3(a)(II)	(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

Tarek Al-Kasabi	Nabil Al-Hoshan	Shahid Amin
Chairman	CEO and Managing Director	Chief Financial Officer

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

Bank AlJazira

(A Saudi Joint Stock Company)

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

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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

Bank AlJazira

(A Saudi Joint Stock Company)
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

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

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

Bank AlJazira

(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	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)
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

Tarek Al-Kasabi	Nabil Al-Nashan	Shahid Amin
Chairman	CEO and Managing Director	Chief Financial Officer

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.

2. BASIS OF PREPARATION (continued)

a) Basis of preparation (continued)

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.

2. BASIS OF PREPARATION (continued)

b) Basis of consolidation (continued)

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.

2. BASIS OF PREPARATION (continued)

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:

2. BASIS OF PREPARATION (continued)

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

i. Impairment losses on financial assets (continued)

- 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).

2. BASIS OF PREPARATION (continued)

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

ii. Fair value of financial instruments (continued)

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.

2. BASIS OF PREPARATION (continued)

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

I. IFRS 16 Leases (continued)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

I. IFRS 16 Leases (continued)

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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Change in accounting policies (continued)

II. Zakat and income tax (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

i. Classification of financial assets (continued)

Financial assets at FVOCI (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

i. Classification of financial assets (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

i. Classification of financial assets (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

ii. Classification of financial liabilities (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

iii. Derecognition (continued)

Financial assets (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

v. Impairment (continued)

Restructured financial assets

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

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

v. Impairment (continued)

Credit-impaired financial assets (continued)

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

- the market's assessment of creditworthiness as reflected in the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial assets and financial liabilities (continued)

v. Impairment (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Derivative financial instruments and hedge accounting (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Derivative financial instruments and hedge accounting (continued)

iii) Hedge Accounting (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Derivative financial instruments and hedge accounting (continued)

iii) Hedge Accounting (continued)

Cash flow hedges (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Revenue /expense recognition (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Revenue /expense recognition (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Property and equipment (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Accounting for leases (continued)

i. Where the Group is the lessee (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Accounting for leases (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Zakat and income tax (continued)

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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**

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

a) An analysis of changes in loss allowance for due from banks and other financial institutions is, as follows (continued):

	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			
Equities	**4,143**	**737**	**4,880**
Sukuk investments	**101,921**	**-**	**101,921**
	106,064	**737**	**106,801**
iii) Amortised cost			
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**

6. INVESTMENTS (continued)

a) As of December 31, 2018, investments were classified as follows (continued):

	2018 SR'000		
	Domestic	International	Total
i) FVIS			
Mutual funds	23,968	9,488	33,456
Equities	7,837	-	7,837
	31,805	9,488	41,293
ii) FVOCI			
Equities	4,143	748	4,891
iii) Amortised cost			
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

6. INVESTMENTS (continued)

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				
2019	**Credit cards**	**Consumer**	**Commercial**	**Others**	**Total**
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				
2018	Credit cards	Consumer	Commercial	Others	Total
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).

7. LOANS AND ADVANCES, NET (continued)

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.

7. LOANS AND ADVANCES, NET (continued)

b) An analysis of changes in ECL for loans and advances is, as follows (continued):

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

7. LOANS AND ADVANCES, NET (continued)

c) An analysis of changes in ECL by each class of financial instrument is, as follows (continued):

	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

7. LOANS AND ADVANCES, NET (continued)

c) An analysis of changes is ECL by each class of financial instrument is, as follows (continued):

	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

7. LOANS AND ADVANCES, NET (continued)

d) Movements in allowance for ECL are as follows:

	SR'000			
2019	**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			
2018	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

7. LOANS AND ADVANCES, NET (continued)

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 ECL 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 ECL 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 improvements SR'000	Furniture, equipment and vehicles SR'000	Capital work in progress SR'000	Total 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

9. PROPERTY AND EQUIPMENT, NET (continued)

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**
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**

9. PROPERTY AND EQUIPMENT, NET (continued)

c) Intangible assets (continued)

	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.

11.2 Purpose 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.

11. DERIVATIVES (continued)

11.2 Purpose of derivatives (continued)

b) Held for hedging purposes (continued)

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)

11. DERIVATIVES (continued)

11.2 Purpose of derivatives (continued)

b) Held for hedging purposes (continued)

Cash flow hedges

	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

	Positive fair value	Negative fair value	Notional amount	Notional amounts by term to maturity: 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

11. DERIVATIVES (continued)

11.2 Purpose of derivatives (continued)

b) Held for hedging purposes (continued)

Cash flow hedges

	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

15. OTHER LIABILITIES (continued)

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 (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)

18. OTHER RESERVES (continued)

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.

19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

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:

19. COMMITMENTS AND CONTINGENCIES (continued)

c) Credit related commitments and contingencies (continued)

	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

19. COMMITMENTS AND CONTINGENCIES (continued)

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	2018
	SR'000	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	2018
	SR'000	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.

25. ZAKAT AND INCOME TAX (continued)

Status of assessments (continued):

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)

28. EMPLOYEE BENEFIT OBLIGATION (continued)

28.1 Defined Benefit obligation (continued)

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	**1-2 years**	**2-5 years**	**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.

For management reporting purposes, the Group is organized into following main operating segments:

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.

29. OPERATING SEGMENTS (continued)

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

29. OPERATING SEGMENTS (continued)

(SR'000)

2018	Personal banking	Corporate banking	Treasury	Brokerage and asset management	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

29. OPERATING SEGMENTS (continued)

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.

30. FINANCIAL RISK MANAGEMENT (continued)

30.1 Credit Risk (continued)

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. FINANCIAL RISK MANAGEMENT (continued)

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**

	December 31, 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

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 Credit quality analysis (continued)

a) The following table sets out information about the credit quality of loans and advances to customers at amortized cost on a product basis.

	December 31, 2019			
Credit cards	**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**

	December 31, 2018			
Credit cards	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

	December 31, 2019			
Consumer loans	**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**

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 Credit quality analysis (continued)

Consumer loans	December 31, 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	December 31, 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

30. FINANCIAL RISK MANAGEMENT (continued)

30.2 Credit quality analysis (continued)

	December 31, 2019			
	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	**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. FINANCIAL RISK MANAGEMENT (continued)

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.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk ("SICR") (continued)

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

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

- 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.

Retail exposures

- 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

All exposures

- 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

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk ("SICR") (continued)

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 from external sources.

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

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

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk ("SICR") (continued)

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.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk (“SICR”) (continued)

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

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk ("SICR") (continued)

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.

30. FINANCIAL RISK MANAGEMENT (continued)

30.3 Amounts arising from ECL – Significant increase in credit risk ("SICR") (continued)

f) Measurement of ECL (continued)

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:

	Exposure (SR '000)	External benchmarks used	
		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. FINANCIAL RISK MANAGEMENT (continued)

30.4 Ageing of loans and advances (past due but not impaired)

	2019 (SR '000)			
	Credit Cards	**Consumer loans**	**Commercial loans**	**Total**
From 1 day to 30 days	**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**

	2018 (SR '000)			
	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. FINANCIAL RISK MANAGEMENT (continued)

30.7 Maximum credit exposure

Maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	2019	2018
	SR'000	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**

31. GEOGRAPHICAL CONCENTRATION (continued)

(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

31. GEOGRAPHICAL CONCENTRATION (continued)

	(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

31. GEOGRAPHICAL CONCENTRATION (continued)

(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

31. GEOGRAPHICAL CONCENTRATION (continued)

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	2018	**2019**	2018
	SR' 000	SR' 000	**SR' 000**	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.

32. MARKET RISK (continued)

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	2018
	SR'000	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.

32. MARKET RISK (continued)

a) MARKET RISK - TRADING BOOK (continued)

i) FOREIGN EXCHANGE RISK (continued)

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:

32. MARKET RISK (continued)

a) MARKET RISK - TRADING BOOK (continued)

ii) EQUITY PRICE RISK (continued)

	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:

	2019		2018	
Market index	**Increase / decrease in index %**	**Effect on consolidated statement of income SR'000**	Increase / decrease in index %	Effect on consolidated statement of income SR'000
Tadawul	**± 7.19%**	**-**	± 8.31%	± 651

32. MARKET RISK (continued)

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**		2018	
	Increase / decrease in basis points	**Sensitivity of special commission income SR’000**	Increase / decrease in basis points	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

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

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	

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

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

	(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	-	-	

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

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

(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	

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

i) SPECIAL COMMISSION RATE RISK (continued)

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

(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.

32. MARKET RISK (continued)

b) MARKET RISK – NON TRADING OR BANKING BOOK (continued)

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.

33. LIQUIDITY RISK (continued)

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 3 months	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

33. LIQUIDITY RISK (continued)

a) Analysis of financial liabilities by remaining undiscounted contractual maturities (continued)

	(SR' 000)					
	with in 3 months	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).

33. LIQUIDITY RISK (continued)

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 1 year	1-5 years	Over 5 years	More than 1 year	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

33. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

(SR' 000)

2019	Within 3 Months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
Liabilities								
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

33. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

(SR' 000)

2018	Within 3 months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	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

33. LIQUIDITY RISK (continued)

b) Maturity analysis of assets and liabilities (continued)

(SR' 000)

2018	Within 3 Months	3-12 months	Within 1 year	1-5 years	Over 5 years	More than 1 year	No fixed maturity	Total
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:

	2019 (SR'000)	
	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**

34. FAIR VALUE MEASUREMENT (continued)

Determination of fair value and fair value hierarchy (continued)

a) The following table presents the Group's financial assets and liabilities that are measured at fair values: (continued)

	2018 (SR'000)		
	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.

34. FAIR VALUE MEASUREMENT (continued)

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.

35. RELATED PARTY TRANSACTIONS (continued)

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.

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

35. RELATED PARTY TRANSACTIONS (continued)

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**		

36. SALARIES AND EMPLOYEE RELATED EXPENSES (continued)

	2018			
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	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 December 31, 2019 amounted to SR 273.83 million (2018: SR 265.60 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	**Capital adequacy 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.

37. CAPITAL ADEQUACY (continued)

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	2018
	SR ’000	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 AlJazira 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.

41. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK (continued)

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**
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.