# BANK ALJAZIRA

(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2020**

KPMG

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# Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Statements

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

***Introduction***

We have reviewed the accompanying interim condensed consolidated statement of financial position of Bank AlJazira (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2020 and the related interim condensed consolidated statements of income and comprehensive income for the three month and six month periods then ended and the interim condensed consolidated statements of changes in equity and cash flows for the six month period then ended and the notes which form an integral part of these interim condensed consolidated financial statements. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ('IAS 34') as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

***Scope of review***

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" as endorsed in the Kingdom of Saudi Arabia. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing ('ISAs'), that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

***Other regulatory matter***

As required by SAMA, certain capital adequacy information has been disclosed in note 18 of the accompanying interim condensed consolidated financial statements. As part of our review, we compared the information in note 18 to the relevant analysis prepared by the Bank for submission to SAMA and found no material inconsistencies.

**for KPMG Al Fozan & Partners**
**Certified Public Accountants**

Ebrahim Oboud Baeshen
Certified Public Accountant
License Number 382

**for PricewaterhouseCoopers**
**Certified Public Accountants**

Mufaddal A.Ali
Certified Public Accountant
License Number 447

19 Dhul-Hijjah 1441H
9 August 2020

كي بي إم جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
س.ت: ٤٦
C.R: 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص ١/٢٥/١١/٣٢٣
س.ت ٤٠٣٠٢٨٩٠٠٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTANTS
Lic No. 323/11/25/1
C.R. 4030289002

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 30 June 2020 (Unaudited) SR'000 | 31 December 2019 (Audited) SR'000 | 30 June 2019 (Unaudited) SR'000 |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and balances with SAMA | 15 | **5,265,171** | 5,477,687 | 4,290,404 |
| Due from banks and other financial institutions | | **575,389** | 1,429,004 | 805,702 |
| Investments, net | 5 | **29,631,104** | 27,618,764 | 25,985,311 |
| Positive fair value of derivatives | 9 | **178,791** | 101,626 | 101,423 |
| Loans and advances, net | 6 | **53,756,023** | 49,660,119 | 43,599,365 |
| Investment in an associate | 7 | **156,654** | 148,332 | 141,781 |
| Other real estate | | **472,853** | 468,992 | 465,015 |
| Property and equipment, net | | **1,107,359** | 1,154,270 | 1,183,328 |
| Other assets | | **726,007** | 485,550 | 442,452 |
| **Total assets** | | **91,869,351** | 86,544,344 | 77,014,781 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **LIABILITIES** | | | | |
| Due to banks and other financial institutions | | **12,188,587** | 8,253,754 | 6,053,141 |
| Customers' deposits | 8 | **63,657,021** | 62,696,794 | 55,682,550 |
| Negative fair value of derivatives | 9 | **373,827** | 216,011 | 207,557 |
| Subordinated Sukuk | 10 | **2,004,914** | 2,006,921 | 2,005,923 |
| Other liabilities | | **2,008,679** | 1,781,347 | 1,753,486 |
| **Total liabilities** | | **80,233,028** | 74,954,827 | 65,702,657 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | 11 | **8,200,000** | 8,200,000 | 8,200,000 |
| Statutory reserve | | **2,657,316** | 2,657,316 | 2,409,560 |
| General reserve | | **68,000** | 68,000 | 68,000 |
| Other reserves | 12 | **(141,374)** | (86,804) | (105,999) |
| Retained earnings | | **852,381** | 505,005 | 740,563 |
| Proposed dividend | 19 | **-** | 246,000 | - |
| **Total shareholders' equity** | | **11,636,323** | 11,589,517 | 11,312,124 |
| **Total liabilities and shareholders' equity** | | **91,869,351** | 86,544,344 | 77,014,781 |

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

Yaseen Ullah

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED) FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2020

| | Notes | For the three month period ended 30 June 2020 SR'000 | 30 June 2019 SR'000 | For the six month period ended 30 June 2020 SR'000 | 30 June 2019 SR'000 |
|---|---|---|---|---|---|
| Special commission income | | **794,376** | 769,361 | **1,599,797** | 1,519,277 |
| Special commission expense | | **(197,716)** | (267,127) | **(458,001)** | (527,911) |
| **Net special commission income** | | **596,660** | 502,234 | **1,141,796** | 991,366 |
| Fees and commission income | | **171,280** | 233,648 | **423,834** | 451,491 |
| Fees and commission expense | | **(73,091)** | (79,595) | **(168,652)** | (147,580) |
| Fees and commission income, net | | **98,189** | 154,053 | **255,182** | 303,911 |
| Exchange income, net | | **69,353** | 55,526 | **128,958** | 107,249 |
| Net gain / (loss) on FVIS financial instruments | | **3,191** | (309) | **1,511** | 2400 |
| Dividend income | | **54** | 143 | **54** | 253 |
| Net gains on de-recognition of financial assets measured at FVOCI - Debt | | **1,776** | - | **4,490** | - |
| Net gains on de-recognition of financial assets measured at amortised cost | | - | 868 | **532** | 1,979 |
| Other operating income | 14 | **20,184** | 1,889 | **25,800** | 3,075 |
| **Total operating income** | | **789,407** | 714,404 | **1,558,323** | 1,410,233 |
| Salaries and employee-related expenses | | **246,053** | 241,029 | **496,764** | 475,758 |
| Rent and premises-related expenses | | **12,208** | 13,490 | **24,388** | 26,881 |
| Depreciation and amortisation | | **52,564** | 49,895 | **104,417** | 99,272 |
| Other general and administrative expenses | | **106,814** | 109,178 | **219,504** | 213,907 |
| Other operating expenses | | **4,675** | 10,188 | **11,464** | 18,021 |
| **Total operating expenses before impairment charge** | | **422,314** | 423,780 | **856,537** | 833,839 |
| Impairment charge for expected credit losses ("ECL"), net | 6 (b) | **173,043** | 12,824 | **294,998** | 38,828 |
| **Total operating expenses** | | **595,357** | 436,604 | **1,151,535** | 872,667 |
| **Net operating income** | | **194,050** | 277,800 | **406,788** | 537,566 |
| Share in net income of an associate | | **4,694** | 2,608 | **8,567** | 6,154 |
| **Net income for the period before Zakat and income tax** | | **198,744** | 280,408 | **415,355** | 543,720 |
| Zakat | | **(30,961)** | (31,678) | **(64,523)** | (58,048) |
| Income tax | | **(2,016)** | 3,089 | **(3,456)** | 1,153 |
| **Net income for the period** | | **165,767** | 251,819 | **347,376** | 486,825 |
| **Basic and diluted earnings per share for the period (expressed in SR per share)** | 11 | **0.20** | 0.31 | **0.42** | 0.59 |

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

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

## Bank AlJazira
(A Saudi Joint Stock Company)

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
### FOR THE THREE MONTH AND SIX MONTH PERIODS ENDED 30 JUNE 2020

| | Notes | For the three Month period ended | | For the six Month period ended | |
|---|---|---|---|---|---|
| | | **30 June 2020 SR'000** | 30 June 2019 SR'000 | **30 June 2020 SR'000** | 30 June 2019 SR'000 |
| **Net income for the period** | | **165,767** | 251,819 | **347,376** | 486,825 |
| **Other comprehensive income / (loss):** | | | | | |
| ***Items that can be reclassified to consolidated statement of income in subsequent periods:*** | | | | | |
| Cash flow hedges: | | | | | |
| - Effective portion of change in the fair value | 12 | **29,106** | (25,473) | **(81,703)** | (9,820) |
| - Net amount transferred to consolidated statement of income | 12 | **(22)** | (19) | **(44)** | 105 |
| Net changes in fair value of investments classified as at FVOCI – Debt | 12 | **16,779** | - | **27,177** | - |
| ***Other comprehensive income / (loss) for the period*** | | **45,863** | (25,492) | **(54,570)** | (9,715) |
| **Total comprehensive income for the period** | | **211,630** | 226,327 | **292,806** | 477,110 |

Tarek Al-Kasabi
Chairman

Nabil Al-Hoshan
CEO and Managing Director

Shahid Amin
Chief Financial Officer

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

# Bank AlJazira

(A Saudi Joint Stock Company)

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
## FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020

| | 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 shareholders' equity SR'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2020 (audited)** | | **8,200,000** | **2,657,316** | **68,000** | **(86,804)** | **505,005** | **246,000** | **11,589,517** |
| Net income for the period | | - | - | - | - | 347,376 | - | 347,376 |
| Other comprehensive loss | | - | - | - | (54,570) | - | - | (54,570) |
| Total comprehensive income for the period | | - | - | - | (54,570) | 347,376 | - | 292,806 |
| Dividend paid | 19 | - | - | - | - | - | (246,000) | (246,000) |
| **Balance at 30 June 2020 (unaudited)** | | **8,200,000** | **2,657,316** | **68,000** | **(141,374)** | **852,381** | **-** | **11,636,323** |
| | | | | | | | | |
| Balance at 1 January 2019 (audited) | | 8,200,000 | 2,409,560 | 68,000 | (96,284) | 253,196 | 410,000 | 11,244,472 |
| Net income for the period | | - | - | - | - | 486,825 | - | 486,825 |
| Other comprehensive loss | | - | - | - | (9,715) | - | - | (9,715) |
| Total comprehensive income for the period | | - | - | - | (9,715) | 486,825 | - | 477,110 |
| Dividend paid | 19 | - | - | - | - | - | (409,458) | (409,458) |
| Adjustments in proposed dividend | | - | - | - | - | 542 | (542) | - |
| Balance at 30 June 2019 (unaudited) | | 8,200,000 | 2,409,560 | 68,000 | (105,999) | 740,563 | - | 11,312,124 |

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

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020

| | Notes | For the six month period ended 30 June 2020 SR'000 | 30 June 2019 SR'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Net income for the period before Zakat and income tax** | | 415,355 | 543,720 |
| **Adjustments to reconcile net income to net cash from operating activities:** | | | |
| Net gain on FVIS financial instruments | | (1,511) | (2,400) |
| Gain on investments not held as FVIS | | (5,022) | (1,979) |
| Special commission expense on Subordinated Sukuk | | 40,213 | 49,394 |
| Impairment charge for expected credit losses ("ECL"), net | 6 (b) | 294,998 | 38,828 |
| Depreciation and amortization | | 104,417 | 99,272 |
| Share in net income of an associate | | (8,567) | (6,154) |
| Net loss / (gain) on disposal of property and equipment | | 3,011 | (1) |
| | | 842,894 | 720,680 |
| **Net changes in operating assets:** | | | |
| Statutory deposit with SAMA | | (184,011) | (181,214) |
| Due from banks and other financial institutions maturing after ninety days from the date of acquisition | | 673,229 | (401,629) |
| Investments held at FVIS | | 77,975 | (172,243) |
| Positive fair value of derivatives | | (77,165) | (46,989) |
| Loans and advances | | (4,320,423) | (2,803,843) |
| Other real estate | | (3,861) | (11,865) |
| Other assets | | (240,457) | (99,826) |
| **Net changes in operating liabilities:** | | | |
| Due to banks and other financial institutions | | 3,934,833 | (370,289) |
| Customers' deposits | | 960,227 | 3,878,452 |
| Negative fair value of derivatives | | 157,816 | 55,768 |
| Other liabilities | | 10,473 | 41,141 |
| | | 1,831,530 | 608,143 |
| Zakat and income tax paid | | - | (66,790) |
| **Net cash from operating activities** | | 1,831,530 | 541,353 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from maturity and sale of investments not held as FVIS | | 171,209 | 810,417 |
| Acquisition of investments not held as FVIS | | (2,230,035) | (2,566,831) |
| Acquisition of property and equipment | | (43,400) | (32,399) |
| Proceeds from sale of property and equipment | | 1,108 | 1 |
| **Net cash used in investing activities** | | (2,101,118) | (1,788,812) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payment of special commission expense on Subordinated Sukuk | | (42,221) | (51,673) |
| Dividends paid | | (236,050) | (408,278) |
| Payment for principal portion of lease liabilities | | (29,847) | (41,843) |
| **Net cash used in financing activities** | | (308,118) | (501,794) |
| Net decrease in cash and cash equivalents held | | (577,706) | (1,749,253) |
| Cash and cash equivalents at the beginning of the period | | 2,646,838 | 3,409,307 |
| **Cash and cash equivalents at the end of the period** | 15 | 2,069,132 | 1,660,054 |
| Special commission income received during the period | | 1,606,232 | 1,538,353 |
| Special commission expense paid during the period | | 541,984 | 507,693 |
| **Supplemental non-cash information** | | | |
| Net changes in fair value and transfers of cash flow hedge derivatives to the interim condensed consolidated statement of income | | (81,747) | (9,715) |

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

The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

## 1. GENERAL

These interim condensed consolidated 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 12 Jumad Al-Thani 1395H (21 June 1975). The Bank commenced its business on 16 Shawwal 1396H (9 October 1976) with the takeover of The National Bank of Pakistan's branches in the Kingdom of Saudi Arabia under commercial registration number 4030010523 dated 29 Rajab 1396H (27 July 1976) issued in Jeddah. The Bank operates through its 78 branches (31 December 2019: 78 branches and 30 June 2019: 79 branches) and 61 Fawri Remittance Centers (31 December 2019: 61 and 30 June 2019: 57 Fawri Remittance Centers) in the Kingdom of Saudi Arabia. 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) 30 June 2020** | Ownership (direct and indirect) 31 December 2019 | Ownership (direct and indirect) 30 June 2019 |
|---|---|---|---|---|---|
| **Subsidiary** | | | | | |
| AlJazira Capital Company | Kingdom of Saudi Arabia | Brokerage, margin financing and asset management | **100%** | 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% | 100% |
| Aman Insurance Agency Company | Kingdom of Saudi Arabia | Acting as an agent for bancassurance activities on behalf of the Bank | **100%** | 100% | 100% |
| AlJazira Securities Limited | Cayman Islands | Carryout Shari'ah compliant derivative and capital market transactions | **100%** | 100% | 100% |
| **Associate** | | | | | |
| AlJazira Takaful Ta'awuni Company | Kingdom of Saudi Arabia | Fully Shari'ah compliant protection and saving products | **35%** | 35% | 35% |

## 2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group as at and for the periods ended 30 June 2020 and 30 June 2019 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

The Group also prepares its consolidated financial statements to comply with the Banking Control Law and the Regulation for Companies in the Kingdom of Saudi Arabia and the Bank's By-Laws.

These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial statements, significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation were the same as those that were applied to the consolidated financial statements as at and for the year ended 31 December 2019.

These interim condensed consolidated financial statements are expressed in Saudi Arabian Riyals (SR) and are rounded off to the nearest thousands except where otherwise stated.

## 3. BASIS OF CONSOLIDATION

These interim condensed consolidated financial statements comprise the financial statements of Bank AlJazira and its subsidiaries as set out in Note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank.

The interim condensed 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.

a) 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 of 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.

## 3. BASIS OF CONSOLIDATION (continued)

a) Subsidiaries (continued)
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 Group. The results of subsidiaries acquired or disposed of during the period, if any, are included in the interim condensed consolidated statement of income from the date of the acquisition or up to the date of disposal, as appropriate.

b) Non-controlling interests
Non-controlling interests represent the portion of net income and net assets of subsidiaries not owned, directly or indirectly, by the Group in its subsidiaries and are presented separately in the interim condensed consolidated statement of income and within equity in the interim condensed 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 Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

c) Transactions eliminated on consolidation
Balances between the Group entities, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the interim condensed consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

d) 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 interim condensed 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 interim condensed consolidated statement of income.

The previously recognized impairment loss in respect of investment in associate can be reversed through the interim condensed consolidated statement of income, such that the carrying amount of the investment in the interim condensed 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS

The accounting policies, estimates and assumptions used in the preparation of these interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2019 except for:

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

*Measurement of the expected credit loss allowance*
In the preparation of the consolidated financial statements management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). However, in view of the current uncertainty, any future change in the assumptions and key estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments (refer note 20).

*Amendments to existing standards*
Several amendments and interpretations apply for the first time from 1 January 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

*Amendments to IFRS 3: Definition of a Business*
The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs.

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND ASSUMPTIONS (continued)

*Amendments to existing standards (continued)*

- Phase 2 – The second phase relates to the replacement of benchmark rates with alternative risk-free rates. Currently, there is uncertainty as to the timing and the methods of transition for phase 2. As a result of these uncertainties, IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. Therefore, the Group believes the current market structure supports the continuation of hedge accounting as at 30 June 2020.

Management is running a project on the Group's overall transition activities and continues to engage with various stakeholders, through a working group, to ensure a seamless transition.

*Amendments to IAS 1 and IAS 8: Definition of Material*
The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

*Conceptual Framework for Financial Reporting issued on 29 March 2018*
The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

## 5. INVESTMENTS, NET

Investment securities are classified as follows:

| | **30 June 2020 (Unaudited) SR’000** | 31 December 2019 (Audited) SR’000 | 30 June 2019 (Unaudited) SR’000 |
|---|---|---|---|
| Fair value through income statement (FVIS) | **210,561** | 287,024 | 215,936 |
| Fair value through other comprehensive income (FVOCI) - Equity | **4,880** | 4,880 | 4,887 |
| Fair value through other comprehensive income (FVOCI) - Debt | **1,108,230** | 101,921 | - |
| Held at amortised cost | **28,309,654** | 27,224,939 | 25,764,488 |
| Total investments | **29,633,325** | 27,618,764 | 25,985,311 |
| Allowance for expected credit losses (“ECL”) | **(2,221)** | - | - |
| Total | **29,631,104** | 27,618,764 | 25,985,311 |

## 6. LOANS AND ADVANCES, NET

The loans and advances are classified as at amortized cost as follows:

| | **30 June 2020 (Unaudited) SR'000** | 31 December 2019 (Audited) SR'000 | 30 June 2019 (Unaudited) SR'000 |
|---|---|---|---|
| Credit cards | **651,852** | 725,560 | 677,403 |
| Consumer loans | **24,772,034** | 23,376,999 | 21,318,459 |
| Commercial loans and overdrafts | **28,428,452** | 25,486,099 | 21,482,498 |
| Others | **389,494** | 407,546 | 437,614 |
| Performing loans and advances | **54,241,832** | 49,996,204 | 43,915,974 |
| Non - performing loans and advances | **691,606** | 673,082 | 740,679 |
| Total loans and advances | **54,933,438** | 50,669,286 | 44,656,653 |
| Allowance for expected credit losses ("ECL") | **(1,177,415)** | (1,009,167) | (1,057,288) |
| Loans and advances, net | **53,756,023** | 49,660,119 | 43,599,365 |

a) Movement in allowance for ECL is as follows:

| | **30 June 2020 (Unaudited) SR'000** | 31 December 2019 (Audited) SR'000 | 30 June 2019 (Unaudited) SR'000 |
|---|---|---|---|
| Balance at the beginning of the period | **1,009,167** | 933,505 | 933,505 |
| Impairment charge for ECL | **285,780** | 385,486 | 188,262 |
| Bad debts written off | **(66,345)** | (187,766) | (2,833) |
| Reversal / recoveries of amounts previously impaired | **(51,187)** | (122,058) | (61,646) |
| **Balance at the end of the period** | **1,177,415** | 1,009,167 | 1,057,288 |

b) Net impairment charge for ECL for the period in the interim condensed consolidated statement of income comprised of:

| | **30 June 2020 (Unaudited) SR'000** | 30 June 2019 (Unaudited) SR'000 |
|---|---|---|
| Impairment charge for ECL in in respect of loans and advances for the period | **285,780** | 188,262 |
| Recoveries / reversal of amounts previously impaired | **(51,187)** | (61,646) |
| Recoveries from debts previously written off | **(10,074)** | (25,247) |
| Net (Reversal) / charge for ECL in respect of due from banks and other financial institutions | **(793)** | 356 |
| Net impairment charge for ECL in respect of investments | **2,221** | - |
| Net impairment charge for ECL in respect of credit related contingent liabilities | **69,051** | (62,897) |
| Impairment charge for ECL, net | **294,998** | 38,828 |

## 7. INVESTMENT IN AN ASSOCIATE

Investment in an associate represents the investment made by the Group in AlJazira Takaful Ta'awuni Company ("AJT"). The Group effectively holds 35% (31 December 2019: 35% and 30 June 2019: 35%) shareholding in AJT.

The share of total comprehensive income in an associate represents the Group's share in the total comprehensive income of AJT and was based on the latest available financial information of AJT. AJT is listed with Saudi Stock Exchange (Tadawul) and the market value of the investment in AJT as of 30 June 2020 was SR 208.25 million (31 December 2019: SR 217.32 million and 30 June 2019: SR 204.33 million) based on Tadawul market price.

## 8. CUSTOMERS' DEPOSITS

| | **30 June 2020 (Unaudited) SR'000** | 31 December 2019 (Audited) SR'000 | 30 June 2019 (Unaudited) SR'000 |
|---|---|---|---|
| Demand | **33,214,183** | 30,839,375 | 29,087,646 |
| Time | **28,498,145** | 30,259,540 | 25,102,966 |
| Saving | **268** | - | - |
| Other | **1,944,425** | 1,597,879 | 1,491,938 |
| Total | **63,657,021** | 62,696,794 | 55,682,550 |

Time deposits comprise deposits received on Shari'ah Compliant (non-commission based) Murabaha and Wakala products.

## 9. DERIVATIVES

### 9.1 Nature/type of derivatives held

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

**a) Swaps**

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating 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.

## 9. DERIVATIVES (continued)

### 9.1 Nature/type of derivatives held (continued)

### 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.

### 9.2 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 financial asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risk. This is generally achieved by hedging specific transactions.

**Cash flow hedges**

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

## 9. DERIVATIVES (continued)

### 9.2 Purpose of derivatives (continued)

#### b) Held for hedging purposes (continued)

The gains / (losses) on cash flow hedges reclassified to the interim condensed consolidated statement of income during the period are as follows:

| | **30 June 2020 SR'000** | 30 June 2019 SR'000 |
|---|---|---|
| Special commission income | **826** | 935 |
| Special commission expense | **(782)** | (1,040) |
| Net gains / (losses) on cash flow hedges reclassified to the interim condensed consolidated statement of income | **44** | (105) |

The cash flow hedges of special commission rate swap were highly effective in offsetting the variability of special commission expenses.

During the prior periods, 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 interim condensed consolidated statement of comprehensive income as the related hedge items are still outstanding. In accordance with the IFRS requirements, the gain / (loss) will be reclassified to interim condensed consolidated statement of income in the period when the cash flows pertaining to hedged items will affect the interim condensed consolidated statement of income.

## 9. DERIVATIVES (continued)

The table below summarize 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 end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

| | **30 June 2020 (Unaudited) SR'000** | | | 31 December 2019 (Audited) SR'000 | | | 30 June 2019 (Unaudited) SR'000 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Positive fair value** | **Negative fair value** | **Notional amount** | Positive fair value | Negative fair value | Notional amount | Positive fair value | Negative fair value | Notional amount |
| **Held for trading:** | | | | | | | | | |
| Special commission rate swaps | **28,962** | **28,962** | **1,412,323** | 26,717 | 26,717 | 1,795,603 | 33,636 | 33,636 | 1,931,990 |
| Structured deposits | **2,000** | **2,000** | **800,000** | 2,000 | 2,000 | 800,000 | 2,000 | 2,000 | 800,000 |
| Currency swaps | **3,921** | **-** | **105,225** | - | 172 | 112,500 | 227 | 5 | 618,750 |
| Currency forwards | **6** | **63** | **211,169** | 14 | 138 | 301,899 | - | 67 | 291,838 |
| **Total** | **34,889** | **31,025** | **2,528,717** | 28,731 | 29,027 | 3,010,002 | 35,863 | 35,708 | 3,642,578 |
| **Held as cash flow hedge:** | | | | | | | | | |
| Special commission rate swaps | **143,902** | **342,802** | **3,550,625** | 72,895 | 186,984 | 3,550,625 | 65,560 | 171,849 | 3,550,625 |
| **Total** | **178,791** | **373,827** | **6,079,342** | 101,626 | 216,011 | 6,560,627 | 101,423 | 207,557 | 7,193,203 |

The negative fair values of special commission rate swaps are mainly due to a downward shift in the yield curve. The fair values of these swaps are expected to be settled on or before April 2044 (31 December 2019: April 2044 and 30 June 2019: April 2044).

Held for trading special commission rate swaps include special commission income receivable and payable amounting to SR 2.25 million (31 December 2019: SR 4.63 million and 30 June 2019: SR 7.63 million). Held as cash flow hedge special commission rate swaps include special commission income receivable amounting to SR 11.84 million (31 December 2019: SR 16.32 million and 30 June 2019: SR 19.94 million) and special commission payable amounting to SR 18.62 million (31 December 2019: SR 19.99 million and 30 June 2019: SR 20.10 million).

## 9. DERIVATIVES (continued)

Pursuant to changes in certain international laws, the Bank has established a Special Purpose Vehicle (SPV) namely Al Jazira Securities Limited and intends to transfer all of its PRS derivatives, hedged or traded, to this SPV. In this connection, 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.

## 10. SUBORDINATED SUKUK

On 2 June 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 2 June and 2 December each year until 2 June 2026, on which date the Sukuk will expire. The Bank has a call option which can be exercised on or after 2 June 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).

## 11. SHARE CAPITAL AND EARNINGS PER SHARE

The authorized, issued and fully paid share capital of the Bank consists of 820 million shares of SR 10 each (31 December 2019: 820 million shares of SR 10 each and 30 June 2019: 820 million shares of SR 10 each).

Basic earnings per share for the current and prior period is calculated by dividing the net income for the period attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding.

| | **For the three month period ended** | | **For the six month period ended** | |
|---|---|---|---|---|
| | **30 June 2020 SR'000** | 30 June 2019 SR'000 | **30 June 2020 SR'000** | 30 June 2019 SR'000 |
| **Profit attributable to ordinary shareholders** | | | | |
| For basic and diluted earnings per share | **165,767** | 251,819 | **347,376** | 486,825 |
| | **Shares** | **Shares** | **Shares** | **Shares** |
| **Weighted-average number of ordinary shares** | | | | |
| For basic and diluted earnings per share | **820,000,000** | 820,000,000 | **820,000,000** | 820,000,000 |
| Basic and diluted earnings per share (in SR) | **0.20** | 0.31 | **0.42** | 0.59 |

The calculations of basic and diluted earnings per share are same for the Bank.

## 12. OTHER RESERVES

| **30 June 2020** | **Cash flow hedges SR' 000** | **Fair value reserve – FVOCI Debt SR' 000** | **Actuarial gains SR' 000** | **Total SR' 000** |
|---|---|---|---|---|
| Balance at beginning of the period | **(110,411)** | **5,508** | **18,099** | **(86,804)** |
| Net change in fair value | **(81,703)** | **27,177** | **-** | **(54,526)** |
| Transfer to interim condensed consolidated statement of income | **(44)** | **-** | **-** | **(44)** |
| Net movement during the period | **(81,747)** | **27,177** | **-** | **(54,570)** |
| Balance at end of the period | **(192,158)** | **32,685** | **18,099** | **(141,374)** |

| 30 June 2019 | Cash flow hedges SR' 000 | Fair value reserve – FVOCI Debt SR' 000 | Actuarial gains SR' 000 | Total SR' 000 |
|---|---|---|---|---|
| Balance at beginning of the period | (96,367) | - | 83 | (96,284) |
| Net change in fair value | (9,820) | - | - | (9,820) |
| Transfer to interim condensed consolidated statement of income | 105 | - | - | 105 |
| Net movement during the period | (9,715) | - | - | (9,715) |
| Balance at end of the period | (106,082) | - | 83 | (105,999) |

## 13. COMMITMENTS AND CONTINGENCIES

a) The Group is subject to legal proceedings in the ordinary course of business. There was no material change in the status of legal proceedings as disclosed at 31 December 2019.

## 13. COMMITMENTS AND CONTINGENCIES (continued)

b) The Bank's credit related commitments and contingencies are as follows:

| | **30 June 2020 (Unaudited) SR'000** | 31 December 2019 (Audited) SR'000 | 30 June 2019 (Unaudited) SR'000 |
|---|---|---|---|
| Letter of credit | **588,965** | 840,608 | 630,933 |
| Letter of guarantee | **4,247,903** | 3,812,812 | 3,890,516 |
| Acceptances | **196,574** | 239,871 | 360,294 |
| Irrevocable commitments to extend credit | **202,500** | 464,618 | 150,000 |
| **Total** | **5,235,942** | 5,357,909 | 5,031,743 |
| Allowance for ECL | **(162,540)** | (93,489) | (91,232) |
| **Net exposure** | **5,073,402** | 5,264,420 | 4,940,511 |

c) 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 20 Rabi Al-Awaal 1440 H (28 November 2018) and the Ministerial Resolution No. 1260 dated 5 Rabi Al-Thani 1440 H (12 December 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 1 December 2023. The Bank paid the first and second instalment of SR 110 million and SR 88.2 million during the month of December 2018 and November 2019 respectively. Under the Agreement, the Bank and GAZT also agreed to settle Zakat for the year 2018 in accordance with the settlement framework provided by the Royal Decree and the Ministerial Resolution. As a result of the Agreement, all Zakat related disputes between the Bank and the GAZT pertaining to the years 2006 to 2017 stand resolved.

The Bank will continue to contest its appeals before the Appellate Committee for Resolution of Tax Disputes and Violations for the years 2006 through 2011.The Bank is confident of a favorable outcome from the appeal process in respect of these tax matters.

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 2019, 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 favorable outcome from the appeal process.

## 14. OTHER OPERATING INCOME

| | For the three month period ended | | For the six month period ended | |
|---|---|---|---|---|
| | **30 June 2020 SR'000** | 30 June 2019 SR'000 | **30 June 2020 SR'000** | 30 June 2019 SR'000 |
| Gain on transfer of Takaful business (refer note 16) | **17,034** | - | **17,034** | - |
| Gain on sale of other real estate | **-** | - | **139** | - |
| Gain on sale of property and equipment | **-** | - | **1** | 1 |
| Others | **3,150** | 1,889 | **8,626** | 3,074 |
| **Other operating income** | **20,184** | 1,889 | **25,800** | 3,075 |

## 15. CASH AND CASH EQUIVALENTS

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

| | **30 June 2020 (Unaudited) SR'000** | 31 December 2019 (Audited) SR'000 | 30 June 2019 (Unaudited) SR'000 |
|---|---|---|---|
| Cash and balances with SAMA, excluding statutory deposit | **1,680,679** | 2,077,206 | 1,355,554 |
| Due from banks and other financial institutions with an original maturity of 90 days or less from the date of acquisition | **388,453** | 569,632 | 304,500 |
| **Total** | **2,069,132** | 2,646,838 | 1,660,054 |

The reconciliation of cash and cash equivalents to cash and balances with SAMA is as follows:

| | **30 June 2020 (Unaudited) SR'000** | 31 December 2019 (Audited) SR'000 | 30 June 2019 (Unaudited) SR'000 |
|---|---|---|---|
| Cash and cash equivalents as per statement of cash flows | **2,069,132** | 2,646,838 | 1,660,054 |
| Statutory deposit | **3,584,492** | 3,400,481 | 2,934,850 |
| Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition | **(388,453)** | (569,632) | (304,500) |
| Cash and balances with SAMA | **5,265,171** | 5,477,687 | 4,290,404 |

## 16. 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 operating decision maker (Chief Executive Officer) in order to allocate resources to the segments and to assess their performance.

## 16. OPERATING SEGMENTS (continued)

All of the Group's operations are based in the Kingdom of Saudi Arabia.

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 interim condensed consolidated statement of income. Segment assets and liabilities comprise operating assets and liabilities.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 31 December 2019.

For management 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 businesses and institutional customers.

**Treasury**
Treasury includes money market, foreign exchange, trading and treasury services.

**Brokerage and asset management**
Provides shares brokerage services to customers (this segment includes the activities of the Bank's subsidiary AlJazira Capital Company).

**Takaful Ta'awuni**
Provides protection and saving products services. As required by the Insurance Law of Saudi Arabia, the Group has spun off its insurance business in a separate entity named AlJazira Takaful Ta'awuni Company (AJT) formed under the new Insurance Law of Saudi Arabia. This segment represented the insurance portfolio of policies entered into by the Bank before 2014.

During 2019, AJT obtained from SAMA no objection to transfer the insurance portfolio through letter dated 26 Rabi 'Al-Thani 1441 AH (corresponding to 23 December 2019). The insurance portfolio has been transferred with effect from 1 January 2020 at zero value (no cost to AJT), including the transfer of all assets and liabilities related to this business. Further as a consideration for the other reserves and all other liabilities related to insurance business currently existing or arising in future the Bank has paid an amount equal to SR 53.55 million. Therefore, AJT will be fully liable for all current and future liabilities in connection with insurance business in both Policyholder and shareholder accounts. As a result of business transfer the Bank has recognized a settlement gain of SR 17 million which has been presented in other operating income in these interim condensed financial statements.

**Others**
Others include investment in associate, inter segment income and expense eliminations and gain on sale of other real estate.

The Group's total assets and liabilities at 30 June 2020 and 30 June 2019, its total operating income and expenses, and its net income for the six month period then ended, by operating segment, are as follows:

## 16. OPERATING SEGMENTS (continued)

**30 June 2020 (SR'000)**

| | Personal banking | Corporate banking | Treasury | Brokerage and asset management | Takaful Ta'awuni | Others | Total |
|---|---|---|---|---|---|---|---|
| Total assets | 29,171,495 | 25,160,893 | 36,012,702 | 1,365,444 | - | 158,817 | 91,869,351 |
| Total liabilities | 38,946,512 | 24,201,721 | 16,726,068 | 356,564 | - | 2,163 | 80,233,028 |
| Total operating income | 824,733 | 300,120 | 513,648 | 100,008 | - | (180,186) | 1,558,323 |
| Net special commission income | 535,938 | 246,450 | 377,796 | 22,578 | - | (40,966) | 1,141,796 |
| Fee and commission income, net | 151,318 | 43,266 | (199) | 77,078 | - | (16,281) | 255,182 |
| Net gain on FVIS financial instruments | - | - | - | 1,511 | - | - | 1,511 |
| Share in net income of an associate | - | - | - | 1,224 | - | 7,343 | 8,567 |
| Impairment charge for ECL, net | (58,823) | (233,954) | (2,221) | - | - | - | (294,998) |
| Depreciation and amortization | (64,135) | (9,136) | (19,970) | (6,674) | - | (4,502) | (104,417) |
| Total operating expenses | (552,359) | (348,515) | (164,829) | (67,748) | - | (18,084) | (1,151,535) |
| Net income / (loss) before Zakat and income tax | 272,374 | (48,395) | 348,819 | 33,484 | - | (190,927) | 415,355 |

## 16. OPERATING SEGMENTS (continued)

| | Personal Banking | Corporate banking | Treasury | Brokerage and asset management | Takaful Ta'awuni | Others | Total |
|---|---|---|---|---|---|---|---|
| 31 December 2019 | | | | | | | |
| 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 |
| 30 June 2019 | | | | | | | |
| Total assets | 24,370,083 | 19,557,110 | 31,443,465 | 1,429,910 | 72,432 | 141,781 | 77,014,781 |
| Total liabilities | 33,621,060 | 22,419,807 | 9,064,738 | 524,620 | 72,432 | - | 65,702,657 |
| Total operating income | 681,625 | 249,180 | 524,158 | 80,259 | 8,874 | (133,863) | 1,410,233 |
| Net special commission income | 365,332 | 190,502 | 413,509 | 27,139 | 212 | (5,328) | 991,366 |
| Fee and commission income, net | 201,423 | 51,528 | 472 | 51,327 | 8,663 | (9,502) | 303,911 |
| Net gain on FVIS financial instruments | - | - | - | 2,400 | - | - | 2,400 |
| Share in net income of an associate | - | - | - | 879 | - | 5,275 | 6,154 |
| Impairment reversal/(charge) for ECL, net | 29,976 | (68,804) | - | - | - | - | (38,828) |
| Depreciation and amortization | (61,756) | (7,730) | (17,933) | (7,554) | (434) | (3,865) | (99,272) |
| Total operating expenses | (438,640) | (176,209) | (158,544) | (67,639) | (13,422) | (18,213) | (872,667) |
| Net income / (loss) before Zakat and income tax | 242,985 | 72,971 | 365,614 | 13,499 | (4,548) | (146,801) | 543,720 |

## 17. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date 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 or identical instrument that an entity can access at the measurement date,
Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data, and
Level 3: valuation techniques for which any significant input is not based on observable market data.

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

| | | **30 June 2020 (SR'000) Fair Value** | | |
|---|---|---|---|---|
| | **Carrying Value** | **Level 1** | **Level 2** | **Total** |
| **Financial assets measured at fair value:** | | | | |
| FVIS - Mutual funds | **210,051** | **-** | **210,051** | **210,051** |
| FVIS - Equities | **510** | **510** | **-** | **510** |
| FVOCI – Debt | **1,108,230** | **-** | **1,108,230** | **1,108,230** |
| Derivatives | **178,791** | **-** | **178,791** | **178,791** |
| **Total** | **1,497,582** | **510** | **1,497,072** | **1,497,582** |
| **Financial liabilities measured at fair value:** | | | | |
| Derivatives | **373,827** | **-** | **373,827** | **373,827** |

| | | 31 December 2019 (SR'000) Fair Value | | |
|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Total |
| **Financial assets measured at fair value:** | | | | |
| FVIS - Mutual funds | 287,024 | - | 287,024 | 287,024 |
| FVOCI – Debt | 101,921 | - | 101,921 | 101,921 |
| Derivatives | 101,626 | - | 101,626 | 101,626 |
| **Total** | 490,571 | - | 490,571 | 490,571 |
| **Financial liabilities measured at fair value:** | | | | |
| Derivatives | 216,011 | - | 216,011 | 216,011 |

## 17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

| | | 30 June 2019 (SR'000) | | |
|---|---|---|---|---|
| | | Fair Value | | |
| | Carrying Value | Level 1 | Level 2 | Total |
| Financial assets measured at fair value: | | | | |
| FVIS - Mutual funds | 207,428 | - | 207,428 | 207,428 |
| FVIS – Equities | 8,508 | 8,508 | - | 8,508 |
| Derivatives | 101,423 | - | 101,423 | 101,423 |
| Total | 317,359 | 8,508 | 308,851 | 317,359 |
| Financial liabilities measured at fair value: | | | | |
| Derivatives | 207,557 | - | 207,557 | 207,557 |

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 profit rates extracted from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

There were no transfers between Levels 1 and 2 during the period. New investments acquired during the year are classified under the relevant levels. There were no financial assets or financial liabilities at fair value classified under level 3.

There were no changes in valuation techniques during the period.

Investments amounting to SR 4.88 million (31 December 2019: SR 4.88 million and 30 June 2019: SR 4.89 million) are carried at cost and, accordingly, are not fair valued.

## 17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

b) Following table represent fair values of financial assets and liabilities which are carried at amortised cost. There are no financial assets and liabilities where fair value is measurable as level 1 fair value.

| | **30 June 2020 (SR'000)** | | |
|---|---|---|---|
| | **Amortised cost** | **Fair value Level 2** | **Fair value Level 3** |
| **Financial assets:** | | | |
| Due from banks and other financial institutions | **575,389** | **-** | **575,734** |
| Investment held at amortised cost, net | **28,307,433** | **29,200,929** | **-** |
| Loans and advances, net | **53,756,023** | **-** | **56,529,231** |
| **Total** | **82,638,845** | **29,200,929** | **57,104,965** |
| **Financial liabilities:** | | | |
| Due to banks and other financial institutions | **12,188,587** | **-** | **12,201,692** |
| Customers' deposits | **63,657,021** | **-** | **63,898,556** |
| **Total** | **75,845,608** | **-** | **76,100,248** |

| | 31 December 2019 (SR'000) | | |
|---|---|---|---|
| | Amortised cost | Fair value Level 2 | Fair value Level 3 |
| **Financial assets:** | | | |
| Due from banks and other financial institutions | 1,429,004 | - | 1,441,363 |
| Investment held at amortised cost, net | 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 |

## 17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

| | 30 June 2019 (SR'000) | | |
|---|---|---|---|
| | Amortised cost | Fair value Level 2 | Fair value Level 3 |
| Financial assets: | | | |
| Due from banks and other financial institutions | 805,702 | - | 806,664 |
| Investment held at amortised cost | 25,764,488 | 25,766,606 | - |
| Loans and advances, net | 43,599,365 | - | 44,732,692 |
| Total | 70,169,555 | 25,766,606 | 45,539,356 |
| Financial liabilities: | | | |
| Due to banks and other financial institutions | 6,053,141 | - | 6,080,600 |
| Customers' deposits | 55,682,550 | - | 55,871,185 |
| Total | 61,735,691 | - | 61,951,785 |

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 30 June 2020 at the current applicable yield curve considering the counterparty risks and applicable market rate.

## 18. 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"), Tier I and Tier II Capital and Capital Adequacy Ratios:

## 18. CAPITAL ADEQUACY (continued)

| | **30 June 2020 (Unaudited)** | 31 December 2019 (Audited) | 30 June 2019 (Unaudited) |
|---|---|---|---|
| | **SR'000** | SR'000 | SR'000 |
| Credit Risk RWA | **54,455,350** | 51,675,067 | 47,788,778 |
| Operational Risk RWA | **5,218,742** | 5,059,741 | 4,851,047 |
| Market Risk RWA | **1,505,973** | 1,677,030 | 1,222,529 |
| **Total Pillar-I RWA** | **61,180,065** | 58,411,838 | 53,862,354 |
| Tier I Capital | **12,464,638** | 12,081,624 | 11,799,899 |
| Tier II Capital | **2,355,106** | 2,300,699 | 2,340,336 |
| **Total Tier I and II Capital** | **14,819,744** | 14,382,323 | 14,140,235 |
| Capital Adequacy Ratio (%) | | | |
| Tier I ratio | **20.37%** | 20.68% | 21.91% |
| Total Tier I and II Capital | **24.22%** | 24.62% | 26.25% |

## 19. PROPOSED DIVIDEND

During the current period ended 30 June 2020, the Bank paid final cash dividend of SR 246 million equal to SR 0.3 per share (30 June 2019: SR 410 million equal to SR 0.5 per share), net of Zakat after approval of the shareholders' in their Ordinary General Assembly meeting held on 15 April 2020. This dividend was calculated based on 820 million shares.

## 20. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS

During March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices witnessed significant volatility during the first half of 2020, owing not just to demand issues arising from COVID-19 as the world economies went into lockdown, but also supply issues driven by volume which had predated the pandemic. The oil prices have shown some recovery in late Q2 2020 as oil producing countries cut back production coupled with increasing of demand as countries emerged from lockdowns.

The Bank continues to evaluate the current situation through conducting stress-testing scenarios on expected movements of oil prices and its impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the impact COVID-19 outbreak has had on its normal operations and financial performance. The steps taken by management also includes a review of credit exposure concentrations at a more granular level with particular focus on specific economic sectors, regions, counterparties and collateral protection thereby conducting timely review and taking appropriate customer credit rating actions and initiating restructuring of loans, where required. The credit reviews also take into consideration the impact of the government and SAMA support relief programmes.

## 20. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS (continued)

The prevailing economic conditions post lock down, do require the Bank to continue to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These primarily revolve around either adjusting macroeconomic factors used by the Bank in the estimation of ECL or revisions to the scenario probabilities currently being used by the Bank. However, the impact of such uncertain economic environment continues to be difficult to assess for the purpose of ECL estimation. To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgment to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. The Bank has therefore recognised overlays of SR 57.41 million and SR 5.11 million for corporate and retail financing respectively as at 30 June 2020. These have been based on a sector-based analysis performed by the Bank depending on the impacted portfolios. The Bank will continue to individually assess significant exposures as more reliable data becomes available and accordingly determine if any adjustments in the ECL is required in subsequent reporting periods.

**SAMA support programs and initiatives**

***Private Sector Financing Support Program ("PSFSP")***

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

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

As part of the deferred payments program, the Bank is required to defer payments for six months on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months without increasing the facility tenure. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in the Bank recognising a day 1 modification loss of SR 38.39 million during 31 March 2020.

To give effect to the guidance issued by SAMA during April 2020, the Bank has also deferred MSME customers classified as Stage 2 and some other Stage 1 customers which have met the definition of MSME during Q2 2020 for the same period i.e. 14 March 2020 to 14 September 2020. This has resulted in additional modification loss amounting to SR 10.71 million which has been recognised during Q2 2020. The modification losses have been presented as part of net financing income. The Bank continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk. During the six months period ended 30 June 2020, SR 16.37 million has been charged to the statement of income relating to unwinding of modification losses.

## 20. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES ("ECL") AND SAMA PROGRAMS (continued)

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, the Bank received SR 550 million of profit free deposit from SAMA during Q1 2020. Management had determined based on the communication from SAMA, that the government grant primarily relates to compensation for the modification loss incurred on the deferral of payments. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 40.13 million, of which SR 38.39 million has been recognised on Day 1 in the statement of income as at 31 March 2020 immediately and SR 1.74 million recognised during Q2 2020. The management has exercised certain judgements in the recognition and measurement of this grant income. During the six months period ended 30 June 2020, SR 3.23 million has been charged to the statement of income relating to unwinding of the day 1 income.

During Q2 2020, the Bank has received additional profit free deposit from SAMA amounting to SR 1.53 billion with a tenure of 36 months. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 111.25 million, of which SR 8.97 million has been recognised on Day 1 in the statement of income as at 30 June 2020 immediately and the remaining amount deferred. The management has exercised certain judgements in the recognition and measurement of this grant income.

Furthermore, during Q2 2020, SAMA has confirmed to the Bank that the POS and e-commerce service fees amounting to SR 17 million will be reimbursed to the Bank. However, since the ultimate beneficiaries in this case are the customers, therefore, it is not treated as grant income for the Bank under IAS 20.

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

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

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

In this regard, during Q2 2020, the Bank received SR 1.78 billion profit free deposit with one year maturity. Management has determined based on the communication received from SAMA, that this government grant primarily relates to liquidity support. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. This resulted in a total income of SR 44.32 million, of which SR 3.13 million has been recognised in the statement of income as at 30 June 2020 and with the remaining amount deferred.

**Bank's initiative - Health care sector support**

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Bank has decided to voluntarily postpone payments for all public and private health care workers who have credit facilities with the Bank for three months. This resulted in the Bank recognising a day 1 modification loss of SR 19.88 million as at 31 March 2020, which was presented as part of net financing income. SR 0.88 million has been charged to the statement of income on unwinding the discount on financing during Q2 2020.

## 21. COMPARATIVE FIGURES

Certain prior period amounts have been reclassified so as to align with the current period presentation.

## 22. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on 5 Dhul-Hijjah 1441H, corresponding to 26 July 2020.