
BANK ALJAZIRA

(A Saudi Joint Stock Company)

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



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 Kingdom of Saudi Arabia
 License No. 46/11/323 issued 11/3/1992



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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 September 2020 and the related interim condensed consolidated statements of income and comprehensive income for the three month and nine month periods then ended and the interim condensed consolidated statements of changes in equity and cash flows for the nine 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 Rabi Al-Awwal 1442H
 5 November 2020




Bank AlJazira

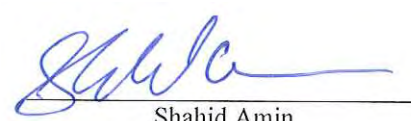
(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2020 (Unaudited) SR'000	31 December 2019 (Audited) SR'000	30 September 2019 (Unaudited) SR'000
	Notes			
ASSETS				
Cash and balances with SAMA	15	4,926,100	5,477,687	4,600,916
Due from banks and other financial institutions		306,603	1,429,004	1,151,255
Investments, net	5	30,093,831	27,618,764	27,578,184
Positive fair value of derivatives	9	141,883	101,626	137,782
Loans and advances, net	6	54,137,941	49,660,119	44,529,825
Investment in an associate	7	161,453	148,332	145,217
Other real estate		472,853	468,992	462,571
Property and equipment, net		1,089,358	1,154,270	1,154,137
Other assets		580,761	485,550	854,605
Total assets		91,910,783	86,544,344	80,614,492
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Due to banks and other financial institutions		12,667,171	8,253,754	6,124,392
Customers' deposits	8	62,976,387	62,696,794	59,052,291
Negative fair value of derivatives	9	346,757	216,011	260,590
Subordinated Sukuk	10	2,020,503	2,006,921	2,030,693
Other liabilities		2,097,991	1,781,347	1,831,856
Total liabilities		80,108,809	74,954,827	69,299,822
SHAREHOLDERS' EQUITY				
Share capital	11	8,200,000	8,200,000	8,200,000
Statutory reserve		2,657,316	2,657,316	2,531,266
General reserve		68,000	68,000	68,000
Other reserves	12	(157,355)	(86,804)	(114,321)
Retained earnings		1,034,013	505,005	629,725
Proposed dividend	19	-	246,000	-
Total shareholders' equity		11,801,974	11,589,517	11,314,670
Total liabilities and shareholders' equity		91,910,783	86,544,344	80,614,492


Tarek Al-Kasabi
Chairman


Naif Al Abdulkareem
Chief Executive Officer


Shahid Amin
Chief Financial Officer


Faeen
*Ullah

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 INCOME (UNAUDITED) FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2020

		For the three month period ended		For the nine month period ended	
		30 September 2020 SR'000	30 September 2019 SR'000	30 September 2020 SR'000	30 September 2019 SR'000
	Notes				
Special commission income		755,346	796,386	2,355,143	2,315,663
Special commission expense		(138,570)	(278,725)	(596,571)	(806,636)
Net special commission income		616,776	517,661	1,758,572	1,509,027
Fees and commission income		236,549	231,987	660,383	683,478
Fees and commission expense		(108,815)	(84,441)	(277,467)	(232,021)
Fees and commission income, net		127,734	147,546	382,916	451,457
Exchange income, net		60,248	60,136	189,206	167,385
Net gain on FVIS financial instruments		3,625	1,298	5,136	3,698
Dividend income		-	30	54	283
Net gains on de-recognition of financial assets measured at FVOCI - Debt		6	1,013	4,496	1,013
Net gains on de-recognition of financial assets measured at amortised cost		78	17,252	610	19,231
Other operating income	14	3,430	4,685	29,230	7,760
Total operating income		811,897	749,621	2,370,220	2,159,854
Salaries and employee-related expenses		246,370	248,214	743,134	723,972
Rent and premises-related expenses		12,678	13,041	37,066	39,922
Depreciation and amortisation		54,828	50,386	159,245	149,658
Other general and administrative expenses		118,109	110,286	337,613	324,193
Other operating expenses		3,942	6,333	15,406	24,354
Total operating expenses before impairment charge		435,927	428,260	1,292,464	1,262,099
Impairment charge for expected credit losses ("ECL"), net	6 (b)	180,079	40,348	475,077	79,176
Total operating expenses		616,006	468,608	1,767,541	1,341,275
Net operating income		195,891	281,013	602,679	818,579
Share in net income of an associate		4,949	3,528	13,516	9,682
Net income for the period before Zakat and income tax		200,840	284,541	616,195	828,261
Zakat		(20,944)	(28,230)	(85,467)	(86,278)
Income tax		1,736	557	(1,720)	1,710
Net income for the period		181,632	256,868	529,008	743,693
Basic and diluted earnings per share for the period (expressed in SR per share)	11	0.22	0.31	0.65	0.91

Tarek Al-Kasabi
Chairman

Naif Al Abdulkareem
Chief Executive Officer

Shahid Amin
Chief Financial Officer

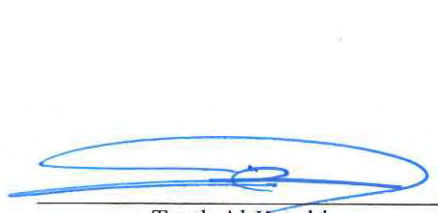
The accompanying notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2020


		For the three Month period ended		For the nine Month period ended	
		30 September 2020	30 September 2019	30 September 2020	30 September 2019
	Note	SR'000	SR'000	SR'000	SR'000
Net income for the period		181,632	256,868	529,008	743,693
Other comprehensive loss:					
<i>Items that can be reclassified to consolidated statement of income in subsequent periods:</i>					
Cash flow hedges:					
- Effective portion of change in the fair value	12	286	(15,539)	(81,417)	(25,359)
- Net amount transferred to consolidated statement of income	12	(22)	(22)	(66)	83
Net changes in fair value of investments classified as at FVOCI – Debt	12	(16,245)	7,239	10,932	7,239
<i>Other comprehensive loss for the period</i>		(15,981)	(8,322)	(70,551)	(18,037)
Total comprehensive income for the period		165,651	248,546	458,457	725,656



Tarek Al-Kasabi
Chairman



Naif Al Abdulkareem
Chief Executive Officer



Shahid Amin
Chief Financial Officer



H. Yaseen
#Ullah

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED) FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 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		-	-	-	-	529,008	-	529,008
Other comprehensive loss		-	-	-	(70,551)	-	-	(70,551)
Total comprehensive income for the period		-	-	-	(70,551)	529,008	-	458,457
Dividend paid	19	-	-	-	-	-	(246,000)	(246,000)
Balance at 30 September 2020 (unaudited)		8,200,000	2,657,316	68,000	(157,355)	1,034,013	-	11,801,974
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		-	-	-	-	743,693	-	743,693
Other comprehensive loss		-	-	-	(18,037)	-	-	(18,037)
Total comprehensive income for the period		-	-	-	(18,037)	743,693	-	725,656
Transfer to statutory reserve		-	121,706	-	-	(121,706)	-	-
Dividend paid	19	-	-	-	-	(246,000)	(409,458)	(655,458)
Adjustments in proposed dividend		-	-	-	-	542	(542)	-
Balance at 30 September 2019 (unaudited)		8,200,000	2,531,266	68,000	(114,321)	629,725	-	11,314,670

Tarek Al-Kasabi
Chairman

Naif Al Abdulkareem
Chief Executive Officer

Shahid Amin
Chief Financial Officer

Yasser Al-Mulki

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Bank AlJazira

(A Saudi Joint Stock Company)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2020

		For the nine month period ended	
	Notes	30 September 2020 SR'000	30 September 2019 SR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the period before Zakat and income tax		616,195	828,261
Adjustments to reconcile net income to net cash from operating activities:			
Net gain on FVIS financial instruments		(5,136)	(3,698)
Gain on investments not held as FVIS		(5,106)	(20,244)
Special commission expense on Subordinated Sukuk		55,802	74,164
Impairment charge for expected credit losses ("ECL"), net	6 (b)	475,077	79,176
Depreciation and amortization		159,245	149,658
Share in net income of an associate		(13,516)	(9,682)
Net loss / (gain) on disposal of property and equipment		3,005	(171)
		<u>1,285,566</u>	<u>1,097,464</u>
Net changes in operating assets:			
Statutory deposit with SAMA		(158,068)	(316,548)
Due from banks and other financial institutions maturing after ninety days from the date of acquisition		860,900	(405,539)
Investments held at FVIS		(337,045)	(164,119)
Positive fair value of derivatives		(40,257)	(83,348)
Loans and advances		(4,855,817)	(3,778,621)
Other real estate		(3,861)	(9,421)
Other assets		(95,211)	(511,979)
Net changes in operating liabilities:			
Due to banks and other financial institutions		4,413,417	(299,038)
Customers' deposits		279,593	7,248,193
Negative fair value of derivatives		130,746	108,801
Other liabilities		204,001	85,336
		<u>1,683,964</u>	<u>2,971,181</u>
Zakat and income tax paid		(127,997)	(66,243)
Net cash from operating activities		<u>1,555,967</u>	<u>2,904,938</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity and sale of investments not held as FVIS		172,477	1,153,561
Acquisition of investments not held as FVIS		(2,292,297)	(4,491,409)
Acquisition of property and equipment		(73,115)	(43,946)
Proceeds from sale of property and equipment		1,114	348
Net cash used in investing activities		<u>(2,191,821)</u>	<u>(3,381,446)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of special commission expense on Subordinated Sukuk		(42,220)	(51,673)
Dividends paid		(239,337)	(646,235)
Payment for principal portion of lease liabilities		(54,798)	(58,185)
Net cash used in financing activities		<u>(336,355)</u>	<u>(756,093)</u>
Net decrease in cash and cash equivalents held		(972,209)	(1,232,601)
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	<u>1,674,629</u>	<u>2,176,706</u>
Special commission income received during the period		2,291,493	2,251,562
Special commission expense paid during the period		707,948	716,742
Supplemental non-cash information			
Net changes in fair value and transfers of cash flow hedge derivatives to the interim condensed consolidated statement of income		(81,483)	(25,276)



Tarek Al-Kasabi
Chairman

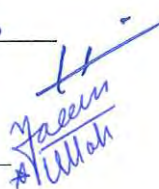


Naif Al Abdulkareem
Chief Executive Officer



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)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) AT 30 SEPTEMBER 2020

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 79 branches (31 December 2019: 78 branches and 30 September 2019: 79 branches) and 61 Fawri Remittance Centers (31 December 2019: 61 and 30 September 2019: 60 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 September 2020	Ownership (direct and indirect) 31 December 2019	Ownership (direct and indirect) 30 September 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%

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) AT 30 SEPTEMBER 2020 (CONTINUED)

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements of the Group as at and for the periods ended 30 September 2020 and 30 September 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.

Bank AlJazira

(A Saudi Joint Stock Company)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) AT 30 SEPTEMBER 2020 (CONTINUED)

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.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) AT 30 SEPTEMBER 2020 (CONTINUED)

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.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) AT 30 SEPTEMBER 2020 (CONTINUED)

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 September 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 September 2020 (Unaudited) SR'000	31 December 2019 (Audited) SR'000	30 September 2019 (Unaudited) SR'000
Fair value through income statement (FVIS)	629,205	287,024	209,110
Fair value through other comprehensive income (FVOCI) - Equity	4,904	4,880	4,865
Fair value through other comprehensive income (FVOCI) - Debt	1,084,126	101,921	89,514
Held at amortised cost	28,378,568	27,224,939	27,274,695
Total investments	30,096,803	27,618,764	27,578,184
Allowance for expected credit losses (“ECL”)	(2,972)	-	-
Total	30,093,831	27,618,764	27,578,184

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6. LOANS AND ADVANCES, NET

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

	30 September 2020 (Unaudited) SR'000	31 December 2019 (Audited) SR'000	30 September 2019 (Unaudited) SR'000
Credit cards	693,637	725,560	716,142
Consumer loans	25,840,601	23,376,999	22,242,888
Commercial loans and overdrafts	27,678,383	25,486,099	21,473,882
Others	375,354	407,546	433,215
Performing loans and advances	54,587,975	49,996,204	44,866,127
Non - performing loans and advances	827,646	673,082	590,882
Total loans and advances	55,415,621	50,669,286	45,457,009
Allowance for expected credit losses ("ECL")	(1,277,680)	(1,009,167)	(927,184)
Loans and advances, net	54,137,941	49,660,119	44,529,825

a) Movement in allowance for ECL is as follows:

	30 September 2020 (Unaudited) SR'000	31 December 2019 (Audited) SR'000	30 September 2019 (Unaudited) SR'000
Balance at the beginning of the period	1,009,167	933,505	933,505
Impairment charge for ECL	472,831	385,486	269,518
Bad debts written off	(132,093)	(187,766)	(185,127)
Reversal / recoveries of amounts previously impaired	(72,225)	(122,058)	(90,712)
Balance at the end of the period	1,277,680	1,009,167	927,184

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

	30 September 2020 (Unaudited) SR'000	30 September 2019 (Unaudited) SR'000
Impairment charge for ECL in respect of loans and advances for the period	472,831	269,518
Recoveries / reversal of amounts previously impaired	(72,225)	(90,712)
Recoveries from debts previously written off	(22,611)	(33,119)
Net (Reversal) / charge for ECL in respect of due from banks and other financial institutions	(1,054)	187
Net impairment charge for ECL in respect of investments	2,972	-
Net impairment charge for ECL in respect of credit related contingent liabilities	95,164	(66,698)
Impairment charge for ECL, net	475,077	79,176

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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 September 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 September 2020 was SR 305.76 million (31 December 2019: SR 217.32 million and 30 September 2019: SR 196.74 million) based on Tadawul market price.

8. CUSTOMERS' DEPOSITS

	30 September 2020 (Unaudited) SR'000	31 December 2019 (Audited) SR'000	30 September 2019 (Unaudited) SR'000
Demand	35,721,604	30,839,375	29,127,568
Time	25,264,007	30,259,540	28,151,943
Saving	151,733	-	-
Other	1,839,043	1,597,879	1,772,780
Total	62,976,387	62,696,794	59,052,291

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.

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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.

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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 September 2020 SR'000	30 September 2019 SR'000
Special commission income	1,239	1,348
Special commission expense	(1,173)	(1,431)
	<hr/>	<hr/>
Net gains / (losses) on cash flow hedges reclassified to the interim condensed consolidated statement of income	66	(83)
	<hr/>	<hr/>

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.

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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 September 2020 (Unaudited) SR'000			31 December 2019 (Audited) SR'000			30 September 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	23,599	23,599	1,281,633	26,717	26,717	1,795,603	31,669	31,669	1,844,001
Structured deposits	-	-	-	2,000	2,000	800,000	2,000	2,000	800,000
Currency swaps	-	1,863	484,748	-	172	112,500	228	95	375,000
Currency forwards	7	44	301,980	14	138	301,899	1	120	255,928
Total	23,606	25,506	2,068,361	28,731	29,027	3,010,002	33,898	33,884	3,274,929
Held as cash flow hedge:									
Special commission rate swaps	118,277	321,251	3,550,625	72,895	186,984	3,550,625	103,884	226,706	3,550,625
Total	141,883	346,757	5,618,986	101,626	216,011	6,560,627	137,782	260,590	6,825,554

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 September 2019: April 2044).

Held for trading special commission rate swaps include special commission income receivable and payable amounting to SR 1.83 million (31 December 2019: SR 4.63 million and 30 September 2019: SR 4.85 million). Held as cash flow hedge special commission rate swaps include special commission income receivable amounting to SR 11.80 million (31 December 2019: SR 16.32 million and 30 September 2019: SR 23.37 million) and special commission payable amounting to SR 22.94 million (31 December 2019: SR 19.99 million and 30 September 2019: SR 24.52 million).

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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 September 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 nine month period ended	
	30 September 2020 <u>SR'000</u>	30 September 2019 <u>SR'000</u>	30 September 2020 <u>SR'000</u>	30 September 2019 <u>SR'000</u>
Profit attributable to ordinary shareholders				
For basic and diluted earnings per share	<u>181,632</u>	<u>256,868</u>	<u>529,008</u>	<u>743,693</u>
	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>
Weighted-average number of ordinary shares				
For basic and diluted earnings per share	<u>820,000,000</u>	<u>820,000,000</u>	<u>820,000,000</u>	<u>820,000,000</u>
Basic and diluted earnings per share (in SR)	<u>0.22</u>	<u>0.31</u>	<u>0.65</u>	<u>0.91</u>

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

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12. OTHER RESERVES

<u>30 September 2020</u>	<u>Cash flow hedges SR' 000</u>	<u>Fair value reserve – FVOCI Debt SR' 000</u>	<u>Actuarial gains SR' 000</u>	<u>Total SR' 000</u>
Balance at beginning of the period	(110,411)	5,508	18,099	(86,804)
Net change in fair value	(81,417)	10,932	-	(70,485)
Transfer to interim condensed consolidated statement of income	(66)	-	-	(66)
Net movement during the period	(81,483)	10,932	-	(70,551)
Balance at end of the period	(191,894)	16,440	18,099	(157,355)

<u>30 September 2019</u>	<u>Cash flow hedges SR' 000</u>	<u>Fair value reserve – FVOCI Debt SR' 000</u>	<u>Actuarial gains SR' 000</u>	<u>Total SR' 000</u>
Balance at beginning of the period	(96,367)	-	83	(96,284)
Net change in fair value	(25,359)	7,239	-	(18,120)
Transfer to interim condensed consolidated statement of income	83	-	-	83
Net movement during the period	(25,276)	7,239	-	(18,037)
Balance at end of the period	(121,643)	7,239	83	(114,321)

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.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) AT 30 SEPTEMBER 2020 (CONTINUED)

13. COMMITMENTS AND CONTINGENCIES (continued)

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

	30 September 2020 (Unaudited) SR'000	31 December 2019 (Audited) SR'000	30 September 2019 (Unaudited) SR'000
Letter of credit	656,229	840,608	650,562
Letter of guarantee	4,241,264	3,812,812	3,878,309
Acceptances	188,070	239,871	335,195
Irrevocable commitments to extend credit	150,763	464,618	150,000
Total	5,236,326	5,357,909	5,014,066
Allowance for ECL	(188,652)	(93,489)	(87,431)
Net exposure	5,047,674	5,264,420	4,926,635

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 2019, 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.

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14. OTHER OPERATING INCOME

	For the three month period ended		For the nine month period ended	
	30 September 2020 <u>SR'000</u>	30 September 2019 <u>SR'000</u>	30 September 2020 <u>SR'000</u>	30 September 2019 <u>SR'000</u>
Gain on transfer of Takaful business (refer note 16)	-	-	17,034	-
Gain on sale of other real estate	-	1,107	139	1,107
Gain on sale of property and equipment	6	214	7	215
Others	3,424	3,364	12,050	6,438
Other operating income	3,430	4,685	29,230	7,760

15. CASH AND CASH EQUIVALENTS

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

	30 September 2020 (Unaudited) <u>SR'000</u>	31 December 2019 (Audited) <u>SR'000</u>	30 September 2019 (Unaudited) <u>SR'000</u>
Cash and balances with SAMA, excluding statutory deposit	1,367,551	2,077,206	1,530,732
Due from banks and other financial institutions with an original maturity of 90 days or less from the date of acquisition	307,078	569,632	645,974
Total	1,674,629	2,646,838	2,176,706

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

	30 September 2020 (Unaudited) <u>SR'000</u>	31 December 2019 (Audited) <u>SR'000</u>	30 September 2019 (Unaudited) <u>SR'000</u>
Cash and cash equivalents as per statement of cash flows	1,674,629	2,646,838	2,176,706
Statutory deposit	3,558,549	3,400,481	3,070,184
Due from banks and other financial institutions with original maturity of 90 days or less from the date of acquisition	(307,078)	(569,632)	(645,974)
Cash and balances with SAMA	4,926,100	5,477,687	4,600,916

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.

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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 September 2020 and 30 September 2019, its total operating income and expenses, and its net income for the nine month period then ended, by operating segment, are as follows:

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16. OPERATING SEGMENTS (continued)

30 September 2020 (SR'000)

	Personal banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
Total assets	29,649,996	24,617,971	35,764,109	1,718,360	-	160,347	91,910,783
Total liabilities	40,658,632	21,189,351	17,565,262	696,670	-	(1,106)	80,108,809
Total operating income	1,219,879	451,793	789,806	174,435	-	(265,693)	2,370,220
Net special commission income	819,146	372,848	593,393	31,628	-	(58,443)	1,758,572
Fee and commission income, net	200,777	65,330	(299)	138,870	-	(21,762)	382,916
Net gain on FVIS financial instruments	-	-	-	5,136	-	-	5,136
Share in net income of an associate	-	-	-	1,931	-	11,585	13,516
Impairment charge for ECL, net	(68,474)	(403,631)	(2,972)	-	-	-	(475,077)
Depreciation and amortization	(97,706)	(14,102)	(30,638)	(10,089)	-	(6,710)	(159,245)
Total operating expenses	(816,077)	(573,865)	(248,260)	(101,842)	-	(27,497)	(1,767,541)
Net income / (loss) before Zakat and income tax	403,802	(122,072)	541,546	74,524	-	(281,605)	616,195

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16. OPERATING SEGMENTS (continued)

	Personal Banking	Corporate banking	Treasury	Brokerage and asset management	Takaful Ta'awuni	Others	Total
<u>31 December 2019</u>							
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
<u>30 September 2019</u>							
Total assets	25,639,361	19,291,105	34,041,463	1,405,695	91,651	145,217	80,614,492
Total liabilities	36,409,824	22,873,436	9,450,760	474,151	91,651	-	69,299,822
Total operating income / (loss)	1,037,580	366,842	836,205	117,878	13,293	(211,944)	2,159,854
Net special commission income / (loss)	550,874	279,918	645,586	39,556	320	(7,227)	1,509,027
Fee and commission income, net	303,037	75,591	602	75,424	12,973	(16,170)	451,457
Net gain on FVIS financial instruments	-	-	-	3,698	-	-	3,698
Share in net income of an associate	-	-	-	1,383	-	8,299	9,682
Impairment reversal/(charge) for ECL, net	23,401	(102,577)	-	-	-	-	(79,176)
Depreciation and amortization	(93,006)	(11,718)	(27,185)	(11,018)	(660)	(6,071)	(149,658)
Total operating expenses	(686,645)	(265,899)	(239,622)	(102,059)	(19,403)	(27,647)	(1,341,275)
Net income / (loss) before Zakat and income tax	350,935	100,943	596,583	17,202	(6,110)	(231,292)	828,261

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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 September 2020 (SR'000)				
	Carrying Value	Fair Value		
		Level 1	Level 2	Total
<u>Financial assets measured at fair value:</u>				
FVIS - Mutual funds	628,534	-	628,534	628,534
FVIS - Equities	671	671	-	671
FVOCI – Debt	1,084,126	-	1,084,126	1,084,126
Derivatives	141,883	-	141,883	141,883
Total	1,855,214	671	1,854,543	1,855,214
<u>Financial liabilities measured at fair value:</u>				
Derivatives	346,757	-	346,757	346,757
31 December 2019 (SR'000)				
	Carrying Value	Fair Value		
		Level 1	Level 2	Total
<u>Financial assets measured at fair value:</u>				
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
<u>Financial liabilities measured at fair value:</u>				
Derivatives	216,011	-	216,011	216,011

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17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

		30 September 2019 (SR'000)		
		Fair Value		
	Carrying Value	Level 1	Level 2	Total
<u>Financial assets measured at fair value:</u>				
FVIS - Mutual funds	209,110	-	209,110	209,110
FVOCI – Debt	89,514	-	89,514	89,514
Derivatives	137,782	-	137,782	137,782
Total	436,406	-	436,406	436,406
<u>Financial liabilities measured at fair value:</u>				
Derivatives	260,590	-	260,590	260,590

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 4.90 million (31 December 2019: SR 4.88 million and 30 September 2019: SR 4.86 million) are carried at cost and, accordingly, are not fair valued.

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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 September 2020 (SR'000)		
	Amortised cost	Fair value Level 2	Fair value Level 3
<u>Financial assets:</u>			
Due from banks and other financial institutions	306,603	-	306,577
Investment held at amortised cost, net	28,375,596	29,098,480	-
Loans and advances, net	54,137,941	-	56,857,601
Total	82,820,140	29,098,480	57,164,178
<u>Financial liabilities:</u>			
Due to banks and other financial institutions	12,667,171	-	12,669,358
Customers' deposits	62,976,387	-	63,159,749
Total	75,643,558	-	75,829,107
	31 December 2019 (SR'000)		
	Amortised cost	Fair value Level 2	Fair value Level 3
<u>Financial assets:</u>			
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
<u>Financial liabilities:</u>			
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

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17. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	30 September 2019 (SR'000)		
	Amortised cost	Fair value Level 2	Fair value Level 3
<u>Financial assets:</u>			
Due from banks and other financial institutions	1,151,255	-	1,159,028
Investment held at amortised cost	27,274,695	27,145,624	-
Loans and advances, net	44,529,825	-	45,976,276
Total	72,955,775	27,145,624	47,135,304
<u>Financial liabilities:</u>			
Due to banks and other financial institutions	6,124,392	-	6,182,868
Customers' deposits	59,052,291	-	59,306,242
Total	65,176,683	-	65,489,110

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 September 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:

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AT 30 SEPTEMBER 2020 (CONTINUED)

18. CAPITAL ADEQUACY (continued)

	30 September 2020 (Unaudited)	31 December 2019 (Audited)	30 September 2019 (Unaudited)
	SR'000	SR'000	SR'000
Credit Risk RWA	54,371,676	51,675,067	47,939,504
Operational Risk RWA	5,300,789	5,059,741	4,949,404
Market Risk RWA	2,288,660	1,677,030	1,557,665
Total Pillar-I RWA	61,961,125	58,411,838	54,446,573
Tier I Capital	12,630,024	12,081,624	11,818,007
Tier II Capital	2,373,890	2,300,699	2,350,901
Total Tier I and II Capital	15,003,914	14,382,323	14,168,908
Capital Adequacy Ratio (%)			
Tier I ratio	20.38%	20.68%	21.71%
Total Tier I and II Capital	24.22%	24.62%	26.02%

19. PROPOSED DIVIDEND

During the current period ended 30 September 2020, the Bank paid final cash dividend of SR 246 million equal to SR 0.3 per share (30 September 2019: interim cash dividend of SR 246 million equal to SR 0.3 per share and final cash dividend for year ended December 31, 2018 of 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

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are beginning to experience a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalize international travel and resume Umrah pilgrimages.

The Bank continues to be cognisant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its exposures at a granular level. This has entailed reviewing specific economic sectors, regions, counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, where required.

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AT 30 SEPTEMBER 2020 (CONTINUED)

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

The prevailing economic conditions 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. As the situation continues to be fluid, the management considers certain effects cannot be fully incorporated into the ECL model calculations at this point in time. Accordingly, management's ECL assessment includes sector-based analysis depending on the impacted portfolios and macroeconomic analysis. The Bank has therefore recognised overlays of SR 86.50 million as at 30 September 2020. The Bank will continue to reassess as more reliable data becomes available and accordingly determine if any adjustment 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:

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

As part of the deferred payments program launched by SAMA, the Bank was required to defer payments for six months on lending facilities to eligible MSMEs. The payment reliefs were considered as short-term liquidity support to address the borrower's potential cash flow issues. The Bank 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 were treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in modification losses which 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.

Further to the above, on 1 September 2020, SAMA extended the deferred payments program by allowing additional three months payment deferrals for eligible MSMEs until 14 December 2020. The Bank has affected the payment reliefs by deferring the instalments falling due within the period from 15 September 2020 to 14 December 2020 for a period of additional three 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 the arrangement. This resulted in the Bank recognizing an additional modification loss of SR 4.33 million during the period ended 30 September 2020.

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AT 30 SEPTEMBER 2020 (CONTINUED)

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

Since the inception of the MSMEs deferred payments program by SAMA and by the end of Q3 2020, the Bank has recognised SR 53.42 million of related modification losses of which SR 32.73 million have been unwound.

In order to compensate the related cost that the Bank is expected to incur under the SAMA and other public authorities program, during the nine months period ended 30 September 2020 the Bank received profit free deposits from SAMA amounting to SR 2.41 billion with varying maturities, which qualify as government grants. Management has 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. By the end of 30 September 2020, total income of SR 67.23 million has been recognised in the statement of income and SR 108.93 million deferred. The management has exercised certain judgments in the recognition and measurement of this grant income. During the nine months period ended 30 September 2020, SR 21.44 million has been charged to the interim consolidated statement of income relating to unwinding.

As at 30 September 2020, the Bank has participated in SAMA’s funding for lending and facility guarantee programs and the accounting impact for the period is immaterial.

Furthermore, during the nine months period ended 30 September 2020, the Bank has recognised reimbursement from SAMA for the forgone POS and e-commerce service fee amounting to SR 7.34 million.

SAMA liquidity support for the Saudi banking sector amounting to SAR 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 30.63 million has been recognised in the interim consolidated statement of income as at 30 September 2020 with the remaining amount deferred.

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AT 30 SEPTEMBER 2020 (CONTINUED)

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

Bank’s initiative - Health care sector support

In recognition of the significant efforts that KSA healthcare workers are currently putting in and have put-in during the last six months, to safeguard the health of KSA 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 in March 2020, which was presented as part of net financing income. SR 1.76 million has been charged to the statement of income on unwinding the discount on financing during the nine months period ended September 30, 2020.

In addition the Bank during Q3 2020 also postponed payments for certain public and private workers mainly employed in health care and aviation sectors and covered by SANID program who had credit facilities with the Bank for a period ranging from three to six months. This resulted in the Bank recognizing a day 1 modification loss of SR 24.15 million, which was presented as part of net financing income. SR 1.24 million has been charged to the interim consolidated statement of income on unwinding the discount on these financing modified during Q3 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 22 October 2020 (corresponding to 05 Rabi ul Awal 1442H).