Gulf International Bank – Saudi Arabia

FINANCIAL STATEMENTS

For the period ended 31st December 2019

بنـك الخليـج الدولي

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KPMG Al Fozan & Partners
Certified Public Accountants

Independent Auditors' Report on the Audit of the Financial Statements to the Shareholders of Gulf International Bank – Saudi Arabia (A Saudi Closed Joint Stock Company)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Gulf International Bank – Saudi Arabia (the "Bank"), which comprise the statement of financial position as at 31 December 2019, and the statements of income, comprehensive income, changes in equity and cash flows for the period from 3 April 2019 to 31 December 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the period from 3 April 2019 to 31 December 2019 in accordance with International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRSs that are endorsed in KSA").

Basis for Opinion

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

Other Information included in the Bank's 2019 Annual Report

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

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

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

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

Independent Auditors' Report on the Audit of the Financial Statements to the Shareholders of Gulf International Bank – Saudi Arabia (A Saudi Closed Joint Stock Company) (continued)

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

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

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

Those charged with governance, the Board of Directors, is responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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Independent Auditors' Report on the Audit of the Financial Statements to the Shareholders of Gulf International Bank – Saudi Arabia (A Saudi Closed Joint Stock Company) (continued)

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank was not in compliance, in all material respects, with the applicable requirements of the Regulation for Companies, the Banking Control law in the Kingdom of Saudi Arabia and the Bank's By-Laws in so far as they affect the preparation and presentation of the financial statements, for the period from 3 April 2019 to 31 December 2019.

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2 Shaban 1441 H
(26 March 2020)

Alkhobar

STATEMENT OF FINANCIAL POSITION
As at December 31, 2019

	Notes	2019 SAR' 000
ASSETS		
Cash and balances with SAMA	4	8,243,841
Due from banks and other financial institutions	5	1,448,087
Investments, net	6	2,773,746
Positive fair value of derivatives	12	160,959
Loans and advances, net	7	17,490,442
Property and equipment, net	8	76,683
Intangible assets, net	9	50,883
Right-of-use assets	11	235,981
Other assets	10	146,157
Total assets		**30,626,779**
LIABILITIES AND EQUITY		
Liabilities		
Due to banks and other financial institutions	13	578,469
Customers' deposits	14	21,716,758
Negative fair value of derivatives	12	175,739
Lease liabilities		224,542
Other liabilities	15	424,392
Total liabilities		**23,119,900**
Equity		
Share capital	16	7,500,000
Statutory reserve	17	1,753
Fair value reserve		2,045
Retained earnings		3,081
Total equity		**7,506,879**
Total liabilities and equity		**30,626,779**

The financial statements were approved by the Board of Directors on 23rd February 2020 and signed on its behalf by: -

Abdulla Mohammed Al Zamil	**Abdulaziz A. Al-Helaissi**	**Marwan Abiad**
Chairman	Chief Executive Officer	Chief Financial Officer

The accompanying notes 1 to 34 form an integral part of these financial statements

STATEMENT OF INCOME
For the period from April 3, 2019 to December 31, 2019

	Notes	For the period from 3 April 2019 to 31 December 2019 SAR'000
Special commission income	19	904,779
Special commission expense	19	(505,132)
Net special commission income		**399,647**
Fee and commission income	20	61,852
Fee and commission expense	20	(3,603)
Net fee and commission income		58,249
Exchange income, net		15,445
Loss on investments at FVTPL, net		(681)
Dividend income		13,453
Gain on other FVTPL financial instruments, net		4,669
Other income		2,472
Total operating income		**493,254**
Salaries and employee-related expenses	21	(180,079)
Rent and premises-related expenses		(14,016)
Depreciation and amortization	8, 9, 11	(63,896)
Other general and administrative expenses	22	(122,608)
Operating expenses before impairment charge		**(380,599)**
Impairment charge for expected credit losses, net	7	(121,841)
Impairment charge on investments, net	6	(1,062)
Impairment reversal on other financial assets		19,274
Total operating expenses		**(484,228)**
Net operating income		**9,026**
Zakat for the period	23	(2,017)
Net income for the period after Zakat		**7,009**
Earnings per share (Expressed in SAR per share)		
Basic and diluted earnings per share	16	0.009

The accompanying notes 1 to 34 form an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
For the period from April 3, 2019 to December 31, 2019

	For the period from 3 April 2019 to 31 December 2019 SAR'000
Net income for the period	7,009
Other comprehensive income	
Items that cannot be reclassified to statement of income in subsequent periods	
- Fair Value through Other Comprehensive income (FVOCI) equity investments:	
- Net change in fair value	(3,488)
- Actuarial gains on defined benefit pension plans	3,358
Total other comprehensive income for the period	6,879

The accompanying notes 1 to 34 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY
For the period from April 3, 2019 to December 31, 2019

	Share capital SAR'000	Statutory reserve SAR'000	Fair value reserve SAR'000	Retained earnings SAR'000	Total equity SAR'000
Share capital issuance on 3rd April 2019	7,500,000	-	-	-	**7,500,000**
Net income for the period	-	-	-	7,009	7,009
Net change in fair value of equity investments classified as fair value through other comprehensive income	-	-	(3,488)	-	(3,488)
Actuarial gain on defined benefit pension plan	-	-	-	3,358	3,358
Total comprehensive income for the period	-	-	(3,488)	10,367	6,879
Realized loss on sale of equity investments	-	-	5,533	(5,533)	-
Transfer from retained earnings	-	1,753	-	(1,753)	-
At 31 December 2019	**7,500,000**	**1,753**	**2,045**	**3,081**	**7,506,879**

The accompanying notes 1 to 34 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
For the period from April 3, 2019 to December 31, 2019

OPERATING ACTIVITIES	Note	For the period from 3 April 2019 to 31 December 2019 SAR'000
Net income before zakat		**9,026**
Adjustments to reconcile net income before zakat to net cash flow from operating activities:		
Net accretion of discount on financial assets at amortized cost		(4,066)
Depreciation and amortization		63,896
Write off of fixed assets		4,773
Impairment charge for investments, net		1,062
Impairment charge for credit losses, net		121,841
Impairment reversal for other financial assets		(19,274)
Unrealized loss on investments		(3,988)
		173,270
Net (increase) / decrease in operating assets:		
Statutory deposit with SAMA		279,183
Due from banks and other financial institutions		(30,018)
Positive fair value of derivative financial instruments		(63,062)
Right-of-use assets		(182,716)
Loans and advances		(758,113)
Other assets		(28,841)
Net increase in operating liabilities:		
Due to banks and other financial institutions		48,731
Negative fair value of derivatives		70,676
Customers' deposits		1,773,080
Lease liabilities		171,606
Other liabilities		49,475
Net cash inflow from operating activities		1,503,271
INVESTING ACTIVITIES		
Purchase of investments		(434,923)
Proceeds from sale of investments		731,163
Purchase of property and equipment and intangible assets		(55,356)
Net cash inflow from investing activities		240,884
Net increase in cash and cash equivalents		1,744,155
Cash and cash equivalents at the beginning of the period		6,929,294
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	24	8,673,449
Special commission received during the period		904,779
Special commission paid during the period		(505,132)
Supplemental non-cash information		
Net change in fair value of equity investments classified as FVTOCI		(3,488)
Zakat		2,017
Amounts transferred to share capital from:		
Due to banks and other financial institutions		3,750,000
Customers' deposits		3,750,000

The accompanying notes 1 to 34 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

1. General

The activities of Gulf International Bank - Saudi Arabia (the Bank) were previously carried out as a foreign branch of Gulf International Bank B.S.C., a Bahraini shareholding company incorporated in the Kingdom of Bahrain by Amiri Decree Law No. 30 dated 24th November 1975 under the commercial registration number 466002. Effective from 27 Rajab 1440 (corresponding to 3rd April 2019), the foreign branch was converted to a Saudi Closed Joint Stock Company with the same commercial registration number (2052001920) and in accordance with Ministerial Resolution number 2007 dated 26th Jumada Al-Thani 1439H, corresponding to 14th March 2018, and SAMA approval number 391000082125 dated 23rd Rajab 1439H, corresponding to 9th April 2018. The address of the registered office of the Bank is as follows:

Gulf International Bank - Saudi Arabia
P. O. Box 39268
Dhahran
Kingdom of Saudi Arabia

The Bank carried out its operations from its three locations in Riyadh, Jeddah and Dhahran with number of employees totalling 568 as at 31 December 2019 excluding outsourced employees. Upon formation of the Saudi Closed Joint Stock Company, the net assets and liabilities of the foreign branch of Gulf International Bank B.S.C - Kingdom of Bahrain were transferred to the Bank. The net assets and liabilities transferred at 3rd April 2019 were as follows:

	SAR'000
ASSETS	
Cash and balances with SAMA	6,408,271
Due from banks and other financial institutions	1,788,667
Investments, net	3,071,151
Positive fair value of derivative financial instruments	97,897
Loans and advances, net	16,854,170
Property and equipment, net	72,320
Intangible assets, net	46,447
Right-of-use assets	75,377
Other assets	93,373
Total assets	28,507,673
LIABILITIES	
Liabilities	
Due to banks and other financial institutions	4,279,738
Customers' deposits	23,693,678
Negative fair value of derivative financial instruments	105,063
Lease liabilities	52,936
Other liabilities	376,258
Total liabilities	28,507,673
Net assets	-

Transfers of the above assets and liabilities were made in accordance with the Articles of Association of the Bank and the resolution of the Bank's shareholders.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

1. **General** (continued)

The objective of the Bank is to provide a full range of banking and investment services. The Bank also provides to its customers Islamic (non-commission based) banking products that are approved and supervised by an independent Shariah Board established by the Bank.

Name of subsidiary / Fund	Country of incorporation	Ownership %	Proportion of ownership/voting power
Dar Enjaz Gulf Real Estate Company	Kingdom of Saudi Arabia	100%	Incorporated in the Kingdom of Saudi Arabia under Commercial Registration no.1010326338, issued in Riyadh. The Subsidiary was formed with the approval of SAMA for the purpose of dealing, managing and holding real estate on behalf of the Bank.
GIB Opportunistic Saudi Equity Fund	Kingdom of Saudi Arabia	94.43%	The funds' investment objective is to generate returns by investing in equity instruments listed on Tadawul.
GIB Saudi Equity Fund	Kingdom of Saudi Arabia	97.41%	The funds' investment objective is to generate returns by investing in equity instruments listed on Tadawul.
GIB Opportunistic MENA Equity Fund	Kingdom of Saudi Arabia	99.95%	The funds' investment objective is to generate returns by investing in MENA equity instruments.

The Bank neither consolidates the financial assets, liabilities and results of the subsidiary, nor its investments in GIB Opportunistic Saudi Equity Fund, GIB Saudi Equity Fund, and GIB Opportunistic MENA Equity Fund in accordance with the exemption available in paragraph 4 of IFRS 10: Consolidated Financial Statements, and account for its investments in these entities at fair value through the income statement.

2. **Basis of preparation**

a) **Statement of Compliance**

The financial statements of the Bank have been prepared;

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

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

2. **Basis of preparation** (continued)

b) Basis of measurement and presentation

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, financial instruments held at Fair Value through Profit or Loss (FVTPL), FVOCI investments and defined benefit obligations. In addition, financial assets or liabilities that are hedged in a fair value hedging relationship, and otherwise adjusted to record changes in fair value attributable to the risks that are being hedged.

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

c) Functional and presentation currency

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

d) Period of financial statements

According to Clause 46 of the Bank's Articles of Association, the Bank's fiscal year begins on 1st January and ends on December 31 of each Gregorian year, and the first fiscal year starts from the date of commercial registration (April 3, 2019) to December 31, 2019. The financial statements have been prepared for the period from April 3, 2019 to December 31, 2019.

e) Critical accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with IFRS that are endorsed in the KSA and other standards and pronouncements that are endorsed by SOCPA, requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

i) Impairment losses on financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

2. Basis of preparation (continued)

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

ii) Fair value Measurement
Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

iii) Classification of investments at amortised cost
Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are SPPI on the principal amount outstanding.

iv) Depreciation and amortisation
Assessment of the assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

3. Summary of significant accounting policies

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

a) Adoption of new standards

Effective its inception, the Bank has adopted the accounting standard on leases, the impact of the adoption of this standard is explained below:

IFRS 16: Leases

IFRS 16 requires lessees to recognise most leases on their balance sheet as lease liabilities, with the corresponding right of use assets. At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

b) Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through the income statement ("FVTPL").

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. **Summary of significant accounting policies** (continued)

b) Classification of financial assets

Financial Asset at amortised cost

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

a- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

b- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Asset at FVOCI

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

i) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss.

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

Financial Asset at FVTPL

All other financial assets are classified as measured at FVTPL.

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

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. Summary of significant accounting policies (continued)

b) Classification of financial assets

Business model assessment (continued)

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

Assessments whether contractual cash flows are solely payments of principal and interest

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

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

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

Designation at fair value through profit or loss

At initial recognition, the Bank has irrevocably designated certain financial assets at FVTPL to eliminate or significantly reduces the accounting mismatch.

c) Classification of financial liabilities

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

d) Derecognition

- **Financial assets**

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

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. Summary of significant accounting policies (continued)
d) Derecognition(continued)
Financial assets (continued)

On derecognition of a financial asset (debt Instruments), the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

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

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

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

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

- **Financial liabilities**

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

e) Modifications of financial assets and financial liabilities

- **Financial assets**

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

- **Financial liabilities**

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

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. Summary of significant accounting policies (continued)

f) Impairment

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

i) financial assets that are debt instruments;
ii) financial guarantee contracts issued; and
iii) loan commitments issued.

No impairment loss is recognized on equity investments.

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

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

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

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

Measurement of ECL

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

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

Restructured financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. **Summary of significant accounting policies** (continued)

Credit-impaired financial assets

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

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

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. Summary of significant accounting policies (continued)

Write-off

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

g) Financial guarantees and loan commitments

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortized amount and the amount of loss allowance. The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments, the Bank recognizes loss allowance.

h) Revenue / expenses recognition

Special commission income and expenses

Special commission income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortized cost of the financial instrument.

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

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

Measurement of amortized cost and special commission income

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. **Summary of significant accounting policies** (continued)

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

i) Rendering of services

The Bank provides various services to its customer. These services are either rendered separately or bundled together with rendering of other services.

The Bank has concluded that revenue from rendering of various services related to share trading and fund management, Trade finance, Corporate finance and advisory and other banking services, should be recognized at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for free services related to credit card, the Bank recognizes revenue over the period of time.

j) Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, commission rate futures, forward rate agreements, currency and commission rate swaps, currency and commission rate options (both written and purchased) are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value in the statement of financial position with transaction costs recognised in the statement of income. All derivatives are carried at their fair value as assets where the fair value is positive and as liabilities where the fair value is negative. Fair values are obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate.

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

i) Derivatives held for trading

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

ii) Embedded derivatives

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. Summary of significant accounting policies (continued)
j) Derivative financial instruments and hedge accounting (continued)

iii) Hedge Accounting

The Bank designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rate, foreign currency, and credit risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risk, the bank applies hedge accounting for transactions that meet specific criteria.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, (or assets or liabilities in case of portfolio hedging), or an unrecognised firm commitment or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the reported net gain or loss; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or to a highly probable forecasted transaction that will affect the reported net gain or loss.

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

Fair Value Hedges

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

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

k) Foreign Currencies

The financial statements are presented in Saudi Arabian Riyals.

Transactions in foreign currencies are translated into Saudi Arabian Riyals at the spot rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into Saudi Arabian Riyals at rates of exchange prevailing at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective interest rate and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. All differences arising on non-trading activities are taken to other non-operating income in the statement of income.

Foreign currency differences arising from the translation of recognized in FVOCI equity investments.

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

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. **Summary of significant accounting policies** (continued)

l) Offsetting financial instruments

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

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

m) Other revenue / expenses recognition

- **Exchange income/ (loss)**

Exchange income/ (loss) is recognised as discussed in foreign currencies policy above.

- **Fees and Commission income**

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

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

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

- **Dividend income**

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of net trading income, net income from FVTPL financial instruments or other operating income based on the underlying classification of the equity instrument.

- **Net trading income / (loss)**

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships, financial assets and financial liabilities designated as at FVTPL.

n) Sale and repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the statement of financial position as the bank retains substantially all the risks and rewards of ownership. When substantially all the risks and rewards of ownership remain with the Bank. These assets are continued to measure in accordance with related accounting policies for investments held as FVTPL, FVOCI, other investments held at amortized cost. The transactions are treated as collateralised borrowing and counter-party liability for amounts received under these agreements is included in “Cash and balances with SAMA” or “Due to banks and other financial institutions” or “Customer deposits”, as appropriate. The difference between sale and repurchase price is treated as special commission expense and accrued over the life of the repo agreement on an effective yield basis. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the statement of financial position, as the bank does not obtain control over the assets. Amounts paid under these agreements are included in “Cash and balances with SAMA”, “Due from banks and other financial institutions” or “Loans and advances”, as appropriate. The difference between purchase and resale price is treated as special commission income and accrued over the life of the reverse repo agreement on an effective yield basis.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. Summary of significant accounting policies (continued)

o) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date i.e. the date on which the asset is delivered to, or received, from the counterparty. The Bank accounts for any changes in fair values between the trade date and the settlement date in the same way as it accounts for the acquired asset. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the marketplace.

A financial asset or a financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

p) Fair value measurement

The Bank measures financial instruments, such as, derivatives and equity instruments and non-financial assets, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in note 29.

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

1. In the principal market for the asset or liability, or
2. In the absence of a principal market, in the most advantageous market for the asset or liability

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

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

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

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

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

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

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

The Bank's investment committee determines the policies and procedures for both recurring fair value measurement, such as unquoted FVOCI financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation. The investment committee comprises of the senior management committee members and is chaired by the Chief Executive Officer.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. **Summary of significant accounting policies** (continued)

p) **Fair value measurement** (continued)

Expert judgement is involved for valuation of significant assets, such FVOCI financial assets, and significant liabilities, such as contingent consideration. Involvement of experts is decided upon annually by the investment committee after discussion with and approval by the Bank's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The investment committee decides, after discussions with the experts, which valuation techniques and inputs to use for each case.

At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the investment committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The investment committee, in conjunction with the Bank's experts, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On a periodic basis, the investment committee present the valuation results to the audit committee and the Bank's independent auditors. This includes a discussion of the major assumptions used in the valuations.

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

q) ***Collateral valuation***

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

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

Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold.

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

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

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. Summary of significant accounting policies (continued)

r) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Freehold land is not depreciated. Changes in the expected useful life are accounted for by changing the period or method, as appropriate, and treated as changes in accounting estimates.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. On-going repairs and maintenance are expensed as incurred.

The cost of other property and equipment is depreciated and amortised on the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	Ten years or over the period of lease, whichever is the shorter.
Furniture, equipment and vehicles	Four to five years
Intangible assets	Four to five years

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

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

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

s) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. Summary of significant accounting policies (continued)

t) Provisions

Provisions are recognised when a reliable estimate can be made by the Bank for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

Provisions for liabilities and charges

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

u) Accounting for leases

Right of Use Asset / Lease Liabilities

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

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of Use Assets

The Bank applies the cost model, and measure right of use asset at cost; less any accumulated depreciation and any accumulated impairment losses; and adjusted for any re-measurement of the lease liability for lease modifications.

Generally, Right of Use (RoU) asset would be equal to the lease liability. However, if there are additional costs such as Site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the RoU asset value. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

After the commencement date, Bank measures the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and; re-measuring the carrying amount to reflect any re-assessment or lease modification.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. **Summary of significant accounting policies** (continued)

Short-term leases and leases of low-value assets:
The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

v) Cash and cash equivalents

For the purpose of the statement of cash flows, “cash and cash equivalents” include notes and coins on hand, balances with SAMA excluding statutory deposits, and due from banks and other financial institutions with original maturity of three months or less which are subject to insignificant risk of changes in their fair value.

w) End of service benefits

The Bank operates a non-funded employee terminal benefit plan, which is classified as a defined benefit obligation under IAS 19 'Employee Benefits'. A defined benefit plan is a plan which is not a defined contribution plan. The liability recognised in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets at that date. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using market yields at the end of the reporting period of high-quality corporate bonds that have terms to maturity approximating to the estimated term of the post-employment benefit obligations. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognised in equity through the statement of profit or loss and other comprehensive income in the period in which they arise.

x) Zakat

The Bank is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax (“GAZT”). Zakat expense is charged to the profit or loss. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

3. Summary of significant accounting policies (continued)

y) Non-commission-based banking products

In addition to the conventional banking, the Bank offers its customers certain non-commission-based banking products, which are approved by its Shariah Board, as follows:

High level definitions of non-commission-based products

(i) **Murabaha** is an agreement whereby the Bank sells to a customer a commodity or an asset, which the bank has purchased and acquired based on a promise received from the customer to buy. The selling price comprises the cost plus an agreed profit margin.

(ii) **Tawaraq** is a form of Murabaha transactions where the Bank purchases a commodity and sells it to the customer. The customer sells the underlying commodity at spot and uses the proceeds for his financing requirements.

These non-commission-based banking products are included in “loans and advances” and are in conformity with the related accounting policies described in these financial statements.

4. Cash and balances with SAMA

	31 December 2019 SAR’000
Cash in hand	43,814
Statutory deposits (note 4.1)	988,461
Current account	10,566
Money market placements with SAMA (note 4.2)	7,201,000
Total	8,243,841

4.1 In accordance with the Banking Control Law and regulations issued by Saudi Arabian Monetary Authority (SAMA), the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its customer, demand, savings, time and other deposits, calculated at the end of each month. The statutory deposits with SAMA are not available to finance the Bank’s day-to-day operations and therefore are not part of cash and cash equivalents.

4.2 Money market placements with SAMA having a maturity date of 1 January 2020.

5. Due from banks and other financial institutions

	31 December 2019 SAR’000
Current accounts	268,691
Money market placements	1,179,396
Total	1,448,087

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6. Investments, net

a) Investment securities are classified as follows:

	2019 SAR'000
Investment at amortized cost	2,189,046
Investments at FVOCI - Equity investments	381,079
Investment at FVTPL- Equity investments	203,621
Total	**2,773,746**

Note1: the following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments

	12-month ECL	Lifetime ECL not credit impaired	Total
Balance as at 3 April 2019	2,315	-	2,315
Transfer to lifetime ECL not credit - impaired	(935)	935	-
Total transfers	(935)	935	-
Net remeasurement of loss allowance	(716)	1,778	1,062
Balance as at 31 Dec 2019	664	2,713	3,377

b) Investments by type of securities

	Domestic SAR' 000
Fixed-rate securities	1,764,665
Floating-rate securities	427,758
Equities	584,700
Less: Allowance for Impairment	(3,377)
Total	**2,773,746**

The impairment relates to debt instruments carried at amortized cost only.

c) The analysis of the composition of investments is as follows.

	2019		
	Quoted SAR' 000	Unquoted SAR' 000	Total SAR' 000
Fixed-rate securities	-	1,764,665	1,764,665
Floating-rate securities	-	427,758	427,758
Equities	576,724	7,976	584,700
	576,724	**2,200,399**	**2,777,123**
Allowance for impairment	-	(3,377)	(3,377)
Investments, net	**576,724**	**2,197,022**	**2,773,746**

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6. Investments, net (continued)

d) The analysis of investments by counterparty is as follows:

	2019 SAR' 000
Government and quasi government	1,664,073
Corporate	793,934
Banks and other financial institutions	319,116
Allowance for impairment	(3,377)
Total	**2,773,746**

7. Loans and Advances - Net

	31 December 2019 SAR'000			
	Overdrafts	Commercial loans	Retail loans	Total
Performing loans and advances	326,134	16,067,330	494,437	16,887,901
Non-performing loans and advances	-	1,400,588	620	1,401,208
Gross loans and advances	326,134	17,467,918	495,057	18,289,109
Provisions for impairment	(826)	(790,081)	(7,760)	(798,667)
Loans and advances, net	**325,308**	**16,677,837**	**487,297**	**17,490,442**

Performing loans and advances include SAR 531,477 thousand that are delinquent but not impaired.

An analysis of changes in loss allowance for loans and advances is, as follows:

	SAR'000			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of period	**52,246**	**113,370**	**1,525,093**	**1,690,709**
Transfers during the period				
Transfer to Stage 1	1,100	(1,100)	-	-
Transfer to Stage 2	(4,561)	4,561	-	-
Transfer to Stage 3	-	(58,263)	58,263	-
Total transfers during the period	(3,461)	(54,802)	58,263	-
Net charge for the period	4,378	15,522	101,941	121,841
Write-offs	-	-	(1,013,883)	(1,013,883)
Balance as at 31 Dec 2019	**53,163**	**74,090**	**671,414**	**798,667**

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8. Property and equipment, net

	Leasehold improvements	Furniture, equipment and vehicles	Work in progress	Total 2019
		SR'000		
Cost				
Balance at beginning of the period	77,703	119,484	10,146	207,333
Additions	1,783	4,403	27,737	33,923
Transfers	428	5,616	(6,044)	-
Disposals	(16,900)	-	-	(16,900)
Balance at end of the period	63,014	129,503	31,839	224,356
Accumulated depreciation				
Balance at beginning of the period	44,621	90,392	-	135,013
Charge for the period	8,224	16,563	-	24,787
Write-off	(12,127)	-	-	(12,127)
Balance at end of the period	40,718	106,955	-	147,673
Carrying amount	22,296	22,548	31,839	76,683

9. Intangible assets

	Work in progress	Software	31 December 2019
		SAR'000	
Cost			
Balance at beginning of the period	9,038	95,859	104,897
Additions	20,096	1,337	21,433
Transfers	(18,044)	18,044	-
Balance at end of the period	11,090	115,240	126,330
Accumulated amortization			
Balance at beginning of the period	-	58,450	58,450
Charge for the year	-	16,997	16,997
Balance at end of the period	-	75,447	75,447
Carrying amount	11,090	39,793	50,883

10. Other assets

	31 December 2019 SAR'000
Accrued interest on derivatives	39,415
Prepayments	39,895
Due from related parties	53,103
Outward Clearing Cheques	5,506
VAT Receivable	1,754
Others	6,484
Total	146,157

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11. Leases

a) Right-of-use assets

Movement in right-of-use assets

	2019 SAR'000
Balance at 3 April 2019	75,377
Additions	182,716
Depreciation	(22,112)
Balance at the end of the period	**235,981**

b) Interest expense recognized in profit or loss against lease liabilities amounted to SAR 2.08 million.

12. Derivatives

In the ordinary course of business, the Bank utilises the following derivative financial instruments for both trading and hedging purposes:

a) **Swaps**
Swaps are commitments to exchange one set of cash flows for another. For commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging principal. For cross-currency commission rate swaps, principal, fixed and floating commission payments are exchanged in different currencies.

b) **Forwards and futures**
Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter markets. Foreign currency and commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

c) **Forward rate agreements**
Forward rate agreements are individually negotiated commission rate contracts that call for a cash settlement for the difference between a contracted commission rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

d) **Options**
Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Held for trading purposes

Most of the Bank’s derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers and banks in order, inter alia, 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.

Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Bank’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 and within the guidelines issued by SAMA.

The Board of Directors has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of commission rate risk by setting limits on commission rate gaps for stipulated periods. Asset and liability commission rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce commission rate gap within the established limits.

NOTES TO THE FINANCIAL STATEMENTS
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12. Derivatives (continued)

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and commission rate risks. This is generally achieved by hedging specific transactions as well as strategic hedging against overall statement of financial position exposures. Strategic hedging, other than portfolio hedges for commission rate risk, do not qualify for special hedge accounting and related derivatives are accounted for as held for trading.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses commission rate swaps and commission rate futures to hedge against the commission rate risk arising from specifically identified fixed commission-rate exposures.

The Bank also uses commission rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented and the transactions are accounted for as fair value hedges.

The tables below summarize the positive and negative fair values of derivative financial instruments, together with the notional amounts, analysed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

			2019 SAR'000 Notional amount by term to maturity				
Derivative financial instruments	**Positive fair value**	**Negative fair value**	**Total notional amount**	**Within 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
- held for trading							
Commission rate swaps	139,069	(140,424)	8,805,662	-	-	2,987,283	5,818,379
Currency swaps	398	(402)	233,261	-	-	233,261	-
Commission rates futures and options	19,857	(19,859)	2,496,920	-	-	1,291,230	1,205,690
Forward foreign exchange contracts	99	(813)	766,875	88,443	661,776	16,656	-
- held as fair value hedges							
Commission rate swaps - loans	422	(14,000)	854,511	-	-	479,725	374,786
Commission rate swaps - deposits	1,114	(241)	3,252,136	-	2,801,891	450,245	-
Total	160,959	(175,739)	16,409,365	88,443	3,463,667	5,458,400	7,398,855

The table below shows a summary of hedged items and portfolios, the nature of the risk being hedged, the hedging instrument and its fair value.

	2019 SAR'000					
Description of hedged items	**Fair value**	**Hedge inception value**	**Risk**	**Hedging instrument**	**Positive fair value**	**Negative fair value**
Commission rate swaps - loans	(13,578)	854,511	Fair Value	Commission Rate Swap	422	(14,000)
Commission rate swaps - deposits	873	3,252,136	Fair Value	Commission Rate Swap	1,114	(241)

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13. Due to banks and other financial institutions

	31 December 2019 SAR'000
Current accounts	26,460
Money market deposits	552,009
Total	**578,469**

14. Customers' deposits

	31 December 2019 SAR'000
Demand deposits	7,592,423
Saving accounts	90,049
Time deposits	13,773,492
Others	260,794
Total	**21,716,758**

The above include foreign currency deposits as follows:

	31 December 2019 SAR'000
Demand	468,278
Time	618,227
Others	18,110
Total	**1,104,615**

Time deposits include deposits taken under noncommission based contracts, of SAR 13,043 million.

15. Other liabilities

	31 December 2019 SAR' 000
Accrued interest derivatives	18,990
Withholding tax payables	8,258
Due to related parties	20,803
Accrued expenses	61,130
VAT payable	1,065
End of service benefits	45,204
Provision against off balance sheet exposures	174,209
Provision for zakat	2,017
Deferred LC/LG fees	26,121
Others	66,595
Total	**424,392**

16. Share capital

The authorised, issued and fully paid share capital at 31 December 2019 comprised 750 million shares of SAR 10 each. Basic and diluted earnings per share for the period ended 31 December 2019 is calculated on a weighted average basis by dividing the net income for the period by 750 million shares.

The ownership of the Bank's share capital is as follows:

	31 December 2019 %
Gulf International Bank BSC	50%
Public Investment Fund	50%

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

17. Statutory reserve

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, a minimum of 25% of the annual net income is required to be transferred to a statutory reserve until this reserve equals the paid-up capital of the Bank. Accordingly, SAR 1,753 thousand has been transferred from 2019 net income. The statutory reserve is not currently available for distribution.

18. Commitments and contingencies

a) Legal proceedings

As at December 31, 2019, there were no significant legal proceedings outstanding against the Bank.

b) Credit related commitments and contingencies

The primary purpose of these instruments is to ensure that funds are available to customers as required.

Guarantee and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans and advances. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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

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

Commitments to extend credit represent the unused portion of authorisations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The total outstanding commitments to extend credit do not necessarily represent future cash requirements, as many of these commitments could expire or terminate without being funded.

i) The contractual maturity structure of the Bank's commitments and contingencies is as follows:

	2019 SAR'000 Notional amounts by term to maturity				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,112,263	507,922	-	-	**1,620,185**
Letters of guarantee	1,241,442	4,679,690	2,229,310	45,660	**8,196,102**
Acceptances	184,340	47,803	98,796	-	**330,939**
Irrevocable commitments to extend credit	-	70,000	1,165,517	-	**1,235,517**
Total	**2,538,045**	**5,305,415**	**3,493,623**	**45,660**	**11,382,743**

The outstanding unused portion of commitments as at December 31, 2019 which can be revoked unilaterally at any time by the Bank, amounts to SAR 8,229 million.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

18. Commitments and contingencies (continued)

ii)The analysis of commitments and contingencies by counterparty is as follows:

	31 December 2019 SAR'000
Corporate	10,053,696
Banks and other financial institutions	1,329,047
Total	**11,382,743**

19. Special commission income and expense

	31 December 2019 SAR'000
Special commission income	
Investments	57,854
Due from banks and other financial institutions	125,738
Loans and advances	721,187
Total	**904,779**

	31 December 2019 SAR'000
Special commission expense	
Due to banks and other financial institutions	8,116
Lease liabilities	2,077
Customers' deposits	494,939
Total	**505,132**
Special commission income, net	**399,647**

20. Fee and commission income and expenses

	31 December 2019 SAR'000
Fees and commission income	
Letters of credit	18,516
Letters of guarantee	27,049
Other banking services	16,287
	61,852
Fees and commission expenses	
Bank charges and commission	2,241
Other fees and commission expenses	1,362
	3,603
Fees and commission income, net	**58,249**

NOTES TO THE FINANCIAL STATEMENTS
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21. Salaries and employee related expenses

The following table summarizes the Bank's employee categories defined in accordance with SAMA's rules on compensation practices and includes the total amounts of fixed and variable compensation paid to employees during the year ended December 31, 2019, and the forms of such payments.

		2019		
Category	**Number of employees**	**Fixed compensation SAR 000**	**Variable compensation SAR 000**	**Total SAR'000**
Senior executives requiring SAMA no objection	18	16,923	78	17,001
Employees engaged in risk taking activities	95	38,418	128	38,546
Employees engaged in control functions	132	26,502	829	27,331
Other employees	323	43,261	2,157	45,418
Sub-Total	**568**	**125,104**	**3,192**	**128,296**
Outsourced employees	150	14,180	-	14,180
	718	**139,284**	**3,192**	**142,476**
Variable compensation accrued				24,749
Other employee related benefits				12,854
Total Salaries and employee related expenses per financial statements				**180,079**

Other employee related benefits include medical insurance, recruitment expenses, end of service benefits and other employee related expenses.

22. Other general and administrative expenses

	2019 SAR' 000
Repair and maintenance	28,893
Advertising	16,473
Managed services	11,936
Legal, consultancy & statutory fees	13,602
Communication & data information services	9,274
VAT expenses	8,544
Depositors' protection scheme expenses	6,365
Directors' remuneration (note 30)	4,062
Others	23,459
Total	**122,608**

23. Zakat

The provision of Zakat liability is estimated based on the results of operations of the Bank for the period ended and the financial position at 31 December 2019.The Bank has accrued zakat liability of SAR 2,017 thousand for the period ended 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS
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24. Cash and cash equivalents

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

	31 December 2019 SAR'000
Cash and balances with SAMA (excluding statutory deposit)	7,255,380
Due from banks and other financial institutions with original maturities of three months or less	1,418,069
Total	**8,673,449**

25. Employee Benefit Obligation

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

The amounts recognized in the statement of financial position and movement in the obligation during the period based on its present value are as follows:

	2019 SAR' 000
Defined benefit obligation at the beginning of the period	41,261
Charge for the year	8,422
Interest cost	1,993
Benefits paid	(3,114)
Unrecognized actuarial gain	(3,358)
Defined benefit obligation at the end of the period	**45,204**

a. Charge for the period

	2019 SAR' 000
Current service cost	8,422
Interest cost	1,993
Past service cost	-
	10,415

b. Re-measurement recognized in Other comprehensive income

	2019 SAR' 000
Gain from change in financial assumptions	28
Gain from change in demographic assumptions	5
Gain from change in experience assumptions	3,325
	3,358

c. Principal actuarial assumptions (in respect of the employee benefit scheme)

	2019
Discount rate	**3.05%**
Expected rate of salary increase	**2.65%**
Normal retirement age	**60 years**

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

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

25. Employee Benefit Obligation (continued)

d. Sensitivity of actuarial assumptions

The table below illustrates the sensitivity of the Defined Benefit Obligation valuation as at December 31, 2019 to the discount rate (3.05%), salary escalation rate (2.65%), withdrawal assumptions and mortality rates.

	SAR'000		
2019	**Impact on defined benefit obligation**		
Base Scenario	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.5%	42,836	47,783
Expected rate of salary increase	0.5%	47,781	42,817
Normal retirement age	1 year	45,241	45,186

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

The following payments are expected against the defined benefits liability in future years:

	2019 SAR'000
Within the next 12 months (next annual reporting period)	3,066
Between 2 and 5 years	15,115
Beyond 5 years up to 10 years	31,428
Total expected payments	**49,609**

The average duration of the defined benefits plan obligation at 31 December 2019 is 10.92 years.

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26. Financial Risk Management

a) Credit Risk

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Board Risk Policy Committee (BRPC) which has the responsibility to monitor the overall risk process within the bank. The BRPC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The Management Risk Committee is responsible for managing risk decisions and monitoring risk levels. Credit decisions are made by the Management Credit Committee. The Bank manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Disciplined processes are in place at both the business unit and corporate level that are intended to ensure that risks are accurately assessed and properly approved and monitored. Formal credit limits are applied at the individual transaction, counterparty, country and portfolio levels. Overall exposures are also evaluated to ensure a broad diversified credit risk exposure.

The credit management process involves the monitoring of concentrations by product, industry, single obligor, risk grade and geography, and the regular appraisal of counterparty credit quality through the analysis of qualitative and quantitative information. The bank assesses the probability of default of counterparties using internal rating tools. Also, the bank uses the external ratings, of the major rating agency, where available.

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are monitored daily. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. The bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken, the bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business. It also takes security when appropriate. The Bank also seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Bank regularly reviews its risk management policies and systems to reflect changes in markets products and emerging best practice.

The debt securities included in the investment portfolio are mainly sovereign risk. Analysis of investments by counterparty is provided in note 6. For details of the composition of loans and advances refer to note 7. Information on credit risk relating to derivative instruments is provided in note 11 and for commitments and contingencies in note 17.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

26. Financial risk management (continued)

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

a- Geographical concentration

	2019 SAR'000					
	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Assets						
Balance with SAMA	8,200,027	-	-	-	-	**8,200,027**
Due from banks and other financial institutions						
Current accounts	2,754	80,056	126,398	59,483	-	**268,691**
Money market placements	575,437	603,959	-	-	-	**1,179,396**
Investments, net						
Held as amortized cost	2,189,046	-	-	-	-	**2,189,046**
Held as FVOCI	381,079	-	-	-	-	**381,079**
Held as FVTPL	203,621	-	-	-	-	**203,621**
Positive fair value of derivatives						
Held for trading	86,058	73,365	-	-	-	**159,423**
Held as fair value hedges	-	1,536	-	-	-	**1,536**
Loans and advances, net						
Overdraft	325,308	-	-	-	-	**325,308**
Commercial loans	16,677,837	-	-	-	-	**16,677,837**
Retail loans	487,211	86	-	-	-	**487,297**
Other assets	44,921	39,617	13,486	-	-	**98,024**
Total	**29,173,299**	**798,619**	**139,884**	**59,483**	**-**	**30,171,285**
Liabilities						
Due to banks and other financial institutions						
Current accounts	9,171	17,181	74	34	-	**26,460**
Money market deposits	170,138	381,871	-	-	-	**552,009**
Negative fair value of derivatives						
Held for trading	28,795	132,703	-	-	-	**161,498**
Held as fair value hedges	-	14,241	-	-	-	**14,241**

NOTES TO THE FINANCIAL STATEMENTS
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26. Financial risk management (continued)

26.1 Concentration of risks of financial assets with credit risk exposure and financial liabilities (continued)

a- Geographical concentration (continued)

	2019 SAR'000					
	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Customers' deposits						
Demand	7,592,423	-	-	-	-	**7,592,423**
Time	12,760,849	-	1,012,643	-	-	**13,773,492**
Saving	90,049	-	-	-	-	**90,049**
Others	260,794	-	-	-	-	**260,794**
Lease liabilities	224,542					**224,542**
Other liabilities	146,715	20,803	-	-	-	**167,518**
Total liabilities	**21,283,476**	**566,799**	**1,012,717**	**34**	**-**	**22,798,448**
Commitments and contingencies						
Letters of credit	1,554,096	65,847	242	-	-	**1,620,185**
Letters of guarantee	4,052,553	2,733,814	384,660	699,036	326,039	**8,196,102**
Acceptances	330,939	-	-	-	-	**330,939**
Irrevocable commitments to extend credit	1,235,517	-	-	-	-	**1,235,517**

Maximum Credit exposure (stated at credit equivalent amounts)

	Kingdom of Saudi Arabia	GCC and Middle East	Europe	North America	South East Asia	Total
Commitments and contingencies						
Letters of credit	311,330	13,169	48	-	-	**324,547**
Letters of guarantee	2,414,695	1,368,665	192,330	349,725	163,019	**4,488,434**
Acceptances	316,206	14,733	-	-	-	**330,939**
Irrevocable commitments to extend credit	617,759	-	-	-	-	**617,759**

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

26. Financial risk management (continued)

26.2 Credit quality analysis

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

	31 December 2019			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR '000			
Loans and advances to customers at amortized cost				
Grades 1-4: Low - fair risk	10,508,101	51,283	-	10,559,384
Grades 5-7: Watch list	5,545,657	1,096,686	159,069	6,801,412
Grades 8: Substandard	-	-	322,467	322,467
Grades 9: Doubtful	-	-	584,030	584,030
Grades 10: Loss	-	-	21,816	21,816
Carrying amount	**16,053,758**	**1,147,969**	**1,087,382**	**18,289,109**

	31 December 2019			
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	SAR '000			
Debt investment securities at amortized cost				
Grades 1-4: Low - fair risk	2,151,760	-	-	2,151,760
Grades 5-7: Watch list	-	37,286	-	37,286
Carrying amount	**2,151,760**	**37,286**	**-**	**2,189,046**

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

Amounts arising from ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators and expert credit assessment and inclusion of forward-looking information.

The Bank considers all counterparties internally rated 6+ and below to be significantly deteriorated, as they are below the minimum credit quality thresholds specified in the Bank's credit policy. In addition, the Bank also considers all counterparties internally rated 2 and above, between 2- and 3+, between 3 and 4+, and 4 and below, to be significantly deteriorated where they have been downgraded 6 notches, 5 notches, 4 notches and 3 notches respectively since initial recognition, and where the current pricing has not been adjusted to reflect the new risk profile of the counterparty.

Debt investment securities are considered to have low credit risk when their credit risk rating is equivalent to an investment grade rating or a debt investment security with similar credit risk characteristics.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in the probability of default (PDs) and qualitative factors, including whether the exposure has been watch-listed, whether the exposure is more than 30 days past due and as a backstop based on delinquency.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

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

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Non-retail exposures	Retail exposures	All exposures
1- Information obtained during periodic review of customer files - e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes. 2- Data from credit reference agencies, press articles, changes in external credit ratings 3- Quoted bond and credit default swap (CDS) prices for the borrower where available 4- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	5- Internally collected data and customer behavior - e.g. utilization of credit card facilities 6- Affordability metrics 7- External data from credit reference agencies including industry-standard credit scores	8- Payment record - this includes overdue status as well as a range of variables about payment ratios 9- Utilization of the granted limit 10- Requests for and granting of forbearance 11- Existing and forecast changes in business, financial and economic conditions

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Definition of 'Default'

The Bank considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Bank. In assessing whether a borrower is in default, the Bank considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Bank.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Bank Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the Kingdom and selected private-sector and academic forecasters.

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

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at December 31, 2019 included the following ranges of key indicators.

	December 2019		
KSA	2019	2020	2021
Base 50%	**Year 1**	**Year 2**	**Year 3**
GDP (%)	2.60	2.70	2.70
Surplus (% of GDP)	(4.60)	(4.20)	(4.20)
Positive 15%			
GDP (%)	2.60	3.17	3.17
Surplus (% of GDP)	(4.40)	(3.72)	(3.72)
Negative 35%			
GDP (%)	1.37	1.06	1.06
Surplus (% of GDP)	(13.98)	(9.35)	(9.35)

The Bank has identified economic factors such as fiscal balances and GDP growth in Kingdom of Saudi Arabia as well as the views of the Chief Economist. Given the nature of the Banks' exposures and availability of historical statistically reliable information, the Bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Standard & Poors (S&P) for each rating category. The Bank uses the Vasicek model to link the TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The Vasicek model takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data, the asset correlation of each rating category (as per the Basel IRB economic capital formula), and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

The table below shows the sensitivity of change in economic indicators to the ECL computed under three different scenarios used by the Bank.

	Probability	Debt instrument at Amortised Cost	Loans and advances	Financial guarantees	Letter of credit	Undrawn commitment
Base	50%	2,840	86,141	10,173	4,388	553
Positive	15%	2,806	84,924	10,015	4,318	553
Negative	35%	4,388	137,605	15,543	7,734	1,105

Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and also incorporate forward-looking information.

PD estimates are estimates at a certain date and are calculated using Standard & Poor's recovery studies data after consideration of the contractual maturities of exposures and estimated prepayment rates and are derived using the Vasicek model.

The PIT PD estimates are converted to cumulative PIT PDs for exposures that have tenors in excess of one year and that are assessed on lifetime PDs. The lifetime PDs are calculated by compounding the 12-month PIT PD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Bank calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario.

Credit-impaired loans
Credit-impaired loans and advances are graded 8 to 10 in the Banks’ internal credit risk grading systems.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. The Bank grants forbearance on a selective basis if there is evidence that the customer has made all reasonable efforts to honour the original contractual terms and the customer is expected to be able to meet the revised terms. Forbearance is a qualitative indicator of a significant increase in credit risk, and a customer would need to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired, or in default, or the PD has decreased such that the provision for credit-impairment reverts to being measured at an amount equal to the 12-month ECL.

Ageing of loans and advances (Past due but not impaired)

December 2019 - SAR'000	Commercial Loans	Retail Loans	Total
From 1 day to 30 days	504,664	26,813	531,477
Total Loans & advances	**504,664**	**26,813**	**531,477**

Economic Sector risk concentration for the loans and advances and allowance for impairment are as follows:

December 2019	Performing	Credit-impaired	Allowance for impairment	Loans & advances, net
Agriculture & Fishing	642,881	-	(2,555)	640,326
Manufacturing	1,497,693	68,389	(41,265)	1,524,817
Energy & Utilities	711,700	-	(842)	710,858
Building and Construction	1,325,303	369,196	(285,526)	1,408,973
Wholesale Retail Trade	3,851,568	312,363	(103,848)	4,060,083
Real Estate Business	1,954,849	-	(11,819)	1,943,030
Transportation	995,204	283,214	(1,695)	1,276,723
Services	361,193	-	(2,141)	359,052
Finance	2,976,246	-	(51,203)	2,925,043
Communication	292,137	123,177	(77,790)	337,524
Health Care	99,769	244,249	(199,333)	144,685
Petrochemical	1,089,904	-	(2,560)	1,087,344
Others	595,017	-	(10,330)	584,687
Retail	494,437	620	(7,760)	487,297
Total	**16,887,901**	**1,401,208**	**(798,667)**	**17,490,442**

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

26. Financial risk management (continued)

26.2 Credit quality analysis (continued)

Collateral

The banks in the ordinary course of lending activities hold collaterals as security to mitigate credit risk in the loans and advances. These collaterals mostly include time, demand, and other cash deposits, financial guarantees, local and international equities, real estate and other fixed assets. The collaterals are held mainly against commercial and consumer loans and are managed against relevant exposures at their net realizable values. For financial assets that are credit impaired at the reporting period, quantitative information about the collateral held as security is needed to the extent that such collateral mitigates credit risk

The amount of collateral held as security for loans that are credit impaired as at December 31, 2019 are as follows

	2019 SAR '000
Less than 50%	23,432
51-70%	-
More than 70%	100,867
Total	124,299

27. Market risk

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as commission rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either 'trading' or 'non-trading' or 'banking-book'.

a) Market risk-trading book

The Board has set limits for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Bank periodically applies a VAR methodology to assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

A VAR methodology estimates the potential negative change in market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VAR models are usually designed to measure the market risk in a normal market environment and therefore the use of VAR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VAR that the bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. The use of 99% confidence level depicts that within a one-day horizon, losses exceeding VAR figure should occur, on average, not more than once every hundred days.

The VAR represents the risk of portfolios at the close of a business day, and it does not account for any losses that may occur beyond the defined confidence interval. The actual trading results, however, may differ from the VAR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VAR limitations mentioned above, the bank also carries out stress tests of its portfolio to simulate conditions outside normal confidence intervals. The potential losses occurring under stress test conditions are reported regularly to the banks ALCO committee for their review.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

27. Market risk (continued)

The Bank's VaR related information for the period ended December 31, 2019 is as under.

	"000			
	2019			
	Foreign Exchange Rate	Special commission risk	Equity price risk	Overall risk
VAR as at December 31, 2019	29	0	8,300	8,329
Average VAR for 2019	73	1.1	12,631	12,705

B) Market risk non-trading or banking book

Market risk on non-trading or banking positions mainly arises from the commission rate, foreign currency exposures and equity price changes.

i) Special commission rate risk

Special commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established commission rate gap limits for stipulated periods. The bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

The following table depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2019, including the effect of hedging instruments. All the banking book exposures are monitored and analysed in US Dollars concentration and change sensitivities are disclosed in SAR thousands. Sensitivity of special commission income for +1/-1 increase in the basis of the US Dollar is SAR 63 million and SAR (63) million respectively.

Commission sensitivity of assets, liabilities and off-balance sheet items

The Bank manages exposure to the effects of various risks associated with fluctuations in the prevailing levels of market commission rates on its financial position and cash flows.
The Board sets limits on the level of mismatch of commission rate reprising that may be undertaken, which is monitored daily by bank Treasury.

The table below summarises the Bank's exposure to commission rate risks. Included in the table are the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

27. Market risk (continued)

The Bank is exposed to commission rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

(Amounts in SAR'000)

2019	Within 3 Months	3-12 months	1-5 Years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash in hand	-	-	-	-	43,814	43,814
Balances with SAMA	7,201,000	-	-	-	999,027	8,200,027
Due from Banks and other financial institutions						
current accounts	-	-	-	-	268,691	268,691
money market placements	1,149,378	-	30,018	-	-	1,179,396
Investments, net						
Held as FVTPL	-	-	-	-	203,621	203,621
Held at amortised cost	148,948	40,000	1,347,766	652,332	-	2,189,046
Held as FVOCI	-	-	-	-	381,079	381,079
Positive fair value of derivatives						
Held for trading	-	59	19,956	139,408	-	159,423
Held as fair value hedges	-	560	976	-	-	1,536
Loans and advances, net						
Over draft	325,308	-	-	-	-	325,308
Credit cards	10,588	-	-	-	-	10,588
Consumer loans	54,074	1,781	420,033	821	-	476,709
Commercial loans	15,548,100	698,454	431,283	-	-	16,677,837
Property and equipment	-	-	-	-	76,683	76,683
Intangible assets	-	-	-	-	50,883	50,883
Right of use assets	-	-	-	-	235,981	235,981
Other assets	-	-	-	-	146,157	146,157
Total assets	**24,437,396**	**740,854**	**2,250,032**	**792,561**	**2,405,936**	**30,626,779**
Liabilities						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	26,460	26,460
Money market deposits	502,009	50,000	-	-	-	552,009
Customer deposits						
Demand	-	-	-	-	7,592,423	7,592,423
Saving	-	-	-	-	90,049	90,049
Time	11,968,364	1,733,744	71,384	-	-	13,773,492
Other	-	-	-	-	260,794	260,794
Negative fair value of derivatives						
Held for trading	754	23	19,843	140,878	-	161,498
Held as fair value hedges	-	240	1,111	12,890	-	14,241
Lease liabilities		3,805	55,491	165,246	-	224,542
Other liabilities	-	-	-	-	424,392	424,392
Share holders equity	-	-	-	-	7,506,879	7,506,879
Total Liabilities & shareholders' equity	**12,471,127**	**1,787,812**	**147,829**	**319,014**	**15,900,997**	**30,626,779**
commission rate sensitivity - On statement of financial position	11,966,269	(1,046,958)	2,102,203	492,227	(13,495,061)	-
commission rate sensitivity - Off statement of financial position	2,538,045	5,305,415	3,493,623	45,660	11,382,743	22,784,166
Total commission rate sensitivity gap	14,504,314	4,258,457	5,595,826	537,887	(2,112,318)	22,784,166
Cumulative commission rate sensitivity gap	**14,545,705**	**18,763,489**	**24,358,596**	**24,877,804**	**22,765,486**	**-**

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

27. **Market risk** (continued)

The off statement of financial position gap represents the net notional amounts of derivative financial instruments, which are used to manage the commission rate risk.

The effective commission rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

ii) CURRENCY RISK

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The table below shows the currencies to which the Bank has a significant exposure as at December 31, 2019 on its non-trading monetary assets and liabilities and forecasted cash flows. The analysis calculates the effect of reasonable possible movement of the currency rate against SAR, with all other variables held constant, on the statement of income (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity. A positive effect shows a potential increase in the statement of income; whereas a negative effect shows a potential net reduction in the statement of income.

Currency Exposures As at 31 December 2019	Change in currency rate in %	Effect on net income (SAR'000)
USD	+5/-5	311 / (311)
EURO	+5/-5	4,471 / (4,471)
GBP	+5/-5	11 / (11)
JPY	+5/-5	4 / (4)

iii) Currency position

The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the period, the Bank had the following significant net exposures denominated in foreign currencies:

	2019 SAR '000 Long/(short)
US Dollar	6,216
Japanese Yen	89,411
Euro	212
Pound Sterling	84
Others	2,116
Total	**98,039**

iv) EQUITY PRICE RISK

Equity risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

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

	December 31, 2019	
Market Indices	**Change in Equity price%**	**Effect in SAR m**
Tadawul	-5%	(18.66)

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

28. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

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

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of saving and time deposits. In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash, gold, Saudi Government Development Bonds or assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 75% of the nominal value of bonds held.

Analysis of Financial Liabilities by remaining undiscounted contractual Maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December 2019 based on contractual undiscounted repayment obligations. As special commission payments up to contractual maturity are included in the table, totals do not match with the statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the balance sheet date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not affect the expected cash flows indicated by the Bank's deposit retention history.

	2019 SAR '000					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity	Total
Liabilities						
Due to banks and other financial institutions						
Current accounts	-	-	-	-	26,460	26,460
Money market deposits	505,010	50,610	-	-	-	555,620
Customer deposits						
Demand	-	-	-	-	7,952,423	7,952,423
Saving					90,049	90,049
Time	12,537,345	1,520,348	90,249	-	-	14,147,942
Other	-	-	-	-	260,794	260,794
Negative fair value of derivatives						
- Held for trading	754	23	19,843	140,878	-	161,498
Held as fair value hedges	-	240	1,111	12,890	-	14,241
Lease liabilities	-	3,805	55,491	165,246	-	224,542
Other liabilities	-	-	-	-	167,518	167,518
Total Liabilities	**13,043,109**	**1,575,026**	**166,694**	**319,014**	**8,497,244**	**23,601,087**

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

29. Fair values of financial instruments

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

- In the accessible principal market for the asset or liability, or
- In the absence of a principal market, in the most advantages accessible market for the asset or liability

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

Determination of fair value and fair value hierarchy

The Bank 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.

Carrying amounts and fair value

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

		Fair value SAR '000			
	Carrying value	Level 1	Level 2	Level 3	Total
At 31 December 2019					
Financial assets measured at fair value					
Investments at FVTOCI	381,079	373,103	-	7,976	381,079
Investments at FVTPL	203,621	203,621	-	-	203,621
Positive fair value of derivative financial instruments	160,959	-	160,959	-	160,959
Financial assets not measured at fair value					
Investments at amortized cost	2,189,046	-	148,918	2,147,924	2,296,842
Loans and advances, net	17,490,442	-	-	17,451,048	17,451,048
Cash and balance with SAMA	8,243,841			8,243,841	8,243,841
Due from banks and other financial institution	1,448,087			1,448,087	1,448,087
Other financial assets	98,024			98,024	98,024

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

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

29. Fair values of financial instruments (continued)

	Carrying value	Fair value SAR '000 Level 1	Level 2	Level 3	Total
At 31 December 2019					
Financial liabilities measured at fair value					
Negative fair value of derivative financial instruments	175,739	-	175,739	-	175,739
Financial liabilities not measured at fair value					
Customers' deposits	21,716,758	-	-	20,756,921	20,756,921
Due to banks and other financial institution	578,469			578,469	578,469
Other financial liabilities	163,518			163,518	163,518

Short-term customer deposits, due to banks with maturity of less than 90 days and other short-term payables are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature.

Investment securities in Level 2 and Level 3 valued based on other valuation techniques comprise discounted cash flow techniques or other valuation methodologies.

No transfers out of the level 3 measurement classification occurred during the period ended December 31, 2019. Similarly, no transfers between level 1 and level 2 measurement classifications were made during the period ended December 31, 2019.

Reconciliation of Level 3 fair values

The following table shows reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Equity securities SAR '000
Balance at 3 April 2019	8,594
Gain included in OCI	
Net change in fair value (unrealized)	(618)
Balance at 31 December 2019	**7,976**

Sensitivity of the movement in the fair value of financial instruments in the level 3 category is assessed as not significant to other comprehensive income or total equity.

NOTES TO THE FINANCIAL STATEMENTS
At December 31, 2019

30. Related party transactions

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

(i) The balances as at December 31 resulting from such transactions included in the financial statements are as follows:

	2019 SAR' 000
Major shareholder and their affiliates:	
Investments	203,621
Due from banks and other financial institutions	613,993
Due to banks and other financial institutions	576,262
Customers' deposits	3,276,366
Derivatives	11,294,939
Commitments and contingencies	1,059,585
Other assets	92,518
Other liabilities	39,793

(ii) Income and expenses pertaining to transactions with related parties included in the financial statements are as follows:

	2019 SAR' 000
Special commission income	6,191
Special commission expense	43,519
Fees and commission income and expense, net	328
Other income	2,472

(iii) The total amount of compensation paid to directors and key management personnel during the period is as follows:

	2019` SAR' 000
Short-term employee benefits	517
Post-employment benefits	147
Directors remuneration	4,062

31. Capital Adequacy

The bank's objectives when managing capital are, to comply with the capital requirements set by SAMA; to safeguard the bank'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 daily by the bank's management. SAMA requires holding the minimum level of the regulatory capital of and maintaining a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

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

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31. **Capital Adequacy** (continued)

	31 December 2019 SAR'000
Risk-weighted exposure	
Credit risk	24,422,063
Operational risk	761,032
Market risk	420,281
Total risk-weighted exposure	**25,603,376**
Regulatory capital base	
Tier I capital	7,506,879
Tier II capital	130,630
Total regulatory capital base	**7,637,509**
Capital adequacy ratios	
Tier I ratio	29.32%
Total ratio	29.83%

32. Comparative figures

No comparative figures are disclosed being the Bank's first year of operations.

33. Subsequent event

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread globally, to including the Kingdom of Saudi Arabia (KSA), causing disruptions to businesses and economic activity, and may eventually impact the repayment capacity of the Bank's customers. However, the Government of Saudi Arabia through SAMA, has announced several initiatives to provide necessary relief to the financial services sector including underlying consumers. The Bank considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Bank. The impact of this outbreak on the Bank's financial statements, including expected credit losses, will be considered in the Bank's financial statements for the year ending 31 December 2020.

34. Board of Directors' approval

The financial statements were authorised for issue by the Board of Directors on Jumada II 29, 1441H (corresponding to February 23, 2020).