INTEGRATED REPORT 2019

البنك السعودي للاستثمار
The Saudi Investment Bank

Integrated Report
2019

Prince Mohammad bin Salman bin Abdulaziz Al-Saud
Crown Prince

King Salman bin Abdulaziz Al-Saud
Custodian of The Two Holy Mosques

GRI 102-46, 102-48, 102-49, 102-50, 102-51, 102-52, 102-53, 102-54

About this Report

This is SAIB's third consecutive Integrated Report. Through this Report, the Bank communicates with stakeholders its strategy, governance, performance, and prospects in the context of the operating environment and how it creates value in the short, medium, and long term.

Integrated reports balance the need to communicate effectively through concise, relevant information while providing comprehensive compliance-related disclosures. The Report is available in print and PDF format as well as in interactive online HTML format with features that make it easier to find, extract, and share information.

Report boundary

The Report largely covers the operations of The Saudi Investment Bank (referred to as "SAIB") only, unless otherwise stated. The boundary for financial reporting includes SAIB and its subsidiaries and associate companies (referred to as "the Group").

Reporting period

Our reporting covers the period from January 1 to December 31, 2019 and is consistent with our usual annual reporting cycle for financial and sustainability reporting. There are no restatements of information provided in previous reports and no significant changes from previous reporting periods in the scope and aspect boundaries.

The most recent previous integrated report covered the 12-month period ended December 31, 2018.

The Integrated Report has been issued in both English and Arabic, and in the event of any discrepancy, the Arabic version shall prevail.

Compliance

The information contained herein, as in the past, is in compliance with all applicable laws, regulations, and standards. In preparing this Integrated Report we have drawn on concepts, principles, and guidelines given in The International <IR> Framework and The Smart Integrated Reporting Methodology™.

As provided in the paragraphs 2.10 and 2.17 – 2.19 of The International <IR> Framework, organizations preparing an integrated report are not required to adopt The <IR> Framework categorization of capitals. Accordingly, we have categorized the capitals differently, in our business model diagram, to best describe our value creation process. Our value creation story is a discussion based on our strategic imperatives and their implementation.

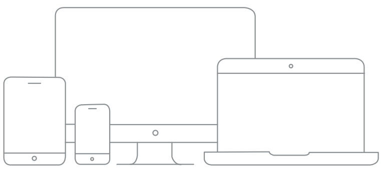
This Report has been prepared in accordance with the GRI Standards: Core option.

These Consolidated Financial Statements as of and for the year ended December 31, 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the KSA and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA); and are in compliance with the provisions of the Banking Control Law, the Regulations for Companies in the KSA, and the Bank's Articles of Association.

The Consolidated Financial Statements as of and for the year ended December 31, 2018 were prepared in accordance with IFRS as modified by the Saudi Arabian Monetary Authority (SAMA) for the accounting of Zakat and Income Tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" insofar as these relate to Zakat and Income Tax) and in compliance with the provisions of the Banking Control Law, the Regulations for Companies in KSA, and the Bank's Articles of Association.

Queries

The Bank's Corporate Communication Group is the custodian of this Report. For comments or queries please contact the Head of CSR at Head Office, The Saudi Investment Bank.



The SAIB Integrated Report online

The interactive HTML version is published online on the same date as the date of issue of this Integrated Report at www.saib.com.sa/integratedreport2019

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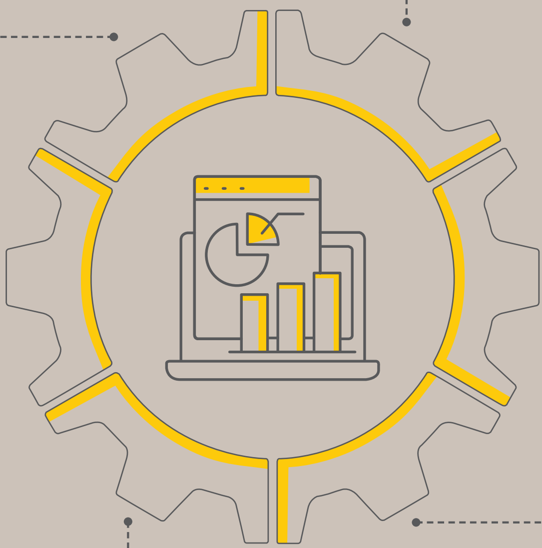


GRI 102-1, 102-2, 102-4, 102-6, 102-7

The Saudi Investment Bank

Our Vision

To offer the simplest and most accessible products and services to each of our customers.

Our Mission

Towards our customers

- We make banking simple and accessible for each of our customers.
- We are flexible, adaptive, and responsive to deliver what suits our customers.
- We listen to our customers and understand their needs and preferences in order to evolve and improve.

Towards our employees

- We value ideas, inputs, and initiatives.
- We empower our staff to bring out their best and go the extra mile.
- We recognize individual contribution and we support individual development.
- We enhance team spirit, which allows us to collectively build the smartest solutions.

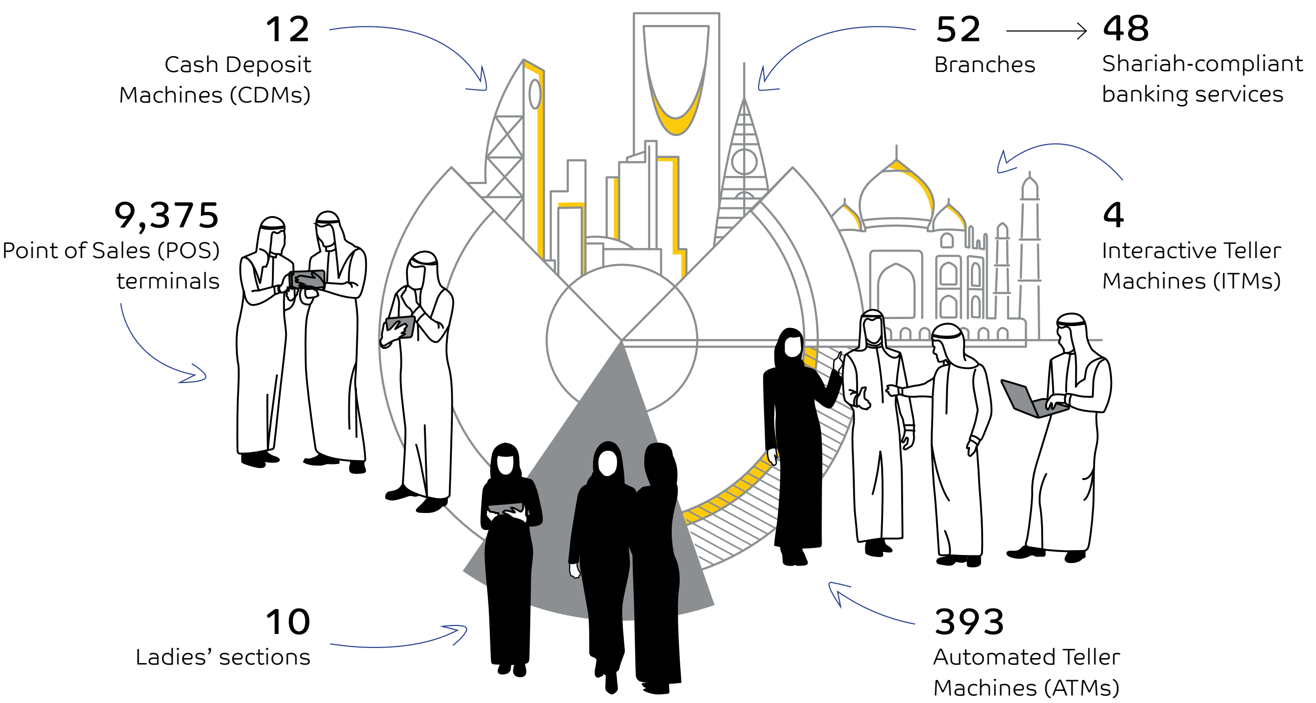
Our history and operations

The Bank commenced operations in 1977 pursuant to a Royal Decree dated June 22, 1976. It concentrated on medium-term financing of industrial projects. In 1983, the Bank adopted the SAIB name and moved into full commercial banking. The Al Asalah Islamic Banking brand, through which the Bank provides Shariah-compliant products and services, was launched in 2006. Islamic principles lie at the heart of all the Bank's operations and our Shariah Committee assure adherence to Shariah principles in our product development.

SAIB provides wholesale, retail, and commercial banking products in the Kingdom of Saudi Arabia, both Shariah-compliant and traditional. In addition to personal banking, the Bank services the government, quasi-government, corporate, and MSME sectors. Our finance operations offer a range of non-interest-bearing banking products including Murabaha, Istisna'a, and Ijarah. Our product portfolio also includes several treasury and investment banking products.

Our joint ventures and subsidiaries expand our range of products and services to include investment banking, share trading, asset management, leasing finance, mortgage finance, brokerage services, corporate finance services, and credit card services.

The Bank's network includes 52 branches, 48 of which offer Shariah-compliant banking services and 10 ladies' sections. As of December 31, 2019, the Bank operated a network of 393 ATMs and over 9,300 POS terminals.



The Group

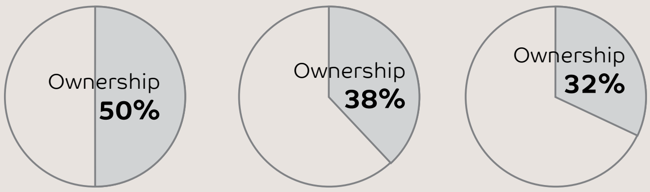
The Saudi Investment Bank

The Bank has four **subsidiary companies**, all of which are **100% owned** by the Bank

- **Alistithmar for Financial Securities and Brokerage Company (ICAP)**
  Brokerage, asset management, investment banking and other services within the Kingdom.
- **The Saudi Real Estate Company**
  Limited liability company of which the main activity is to hold real estate assets given to the Bank as collateral.
- **Saudi Investment First Company**
  Holds the shares in American Express (Saudi Arabia).
- **SAIB Markets Limited Company**
  Incorporated in Cayman Islands and trades in derivatives and Repo activities on behalf of the Bank.

In addition, the Bank has investments in the following three **associate companies**

- **American Express (Saudi Arabia)**
  Issuing and handling of credit cards and other American Express products in the Kingdom.
- **Saudi Orix Leasing Company**
  Primarily deals in lease financing services.
- **Amlak International for Finance and Real Estate Development Company**
  Offers real estate products and services.



Our sustainability framework

SAIB has a sustainability framework including five Islamic principles which have been crafted to integrate our commercial responsibilities with our social and environmental responsibilities. They also reflect Islamic principles of good governance and management.

Hifth (Environmental protection)
SAIB will build a competitive advantage by embedding environmental management into the Bank's core activities and continuously de-materialising banking. SAIB will be a model of the competitive environmental practices the Saudi Arabian Government is seeking for the benefit of the Kingdom.

Nummow (Growth)
We aim to deliver strong financial performance for our shareholders by executing our growth strategy while maintaining a disciplined approach to financial stability.

Re'aya (Workforce)
SAIB will be the most sought-after Bank to work for, owing first and foremost to its clear transparency and accountability to both its employees and society.

Awn (Helping others)
SAIB will measure not only the amount of money it invests but the extent and effectiveness of its impact.

SAIB will narrow and focus its investments in areas where it can contribute money, tools, and expertise.

Takleef (Responsibility)
SAIB will be recognized by customers, investors, employees and the public as the most genuine, integrity based, value driven, and, accountable Bank in Saudi Arabia.

GRI 102-12

VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

Our commitment to Vision 2030

Vision 2030 is the framework that drives the aspirations, policies, and plans of the Kingdom today. The Vision is founded upon three themes: a vibrant society, a thriving economy, and an ambitious nation. Many of the goals of Vision 2030 are either directly connected with finance or have a financial implication and thus, SAIB plays a role in the Vision with its contributions.

A vibrant society

Vision goals	SAIB contribution
Moderation, tolerance, excellence, discipline, equity and transparency	The Islamic principles of Hifth, Nummow, Re'aya, Takleef, and Awn
Receiving 30 million Umrah visitors a year	Financing of general infrastructure and tourism infrastructure
40% of citizens to exercise once a week	Fitness club memberships, promoting sports teams, awareness campaigns, "Flexx Bike", and promoting healthy diet
Three KSA cities among top 100 in the world	Urban infrastructure project finance
Resource efficiency, pollution reduction, and nature conservation	GHG emissions tracking, evaluate EMS, UNPRI, and Building Management System
5% increase in home ownership by 2020	Al Asalah home finance, and key strategic target focusing on retail mortgages
Empowering educational, cultural, and entertainment institutions	Community investment, Kidzdomm, and Kidzania activities for children

A thriving economy

Vision goals	SAIB contribution
Reduce unemployment to 7%	Youth employment programmes such as Fast Track, Graduate programme and young hires
Small businesses contribute 35% to GDP, financial institutions allocate up to 20% funding to SMEs	Focus on increasing lending
30% female employment	20.9% female employees, 40.8% of new hires women
Improve living and working conditions for non-Saudis	Expatriate personal finance
Increasing environmental friendliness in oil and gas, mining, tourism and leisure; digitalization of economy, 75% localization of oil and gas, 9.5 GwH renewable energy	A targeted 10% of loan portfolio for financing of environmentally friendly, low carbon activities
Private sector to contribute 65% of GDP, FDI 5.7% of GDP, within top 10 in Global Competitiveness Index	Specialised products and services, ICAP a signatory to the United Nations Principles for Responsible Investment, GRI Community member, signatory to the UN Global Compact
Rank 25 in logistics performance index, invest in infrastructure	Infrastructure project finance guided by equator principles

An ambitious nation

Vision goals	SAIB contribution
Reach top 5 in E-government Index	Ranked 7th in Hawkamah ESG Pan Arab index in 2017 for disclosure of ESG issues
Interactive online and smart engagement methods	Focus on promoting cashless transactions, efficient e-commerce services, contributions with Fintechs to improve customer journey and product offering, annual and sustainability reporting
Households save 10% of income leading to greater financial independence	Murabaha Deposit, awareness campaigns via the Bank's social media channels
Corporate social responsibility	Health, financial literacy, charity events, WooW Alkhair programme, etc.
1/3 of NPO projects have deep and measurable social impact; one million volunteers by 2020	Community investment, active volunteer programme and volunteering policy

GRI 102-7

SAIB at a Glance

Growing volume profitably
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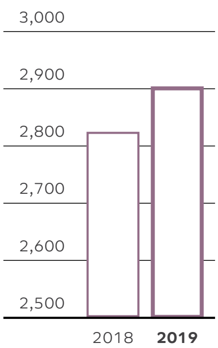
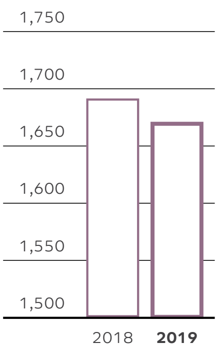
	2019 SAR million	2018 SAR million
Total income*	**2,906**	2,824
Total expenses**	**1,234**	1,133
Operating profit before provisions	**1,672**	1,691
Provisions for credit and other losses	**1,343**	247
Net Income	**239**	576
Provisions for Zakat and Income Tax***	**90**	868
Loans and advances, net	**57,112**	59,413
Investments	**26,175**	24,638
Investments in associates	**994**	1,012
Total assets	**100,815**	96,070
Term loans	**2,012**	2,030
Subordinated debt	**–**	2,006
Customer deposits	**69,058**	63,690
Shareholders' equity	**12,007**	11,621
Tier I Sukuk	**2,000**	1,785
Total equity	**14,007**	13,406
Return on average shareholders' equity (%)	**2.03**	4.73
Return on average assets	**0.24**	0.61
Capital adequacy (%)	**18.26**	19.31
Equity to total assets (%)	**13.89**	13.95

** Total income includes total operating income plus share in earnings of associates.*
*** Total expense includes total operating expenses before impairment charges.*
**** The years prior to 2018 have not been adjusted for provisions for Zakat and Income Tax.*

Total income
(SAR million)

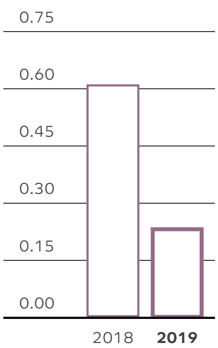


Operating profit*
(SAR million)

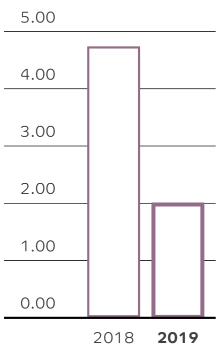


**Before provisions*

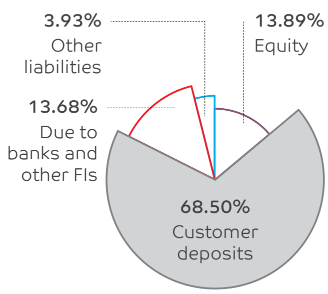
Return on average assets
(%)



Return on average shareholders' equity
(%)



Funding composition



Total assets
SAR 100.8 billion*
4.94% YoY growth

Total operating income
SAR 2,818 million
3.89% increase

Investment portfolio
SAR 26.2 billion*
6.24% YoY growth

Loans and advances
SAR 57.1 billion*
3.87% YoY decline

**as at December 31, 2019*

GRI 102-7

Developing systems and processes

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22 Board policies revised and updated

16 Management Committee charters updated

2 Board Charters updated and approved

IT policies and procedures compliant with **ISO 20000**

Sustainability Management Dashboard System delivers timely insights to aid decision-making

Leveraging relationships

Page 62

545,431 customers (up 22.1% from 2018)

99.5% customer satisfaction on branch services

10 customer experience improvement projects completed

90.0% of eligible customers enrolled in WooW loyalty programme

Improved value for shareholders: Ordinary share market value – **SAR 18.04***

Building people skills

Page 72

1,437 employees**

87.4% Saudization rate** (87.7% in 2018)

20.9% female employees** (19.1% in 2018)

4,543 training days delivered (up 20.0% from 2018)

40 HR processes automated

Broadening product and market portfolio

Page 70

Continual digitalization in enhancing customer experience

Robotic process automation, boosting speed and efficiency of routine processes

Serving the society and the environment

Page 78

Signatory to **United Nations Global Compact**

Environmental Management System compliant with **ISO 14000**

161 employees volunteered 525 hours to society

2019 Arabia CSR Awards: Second Runner-up in Financial Services category

WooW Alkhair: SAR 409,965 donated to 45 organizations

**As of December 31, 2019*

***Includes both SAIB and Alistithmar Capital*

GRI 102-14

Letter from the Chairman

A new decade brings change, transformation, and opportunity for the nation and for SAIB.

2019 is a year of change – it marks the end of a decade and a successful accomplishment to our 2015-2019 Strategic Plan, and the beginning of a new decade and a new strategy. SAIB has been remarkable at keeping pace with the changes the industry and the Kingdom have undergone, with the last two years being notable for the increased competition, changing demands, and Fintech coming into play. Our digital focus has revolutionised how we operate and the effects are clear. All these innovations are bookmarked by high customer satisfaction from our excellent customer service.

Helping SAIB to be as agile and innovative as possible is our recruitment of talented young people with fresh ideas. Distinguished Saudi graduates were enrolled in the Bank's Graduate Development Program which prepares them for a successful career in the Bank. These programmes also focus on the training and development of our young and middle management, developing skills which add value to them and to the Bank. We empower our employees to take ownership of their responsibilities and the decisions they make, be detail-oriented in their work, and always focused on delivering the best experience to our customers. In line with Vision 2030, we are increasing our hires of women and Saudization in the Bank, and, among other social responsibility contributions, we uplift the communities we serve with 525 hours of CSR being volunteered by our employees this year, up from 363 hours in 2018.

Our innovation, focus on digitalization and exemplary customer service, commitment to Vision 2030, and our young, talented human resources will ensure our resilience going into 2020 and beyond. We are proud that Saudi Arabia is hosting the G20 meetings in 2020, and will continue to align with the messages emanating from the G20 regarding financial inclusion, financial education for our youth, support for SMEs and Fintech developments.

On behalf of my fellow Directors, allow me to commend our dedicated employees for their distinguished efforts in elevating our banking services to excellence, and our Executive Management for its efforts in this bold new phase of our journey.

Abdallah Saleh Jum'ah
Chairman

Message from the Chief Executive Officer

As we transition into a new decade, SAIB transforms itself to adapt to a new generation of customers in this connected era.

I am proud to present to you our 2019 Integrated Report which conveys our efforts in a year of transformation and transition, which is apt as we move into a new decade.

Our strategy

With 2019 marking the final year of our 2015-19 Strategic Plan we started the year developing our new Strategic Plan for the next three years. In crafting our new Strategic Plan, we defined the business priorities we will focus on and how we will direct our financial and human capital into what we believe will deliver the best returns. Shaping our focus going forward was an important step in an operating environment that has radically changed since we developed our last strategic plan; our focus is on driving transformation to strengthen our foundation, unlock potential opportunities, and capitalise on our strengths.

We will be stressing on agility, enabling and promoting close collaboration between business and support functions, increasing efficiency and productivity, and reducing our product launch cycles. We will mitigate risks through a strong risk awareness culture and risk management systems and processes. Digitalization is a key dimension of our new strategy, strengthening our IT capabilities to support our business needs, build advanced data analytics, and enable digital workflows across all functions. Most importantly, we will be leveraging innovation to ensure the sustainability of our business.

Our people

Diversity enriches our workforce and we have a particular focus on our female employees who currently represent 20.9% of the total workforce. We promote Saudization; presently 87.4% of our employees are Saudi citizens. Staff in the 21-30 age group accounts for 34% of the total, which highlights the importance we give to youth. All employees received formal training and the Bank offered more than 1,261 eLearning modules to staff.

In conclusion, our outlook is positive and we have a lot to look forward to in 2020 and beyond. I wish to thank our many stakeholders, without whom our accomplishments would not have been possible. I thank my colleagues for their dedication and our customers for their patronage. I thank the Chairman and Board of Directors for their guidance, input, and trust. As we head into a new decade ripe with potential and opportunity, I ask my fellow colleagues for their continued support and dedication towards achieving our strategy for 2020–2022.

Faisal Abdullah Al-Omran
Chief Executive Officer

2019 is a year of change – it marks the end of a decade and a successful strategic plan, and the beginning of a new decade and a new strategy. SAIB has been remarkable at keeping pace with the changes the industry and the Kingdom have undergone, with the last two years being notable for the increased competition, changing demands, and Fintech coming into play.

While 2019 has had its fair share of challenges, we approach the new decade with the optimism that we have equipped ourselves – and continue to equip ourselves – to take on any challenge that comes our way. Our innovation, focus on digitalization and exemplary customer service, commitment to together Vision 2030 and our young, talented employees will ensure our resilience going into 2020 and beyond.

STEWARDSHIP

SAIB's stewardship takes on the task of ensuring sustainable value creation in the short, medium, and long term, all the while balancing the interests of the Bank's diverse stakeholders.

The Bank's stewardship assumes the responsibility of judiciously managing the various types of risk that the Bank is exposed to and ensuring that the Bank abides by the legal and regulatory guidelines of the relevant authorities.

Board of Directors

Mr. Abdallah Saleh Jum'ah

Chairman of the Board

Former President and CEO of Saudi Aramco. Has been a Board Member of many companies including Halliburton. Bachelor's Degree in Political Science from the American University of Beirut.

Mr. Abdulaziz Al-Khamis

Vice-Chairman of the Board

Director General Financial Investments, Public Pension Agency. Held numerous positions with the Saudi Arabian Monetary Agency prior to assuming his current position in July 2006. Currently, a board member of several companies. Bachelor in Economics Degree from Northeastern University, Boston, Massachusetts.

Mr. Abdul Rahman Al-Rawaf

Board Member

Manager of the Investment Portfolios Department at the General Organization for Social Insurance. Has been a board member of many banks and other companies. Bachelor's Degree in Business Administration from Arkansas State University and MPA from the University of Southern California.

Mr. Yasser Aljarallah

Board Member

Mr. Yasser is currently the Chief Executive Officer of Tharwaa Investment Company, he is considered a prominent investment and asset management professional with vast accomplishments in managing his family's investment portfolio. He is currently a board member in VC Bank – Bahrain, and Alinma Medical Services Co. He holds a Bachelor's and Master's Degrees in Economics from the University of Southern California.

Mr. Saleh Al-Athel

Board Member

Progressed through various executive positions within the Saudi Industrial Development Fund until he reached the position of the Assistant Director General. He is a board member of several companies. He holds a BA in Philosophy and Sociology from Damascus University, and a Higher Diploma in Management from Hartford University.

Dr. Fouad Al-Saleh

Board Member

Occupied numerous positions in the government until his retirement as a Colonel in the Ministry of Defence. He is currently a partner in numerous construction-related companies. He holds a BS in Mechanical Engineering from St. Martin College, and an MS and PhD in Construction Engineering from the University of Washington.

Mr. Mohammad Al-Ali
Board Member

Former Senior Vice-President of Finance at Saudi Aramco. He also served on several of the company's executive committees. MBA from the University of Denver and BS Degree in Accounting from the University of Texas-Arlington.

Mr. Mohammed Algrenees
Board Member

Mr. Mohammed is currently the head of local equity and fixed income at Alraidah Investment Co. He is also a board member of various listed and non-listed companies. Prior to assuming his current posting, he progressed through various investment management positions at HSBC, NCB Capital, and Jadwa Investments. He holds a Bachelor's Degree in Chemical Engineering from Kuwait University.

Mr. Mohammed Bamaga
Board Member

Mr. Mohammed is currently the Chief Executive Officer – Information Technology at Saudi Arabian Airlines. He is currently a board member at Dammam Airport and Chief of Audit and Risk. He is also a member of the Board of Directors of the Saudi Federation for Cybersecurity, Programming and Drones. He has many technology and management expertise where it was deployed in many positions at various international and local companies before joining Saudi Airlines. He was a CEO in Accenture Middle East and worked as GM of Information Technology in SABIC.

He holds a Bachelor's Degree in Management Information Systems from King Fahad University for Petroleum and Minerals.

Management Team

Mr. Faisal Abdullah Al-Omran
Chief Executive Officer

Mr. Salman Badar Al-Fughom
Deputy Chief Executive Officer

Mr. Ramzi Abdullah Al-Nassar
General Manager – Personal Banking

Mr. Majed Abdulghani Fakeeh
General Manager – Corporate Banking

Mr. David Kent Johnson
Chief Financial Officer

Mr. Mansour Mohammed Al Obaikan
Chief Risk Officer

Mr. Mohammed Abdulaziz Al Fraih
General Manager – Information Technology

Mr. Nader Al Khawaja
Chief Transformation Officer

Ms. Nasreen Saad Aldossary
General Manager – Human Resources – Chief Happiness Officer

Mr. Badr Ahmed Allaf
General Manager – Compliance

Mr. Majed Mohammed El-Rubaiaan
General Manager – Operations

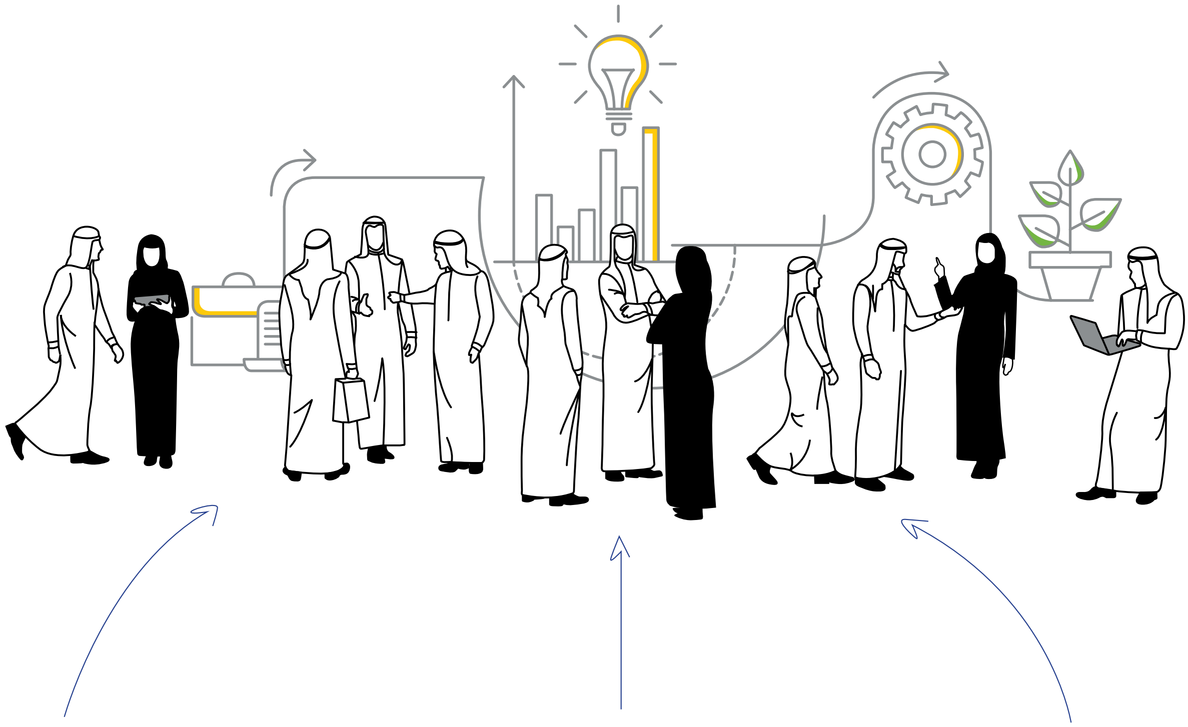
Mr. Waleed Saleh Al-Omary
Chief Internal Auditor

Mr. Ali Abdullah Al-Shayea
AGM – Head of Information Security and Operational Risk

Corporate Governance

Corporate governance of the Bank encompasses two components that define how the Bank is directed and controlled: the tangible component is comprised the rules, policies, roles and responsibilities, practices, and processes that are laid out in a formal documented structure. The intangible component is defined by the ethics, values, culture, integrity, and reputation of the Bank. Corporate governance is established to ensure the fair treatment and balancing of interests of the various stakeholders in a bank, such as shareholders, employees, customers, suppliers, financiers, the government, regulatory entities, and the community.

Sound corporate governance practices can benefit the Bank in several ways:



1

Improved performance and profitability

Strong governance practices often lead to improved performance since it enables more effective decision-making by the Board and the Executive Management that can drive increases in revenue and reductions in costs.

2

Mitigation in risk of failure

Effective and diligent governance can prevent corporate scandals, fraud, or any civil and criminal liability for the Bank, while enhancing its reputation as a self-policing, responsible bank worthy of continued investment.

3

Protection of minority shareholders

Good governance practices ensure that the rights of minority shareholders are protected regarding the right to seek information, voice an opinion, and vote in General Assembly Meetings.

Governance structure

SAIB's governance structure is established upon three pillars: establishing strategic direction; executing strategy and managing risks; and stewardship through conformance with policy and established procedures, rules, and practices.

Good governance is ensured by the governance structure, which is underpinned by policies, procedures, and practices. The values, ethics, and integrity of the Bank help to ensure the implementation of the governance rules and procedures.

The Bank's governance framework is defined in the Corporate Governance Manual, along with the Board and Executive Management structures, key policies, guidelines and control functions, and the duties of Board members and the restrictions placed on them. The Manual is available to the general public via the Bank's website.

Policies relating to corporate governance

The Bank complies with the principles of corporate governance for banks operating in Saudi Arabia as issued by the Saudi Arabian Monetary Authority (SAMA) in March 2014, all provisions of the Corporate Governance Regulations issued by the Capital Market Authority (CMA) of Saudi Arabia dated 16/5/1438H corresponding to February 13, 2017 and all subsequent amendments, and the Basel Corporate Governance Principles for Banks.

The purpose of the Corporate Governance Manual of the Bank is to institutionalise clear, robust, and effective corporate governance as the foundations for the Bank's future market leadership, continued profitability, and long-term stability. The General Manager of Compliance, overseen by the Board Corporate Governance Committee, is responsible for reviewing the contents of the Manual on an ongoing basis and ensuring it is up to date.

A full review of the Manual is conducted every two years by the General Manager of Compliance under the supervision of the Board Corporate Governance Committee. The General Manager of Compliance is accountable for ensuring that the Manual is in complete conformity with the SAMA and the CMA guidelines for corporate governance and complies with the principles for enhancing corporate governance as published in the latest guidelines by the Basel Committee on Banking Supervision.

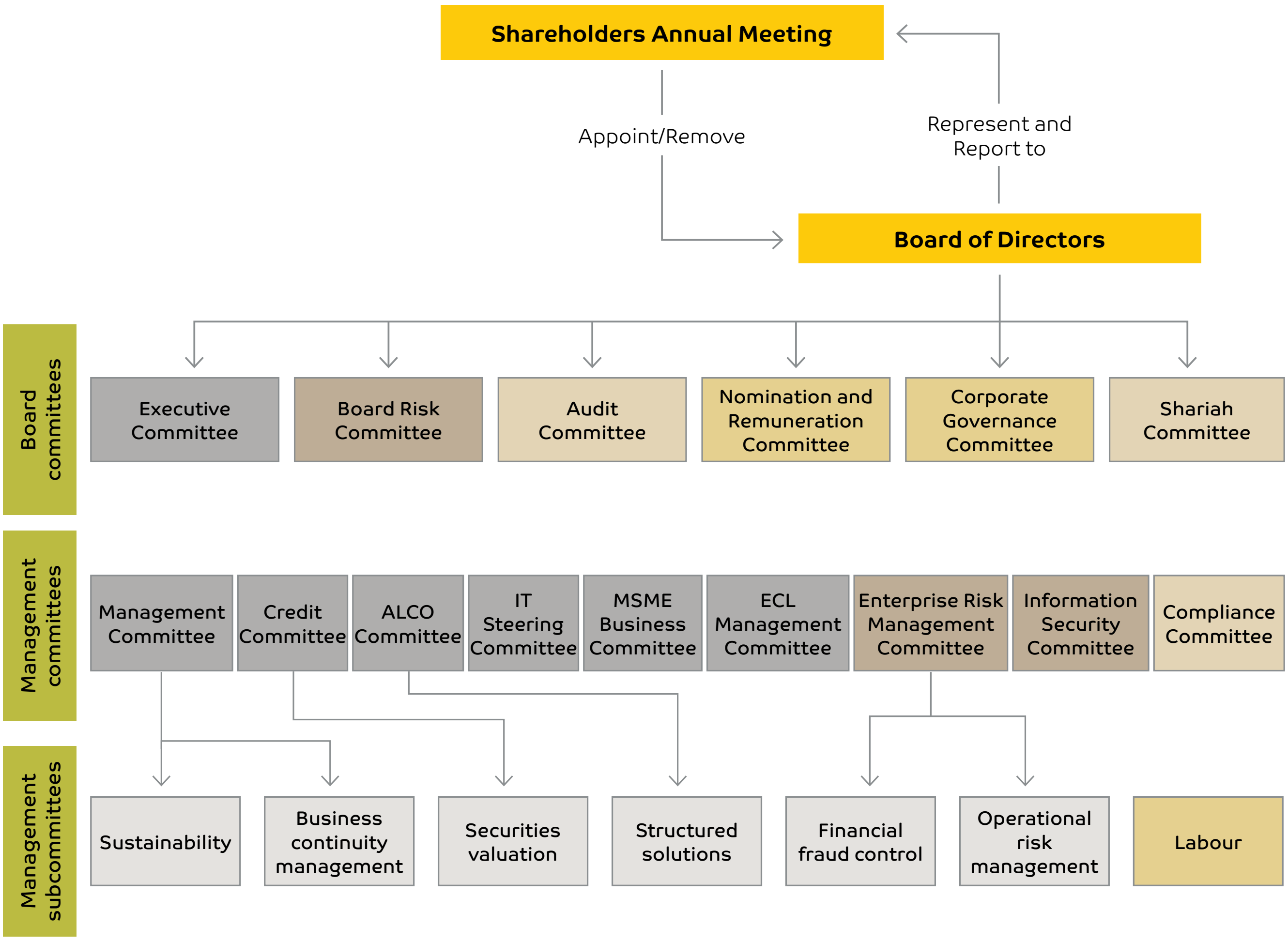
New Board members receive the appropriate induction and training upon appointment. All Board members receive a copy of the Bank's Corporate Governance Manual, its appendices, and major policies including the code of conduct, conflict of interest policy, disclosure and transparency principles, and governance charter issued by CMA and SAMA's key principles of banks' governance.

The Saudi Investment Bank's corporate governance framework is based on six Board Committees, nine Management Committees, and seven Management Subcommittees. This governance structure is underpinned by a series of governance enablers which constitute the core to ensuring the required clarity and discipline of good corporate governance: corporate values, organization structure design, policies and procedures, the Bank's authorities' matrix and effective internal and external communication.

The Delegation of Authorities (DOA) matrix is regularly updated to accurately reflect internal approval controls.

The Board ensures the timely release of information as highlighted in the requirements of the SAMA and the CMA.

The Saudi Investment Bank committees' structure and reporting lines



Board of Directors

The Board of Directors shall have the ultimate responsibility for the success, soundness and solvency of the Bank, and is accountable for protecting depositors' and shareholders' funds. The members of the Board are responsible for the overall promotion and safeguarding of SAIB's interests and upholding the highest standards of corporate governance across the Bank, its departments, and subsidiaries. The Board is responsible for setting the cultural and ethical tone of the Bank and developing its strategy, approving and overseeing implementation of the overall risk strategy, monitoring and overseeing Bank Managers' performance, and organizational responsibilities such as the appointment and removal of the CEO and the Deputy CEO. They are accountable to the Organization's shareholders.

Board composition

The Board of Directors comprises an appropriate number of Directors who have the relevant and diverse range of skills, expertise, experience, and background and who are able to effectively understand the issues arising in the Bank's business. The Chairman of the Board should be a non-executive member.

The Board Members are appointed by the General Assembly for a term of three years and ideally should serve for no more than 12 consecutive years as per SAMA's key principles of banks' governance. At least two of the Board members are independent and no more than two members can be executives of the Bank, in line with SAMA and CMA principles. Through a simple vote, the Board chooses a Non-Executive Director for the positions of Chairman of the Board and

Vice-Chairman. Board members must inform the Chairman of the Board and Corporate Governance Committee about their participation in other boards outside of the Bank and the executive positions they hold in other corporations; no board member can serve on the board of another Saudi bank licensed and incorporated in the Kingdom of Saudi Arabia to avoid conflict of interest, or on the boards of more than four other listed companies which must be disclosed to the Chairman of the Board and the Corporate Governance Committee.

The members of the Board must collectively possess the appropriate skills, expertise, and experience to ensure the proper oversight and management of the Bank. The Corporate Governance Manual defines the following guidelines for the collective skill set of the Board:

All Board members must maintain a high standard of honesty, integrity, competence, capability, financial soundness, and autonomy. They must always be diligent in conducting their directorship role and maintain loyalty to SAIB by prioritising the Bank's interests and reputation. Each Board member has a responsibility to uphold the confidentiality of all information obtained over the course of their duties or seek the written permission of the Chairman of the Board to divulge confidential information during or after their tenure. Board members are prohibited from using any information for personal gain or for the benefit of any parties internal or external to the Bank.

	Banking	Commercial	Regulatory	Audit/Governance
Minimum number of members with appropriate skills and experience	3-4	3-4	1-2	1-2
Required experience	• Over 15 years of domestic or international banking experience • Previous experience as a bank Board member or bank CEO or bank senior level executive (direct CEO report)	Extensive commercial experience and network within the Saudi market	10-15 years of banking regulatory experience or previous experience as Central Bank regulatory senior or senior banking executive with deep regulatory focus	• Over 15 years of audit, compliance, or governance-related experience • Previously a Partner at a Big 4 accounting firms, or an executive with senior audit, compliance, or governance role
Additional requirements	• At least one member with strong risk management expertise in banking • At least one member with strong IT expertise in banking	Collective experience should cover key Saudi economic sectors such as oil and gas, construction, real estate, wholesale trade, and retail trade		
Other relevant skills	Possess relevant skills related to (but not limited to): • Capital markets • Financial stability issues • Strategic planning • Compensation • Corporate governance			

The following table provides details about the members of the Board:

Name	Status	Class	Date of appointment	Board meetings attended	Other Board memberships
Mr. Abdallah Saleh Jum'ah	Chairman	Non-executive	February 14, 2010	5	Saudi Airlines Corporation Hasana Investment Company Zamil Industrial
Mr. Abdulaziz Al-Khamis	Vice-Chairman	Non-executive	February 14, 2007	5	Tawuniya Insurance Company The United Insurance Company, Bahrain
Mr. Abdul Rahman Al-Rawaf	Board member	Non-executive	February 14, 2010	5	Jabal Omar Development Company
Dr. Fouad Al-Saleh	Board member	Independent	February 14, 2013	5	The Saudi Electric Industries Company Limited (SEICO) Saudi Manufacturing Company
Mr. Saleh Al-Athel	Board member	Independent	February 14, 2014	5	Saudi Specialized Laboratories Company – Motabaqah
Mr. Mohammad Al-Ali	Board member	Independent	July 1, 2014	5	Saudi Energy Efficiency Services Company
Mr. Mohammed Algrenees	Board member	Non-executive	February 14, 2019	5	Taiba Investment Company
Mr. Mohammed Bamaga	Board member	Independent	February 14, 2019	5	Dammam Airports Company The Saudi Federation for Cybersecurity, Programming and Drones
Mr. Yasser Aljarallah	Board member	Independent	February 14, 2019	5	Inma medical services LLC Tharwa Escan Investments LCC, UAE

Board process

The Board shall hold the minimum number of meetings in accordance with the laws and regulations of Saudi Arabia and the meetings should be scheduled at the beginning of the year. Additional or extraordinary meetings can be arranged upon the request of the Chairman or two or more Board members. The agenda and information packs for Board meetings must be sent to members at least seven days in advance, with the exception of extraordinary meetings, in which case the materials should be sent as soon as possible. Board meetings can take place either face-to-face, by teleconference, or by video conference. The conditions for a Board meeting quorum are met when all the following conditions are satisfied:

- The Chairman or the Vice-Chairman of the Board are present at the meeting.
- At least five Board members attend in person or through representation by a Board member by means of a written notice. A Board member may not represent more than one member.

Board decisions are conducted through a simple majority of the votes of attending and represented Board members, with the deciding vote lying on the side of the Chairman of the Board (or in his absence, the Vice-Chairman) in the event of a tie.

In 2019, five Board of Directors' meetings were held, and the details of Directors' attendance are provided in the following table:

Board member	Board of Directors meetings attended				
	February 14, 2019	March 26, 2019	July 1, 2019	September 26, 2019	December 12, 2019
Mr. Abdallah Saleh Jum'ah	✓	✓	✓	✓	✓
Mr. Abdulaziz Al-Khamis	✓	✓	✓	✓	✓
Mr. Abdul Rahman Al-Rawaf	✓	✓	✓	✓	✓
Dr. Fouad Al-Saleh	✓	✓	✓	✓	✓
Mr. Saleh Al-Athel	✓	✓	✓	✓	✓
Mr. Mohammad Al-Ali	✓	✓	✓	✓	✓
Mr. Mohammed Algrenees	✓	✓	✓	✓	✓
Mr. Mohammed Bamaga	✓	✓	✓	✓	✓
Mr. Yasser Aljarallah	✓	✓	✓	✓	✓

Board Secretary

The Board Secretary, who is appointed by the Board, must support the Chairman in ensuring the smooth functioning of the Board, including assisting in the logistics of the Board and Board Committee meetings, ensuring the meeting agenda and information pack is sent to members at least seven working days in advance, maintain detailed meeting minutes and decision records of the Board, including discussions, votes, objections, and abstentions from voting. The Secretary must distribute the final meeting minutes of Board meetings to all concerned parties no later than 10 working days from the meeting date. The Secretary is the authorised channel of communication and coordination with related departments to notify the Executive Management of all Board decisions and should follow up on those decisions and ensure their implementation by the Executive Management. The Secretary is responsible for ensuring the regulatory compliance of Board affairs.

Board Committees

In compliance with Saudi regulators and Basel guidelines, the Board has established six Board Committees to assist it, as detailed in the following table:

Executive Committee

Mr. Abdulaziz Al-Khamis
Mr. Abdul Rahman Al-Rawaf
Dr. Fouad Al-Saleh
Dr. Abdulaziz Al-Nowaiser*
Mr. Mishari I. Al-Mishari*
Mr. Saleh Al-Athel
Mr. Mohammed Algrenees

Responsibilities

- Oversee SAIB's business strategy and its execution
- Reviewing, monitoring, and approving key financial and non-financial business
- Investment and operational decisions for the Bank within the authority defined by the Board

** Former Board Member*

Risk Committee

Mr. Mohammed Algrenees
Mr. Mohammd Al-Ali
Mr. Yasser Aljarallah
Mr. Mohammed Bamaga

Responsibilities

- Advise the Board regarding current and future plans and strategies for the Bank's risk management
- Provide oversight on execution of plans and strategies
- Assist the Board in all activities and resolutions related to risk management

Audit Committee

Mr. Mohammad Al-Ali
Dr. Fouad Al-Saleh*
Mr. Abdullah Al-Anizi
Mr. Monahy Al-Moreiky
Mr. Salih Al-Kholaifi**
Mr. Mohammed Bamaga
Mr. Fayez Bilal

Responsibilities

- Assist the Board of Directors in fulfilling their oversight responsibilities for the financial reporting process, the system of internal control including IT system control, the internal and external audit process
- Assist the Board of Directors through the Management Compliance Committee to monitor compliance with laws, regulations, and the code of conduct

** Former Board Member*

*** Former Member*

Nomination and Remuneration Committee

Dr. Abdulaziz Al-Nowaiser*
Mr. Abdul Rahman Al-Rawaf
Mr. Mishari I. Al-Mishari*
Mr. Saleh Al-Athel
Dr. Abdulraouf M. Mannaa*
Dr. Fouad Al-Saleh
Mr. Abdulaziz Al-Khamis

Responsibilities

- Provide recommendations to the Board for new Board members and members of Senior Management
- Co-lead assessment of Board effectiveness together with Corporate Governance Committee
- Oversee Bank's personnel or human resource policies
- Oversee compensation system's design and operation
- Ensure compensation is appropriate and consistent with Bank's culture, long-term business and risk strategy, performance and control environment, and legal and regulatory requirements

** Former Board Member*

Corporate Governance Committee

Mr. Yasser Aljarallah
Mr. Mohammad Al-Ali
Mr. Saleh Al-Athel

Responsibilities

- Enhance and maintain best-in-class corporate governance practices by ensuring their implementations across all activities undertaken by the Bank
- Ensuring compliance of the Bank with Saudi and relevant international corporate governance regulations

Shariah Committee

Dr. Mohamed A. Elgari (Chairman)
Dr. Abdulaziz Bin Ahmed Almezeini
Dr. Ibrahim bin Abdullah Al-Lahim

Responsibilities

- Providing Shariah opinions on submitted applications and related contracts and forms
- Ensuring compliance of the Bank with Shariah principles
- Handling Shariah-related enquiries from the Bank and customers

The details of Board Committee meetings and attendance are provided in the following tables:

The Executive Committee held 12 meetings in 2019.

Committee members	Executive committee meetings attended											
	January 15, 2019	March 5, 2019	April 8, 2019	May 5, 2019	May 27, 2019	June 30, 2019	July 28, 2019	September 1, 2019	September 25, 2019	October 30, 2019	November 26, 2019	December 22, 2019
Mr. Abdulaziz Al-Khamis	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Abdul Rahman Al-Rawaf	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Fouad Al-Saleh	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Abdulaziz Al-Nowaiser	✓											
Mr. Mishari I. Al-Mishari	✓											
Mr. Saleh Al-Athel		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓
Mr. Mohammed Algrenees		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

The Audit Committee held five meetings in 2019.

Committee members	Audit committee meetings attended				
	January 29, 2019	March 25, 2019	June 30, 2019	September 25, 2019	December 11, 2019
Mr. Mohammad Al-Ali	✓	✓	✓	✓	✓
Dr. Fouad Al-Saleh	✓				
Mr. Abdullah Al-Anizi	✓	✓	✓	✓	✓
Mr. Monahy Al-Moreiky	✓	✓	✓	✓	✓
Mr. Salih Al-Kholaifi	✓				
Mr. Mohammed Bamaga		✓	✓	✓	✓
Mr. Fayez Bilal		✓	✓	✓	✓

The Nominations and Remuneration Committee held five meetings in 2019.

Committee members	Nominations and remuneration committee meetings attended				
	February 3, 2019	April 8, 2019	May 5, 2019	September 25, 2019	December 9, 2019
Dr. Abdulaziz Al-Nowaiser	✓				
Mr. Abdulrahman Al-Rawaf	✓	✓	✓	✓	✓
Mr. Mishari I. Al-Mishari	✓				
Mr. Saleh Al-Athel	✓	✓	✓	✓	✓
Dr. Abdulraouf M. Mannaa	✓				
Dr. Fouad Al-Saleh		✓	✓	✓	✓
Mr. Abdulaziz Al-Kamis		✓	✓	✓	✓

The Corporate Governance Committee held three meetings in 2019.

Committee members	Corporate governance committee meetings attended		
	March 25, 2019	September 25, 2019	December 11, 2019
Mr. Yasser Aljarallah	✓	✓	✓
Mr. Mohammad Al-Ali	✓	✓	✓
Mr. Saleh Al-Athel	✓	✓	✓

The Risk Committee held four meetings in 2019.

Committee members	Risk committee meetings attended			
	March 11, 2019	June 24, 2019	September 15, 2019	November 25, 2019
Mr. Mohammed Al-Grenees	✓	✓		✓
Mr. Mohammd Al-Ali	✓	✓	✓	
Mr. Yasser Aljarallah	✓	✓	✓	✓
Mr. Mohammed Bamaga	✓	✓	✓	✓

The Shariah Committee held five meetings in 2019.

Committee members	Shariah committee meetings attended				
	February 5, 2019	March 14, 2019	September 4, 2019	October 17, 2019	November 25, 2019
Dr. Mohamed A. Elgari	✓	✓	✓	✓	✓
Dr. Abdulaziz Bin Ahmed Almezeini	✓	✓	✓	✓	✓
Dr. Ibrahim bin Abdullah Al-Lahim	✓	✓	✓	✓	✓

Two Extraordinary General Meetings were held in 2019.

Board members	Extraordinary General Meetings attended	
	March 28, 2019	April 18, 2019
Mr. Abdulaziz Al-Khamis	✓	✓
Mr. Abdul Rahman Al-Rawaf	✓	✓
Dr. Fouad Al-Saleh	✓	✓
Mr. Mohammed Al-Grenees	✓	✓
Mr. Saleh Al-Athel	✓	×
Mr. Yasser Aljarallah	✓	✓
Mr. Mohammed Bamaga	×	✓

Management

The Board and the Management complement the responsibilities of each other but remain separate to ensure that sound governance practices are adhered to. The Board is responsible for setting the strategic direction of the Bank and monitoring the performance of the Bank across all functions. The Management is responsible for developing policies, procedures, and frameworks that enable the execution of the strategy set by the Board and reporting on the Bank's performance across all functions to the Board, as well as highlighting key risks and making recommendations to address issues.

The Board has the organizational responsibility of appointing and removing the Chief Executive Officer (CEO) and the Deputy Chief Executive Officer (Deputy CEO). There is a clear division of responsibilities between the roles of the Chairman of the Board and the CEO – this ensures effective separation of the roles of the Board and the Management.

- The Board of Directors is responsible for the oversight of SAIB and its activities.
- The CEO and the Senior Management team who report to the CEO, are responsible for the day-to-day management of the Bank and its activities.

The Chairman of the Board is responsible for leading the Board, overseeing the Bank's strategy and management, overseeing the implementation of corporate governance standards, and overseeing that effective external relations are in place with stakeholders such as shareholders, creditors, etc.

The Chairman, together with the CEO, is co-responsible for the Bank to its local regulator, SAMA, CMA, and to the Government.

The CEO controls and supervises business affairs and the management of the Bank as per the general authority delegated to them by the Board and the Executive Committee. They are responsible to the Board for the implementation of the regulations, policies, and decisions of the Board and the Executive Committee. They must also work together with the Nomination and Remuneration Committee for succession planning.

Board members have no individual power over the Bank's staff, including the CEO. Their power is purely collective and direct communication between Board members and management outside of the Board or committee meetings must be facilitated through the Corporate Secretary.

Management committees

SAIB has established nine management committees for the purpose of recommending, deciding, approving and/or monitoring key topics in their respective areas:

Committee	Responsibilities
Management Committee	• Monitor and manage the Bank's financial and operational performance. • Monitor customer experience. • Oversee execution of the Bank's strategy. • Review minutes and recommendations of other management committees. • Take necessary measures within its authority or escalate recommendations as per Delegation of Authorities matrix. • Submit meeting minutes to Board Executive Committee.
Credit Committee	• Approving, reviewing, and monitoring credit risk taking activities and overall credit risk management function. • Submit meeting minutes to Board Executive Committee.
Asset Liability Committee (ALCO)	• Monitor and manage balance sheet (asset liability) risk. • Make strategic decisions regarding mix and maturities of assets and liabilities and level of medium/long-term interest rate risk the Bank shall accept. • Review financial risk and capital management of the Bank. • Submit meeting minutes to Board Executive Committee.
IT Steering Committee	• Establish and enforce IT and Project management standards, policies, and procedures throughout the Bank. • Assist CEO in decision-making around projects and initiatives. • Closely review progress of all strategic initiatives. • Approve new initiatives based on feasibility proposals. • Submit meeting minutes to Board Executive Committee.
MSME Business Committee	• Provide guidance to effectively operate and manage SAIB's Micro, Small, and Medium-sized Enterprises (MSME) business.
ECL – Management Committee	• Ensuring compliance with SAMA, IASB, and Guidance on Credit Risk and Accounting for Expected Credit Losses (GCRAECL) requirements related to implementation of and compliance with IFRS. • Provide guidance on effective operation of Expected Credit Loss (ECL).
Enterprise Risk Management Committee	• Support effective implementation of sound practices for the management and supervision of Enterprise Risk in coordination with various risk functions at SAIB. • Ensure the development and implementation of risk governance to assist Risk Committee, Board of Directors, and management in making well-informed and timely decisions on strategic planning, risk management, and capital planning. • Submit meeting minutes to Board Risk Committee.
Information Security Committee	• Discuss and disseminate information security issues and initiatives across the Organization. • Ensure Organization's information security objectives are appropriately prioritised and sufficiently resourced. • Submit meeting minutes to Board Risk Committee.
Compliance Committee	• Perform functions and responsibilities related to supporting adherence. • Ensuring efficient implementation of the compliance policy and function at the Bank in accordance with the principles and controls outlined by SAMA. • Submit meeting minutes to Board Audit Committee.

Management subcommittees

SAIB has established seven management subcommittees to make recommendations on specific topics to a particular Management or Board Committee:

Subcommittee	Responsibility
Sustainability Subcommittee	• Reports to Management Committee. • Establish SAIB as a recognized leader in sustainability within Saudi Arabia and the global banking industry. • Use the SAIB sustainability framework, policy, and the agreed associated strategic sustainability priorities and targets to guide implementation of sustainability across the Organization. • Champion and embed sustainability into SAIB's corporate strategy, policies, procedures, management systems, activities, and culture. • Identify and implement high leverage sustainability initiatives to improve performance. • Measure and report performance internally and externally and maintain a dialogue with stakeholders. • Periodically review and adapt agreed strategic sustainability priorities and targets in the context of evolving sustainability trends, risks, and opportunities. • Report progress on initiatives to Executive Management and Board on a quarterly and annual basis.
Business Continuity Subcommittee	• Reports to Management Committee. • Perform functions and responsibilities related to management of contingency situations/disasters in accordance with the Business Continuity Management Policy Framework. • Oversees activities during an emergency situation and handles all regulatory and media communication.
Securities Valuation Subcommittee	• Reports to Management Credit Committee. • Assist Management Credit Committee in fulfilling its oversight responsibilities regarding risk management. • Recommend to Management Credit Committee the margin percentage and Loan-to-Value (LTV) ratio for stocks listed on the Saudi Stock Exchange ("Tadawul").
Structured Solutions Approval Subcommittee	• Reports to Management Asset Liability Committee (ALCO). • Support the introduction, review, and recommendation of structured solutions products to the Bank's portfolio.
Financial Fraud Control Subcommittee	• Reports to Management Enterprise Risk Management Committee. • Ensure and oversee the development and adaptation of policies and preventive measures by the Bank to mitigate the impact and occurrence of fraud risks. • Preserve the reputation and integrity of the Bank.
Operational Risk Management Subcommittee	• Reports to Management Enterprise Risk Management Committee. • Oversee effective implementation of sound practices for the management and supervision of operational risk.
Labour Subcommittee	• Ensure the working environment of the Bank adheres to local regulatory requirements. • Submit meeting minutes to Board Nomination and Remuneration Committee.

Communication between Board members and members of the staff is facilitated either through the Board committee or subcommittee meetings or through the Corporate Secretary. In the case of a meeting with the Corporate Secretary, they must seek the consent of the CEO for the meeting and the CEO may opt to participate in the discussion.

Evaluation of the Board and committees

The effectiveness of the Board is monitored through an annual performance evaluation, which is conducted by the Board Nomination and Remuneration Committee. The Nomination and Remuneration Committee reports its findings to the Chairman of the Board and recommends a course of action to address areas identified for improvement. The Board will also ensure that each Board committee conducts a regular self-evaluation of its performance and the performance of its members.

Financial disclosure and transparency

SAIB follows the International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of Zakat and Income Tax [relating to the application of International Accounting Standard (IAS) 12 – "Income Taxes" and IFRIC 21 – "Levies" insofar as these relate to accounting for Saudi Arabian Zakat and Income Tax] and complies with the provisions of the Banking Control Law, the regulations for companies in the Kingdom of Saudi Arabia and the Bank's Articles of Association.

The Financial Statements for the year ended December 31, 2019 have been approved by the Directors to ensure that they present a true and fair view of the state of affairs of the Bank for the year under review.

IT governance

Information technology is an integral part of the management and operations of the Bank and contributes to its competitive edge. The Bank's IT development and operations are conducted in accordance with international standards and best practices. The Bank's IT strategy is aligned with its business strategy.

The Information Security Management System (ISMS) is the system that safeguards the Bank's IT hardware and digital assets, and by extension, the interests of customers, investors, employees, and other stakeholders. The ISMS is built upon the framework defined by the Bank's IT Information Security Policy. The framework specifies for restricted access to digital assets and nominates an owner and rules for access, with access being issued on a "least privileged" and "need to know" basis. Physical locations that store critical sensitive facilities are protected with the appropriate security barriers and limitations to access. In the event of an information security threat, protocols are in place to be followed to ensure a fast and effective response to neutralise the threat.

Ethics and standards

The Bank's Code of Conduct, enforced by the Bank's corporate governance, stipulates the highest ethical and professional standards to be maintained across all commercial operations and practices. The Code, which applies to all Directors, employees, affiliates, and any representative of the Bank, inculcates a culture of professionalism wherein the highest standards of ethics, integrity, and respect for confidentiality are upheld.

The Bank has a Whistle-blowing Policy that facilitates the direct reporting to the CEO or General Manager of Human Resources of breaches of the Code of Conduct, ethics, laws, regulations, or procedures by employees without the fear of reprisal. A portal on the Bank's website is also available to external parties who may wish to report any suspected irregularities.

GRI 102-11

Risk Management

As a financial services company operating in today's interconnected global business environment, it is more important than ever for SAIB to identify and understand the different types of risks it faces and how to manage them, and balance risk and return. SAIB has to apply best-in-class risk management practices to safeguard the interests of its customers, investors, and other stakeholders and efficiently allocate regulatory capital to support healthy balance sheet growth. To this end, SAIB has a comprehensive risk management framework to support the Bank in its role as custodian and intermediary, and to comply with regulatory requirements.

The Bank's Risk Management Policy Guide conforms with the requirements of the Saudi Arabian Monetary Authority (SAMA). The Policy details the risks the Bank is exposed to and the policies and protocols in place to measure, manage, and control the risks.

The Risk Appetite Framework (RAF) is the basis for the Bank's risk management, overseen and approved by the Board of Directors. The Framework presents a structured and transparent process for monitoring and measuring risk tolerance and incorporates risk management considerations into the Bank's strategy and operations. The Board Risk Committee supports the Board of Directors by recommending policies and overseeing key risks within the Bank. In addition, there are several supporting committees at Management level – the Enterprise Risk Management Committee, the Credit Committee, and the Asset and Liability Committee. At the departmental level, the Bank has a Risk Management Group headed by the Chief Risk Officer.

The RAF is aligned to the Bank's strategic planning, business planning, capital planning, and policies and documents issued by the Board of Directors. The RAF lays out the risks that arise from the Bank's strategy and defines the following:

- Risk capacity: The maximum level of risk the Bank can assume without affecting operations
- Risk appetite: The maximum level of risk the Bank is willing to undertake
- Other risk limits: The maximum level of other quantifiable risks
- Desired risk-return trade-off.

The Board has also approved the Risk Assessment Policy Guide which includes (but is not limited to) the following:

- Risk Appetite Policy Framework
- Credit Policy Guide
- Treasury Policy Guide
- Stress Test Policy
- Internal Capital Adequacy Assessment Plan Policy
- Operational Risk Policy
- Internal Liquidity Adequacy Assessment Plan: a new framework to ensure prudent liquidity management versus the asset maturity profile
- Information Security Policy

The Board is responsible for approving and implementing policies to comply with SAMA guidelines, accounting and reporting standards (including IFRS 9 in relation to anticipated credit loss provisioning), and best industry practices such as the Basel guidelines. A comprehensive Group IFRS 9 Governance Policy Framework was approved in 2018, backed by additional Management level policies including the IFRS 9 Data Management and Control Framework Policy and the IFRS 9 Governance Framework.

Furthermore, the Bank's internal audit function reports to the Audit Committee of the Board of Directors and independently validates compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework. This is the "Three Lines of Defence" risk management approach of the Bank, which sees the frontline business units are made risk aware, the support functions such as the Risk Management Group are the Second line of Defence, and Internal Audit is the Third line of Defence.

The different types of risk the Bank is exposed to and the measures the Bank takes to manage these risks are discussed in further detail below.

Credit risk

Credit risk is the risk of loss occurring when counterparties in credit transactions do not fulfil or only partly fulfil their financial obligations. Loans, advances, guarantees, derivatives, and foreign exchange products are all subject to credit risk. A comprehensive framework is in place for assessing credit risk, including an independent credit risk review and credit monitoring process. The Credit Policy Guide (CPG) contains guidelines for the process and seeks to maximize return while recording, managing, and mitigating the associated risks. The Probability of Default (PD) is assessed using internal rating tools and external rating from major rating agencies are also used where available.

SAIB continues to improve the credit management process by further developing the post-sanction review process to alleviate potential credit losses that may arise.

Operational risk

Operational risk arises from failures in systems, internal processes, human error, or external events. The Bank's Operational Risk Management Framework lays out the various types of operational risk and how to assess and control them. Assessment and control of operational risks across all organization units of the Bank are monitored via Risk Control Self-Assessment (RCSA) exercises and a Bank-wide Operational Risk Appetite Matrix. Operational risk losses are continuously monitored, with corrective action taken as necessary.

Liquidity risk

Liquidity risk is the risk where the Bank is unable to meet its obligations due to having inadequate funds or access to funds at an acceptable cost. Liquidity risk can be caused by credit downgrades or market disruptions which can render unavailable previously expected sources of funds. The Bank monitors its liquidity position daily to minimize liquidity risk and monitors several ratios including the daily Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) which measures the funding of long term assets, ensuring they are within SAMA guidelines. The Bank also carries out liquidity stress testing under both normal and stressed scenarios.

Market risk

Market risk is the risk that the fair values of future cash flows of financial instruments fluctuate due to changes in market variables such as interest rates, exchange rates, and equity prices. The Treasury Policy Guide issued by the Board of Directors lays out measures to manage such risks.

Commission rate risk

Commission rate risk is the risk that changes in commission rates will impact either the fair values or future cash flows of financial instruments. This could occur due to timing differences in fixed and floating rate assets and liabilities. The Board has set commission rate gap limits by time periods and the Bank uses hedging strategies to minimize risk within time limits.

Currency risk

Currency risk is the risk of changes in exchange rates affecting the Bank's financial position or cash flows. This risk can be minimized by limited foreign currency exposure, setting limits on forward maturity gaps, and by hedging strategies.

Equity price risk

Equity risk is the risk of changes in the value of the Bank's investment portfolio as a result of fluctuations in prices of equities or market indices. The Board sets limits on exposure to specific industries and for the overall exposure.

Financial crime risk

Financial crime risk arises from the risk of losses due to frauds and other crimes which pose a significant risk to banks and their staff. Such crimes can have a negative impact on the reputation of the Bank. SAIB continues to develop its anti-financial fraud control system to mitigate risks.

Cyber information security risk

Cyber risks are a significant threat for all financial institutions and SAIB is extremely vigilant in this area. Precautionary measures taken by the Bank include the 24x7 Security Operation Centre, Vulnerability Management Programmes, and Attack Simulation Exercises to enhance resilience to cyberattacks. Programmes to educate staff help to reinforce the culture and security practices in place. The Information Security Committee approved the implementation of a new strategy by the Information Security and Operations Risk Division for 2018-2020. Confidentiality, integrity, privacy, and access controls have been integrated into all business and technical processes. Moreover, the Bank has shown resilience in withstanding cyberattacks that have targeted the Middle East and Saudi Arabia.

Risk-based security audits conducted by internal audit, external agencies, and certification bodies such as ISO 27001 (Information Security Management System) have been completed with satisfactory results. The Bank's conformance with international standards and best practices such as the General Data Protection Regulation has been verified and assured and the Information Security and Operation Risk Division complies with the Saudi Information and Cyber Security Regulations imposed by the Saudi National Cyber Security Authority (CSA) and SAMA.

Business Continuity Management (BCM)

A strong Business Continuity Plan (BCP) is a priority for SAIB and the Bank continued to develop this in 2019. The BCM enables the Bank to respond to disruptive incidents quickly and effectively with minimal downtime. The Bank conducted comprehensive tests during the year and continued to upgrade the capabilities of its Disaster Recovery Centre (DRC). Additionally, the Bank's ISO 22301 Certification for Business Continuity Management is being upgraded for the new version by an independent authority.

GRI 103-1, 103-2, 103-3, 205-1, 205-2

Compliance

The compliance function plays a key role in upholding the reputation and integrity of the Bank by ensuring adherence to all applicable laws, regulations, policies, and rules. The culture at SAIB is built around compliance, and employees at all levels understand its importance and their role in upholding it. The function is given the highest priority by the Board of Directors and Executive Management.

The compliance programme is based on the compliance manual for banks operating in the Kingdom of Saudi Arabia issued by SAMA in December 2008. It details compliance functions and all related policies, processes and plans as approved by the Board of Directors. The General Manager of Compliance Group (Chief Compliance Officer/CCO) is responsible for administering the programme which is periodically revised to adapt to changes in laws and regulations, changes in functions and business processes, changes in organization structure and changes in job roles.

Compliance Group

The compliance function is led by the Compliance Group which has a number of broad roles and responsibilities. The first major responsibility is the detection and advisory role, in which the Group is entrusted with identifying compliance risks faced by the Bank, providing advice, and following up to overcome them. This also entails resolving compliance issues as and when they arise and helping business units to handle them.

The second major responsibility is designing and implementing controls to protect the Bank from compliance related risks, including administrative and legal penalties, financial issues, and damage to reputation. This has the additional effect of safeguarding depositors' and investors' interests. As part of this responsibility, the Group is responsible for the following functions:

- Safeguarding against violations of laws, rules, and regulations and ensuring appropriate changes are made whenever the aforementioned are updated.
- Maintaining close relationships with regulators.
- Preventing any banking channels from being used to commit crimes such as money laundering and terrorist financing and ensuring the Bank complies with international sanctions.
- Screening standard operating and accounting procedures, products, services, forms, contracts, and agreements to ensure compliance with all applicable laws and regulations.
- Circulating new laws and regulations, providing guidance on their implications and implementation, and advising business units on compliance matters.
- Reporting on non-compliance issues and recommending solutions to resolve identified issues.

The Compliance Group is also responsible for monitoring and reporting on the effectiveness of controls and handling communication with regulatory bodies, thus building a positive image of the Bank with regulators.

Monitoring and action

A Compliance Monitoring Programme has been implemented to identify, assess and monitor the risk of non-compliances within the Bank. The programme includes a Compliance Risk Assessment Methodology, around which the compliance function develops an Annual Compliance Plan. According to the plan, products and services that carry significant risks are tested at a frequency proportional to the degree or risk. A detailed Compliance Risk Register which lists all the risks faced by the Bank is also maintained.

Compliance initiatives of SAIB

Anti-Money Laundering/Counter Terrorism Financing (AML/CTF)

The banking industry is a prime target of money laundering, a mechanism wherein the proceeds of illegal activities are flowed into the legal economy, thereby disguising their sources. These sources could stem from narcotics, fraud, bribery, organized crime, and terrorism. Money laundering is a criminal activity in the Kingdom of Saudi Arabia and SAIB complies with the Anti-Money Laundering Rules and Guidelines Law issued by Royal Decree No. M/31 dated 11/5/1433. The Bank's 'Know Your Customer' policy safeguards against potentially risky customers, and employees are trained to identify suspicious transactions and flag any suspected cases to AML/CTF.

Cross-border issues

SAIB, as an institution whose transactions and activities go beyond the borders of the Kingdom of Saudi Arabia, has a responsibility to observe all laws and regulations of the jurisdictions in which it operates. The compliance function therefore is required to align its structure and processes to cater to this responsibility. In the case that the Bank does not have a physical presence in an international location in which it does business, it does so through local subsidiaries or branches in other locations. In this situation, compliance ensures the operations are conducted by persons with the appropriate skills and expertise.

Human resources policy

The integrity of the Bank's employees is vital in ensuring compliance; all prospective employees are screened for past professional conduct during the recruitment process. All supervisors pay attention to compliance issues when monitoring their direct reports. Employees who developed and maintain systems and procedures, along with other employees are kept updated on compliance requirements. The General Manager of Compliance Group is responsible of implementing any new laws and regulations. The compliance function remains vigilant over conflicts of interest among compliance staff and other departments. Employee adherence to the Bank's compliance policies is considered in staff appraisals across all levels.

BUSINESS MODEL

SAIB operates within the overall context of its operating environment and strategies. Through its business processes, the Bank transforms its tangible and intangible resources into outputs: products and services. These outputs are transformed into outcomes: the value created for the Bank and its stakeholders. The outcome of this process is the creation of long-term value.

GRI 103-1, 103-2, 103-3

How We Create Value

Vision and Mission Pages 6-7

Operating Environment Pages 40-42

Stakeholders and Materiality Pages 46-50

Stewardship Pages 18-25

Strategy Pages 43-45

Monitoring and Evaluation

Inputs

Financial assets
Cash, loans, advances and other receivables

Systems and procedures
Governance procedures, business processes and cutting-edge technology, policies, values and ethics

Investor relationships
A loyal pool of investors who takes a long-term view on the Bank

Proximity to the customer
Being close to the customer, we understand their needs and innovate appropriate products and services

Leveraging business partnerships
Through links with business partners, we expand our reach and obtain the best possible options for sourcing our needs

Our people strengths
Our highly motivated staff whose skills we keep upgrading

Commitment to society and environment
Our social and environmental programmes give value to society and promote our long-term sustainability

Activities

Growing volume profitably
Grow by expanding our channels, both traditional and technology-enabled, as well as by deepening our penetration of priority markets and customer segments.

Pages 52-59

Developing systems and processes
Increasing internal efficiency and maximizing convenience to customers through process automation.

Pages 57, 66 and 71

Leveraging relationships
Communicating transparently with our investors and improving our customer service through expansion of communication channels and improved complaint resolution.

Pages 63-69, 71 and 75

Broadening product and market portfolio
Developing products and services that address the needs of different market segments with an emphasis on digitalization.

Pages 61, 64, 70-71 and 75

Building people skills
Recruitment policies with an increased focus on promoting diversity and Saudization, developing employees to meet future challenges, and motivating them through long-term benefits.

Pages 74-77

Serving society and the environment
Fulfilling our social responsibility to help our communities grow and prosper, and minimizing our direct and indirect impact on the environment.

Pages 78-84

Outputs

Retail banking
Deposit accounts with focus on growing demand deposits, home loans, vehicle loans, and cards

Corporate banking
Range of corporate banking services covering the large corporate, mid corporate and MSME sectors including financing, investment services, cards, and real estate financing

Treasury
Management of foreign exchange transactions, liquidity, and Sukuk issues

Reach
Increased reach and accessibility through traditional and non-traditional channels

New products
New and innovative digital applications increasing customer convenience

Security
Increased security of operations especially from cyber threats and other IT-related risks

Staff
More motivated staff able to provide higher level of customer service

Diversity
Higher percentage of women and youth in workforce

Brand
Greater brand recognition

Environmental impact through value chain
Targeting a percentage of lending for environment friendly activities

Value delivered

Improved performance in the Bank's primary function which is that of financial intermediation.

Professional development, confidence in career growth and a motivating work culture.

Highly competitive and easily usable products and services Smoother systems that facilitate better customer service and reduce manual intervention.

Outcomes

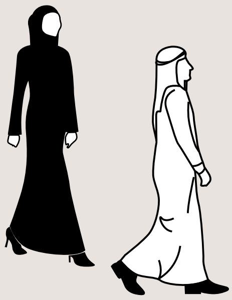
Value derived

Profitability, shareholder loyalty, and business portfolio growth.

A dedicated and empowered workforce with high rates of staff retention.

Strong brand recognition, customer patronage, and growth in market share.

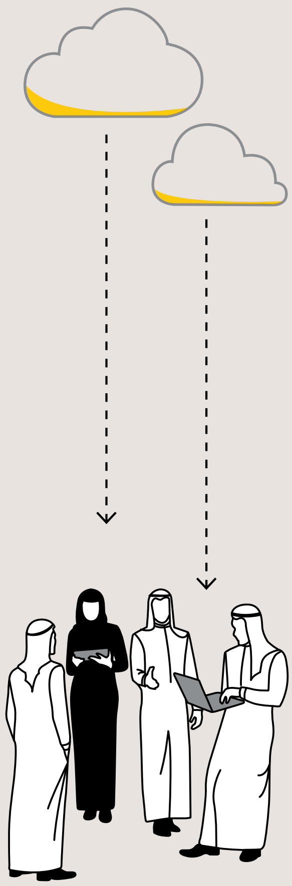
Brand value and market leadership.



Impact

Move the Bank towards becoming one of the leading digital banks in the Kingdom.

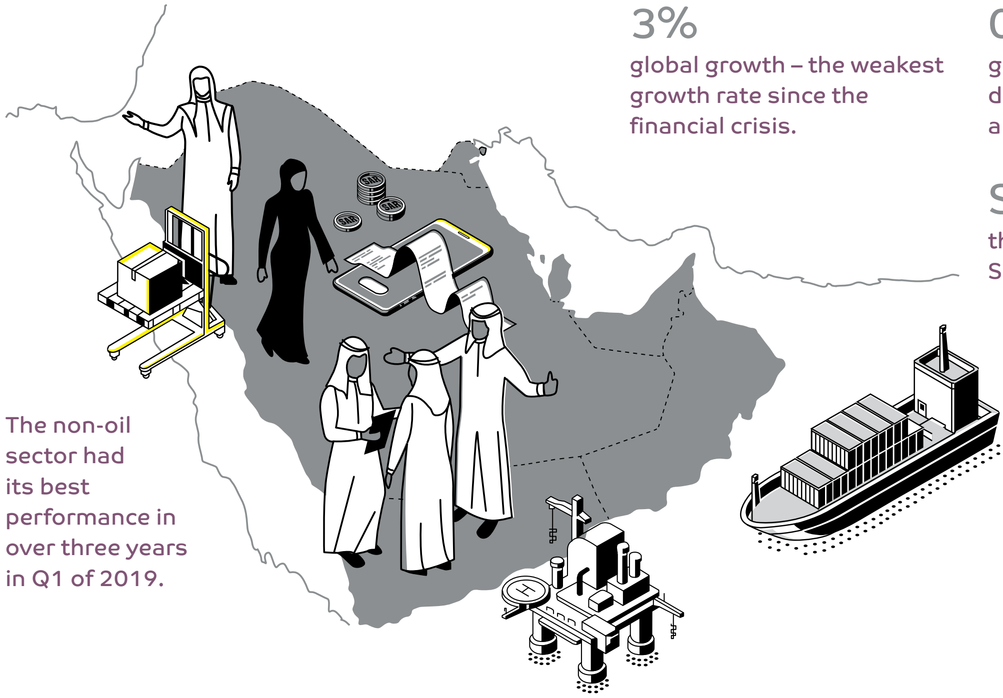
Be a key player in the development of a thriving financial sector and promoter of the economic and social development of the Kingdom as well as being key enabler of the Kingdom's Vision 2030 by offering services to support private sector growth.



Operating Environment

The global economy slowed down to 3%, the weakest growth rate since the global financial crisis, a result of trade barriers and increasing uncertainty. While advanced economies and smaller Asian advanced economies have weakened, emerging market and developing economies (EMDEs) have been hit harder by the global slowdown. The US economy settled into a slower pace of expansion, as did the UK as investment declined due to uncertainty over Brexit, while weak export activity continued to hamper the growth of the Euro area economy. A decline in industrial output was observed across the globe, as both firms and households became more reserved in purchasing machinery, equipment, and durable goods, thus contributing to the slowdown in global trade. However, services activity held steady and helped to maintain employment creation, which in turn bolstered consumer confidence and household spending on services. Energy prices declined during the year as the US ramped up production to a record high and demand slowed. Central banks reacted to the slowdown by cutting interest rates, thus lessening its impact. However, the slow growth is expected to continue well into 2020 and 2021.

The countries of the Gulf Cooperation Council (GCC) were not immune to the impacts of the global economy and had to deal with geopolitical issues that raised the risk perceptions of the region; the GCC economy is projected to have slowed down significantly to 0.8% from 2% in 2018. The continued slowdown experienced by China and global trade war hindered efforts to boost non-oil exports, although non-oil sectors experienced a healthy growth as a result of extensive public investment programmes around transportation, energy, and logistics infrastructure. Moreover, GCC governments have been working diligently to diversify their economies and implement progressive reforms to be more conducive to foreign investment and trade. Value added tax (VAT) and excises have also helped to diversify sources of fiscal revenue. The outcome is that three of the top 10 global improvers on the World Bank's Doing Business Indicators reside in the GCC – Saudi Arabia, Bahrain, and Kuwait.



3%

global growth – the weakest growth rate since the financial crisis.

0.8%

growth in the GCC Region, down from 2% recorded a year ago.

SAR 1.795 Tn

the total bank deposits in the Saudi banking sector.

The non-oil sector had its best performance in over three years in Q1 of 2019.

The economy of the Kingdom of Saudi Arabia is projected to have slowed down to an estimated 0.4% in 2019. The economy slowed down sharply in the first half of 2019 as a result of significant cuts to oil production as part of an OPEC+ agreement and a reaction to increased US shale production. The country's oil production was once again disrupted by the attacks in September. The country is still largely dependent on its oil exports, which significantly outweigh its non-oil exports that represent just 17% of total exports. However, the non-oil sector had its best performance in over three years in Q1 and helped to pick up the slack from the contraction of the oil sector in Q2. The services sector, which represents approximately 40% of the country's economy, accounted for most of the non-oil growth. Fiscal deficits were prevalent across most of the GCC and Saudi Arabia was no different, with the government loosening its fiscal policy stance and increasing spending; this combined with the reduced oil revenue growth has led to a projected fiscal deficit of 4.7% of the GDP for 2019. Inflation in 2019 is projected to be 1% and is expected to hit 2% in 2020 as economic growth continues to perform below potential. Moreover, public finances are expected to remain in deficit for the near future.

The outlook for 2020 is looking to trend upwards, with a projected economic growth of 2.2% for the GCC, assuming that oil prices recover and spending on mega-projects and growth in non-hydrocarbon sectors continues. Monetary, fiscal, and structural policies being geared to expand the private non-oil sector GDP in the medium-term is expected to lend a boost to the economy of Saudi Arabia in 2020 to an estimated 2.2%. Although the Saudi Arabian Government is working to diversify the economy away from oil, it is also committed to leveraging its oil resources by focusing investment towards downstream activities such as oil refining and petrochemical production. Many projects are reliant on the Public Investment Fund (PIF) for financing, which itself should see a significant liquidity boost as a result of the initial public offering of Saudi Aramco. The non-oil private sector is also expected to receive a boost from the G20 summit in 2020, which is being hosted for the first time in the Middle East by Saudi Arabia. Ultimately, the growth of the global economy will be subject to the impact of trade tensions, geopolitical risks, as well as the outbreak of COVID-19, whose impacts are yet to be ascertained. These external risks could also affect Saudi Arabia's economy, along with rising geopolitical tensions and erratic oil price fluctuations.

Saudi banking sector

Total bank deposits in the Saudi banking sector increased by 7.3% in 2019, reaching SAR 1.795 trillion up from SAR 1.674 trillion in 2018. Demand deposits constituted 61.2% of the total and grew 5.6% year on year to SAR 1.099 trillion Savings and term deposits also saw a 13.2% year on year increase to SAR 501.67 billion. The banking sector's aggregate income grew 5% to SAR 50.5 billion and aggregate assets increased by 10% to SAR 2.631 trillion. Money supply in the Saudi banking sector was boosted by the proceeds of Saudi Aramco's initial public offering, and Saudi banks increased money lending during the year as a result of the government-backed mortgages programme. Growth was seen in Bank credit during the year, a 7.6% year on year increase to SAR 1.552 trillion, up from SAR 1.443 trillion in 2018. Long-term credit increased by 26.7% to SAR 634.64 billion by the end of 2019, while medium-term credit increased by 2.9% and short-term credit increased by 4.4%. The credit-deposit ratio for the year was recorded at 86.44%. However, credit demand is challenged by the operating environment and GDP growth – the economy is still highly dependent on oil, despite ongoing diversification efforts.

VISION رؤيـــة 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

Vision 2030 was unveiled in 2016 as the blueprint to Saudi Arabia's future. The vision is founded upon three pillars: Saudi Arabia's status as the heart of the Arab and Islamic worlds, the country's determination to become a global investment powerhouse, and utilising the Kingdom's unique strategic location to transform the country into a global hub connecting three continents. Three themes are woven around these pillars:

Vision 2030 envisions developing and diversifying the economy with the key objectives of reducing the dependence on oil and increasing the Kingdom's global competitiveness. The private sector and SME sector are set to play an expanded role in the economy and more foreign investment is expected to flow in. Saudi women will play a bigger role in the Saudi workforce and the expanded role of the SME sector will also help to develop the entrepreneurial skills of Saudis. The introduction of educational reforms will lead to the development of Saudi universities into world-class universities; the country's major cities will rank among the best cities in the world.

A vibrant society

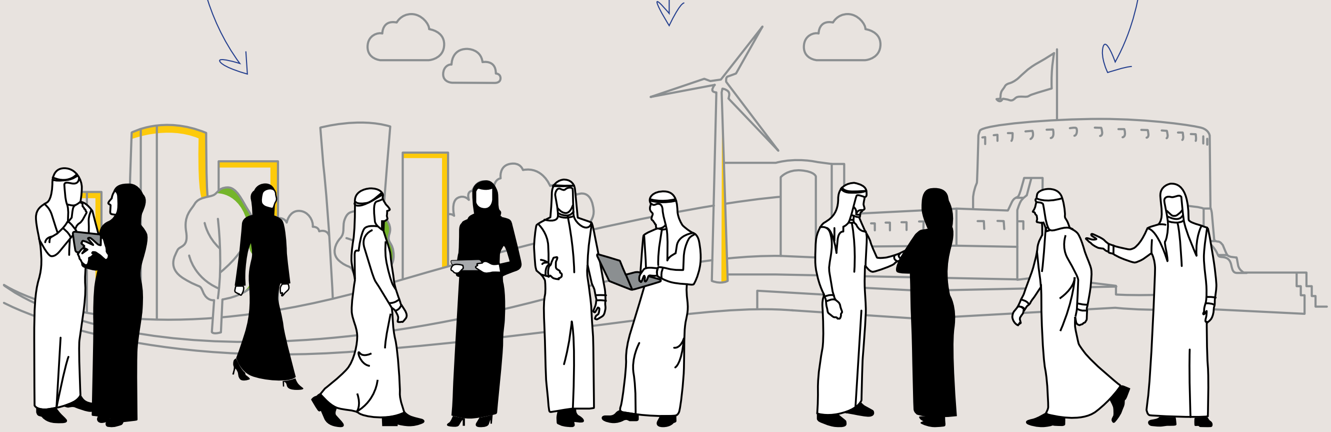
One that would progress and modernise while embracing Saudi heritage and Islamic culture.

A thriving economy

The creation of an environment that enables business opportunities, broadens the economic base, and creates jobs for all Saudis.

An ambitious nation

The creation of a high-performing government that is effective, transparent, and accountable and empowers citizens, the private sector, and non-profits to help fulfil the objectives of Vision 2030.

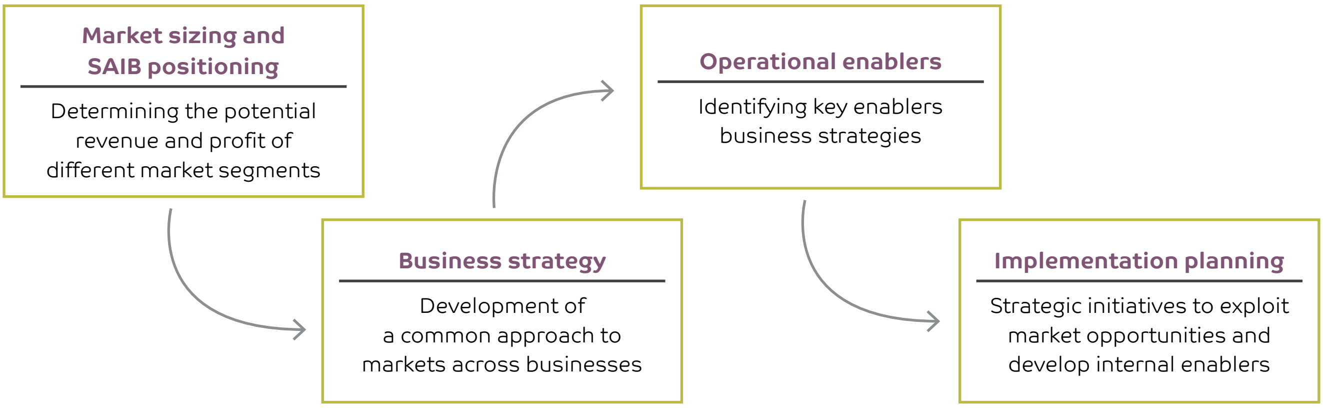


GRI 103-1, 103-2, 103-3

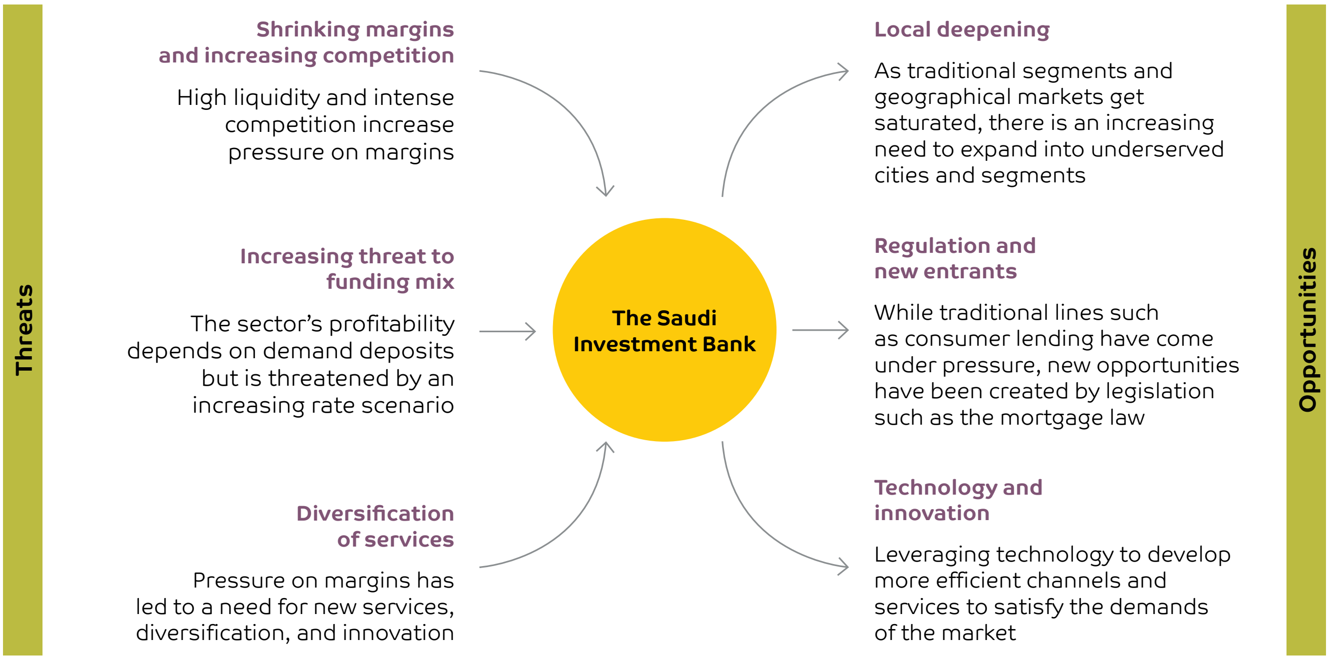
Strategic Framework

2019 marks the completion of the Bank's operative strategic plan based on the theme "Building on Strengths" that was initiated in 2015. The plan is customer-centric, based on the achievements and lessons learnt from the previous strategic plan.

Building on strengths: methodology for development



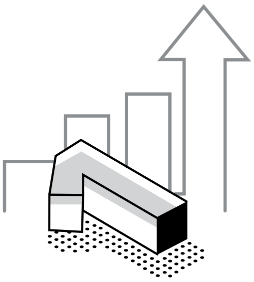
During the development of the strategic plan, which utilised inputs from meetings, surveys, and staff workshops, SAIB identified trends in the Kingdom's banking sector. From these trends, SAIB was able to identify threats and opportunities in the market, product segments, customer segments, geographical markets, and channels for expansion.



The main objectives for financial performance are to increase revenue while significantly increasing profitability and maintaining the capital adequacy ratio.

By studying the developments in the operating environment and the results of stakeholder engagement combined with the understanding of the Bank's position within the industry, SAIB has determined the broad strategic imperatives for it to focus on and identified sub-focus areas within those imperatives. For 2020, these will be reviewed to craft a new strategic framework for the Bank.

GRI 103-1, 103-2, 103-3



Growing volume profitably

- Organic growth in business volumes
- Expanding footprint in both conventional and alternative channels
- Diversification of products and customer segments
- Improving operational efficiency
- Ensuring adequate capital to comply with regulatory changes

SAIB had initially set an asset growth target rate of 8%, which is above the market rate. However, there are many factors to consider in achieving this target and a balance needs to be reached. More profitable areas, such as demand deposits, need to be identified and similar to its counterparts, the Bank has to increase fee-based income.

A balance has to be maintained between risk and profitability, and the Bank has to adhere to various rules such as capital adequacy requirements and regulatory provisions like IFRS 9 and Basel III. As transaction volumes expand, so too do operating costs and these need to be controlled to ensure that profitability increases. Non-performing loans can be minimized through careful credit control.

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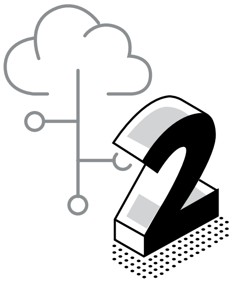

Developing systems and processes

- Agile approach to project delivery
- Implementation of a strategically planned digital transformation programme to leverage technology
- Improvements to policies, procedures, mechanisms, and systems for implementation
- Centralised processing for standardising and economies of scale
- Use of robotics
- Cyber security vigilance
- Systems upgrades/integration

The strategic plan calls for the agile development of systems and processes to support operational initiatives. Supporting processes have to be developed for key elements of the plan. For example, to develop cross-selling opportunities that leverage the specialised products offers by subsidiaries, organizational silos had to be broken down so that cross-selling could be implemented across SAIB's organizational units and corporate lines.

Furthermore, the Sustainability Dashboard Management System (SDMS) was developed to ensure the provision of accurate and timely sustainability information at the required level of detail.

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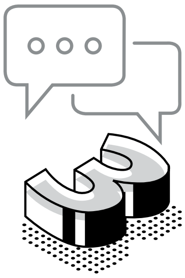

Leveraging relationships

- Communication with investors
- Understanding the customer better through data analytics
- Streamlining customer onboarding process
- Personalising customer experience/Creating "moments of truth"
- Addressing customers' issues swiftly and fairly
- Monitoring customer and business partner satisfaction
- Collaboration through partnerships/joint ventures
- Building long-term mutually beneficial relationships with business partners

Developing lasting and mutually beneficial relationships with customers, investors, and business partners is critical to the continued growth and prosperity of SAIB. To this end, SAIB is transparent and honest in its communications with its stakeholders and applies the most effective and appropriate channels of communication.

Technology has been leveraged to enable a diverse range of touchpoints with customers in addition to the traditional brick and mortar branches; Customers interact with the Bank via the internet, smart devices, ATMs, Cash Deposit Machines, IVR, and self-service kiosks. When expanding the Bank's reach to regions of the Kingdom, the most customer centric and cost-effective channels have to be selected.

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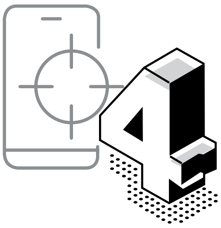

Broadening product and market portfolio

- Evaluating changing customer needs
- Identifying and concentrating on more profitable product segments
- Balancing the needs of different market segments
- Focus on more profitable types of customers
- Streamlining the product development process
- Transitioning from commoditised to innovative and differentiated products
- Promoting sales orientation
- Focus on effective sales strategies such as cross-selling and joint calling
- Brand strategy to support overall strategy
- Developing market fact base

As today's markets evolve and customers become increasingly technology savvy, new products and services are being introduced that are also increasingly digital in nature in both the personal banking and corporate banking segments. Lucrative opportunities also exist in market niches such as affluent banking.

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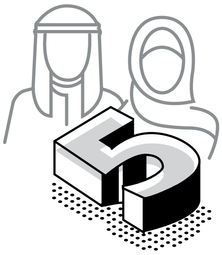

Building people skills

- Aligning the HR strategy with the new corporate strategy
- Motivation and retention
- Health and safety of employees
- Training and skills development in key aspects
- Engagement with staff
- Employee satisfaction through rewards and recognition

The development of SAIB's employees is a continuous ongoing process. This ensures that employees are up to date with the evolving landscape of the market, the latest technologies, and current customer needs and the role they play in the future sustainability of the Bank. The Bank's recruitment process is enhanced to ensure that the best local talented people are selected and placed in the most appropriate positions to leverage their abilities.

SAIB is committed to Saudization and increasing the proportion of female employees. The Bank strives to help its female staff balance their career growth and their family responsibilities and is conscious of human rights considerations and health and safety issues.

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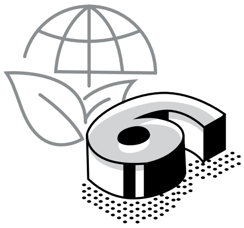

Serving the society and the environment

- Identifying issues related to our business and impact
- Addressing impact through the value chain
- Incorporating Environmental, Social and Governance (ESG) considerations in strategies and operations

SAIB understands its contribution to the national agenda and to our stakeholders and while the Bank is focused on maximizing shareholder returns, it also seeks to fulfil its social responsibilities as a responsible corporate. Every effort is taken to minimize the Bank's environmental footprint in its activities; to achieve this, an Environmental Management System (EMS) has been implemented that adheres to the ISO 14001 standard.

The Bank carries out many social programmes with educational, health, and charity objectives. Furthermore, the Bank's strategies align to the goals of Vision 2030.

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GRI 102-40, 102-42, 102-43, 102-44

Stakeholders

SAIB is bound by laws and regulations of the Kingdom of Saudi Arabia, including those which protect stakeholder interests. SAIB's stakeholders include its investors, customers, business partners, employees, regulators, the community, and environment. The Bank's stakeholders can also include "temporary stakeholders" that work with the Bank on special projects or issues, as well as stakeholders that have an indirect relationship to the Bank (such as environmental groups). These stakeholders are covered by the provisions of the Saudi Companies Act, the supervisory guidelines issued by the SAMA, and the corporate governance rules issued by the CMA. The CMA rules provide mechanisms for the settlement of disputes and compensation for the violation of stakeholder rights.

Investors

Investors are stakeholders who have taken an ownership stake in the Bank with the expectation of a return. The Companies Act and SAIB's Articles of Association and Corporate Governance Manual define the rights of investors, voting rights, rights to dividends, and right to information. Additionally, there are secondary groups associated with investors such as analysts and fund managers. The Bank adheres to a policy of transparency and ethical behaviour in its relationship with investors and makes as much information about all aspects of the Bank's performance available to them. Investors are kept up to date about the Bank's performance and other aspects through the Annual General Assembly and Board of Directors meetings, as well as annual and quarterly reports.

Customers

Customers are a key stakeholder for the Bank and engaging with them is critical to ensuring the Bank's continued survival and growth. Customers seek convenient, usable, and accessible products and services that provide financial returns which compare favourably with the market; therefore, the Bank takes into consideration the requirements, perceptions, tastes, and preferences of customers when developing new products and services. The Bank regularly conducts surveys like "Voice of Customer" to understand its customers better and gauge their level of satisfaction. The Bank also seeks to strengthen relationships with its customers through customer insights activities. The Bank provides consistency in its service to all customers.

Business partners

SAIB strives to develop lasting relationships with its vendors and service providers through mutual trust and benefits for both parties. The Bank's procurement policies are designed with the objective of the vendor and service provider taking responsibility for the quality of products and services, and equal treatment for all business partners is part of our policies and practices. The Bank maintains regular and seamless communications which includes updates about future requirements, expansion plans, and changes in systems and procedures. Furthermore, the Bank has in place a seamless tendering and bidding system. Correspondent banks are also key business partners for SAIB through which overseas transactions such as opening letters of credit are conducted.

Employees

The Bank is cognisant of the fact that it cannot have satisfied customers without having satisfied employees. The Bank's employees are kept motivated and receive training to serve customers effectively and keep up with the demands of the constantly evolving banking environment. HR policies are aligned with the Bank's broad corporate strategy, values, strategies, and objectives and are governed by a sustainability pillar of Re'aya. The staff is kept updated and trained on changes to systems and procedures, customer contracts, and relationship policies. There are clear lines and channels of communication between the staff and the Bank.

The Bank's employees adhere to a rigid code of conduct which is in accordance with our pillar of Takleef (responsibility). Employees are expected to be ethical in their own conduct and in safeguarding the Bank and its customers from illegal acts, fraud, forgery, and unauthorised disclosure of information.

The Bank strives to maintain staff morale through mechanisms such as the Employee Net Promoter Score Survey, in-house communications, a fair appraisal system, HR helpdesk, employee suggestion programme, a recognition and rewards programme.

Regulators

Ethical conduct is a cornerstone of SAIB's corporate policy. The Bank maintains the highest level of compliance with the laws, regulations, and guidelines of its regulators and is especially stringent in complying with requirements of its primary regulator, SAMA, such as maintaining a required level of capital and having Anti-Money Laundering procedures (AML), Know Your Customer (KYC) programmes, and Combatting Terrorist Financing policies in place.

CMA governs the capital market of Saudi and the investment environment. SAIB and its subsidiaries deal with financial securities, asset management, and real estate management and as such is required to comply with CMA rules and regulations to safeguard the interests of its shareholders and customers.

Conformance with regulatory requirements requires regular, timely, and accurate reporting to a required level of detail. The Bank cooperates with regulators in attending meetings, arranging for on-site visits, and maintains communication via letters and emails as and when required.

Community

As a responsible corporate citizen, SAIB assists disadvantaged groups in the societies it operates in. As in previous years, the Bank carried out a large number of social programmes during the year under review. Programmes the Bank took on centred around supporting agriculture, health, children's education, literacy, orphans, blood donations, and supporting needy families. The Bank has an active group of staff volunteers to contribute to these programmes and has received positive responses for its volunteering work.

Environment

SAIB is conscious of its environmental responsibilities and seeks to limit its environmental footprint. The Bank strives to minimize its usage of paper, plastics, electricity and water for internal activities and practices green principles as per its Environmental Policy.

GRI 102-47

Materiality

SAIB strives to create value in the short, medium, and long term for itself and its stakeholders. The process of value creation is a two-way process, wherein the Bank delivers value to its stakeholders as well as derives value from them. The process must be considered within the context of the Bank's operating environment and the needs and priorities of its stakeholders.

The topics that have the most impact on the Bank's value creation process have been identified through a multi-step process. The first step of the process was a PESTEL analysis of potential material issues categorized under the stakeholder group on which they have the most impact, as shown in the following table.

Stakeholders	Political A	Economic B	Social C	Technological D	Environmental E	Legal/Regulatory F	
Investors/ Shareholders		Economic slowdown	Growing influence of social media	Unorthodox competition		IFRS 9	1
		Depreciating currencies against USD				Basel III	2
		Expected growth in the Saudi economy				Higher regulatory capital	3
		Financial system stability				Governance and accountability	4
Customers		Propensity to invest in Saudi Arabia	Increasing customer expectations (especially in the younger generation)	Cloud computing		Adherence to Islamic banking principles	5
		Corporates are de-leveraging	Customer trust and protection	e-onboarding			6
		Increase in non-performing loans	Quality of service and customer satisfaction	Digitalization and automation			7
		New parallel stock market being set up for MSMEs	Engaging with customers	Innovation and product development			8
		Higher oil prices		AI, Robotics			9
		Higher percentage of short-term loans		Blockchain			10
				Cybersecurity threats			11
				Infrastructure and accessibility			12
				Data security			13

Stakeholders	Political A	Economic B	Social C	Technological D	Environmental E	Legal/Regulatory F	
Employees			Employee productivity	Technology driving change in job skills		Human and labour rights	14
			Staff retention	Operational efficiency			15
			Saudization				16
			Employee satisfaction and engagement				17
			Staff training				18
			Soft skills development				19
			Equal opportunity and anti-discrimination				20
Community and the environment	Geopolitical conflicts		Need to commit to Sustainable Development Goals		Reduction of environmental impact of operations	ESG risk in lending and investment	21
			Higher spending power in local population		Increasing demand for green banking and green lending	Compliance with regulations	22
			Community investment and engagement				23
Business partners/ Suppliers			Sustainable procurement				24
			Strengthening relationship				25
Government/ Policymakers		Expected increase in non-oil revenue					26
	Slow growth in economic integration in the GCC						27
	Growth of MSME sector being part of the Vision 2030 goals						28
	Diversification of the economy being one of the Vision 2030 goals						29
Regulators						Business ethics and prevention of financial crime	30

The next step of the process was to map the topics that have the most impact on the stakeholders and/or SAIB. The topics have been categorized as risks or opportunities or both.

The degree of materiality of importance of a topic is assessed according to its relevance to SAIB or the stakeholder and its significance, as determined by the probability of its occurrence and the magnitude of its impact. Material risks and opportunities are further analyzed to determine whether they are of high, moderate, or low importance to the Bank and its stakeholders.

The outcomes of the materiality analysis contributed to the formulation of the Bank's strategies and strategic imperatives.

Management approach

Material topics are managed in accordance with the Bank's strategic plan and responsibilities are assigned to the respective functional unit heads as per the Organization's structure. The degree of materiality of a risk or opportunity will be a guideline for resource allocation. Accordingly, the Bank has designed and implemented several policies relevant to material topics to guide its employees in conducting their duties.

Opportunities to be seized

Importance to stakeholder \ Importance to the Bank	Moderate	High	Very high
Very high		A28, B9,D1	A29, B4, B8, B26, C5, C6, C7, C8, C16, C17,C18, C19, C20, C22, C23, D5, D6, D7, D8, D10, D12, D15, E22, F4, F5, F14, F30
High		B2, C1, E21, F1, F2, F3	B3, B10, C14, C15, C24, C25
Moderate		F22	

Risks to be mitigated

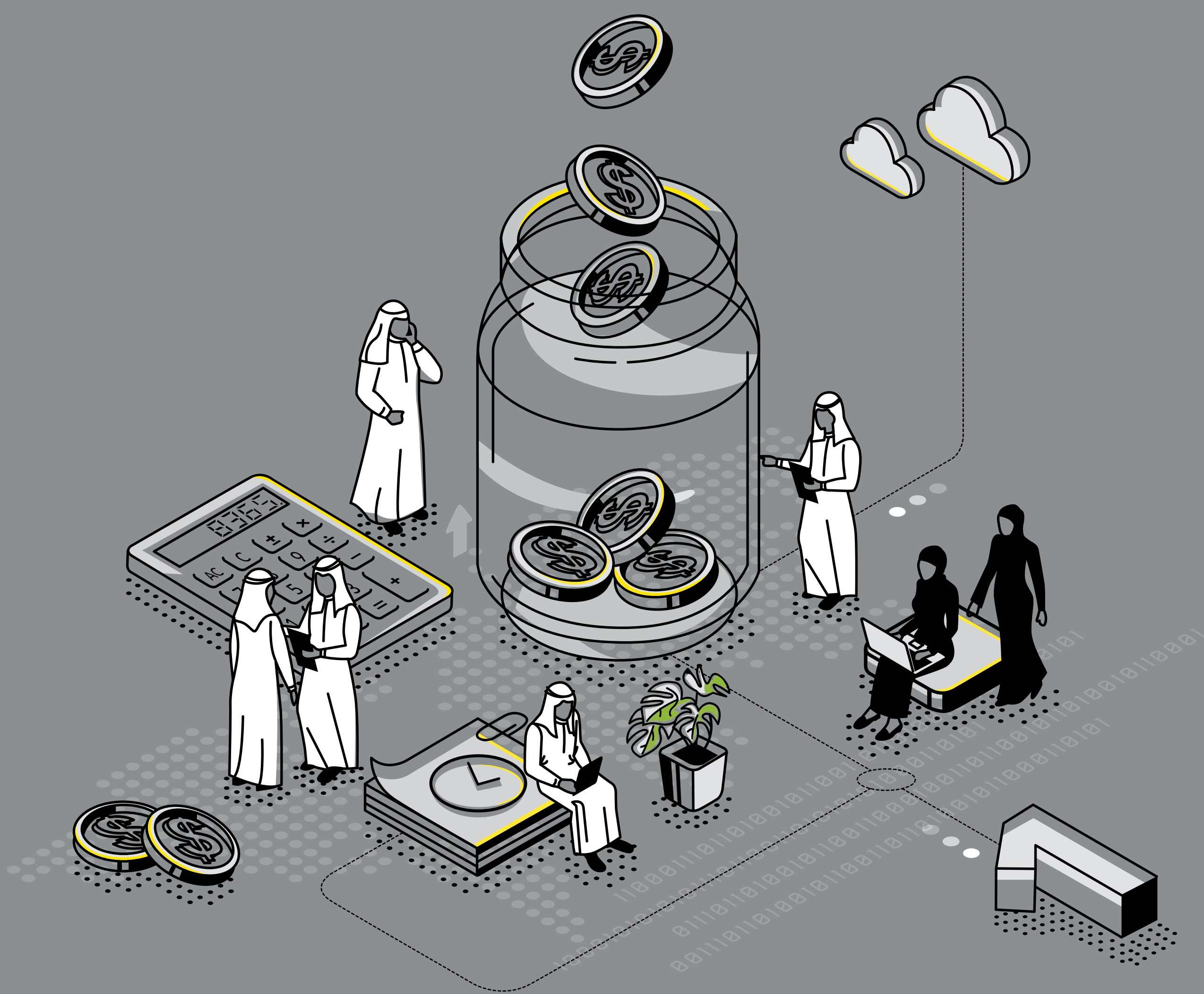
Importance to stakeholder \ Importance to the Bank	Moderate	High	Very high
Very high			B1, B4, B8, C5, D11, D13, F4, F14
High	D14	B2, A27, B6, B7, C21, F1, F2, F3	B5, C14, C15, D15, F21, F22
Moderate	D10	C1	D1, F30

MANAGEMENT DISCUSSION AND ANALYSIS

SAIB's multifaceted strategies lead to sustainable and long-term value creation. These strategies include expanding the Bank's reach, controlling costs, and creating innovative products and services that cater to the unique requirements of customers. This is supported by developing systems and processes, strengthening relationships with stakeholders, and building the skills of the Bank's employees. Moreover, as a sustainable business, the Bank has a responsibility towards the society and the environment it operates within.

Growing Volume Profitably

SAIB grows its business volumes while increasing its profitability by expanding its reach through traditional and non-traditional channels. The Bank also achieves growth through strategic initiatives like expanding its product portfolio and further exploring promising customer segments.



SAIB seeks to grow its business volumes while increasing profitability – this is a core objective of the Bank. The Bank achieves this growth through a variety of means, such as providing exceptional products and services, and providing channels that are increasingly convenient to customers, such as digital channels. Growth can also be achieved through the diversification of the Bank's product range, targeting select customer segments, and tailoring our service model to serve our customers and to attract new customers. Key to increasing the Bank's profitability while growing is controlling costs; capital adequacy also needs to be maintained to meet regulatory requirements.

2019 was the first year of operations under the new three-year Strategic Plan. Of the three phases of implementing the plan, the Bank completed the "Transformation" phase early during the year which led to the launching of the Innovation Lab, following an assessment of the Bank's opportunities and strengths, and identifying the areas for development focus. Thereafter, the Bank moved on to the "Building" phase focussing on developing infrastructure, strengthening foundations, making the necessary changes in operations, executing critical projects and deep-rooting its customer loyalty. It is through the implementation of the "Acceleration" phase that the Bank envisages to reap tangible benefits of the Plan.

This financial review provides an analysis of the financial position, results of operations and cashflows of the Bank during the year 2019. This should ideally be read in conjunction with the Operating Environment given on pages 40 to 42 and the "investments" made for the implementation of the strategic plan that provided the context within with the performance of the Bank for the year was achieved.

An overview

Customer deposits grew by an above industry average growth of 8.43%, enabling the Bank to grow its total assets by 4.94% as at 31 December 2019.

A substantial increase in provisions for credit and other losses more than offset the 3.89% growth in total operating income for the year, leading to 81.89% decrease in operating income. However, at the net income level the decrease was less pronounced at 58.42% as a result of the provision for Zakat and tax liability for 2019 being SAR 90 million only compared to SAR 868 million in 2018 which included a provision for a settlement of Zakat assessments for the years 2005 to 2017 agreed with the GAZT. Reflecting the drop in net income, both the return on average assets and the return on average shareholders' equity too declined to 0.24% and 2.03% respectively in 2019 compared to 0.61% and 4.73% in 2018.

No dividends have been proposed for the year ended December 31, 2019.

Financial position

Total assets

Total assets crossed the milestone of SAR 100 billion to reach SAR 100.8 billion as at December 31, 2019 which was higher by SAR 4.7 billion or 4.89% compared to the December 31, 2018 figure of SAR 96.1 billion.

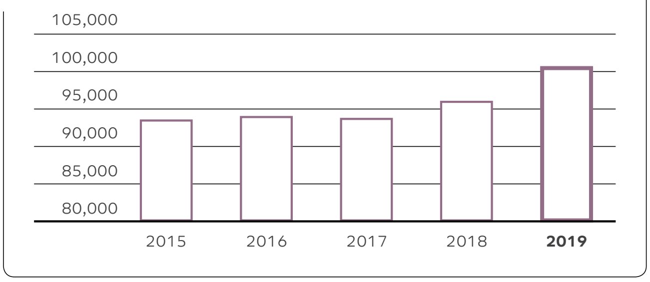
The five-year trend of SAIB's share of the total assets of Saudi Banks is given below:

	Year				
	2019	2018	2017	2016	2015
SAIB's Market share (%)	**4.12**	4.24	4.22	4.26	4.31

Details relating to movements in total assets are given below.

Growth in total assets

(SAR million)



Cash and balances with SAMA

The Bank's cash and balance with SAMA amounted to SAR 10.2 billion as at December 31, 2019 compared to SAR 4.9 billion as at December 31, 2018. The increase was primarily due to an increase in overnight placements with SAMA from SAR 977 million on December 31, 2018 to SAR 6.0 billion on December 31, 2019.

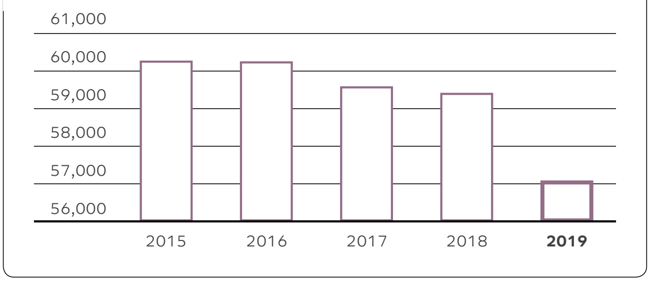
Investments

The Bank's investment portfolio totalled SAR 26.2 billion as at December 31, 2019 compared to SAR 24.6 billion as at December 31, 2018, an increase of SAR 1.6 billion or 6.50%. Investments classified by major rating agencies as investment grade represented 86.25% of the total portfolio as at December 31, 2019, compared to 85.15% as at December 31, 2018.

Loans and advances, net

Loans and advances, net as at December 31, 2019 totalled SAR 57.1 billion compared to SAR 59.4 billion as at December 31, 2018, representing a decrease of SAR 2.3 billion or 3.87%. Total performing loans decreased to SAR 57.1 billion from SAR 60.1 billion primarily due to lower consumer loans and overdrafts while non-performing loans increased to SAR 2.4 billion from SAR 1.1 billion following an evaluation of individual exposures considering the ability of the borrowers to repay.

Loans and advances, net
(SAR million)



Consequently, non-performing loans as a percentage of total loans and advances increased to 3.99% as at December 31, 2019, compared to 1.76% as at December 31, 2018.

The cumulative allowance for credit losses totalled SAR 2.4 billion as at December 31, 2019 which was 4.04% of total loans and 101.31% of non-performing loans. This compared to SAR 1.8 billion as at December 31, 2018 which was 2.93% of total loans, and 166.74% of non-performing loans. While the expected credit loss coverage of non-performing loans declined in 2019, the credit risk has been adequately mitigated by collateral that the Bank holds against its non-performing exposures.

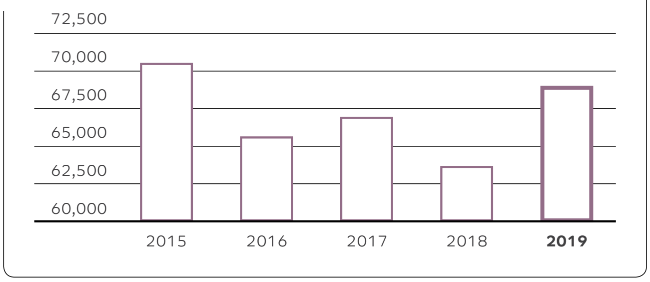
Loans and advances as at December 31, 2019 include non-interest based banking products including Murabaha agreements, Tawarruq, Istisna'a and Ijarah totalling SAR 39.0 billion, compared to SAR 37.1 billion as at December 31, 2018.

The Bank in the ordinary course of lending activities holds collateral as security to mitigate credit risk on its loans and advances. The collateral primarily includes time, demand, and other cash deposits, financial guarantees, local and international equities, real estate, and other assets. The estimated fair value of collateral held by the Bank as security for total loans and advances is approximately SAR 47.3 billion as at December 31, 2019, compared to SAR 49.4 billion as at December 31, 2018.

Customer deposits

Customer deposits grew to SAR 69.1 billion as at December 31, 2019 compared to SAR 63.7 billion as at December 31, 2018, an increase of SAR 5.4 billion or 8.48%. Demand and other deposits amounted to SAR 27.4 billion accounting for 39.66% of the total deposits as of December 31, 2019 compared to SAR 25.1 billion and 39.45% as of December 31, 2018. Special commission bearing deposits also increased by SAR 3.1 billion or 8.03% to SAR 41.7 billion during the year ended December 31, 2019.

Customer deposits
(SAR million)



Term loans

The Bank entered into a five-year medium-term loan facility agreement on June 19, 2016 for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on June 19, 2021. On September 26, 2017, the Bank entered into another five-year medium-term loan facility agreement for a further SAR 1.0 billion for general corporate purposes. This facility too was fully utilized on October 4, 2017 and is repayable on September 26, 2022.

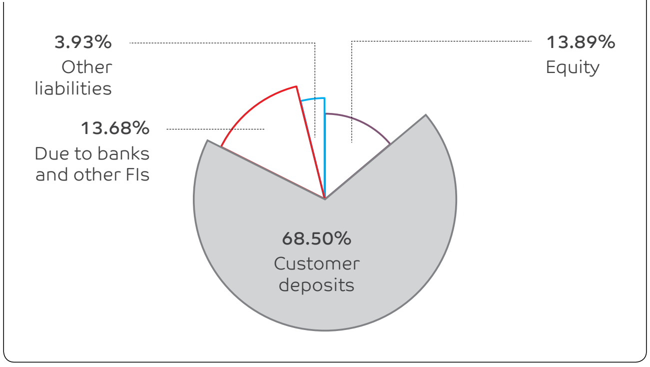
The term loans bear commission at market based variable rates. The Bank has an option to prepay the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements and the Bank has complied with all such covenants as at December 31, 2019. In addition, the Bank has not had any defaults of principal or commission on the term loans.

Subordinated debt

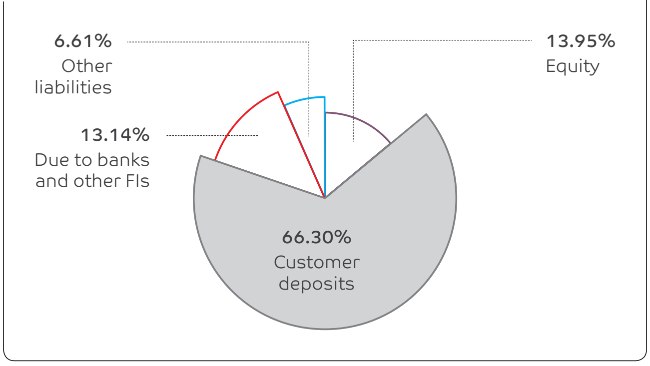
On June 5, 2014 the Bank concluded the issuance of a SAR 2.0 billion subordinated debt through a private placement of a Shariah compliant Tier II Sukuk in KSA. The Sukuk carried a half yearly profit equal to six-month SIBOR plus 1.45%. The Sukuk had a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five-year period, subject to certain regulatory approvals. The Bank has not had any defaults of principal or commission on the subordinated debt.

Whereas the original maturity date for the Sukuk is June 5, 2024, the Bank redeemed the Sukuk at the optional dissolution date of June 5, 2019 after receiving all required regulatory approvals.

Funding composition – 2019



Funding composition – 2018



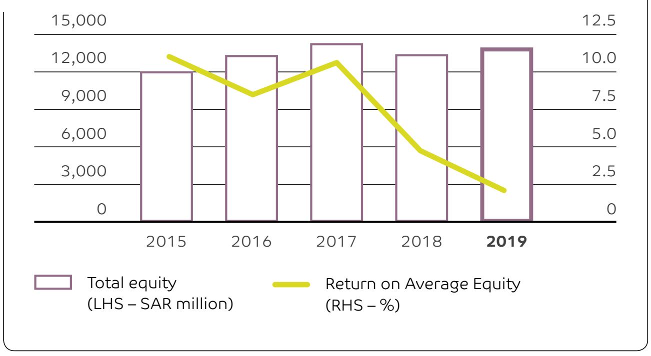
Total equity

The Bank's total equity increased to SAR 14.0 billion as at December 31, 2019, compared to SAR 13.4 billion as at December 31, 2018. Total comprehensive income of SAR 761 million and proceeds from Tier I Sukuk of SAR 215 million partly offset by the cost of purchasing treasury shares amounting to SAR 254 million and Tier I Sukuk costs of SAR 122 million contributed to this increase.

The percentage of total equity to total assets as at December 31, 2019 was 13.89%, compared to 13.95% a year ago. The Bank's shareholders' equity leverage ratio was 8.40 times as at December 31, 2019 compared to 8.27 times as at December 31, 2018.

Total equity vs Return on average equity

(SAR million/%)



Treasury shares

Besides the Treasury shares purchased from JP Morgan International Finance Limited at a cost of SAR 787.5 million in 2018, the Bank entered into a Share Purchase Agreement with Mizuho Bank Ltd (Mizuho) on November 29, 2018, to purchase another 18,749,860 shares of the Bank owned by Mizuho at SAR 13.50 per share amounting to SAR 253.1 million, exclusive of transaction costs and estimated income tax. The Bank received all regulatory approvals for the purchase, and the agreement to purchase the shares was approved at an Extraordinary General Assembly Meeting held on 21 Rajab 1440H, corresponding to March 28, 2019. On May 28, 2019, the Bank completed the purchase. The Treasury shares purchased including transaction costs amounted to SAR 253.5 million.

The share capital of the Bank has not been reduced on account of these transactions with the cost of the shares purchased totalling SAR 1,041.1 million presented as a reduction from shareholders' equity. The total number of shares outstanding as of December 31, 2019 was approximately 675 million after reflecting the Treasury shares held by the Bank.

Tier 1 Sukuk Programme

The Bank completed the establishment of a Shariah compliant Tier I Sukuk Programme (the Programme) in 2016. The Programme has been approved by the Bank's regulatory authorities and shareholders. The Bank had issued securities totalling SAR 1,785 million as at December 31, 2018. During 2019, the Bank issued an additional SAR 215 million in securities under the Programme, which now totals SAR 2,000 million as at December 31, 2019.

The Tier I Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Bank classified under equity. However, the Bank has the exclusive right to redeem or call the Tier I Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Programme.

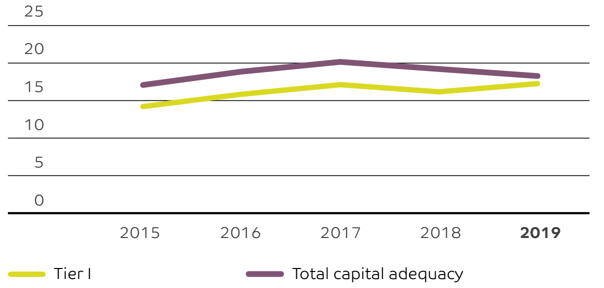
Capital adequacy

The Bank's objectives when managing capital are to comply with the capital requirements set by SAMA, to safeguard the Group's ability to continue as a going concern, and to maintain a strong capital base. Capital adequacy and the use of Regulatory capital are regularly monitored by the Bank's management and periodically reported to the Board.

As of December 31, 2019, the Bank's total capital adequacy ratio was comfortably above the minimum regulatory requirement of 10.5%, at 18.26% compared to 19.31% as of December 31, 2018.

Capital adequacy ratios

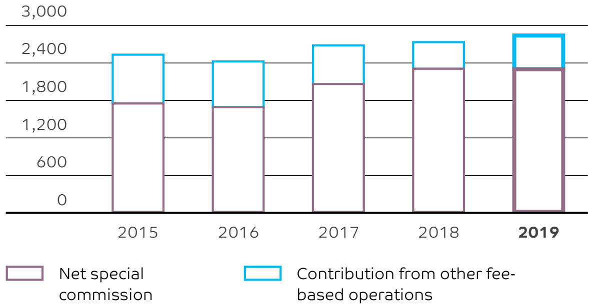
(%)



a loss of SAR 16 million in 2018. All other operating income totalled SAR 31 million in 2019, compared to a small net loss in 2018, contributed primarily by sale of other real estate at favourable prices.

Operating income

(SAR million)



Results of operations

Operating income

Total operating income for the year grew to SAR 2,818 million compared to SAR 2,713 million in 2018, an increase of SAR 105 million or 3.87%. However, net special commission income from fund-based operations which accounted for 80.84% (84.33% in 2018) of the total operating income recorded a marginal decrease of SAR 10 million or 0.44%. This was due to the growth in special commission income by 7.41% being offset by a higher increase in special commission expense of 20.73%. A negative rate variance of SAR 74 million and a positive volume variance of SAR 64 million contributed to this decrease.

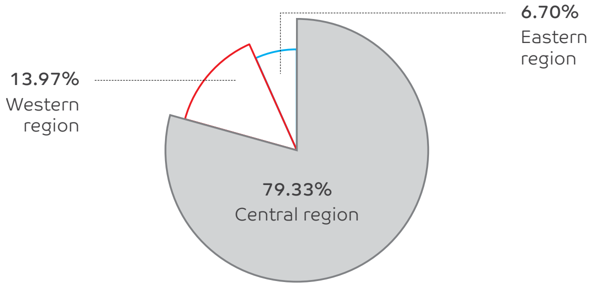
Contribution from fee-based operations to the total operating income amounted to SAR 540 million for the year (SAR 425 million in 2018). Fee from banking services reached SAR 299 million in 2019, compared to SAR 295 million in 2018, an increase of SAR 4 million or 1.36%. The increase was due to higher trade finance and card volumes, and an increase in investment management and brokerage business. Exchange income reached SAR 156 million in 2019, compared to SAR 141 million in 2018, an increase of SAR 15 million or 10.64%. The increase was due to increased volumes in customer FX transactions reflecting the Bank's coordination between Treasury and its Retail and Corporate clients. There was no dividend income in 2019 compared to SAR 5 million received in 2018. Other investment related gains earned from income recognized through profit and loss and sales of debt securities totalled SAR 54 million in 2019 compared to

Geographical distribution of operating Income

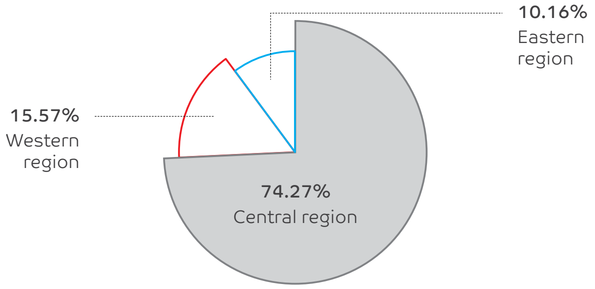
The Bank's total operating income is entirely generated from its operations in the Kingdom of Saudi Arabia. A region-wise analysis is given below;

	Central Region SAR '000	Western Region SAR '000	Eastern Region SAR '000	Total SAR '000
2019	**2,235,624**	**393,661**	**188,943**	**2,818,228**
2018	2,014,781	422,442	275,507	2,712,730

Geographical distribution of operating income – 2019



Geographical distribution of operating income – 2018



Operating expenses and efficiency

Total operating expenses before provisions for credit and other losses increased by SAR 101 million or 8.91% to SAR 1,234 million for the year compared to SAR 1,133 million in 2018. Main contributory factors for the increase were an increase in other general and administrative expenses by SAR 68 million due to the expenses incurred in connection with the Bank's new Strategic Plan and an increase in depreciation and amortization by SAR 41 million due to depreciation expense relating to Right of Use leased assets recognized as per the provisions of IFRS 16 which stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the consolidated statement of financial position, unless the term is 12 months or less or the lease is for a low-value asset item.

Salaries and employee related expenses for the year remained approximately at the same level as in 2018 despite the head count as of December 31, 2019 being 1,481 only compared to 1,581 a year ago. Rent and premises related expenses recorded a decrease of SAR 8 million compared to 2018 due to the change in accounting for leases as referred to in the earlier paragraph.

Relatively higher increase in operating expenses compared to the increase in operating income resulted in a deterioration in the net efficiency ratio to 41.60% compared to 39.30% in 2018.

Provisions for credit and other losses

Provisions for credit and other losses for the year increased to SAR 1,343 million from SAR 247 million in 2018. This was primarily due to a change in the status of certain loans and advances and the revaluation of associated collateral. The provisions were taken as a precautionary measure to improve the financial position of the Bank in the long term and do not in any way mean that the collection efforts of these loans will be relaxed or discontinued.

Share in earnings of associates

The Bank's share in earnings of associates for the year amounted to SAR 88 million compared to SAR 111 million in 2018, a decrease of SAR 23 million. The decrease was primarily due to the settlement of prior year Zakat liabilities for individual associate companies during 2019.

Provisions for Zakat and Income Tax

The provisions for Zakat and Income Tax for the year was SAR 90 million compared to SAR 868 million in 2018 primarily due to the recognition of a provision of SAR 751 million for Zakat liabilities for the years 2005 to 2017, in 2018 consequent to a settlement agreed with GAZT. A summary of the provisions for Zakat and Income Tax in 2019 compared to 2018 is given below:

	2019 SAR '000	2018 SAR '000
Provision for Zakat:		
For the current period	**76,809**	89,305
For years 2005-2017	**–**	750,506
For subsidiaries for years 2011-2017	**3,300**	–
Provision for income tax:		
For the current period	**1,800**	28,060
For prior periods	**8,131**	–
Provision for Zakat and Income Tax	**90,040**	867,871

The provisions for Zakat in 2019 also reflect the effects of changes in the method of calculating the Bank's Zakat liability which were published by the General Authority of Zakat and Tax (GAZT) in 2019.

Net income

The Bank reported net income of SAR 239.5 million for the year ended December 31, 2019, a decrease of SAR 336.4 million, or 58.41%, compared to SAR 575.9 million reported for 2018. The singular most factor for the drop in net income was the substantial increase in provisions for credit and other losses for the year.

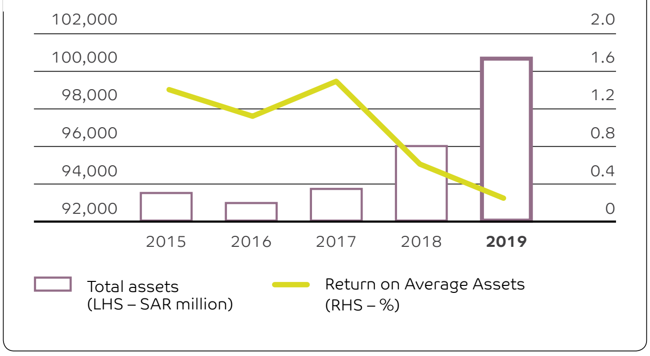
Total income, total expenses and net income

(SAR million)

Profitability

Reflecting the drop in net income coupled with the increase in average assets and average shareholders' equity, both the return on average assets and the return on average shareholders' equity too declined to 0.24% and 2.03% respectively in 2019 compared to 0.61% and 4.73% in 2018.

Total assets vs Return on average assets
(SAR million/%)



Profit distribution

In accordance with Saudi Arabian Banking Control Law and the Articles of Association of the Bank, SAR 60 million representing 25% of the annual net income was transferred to the statutory reserve, which is not currently available for distribution.

In 2018, the Board of Directors proposed a cash dividend of SAR 450 million equal to SAR 0.60 per share, net of Zakat withheld from the Saudi shareholders. The proposed cash dividend was approved by the Bank's shareholders at an Extraordinary General Assembly Meeting held on April 24, 2018 (corresponding to 8 Shaban 1439H). The net dividends were paid to the Bank's shareholders thereafter. No dividends have been proposed for the year ended December 31, 2019.

Income by operating segment

Income before provisions for Zakat and Income Tax of the Bank's reportable operating segments for the years ended December 31, 2019 and 2018 is given below:

	2019 SAR '000	2018 SAR '000
Retail Banking	**(622,959)**	247,461
Corporate Banking	**601,148**	833,902
Treasury and Investments	**559,557**	531,841
Asset Management and Brokerage	**33,832**	10,607
Others*	**(242,077)**	(180,043)
Income before provisions for Zakat and income tax	**329,501**	1,443,768

**Others include the net results related to Information Technology, Operations, Risk, and other support units.*

Cash flows

Cash and cash equivalents grew by SAR 5,110 million during the year from SAR 4,503 million as at December 31, 2018 to SAR 9,613 million as at December 31, 2019. The principal reasons for this increase are given below;

Cash flows from:	**2019 SAR million**	2018 SAR million	Principal reasons
Operating activities	**8,239**	2,616	Growth in deposits by SAR 5,385 million as against a decrease in deposits by SAR 3,251 million in 2018.
Investing activities	**(968)**	(3,277)	Cash outflows on investments being SAR 2,858 million only as against SAR 5,072 million in 2018.
Financing activities	**(2,161)**	(280)	Redemption of subordinated debt of SAR 2,000 million
Net increase in cash and cash equivalents	**5,110**	(941)	

Business segments

In 2019, the Bank achieved a number of key milestones. The Bank continued developing products and services for its different segments in pursuit of fulfilling its customers' needs and expectations. The Bank is managed on a line-of-business basis. Transactions between business segments are conducted on normal commercial terms and conditions through the use of funds transfer pricing and cost allocation methodologies. A detailed analysis of performance of the operating segments in 2019 and 2018 is presented in Note 28 to the Consolidated Financial Statements.

The Bank has three significant business segments, each of which is described below.

Retail Banking

Retail Banking offers conventional and Shariah compliant retail products and services for individuals, through the Head Office and a network of 52 branches throughout Saudi Arabia, of which 10 have ladies sections, as at December 31, 2019. In addition, the Bank currently operates a network of 393 ATMs and Interactive Teller Machines, Interactive Voice Recognition (IVR), more than 9,300 POS terminals throughout Saudi Arabia and online banking (Website and Mobile Applications). Services offered by Retail Banking include current accounts, savings, and time deposit accounts. The Bank also offers Shariah compliant products through its Shariah compliant branches.

Corporate Banking

Corporate Banking serves the financial needs of a range of business establishments from micro, small, and medium enterprises (MSMEs) to large corporate entities. Corporate Banking operates from three regional headquarters based in Riyadh, Jeddah, and Al-Khobar as well as through Syndications, Project, and Structured Finance Departments to provide tailor-made financial solutions and highly customized structures. Corporate digital banking services currently have multiple distribution channels including corporate online banking, eTrade, ePayroll, Cash Management, and B2B services.

Corporate Banking offers both conventional and Shariah compliant products and services and include facilities related to working capital financing, contract financing, project financing, syndicated financing, real estate financing, capital financing, trade finance, cash management, and treasury services for corporates. It continually strives to increase the range and quality of the Bank's product and service offerings to meet customers evolving needs and expectations.

Treasury and investments

Treasury and Investment is responsible for the Bank's Asset-Liability Management including interest rate risk, market risk, and funding and liquidity management. It also manages foreign exchange trading, structured products, as well as managing the Bank's Investment portfolio and derivative products. Treasury and Investment also manages the Bank's Business Partner Companies, Financial Institutions, Public Institutions, and the Asset Liability Management unit.

Credit ratings

Credit ratings are an integral component for participation in the international financial markets. As the global economy becomes more integrated, credit ratings are necessary not only to ensure funding and obtain access to capital markets, but also to demonstrate a commitment to meeting a high level of internationally recognized credit and risk management standards.

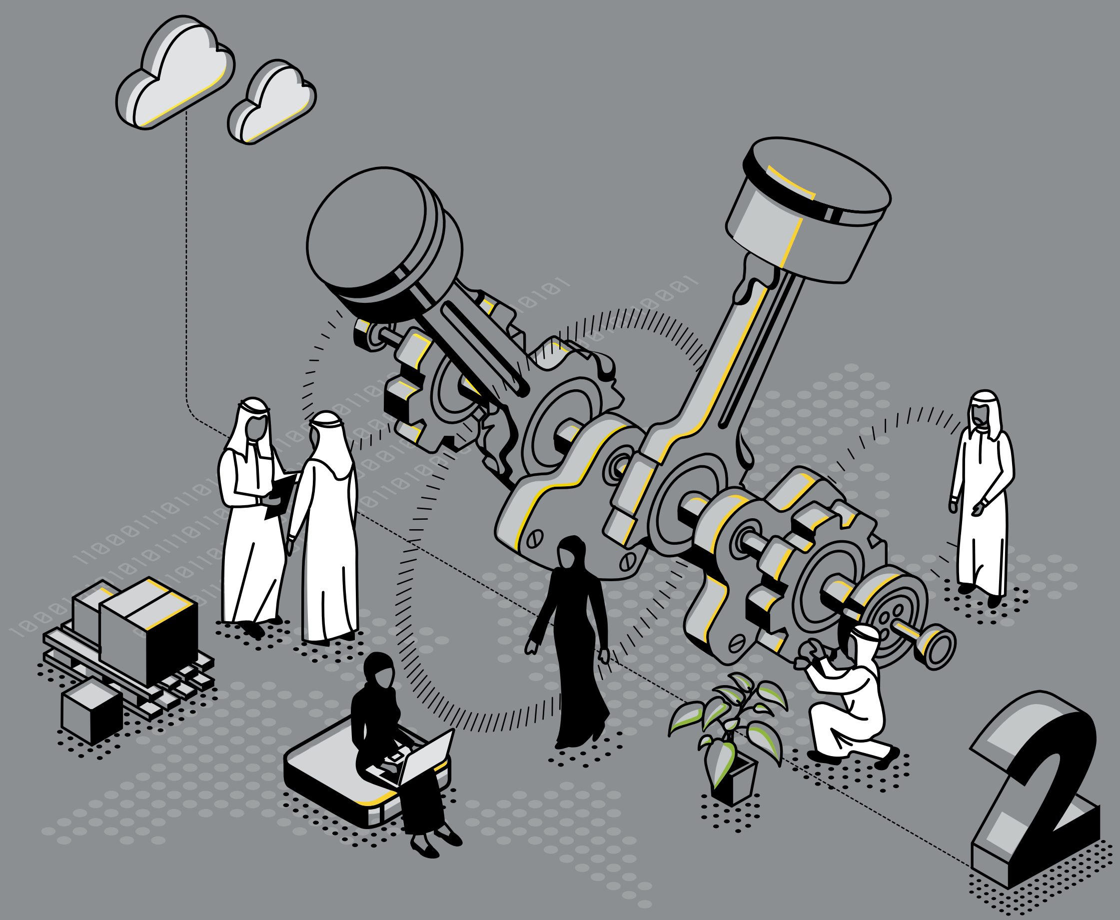
During the year, rating reviews were conducted by Standard & Poor's Ratings Services (S&P), Moody's and Fitch Ratings. A summary of the Bank's current ratings is given below:

	Long-term	Short-term	Outlook
Moody's	A3	P-2	Stable
S&P	BBB	A-2	Stable
Fitch	BBB+	F2	Stable

The Bank's stable ratings are the outcome of its financial performance, asset quality and capitalization levels, supported by a robust strategy and adequate funding and liquidity profile. Our ratings also take into consideration the fact that the Bank operates in one of the strongest banking sectors and best regulated markets in the Middle East. The ratings also reflect Saudi Arabia's sovereign credit ratings from Moody's, Fitch, and S&P, in addition to the country's economic fundamentals, adherence to BIS norms, and G20 alignment.

Developing Systems and Processes

The development of systems and processes is in line with SAIB's strategic planning process. In addition to business objectives, the values, ethics, and policies of the Bank are also taken into consideration in the development process.



Our strategy guides our systems and processes

SAIB's strategic plan is the driver behind the development of the Bank's systems and processes. The strategic plan builds on the achievements of the strategic plan that was in effect for 2010-2014 and was developed with markets, financial targets, human resources, innovation, and corporate sustainability in mind. The values, ethics, and policies of the Bank and the sustainability pillar of Takleef (responsibility) are also an integral part of the development of the strategic plan, just as they are in the Bank's activities.

The Bank regularly reviews its policies, systems, and procedures to determine whether they are adequate and effective within the current operating environment and relevant to its business needs.

SAIB's competitive edge is derived from its core strategy of digitalization and the Bank is leveraging cutting-edge technology to do so. SAIB uses technology to introduce value-added products and services to the market that are aligned with its business objectives. The customer experience is enhanced through new technologies, channels, services, and increased automation to maximize efficiency and convenience; these are the prime objectives of the Bank's systems and processes.

Security in an evolving environment

The security of systems and information is critical in an environment where digitalized data and IT systems play a vital role and attract unscrupulous parties. With this in mind, stringent controls are placed on the access and usage of hardware and software. The Bank remains vigilant to ensure that its safeguards are sufficient to address emerging threats. As the field of IT is one that constantly evolves, the Bank stays up to date on developments in the domain, particularly those that affect the banking industry. Where it is applicable, the Bank studies and implements the latest developments in ways that add value to its customers or improves internal processes.

All IT procedures and projects are carried out with adherence to the Bank's IT policies and procedures which follow internationally accepted best practices such as ISO 20000, project management frameworks, IT architecture standards, and cybersecurity standards.

Using technology to facilitate decision-making

The ability to access accurate information that delivers timely insights is crucial to facilitate the activities of Management and the decision-making of the Bank. The Sustainability Management Dashboard System (SDMS) accomplishes exactly this; this innovative application collects, stores, analyzes, and delivers information in an effective format to supplement the decision-making process. SDMS collects information on a monthly or quarterly basis and facilitates automated calculations and visualisations of performance.

SDMS enables key decision-makers to regularly track and report performance against the Bank's sustainability goals. The system allows for better presentation of information, both internally and externally, and enables profitability through cost efficiency up to the branch level. All departments are stakeholders in the SDMS, with the key stakeholders being the CEO, the Sustainability Committee, and the Corporate Communications Department.

Leveraging Relationships

SAIB strives to develop long-term relationships and collaborations through partnerships. Communications and relations with stakeholders, particularly customers, business partners, and investors, need to be seamless and effective while complying with regulatory requirements and Bank policies.

Communicating with investors

Investors are stakeholders who provide the Bank with the capital it requires to operate; the Bank thus has a responsibility to be transparent with its investors about all aspects of its performance, its policies, forecasts for future performance, future plans, strategies, and risks. SAIB also complies with regulatory requirements and its own policies by disclosing information to the general public through the media, its website, and on the Tadawul.

The Articles of Association and corporate governance rules of the Bank express the rights of shareholders, the guidelines for relationships with them, and the mechanisms for exercising their rights. These are also governed by the Saudi Company Law. The rules and procedures for shareholders to exercise their rights, including rights relating to dividends, convening meetings, attendance and participation at meetings, voting rights, and rights to information. A provision for shareholders to make complains also assures that they will be attended to and are entitled to a reply detailing any action taken in response to their complaint.

Movement of the SAIB share

(SAR)

As of December 31, 2019, the market value of the Bank's ordinary share was SAR 18.04 as against SAR 17.12 on December 31, 2018. During the year, the highest share price recorded was SAR 21.44 on January 28 and the lowest share price recorded was SAR 14.98 on November 3.

The breakup of the shareholdings as at December 31, 2019 is as follows:

SAR million	2019		2018	
	Amount	%	Amount	%
Saudi shareholders	**6,750.0**	**90.0**	6,750.0	90.0
Foreign shareholders	–	–	–	–
Mizuho Corporate Bank Limited	–	–	187.5	2.5
Treasury shares	**750.0**	**10.0**	562.5	7.5
	7,500.0	**100.0**	7,500	100.0

Market capitalisation

For the years ended December 31	**2019**	2018	2017
Value, SAR million	13,530	12,840	11,325
Percentage of total market capitalisation	1.96	2.07	2.42

Shareholders' equity

Key performance indicator	**2019**	2018 Restated	2017	2016	2015
Share capital (SAR million)	**7,500**	7,500	7,500	7,000	6,500
Total shareholders' equity (SAR million)	**12,007**	11,621	13,494	12,833	12,036
Basic and diluted earnings/share (SAR)	**0.17**	0.65	1.83	1.40	1.90

Understanding the customer better

Personal Banking

SAIB aims to deliver a superior personal banking service by being closer to the customer and understanding them better, thus building a relationship with them and being their long-term financial partner. The Bank tailors its offers with the customer's situation and requirements in mind and makes banking simpler and more accessible to them; this overall approach to the customer ensures their financial prosperity in the short and long-term. By understanding the needs and preferences of the customer, the Bank assists them in financial planning to protect their wealth and ensure that expected future cash flow requirements can be met, facilitating their financial and asset growth.

During the year, the Bank concentrated on improving its digital capabilities and automation, launched new digital sales channels to widen the Bank's reach and footprint, and looked to the Financial Technology (Fintech) space to disrupt its own business model and envision new and sustainable opportunities for growth.

The Bank continued to grow the personal banking customer base, acquiring 98,747 new customers during the year under review.

98,747
new customers

2019 – 545,431

2018 – 446,684

2017 – 381,571

2016 – 315,891

2015 – 248,760

The Bank conducts customer satisfaction surveys, which indicate a high degree of satisfaction.

The Bank has achieved almost uniform results in overall customer satisfaction across regions.

The Bank works diligently to resolve complaints effectively and efficiently to boost customer satisfaction, resulting in a strong performance of 95.43% of complaints being resolved within five days.

Criterion	Unit	Year				
		2019	2018	2017	2016	2015
Complaints registered	Nos.	**30,332**	26,497	14,523	9,897	7,907
Complaints resolved within five days	%	**95.43**	96.53	99.03	98.06	99.00

SAIB continued its digitalization and automation efforts that are centred around maximizing convenience to the customer. Internet and mobile banking, self-service kiosks, ATMs, Cash Deposit Machines (CDMs), and Interactive Teller Machines (ITMs) are reducing the reliance of customers on manual transactions and branch visits during opening hours to conduct their transactions with the Bank. Approximately 98% automation has been achieved in processes such as new account opening and new card issuance. The Bank intends

Customer satisfaction on services

99.57%
On branch services

82.81%
On "Flexx Click" internet banking services

to widen its reach by setting up more self-service kiosks across the Kingdom, rather than increasing the number of branches. Customers are continuously encouraged to migrate from manual processes to online processes and this has been a successful endeavour, with the incidence of online processing during the year under review growing to 94% from 92% in 2018.

Access point	Year		
	2019	2018	2017
Branches	**52**	52	49
Ladies sections	**10**	11	12
ATMs (multi-function)	**52**	51	49
ATMs (dispense)	**341**	361	372
CDMs	**12**	12	10
Interactive Teller Machines	**4**	4	4
POS terminals	**9,375**	9,307	9,178

The means through which the Bank communicates with its customers has also shifted towards electronic channels.

Initiative type	Year		
	2019	2018	2017
Marketing campaigns	**165**	153	45
Events	**45**	62	85
Emails to customers	**12,853,809**	10,612,267	95,000
Press releases	**44**	54	54
Unique visitors per month to SAIB website	**222,552**	215,906	179,432
Page views per month	**1,318,118**	1,002,738	732,875
Twitter followers	**974,786**	928,000	845,347
Facebook fans	**1,281,011**	1,298,437	1,317,206
Instagram followers	**47,973**	36,200	27,497
Snapchat views	**1,000**	–	–

The e-channels have proven to be popular, as indicated by penetration statistics and customer surveys indicating a high degree of satisfaction.

Customer satisfaction by engagement channel

The Bank has adopted changes to the decision-making process to facilitate responsible banking. A 360-degree survey of the customer's situation that includes an evaluation of their disposable income based on their family situation and expenses is used to make financing decisions. This helps to lower the repayment burden on lower income customers while enabling the Bank to be more flexible with the amounts loaned to higher income clients.

The Bank recognizes the increasing presence of women and millennial customers in the market and as key members of society in accordance with the Kingdom's Financial Sector Development Program (FSDP), and seeks to broaden its product portfolio to cater to these burgeoning segments. To this effect, the Bank has introduced sales for most of its products through telesales, enabling easier and more convenient access for these segments. Further improving convenience for these segments, most of the Bank's branch services have been moved to Flexx Touch. Furthermore, the Bank's Fintech vision and technology initiatives are crafted with consideration given to the preferences and accessibility of millennial customers. Going forward, the Bank aims to be a key player in the digital space and is constantly enhancing its internal capabilities to achieve its ambitions in this space.

Corporate Banking

SAIB's corporate banking function serves a wide range of clients such as large corporates, mid-sized corporates, and the MSME sector. The Corporate Banking Business Group of the Bank operates rom three regional headquarters based in Riyadh, Jeddah, and Al-Khobar. The Bank's wide range of technology-enabled products help to meet the needs of clients, including Islamic banking products. The Bank also leverages its subsidiary and associate companies to provide the following products and services:

- Alistithmar Capital: Investment services
- American Express (Saudi Arabia): Corporate cards
- Amlak International: Real estate financing
- Saudi Orix: Leasing
- Medgulf: Insurance

For the year under review, the Corporate Banking Business Group maintained a resilient performance during what were challenging economic conditions. The Group focused on SAIB's key competitive advantage, which is its close relationship to its customers and agility to address their financial needs. Emphasis was placed on growing the commercial banking segment and MSME customer base, while reducing credit concentration. The Group continues to support initiatives aligned with Vision 2030.

Growth in customer base

Customer type	Year				
	2019	2018	2017	2016	2015
Corporate banking	**1,650**	1,540	1.450	1,407	1,367
MSME	**11,109**	11,940*	15,936	13,704	10,441

**The reduction in MSME accounts during 2018-2019 was due a clean up of abandoned accounts.*

Assuring quality customer service

The customer experience is one of SAIB's key strategic priorities. This key to enhancing the customer experience for the Bank is utilising its competitive advantage – customer insight. The Bank conducted extensive internal testing of its quality assurance services, as well as conducting customer surveys and analytics to better understand its customers and how to enhance their service experience. To achieve this, an in-house specialised quality assurance and analytics team highly experienced in cognitive analysis and computer system experience helped the Bank to add value to how customers interact with and experience the Bank's services. Initiatives undertaken during the year primarily focused on enhancing the customer experience around online account opening and printing cards through kiosks, and launching new finance and refinance products through the digital Flexx Touch platform.

Operational excellence

The Operational Excellence Team's objective is to enhance the experience of SAIB customers. The team optimises processes through Agile and Six Sigma practices and utilises various data research and reporting methodologies to measure and manage the performance of the business.

SLA complaint resolution through SAMA
95% in 2018 >
99% in 2019

Quality of SLA complaint resolution through SAMA
92% in 2018 >
95% in 2019

SLA adherence for services provided to customers
94% in 2018 >
97% in 2019

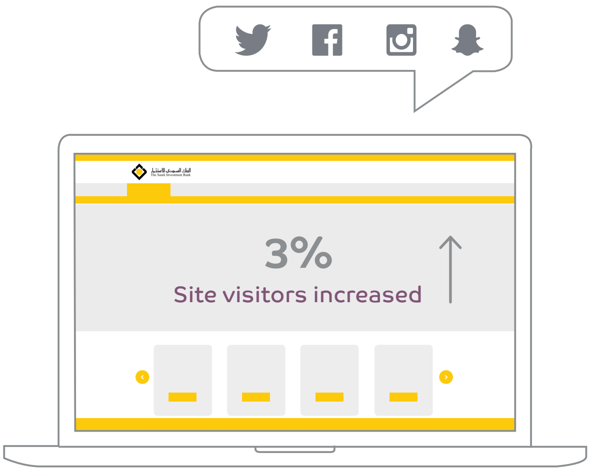
Retail customer satisfaction
82.8% in 2018 >
87.1% in 2019
As measured amongst 86,500 customers participating in customer satisfaction research

During the year under review, the team continued to elevate the performance and quality of service provided to SAIB's customers. A dedicated SLA monitoring unit was established to actively monitor all customer requests and ensure adherence to SLAs, thus contributing to the increased SLA adherence observed in 2019. The unit also highlights possible improvements to the Operation Excellence SIGMA teams for process enhancement. The SLA measurement method was also enhanced in CRM to measure the SLA performance on a department level, enabling the SLA monitoring unit to identify individual departments and steps in service delivery that may have an impact on service delivery performance. Over 23 Corporate Banking Services were onboarded to CRM to implement and measure SLAs.

During the year, 10 process improvement projects were completed, aimed at optimising and standardising process flows. Key projects completed include talent acquisition, outsourcing of staff salary payments, corporate cash deposit card issuance, POA enrolment and validation, and online complaint handling. Moreover, governance of Product Approval Memorandum (PAM) and Service Approval Memorandum (SAM) is now centralised. A transformation project was also conducted in the Tele Sales Department that saw the organization structure being restructured for efficiency, systems being enhanced, and the sales processes being re-engineered. Additionally, a training and manpower plan was developed to meet the expected output in 2020.

Customer satisfaction was recorded in relation to the overall customer experience with SAIB's digital channel, RIB and CIB. An increase in satisfaction from 82.8% in 2018 to 87.1% in 2019 was registered as a result of enhancements made to the RIB menu based on a customer experience study conducted in coordination with the e-channel team. Efforts to improve customer satisfaction continue with the launch of a new SMS survey module that will enable the effective measurement of customer experience and feedback. The survey module allows for a custom survey based on service, product, and customer segments and other factors related to better support decision making by business lines.

Corporate website, social media, and electronic communications



SAIB made extensive use of the electronic medium to connect with and engage its customers. The Bank's corporate website was redesigned in 2018 to make it more user friendly and has seen increased activity since. Site visitors increased by 3% from 215,906 to 222,552 during the year, with page views increasing 31% from 1,002,738 to 1,318,118.

SAIB continued to have the most prominent social media presence among Saudi financial institutions. The Bank also continued to grow its base of followers on all social media platforms such as Twitter and Instagram.

The Bank also continued to increase the use of emails to communicate with its customers. 12,853,809 emails were sent to customers, an increase of 21% over 2018.

Building loyalty

The Bank's loyalty programmes, Aseel and WooW, continue to grow year on year.

Aseel partners have grown to 506 partners in 2019, compared to 493 in 2018.

WooW has seen record enrolment and redemption metrics in 2019. Innovation and digitalization remain at the forefront of the programme. The customer experience will continue to be enhanced with redemption being made much easier in 2020.

Marketing campaigns

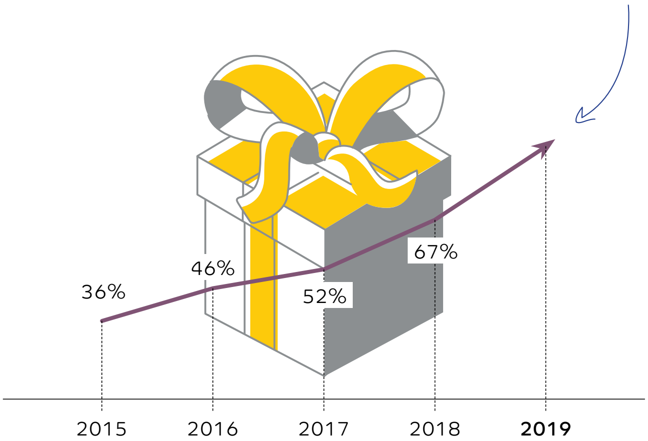
- The Travel Card Campaign, 'حطها على يمينك', was launched in mid-2019 to drive Travel Card usage, grow customer acquisition, increase card issuance, and further promote the SAIB brand. This Above the Line (ATL) campaign targeted existing and non-customers, with Riyadh and Jeddah Airports being branded with campaign messages alongside strategic locations within the cities through the use of billboards. The year also marked the official launch of 100 currencies with the Travel Cards.
- The Apple Pay campaign was launched to promote the increased usage of SAIB cards.
- WooW Summer, a Below the Line (BTL) campaign, was launched to increase customer engagement and raise awareness of the programme.
- Cards Summer, a BTL campaign, was launched to increase card usage and transactions locally and internationally.
- The Saudi National Day BTL campaign aimed to increase engagement through SAIB's social media channels.

WooW programme

Through the WooW loyalty programme, SAIB rewards its loyalty members with points for their transactions. Members can then redeem these points for various gifts through the WooW e-catalogue. The WooW programme continues to achieve the programme's strategic metrics, with 90% of eligible customers enrolled.

90%

of eligible customers enrolled in the WooW Programme



WooW Surprise campaign

The WooW Surprise campaign was launched on social media during the holy month of Ramadan to raise brand awareness and engagement.

WooW Summer campaign

The WooW Summer digital campaign targeted SAIB customers to create awareness and engagement about the SAIB WooW programme.

Business partners

SAIB maintains strong relationships with its business partners, ensuring the uninterrupted conduct of its operations. The Bank has established long-term relationships with its vendors and service providers that are based on mutual trust and confidence, and is ethical and transparent in its dealings with them. The Bank's procurement costs are primarily focused on utilities, stationery, equipment, and software. SAIB is conscious of its impact on the local economy and local communities and sources from Saudi suppliers whenever possible. The performance of suppliers undergoes regular reviews to ensure the timely procurement and quality of supplies as well as maintaining good relations; the Bank also ensures the timeliness of its payment obligations.

SAIB's network of correspondent banks serves the MENA, European, African, and North American regions and is crucial in supporting the Bank's overseas transactions.

Visa Inc. recognized the SAIB Travel Card, which saw the introduction of 100 currencies – the largest selection of currencies available in a travel card in the Central Europe, Middle East, and Africa region, as the ninth largest programme of its type across the globe.

For the year under review, the Bank prepared detailed performance reports on each of its business partners, highlighting the background, products, market analysis, financial analysis, major risks and mitigation, valuations and recommendations, and presented to ALCO and the Board.

Alistithmar Capital launched a new income generating real estate fund.

	Year				
	2019	2018	2017	2016	2015
International suppliers	**137**	39	79	24	25
Local suppliers	**305**	148	154	80	65
Spending (international procurement) – SAR	**68,244,427**	60,777,564	36,644,044	25,000,000	7,000,000
Spending (local procurement) – SAR	**399,433,627**	389,513,667	259,314,171	130,000,000	83,000,000

Affiliations

GRI Community member

SAIB retained its GRI Community membership for the year under review. The GRI Community is an inclusive and collaborative network of companies and stakeholders committed to transparency and quality sustainability reporting.

UN Global Compact status

The UN Global Compact is an initiative which companies voluntarily participate in to align their strategies and operations with universal principles on the environment, labour, human rights, and anti-corruption.

SAIB retained its UN Global Compact (GC) status for the fourth year based on its Communication on Progress (COP) submission, demonstrating its commitment to and leadership in corporate sustainability governance. The submission met the minimum requirements and qualified for the GC Active level, and is publicly available on the Global Compact website.

International Integrated Reporting Council (IIRC)

SAIB was the first entity in the Middle East to join the International Integrated Reporting Council Business Network. Through this membership, the Bank benefits from the experience of over 1,750 international participants and has peer-to-peer contact with reporting practitioners. Furthermore, the membership is an affirmation of the Bank's desire to make a significant difference locally and internationally by supporting better investment decisions and contributing to improve capital allocation and longer-term growth.

Regulators

SAIB maintains healthy relations with its regulators. In December 2018, the Bank reached a settlement with the General Authority for Zakat and Tax (GAZT). The Bank's Zakat assessments for the period between 2006 to 2018 amounted to SAR 775.5 million, to be paid on the agreed upon schedule:

	SAR '000
January 1, 2019	155,089
December 1, 2019	124,072
December 1, 2020	124,072
December 1, 2021	124,072
December 1, 2022	124,072
December 1, 2023	124,072
Total	775,449

The Zakat settlement has been provided for through a charge to retained earnings with the corresponding liability included under other liabilities.

GRI 103-1, 103-2, 103-3

Broadening Product and Market Portfolio

SAIB listens to customers' feedback to understand their needs and preferences to make its banking products and services simple and accessible. The Bank is focused on digitalization and automation to provide customers with the innovation that they expect from SAIB.

Servicing the MSME sector

As per SAMA, the MSME sector includes customers that have up to SAR 200 million in annual sales turnover. The MSME sector is categorized in the following illustration.

Micro businesses	Small businesses	Medium businesses
Annual sales	Annual sales	Annual sales
SAR 0 – SAR 3 million	SAR 3 million – SAR 40 million	SAR 40 million – SAR 200 million
Employees	Employees	Employees
1-5	6-49	50-249

The Bank is growing its Corporate and MSME customer base by increasing MSME lending through Government-backed MSME-focused programmes such as Kafalah, the Saudi SMEs loan guarantee programme launched by the Saudi Industrial Development Fund (SIDF) and Saudi banks, and the Agricultural Development Fund programme. SAIB secured a financing programme with the latter to finance companies in the agricultural sector, which is currently not being financed by other banks due to the unfavourable risk factor associated with it.

Automation to enhance the customer experience

The Bank has placed a heavy focus on IT innovations to automate various processes to increase customer convenience, thus minimizing the need to visit branches to conduct most tasks. An integrated banking system is in place that covers the entire business process from front-end to the back-office processes, including automation of exceptions approvals and document archiving. The 24X7 digital services at SAIB branches have extended services to the customer in a seamless manner, continuing to enrich customer experience.

SAIB customers today are using internet/mobile banking to perform more than 85% of their transactions, which have been improved tangibly during 2019 to cover more services. The Bank has enabled product acquisition via online services such as account opening, personal finance, customer letters, which have proven to be useful for all customers, especially those customers that have limited or no access to a SAIB branch nearby. Such automation of processes has helped lower the workload on branches, leaving them free to handle more value added tasks.

Digital innovations

Through the SAIB WhatsApp Chatbot, the Bank established itself as a pioneer in customer service. The WhatsApp Chatbot greets users with a personalised welcome message and predefined selection menu and provides automated responses to frequently asked questions. This has resulted in the reduction of customer call centre agent responses to customer queries by over 40%.

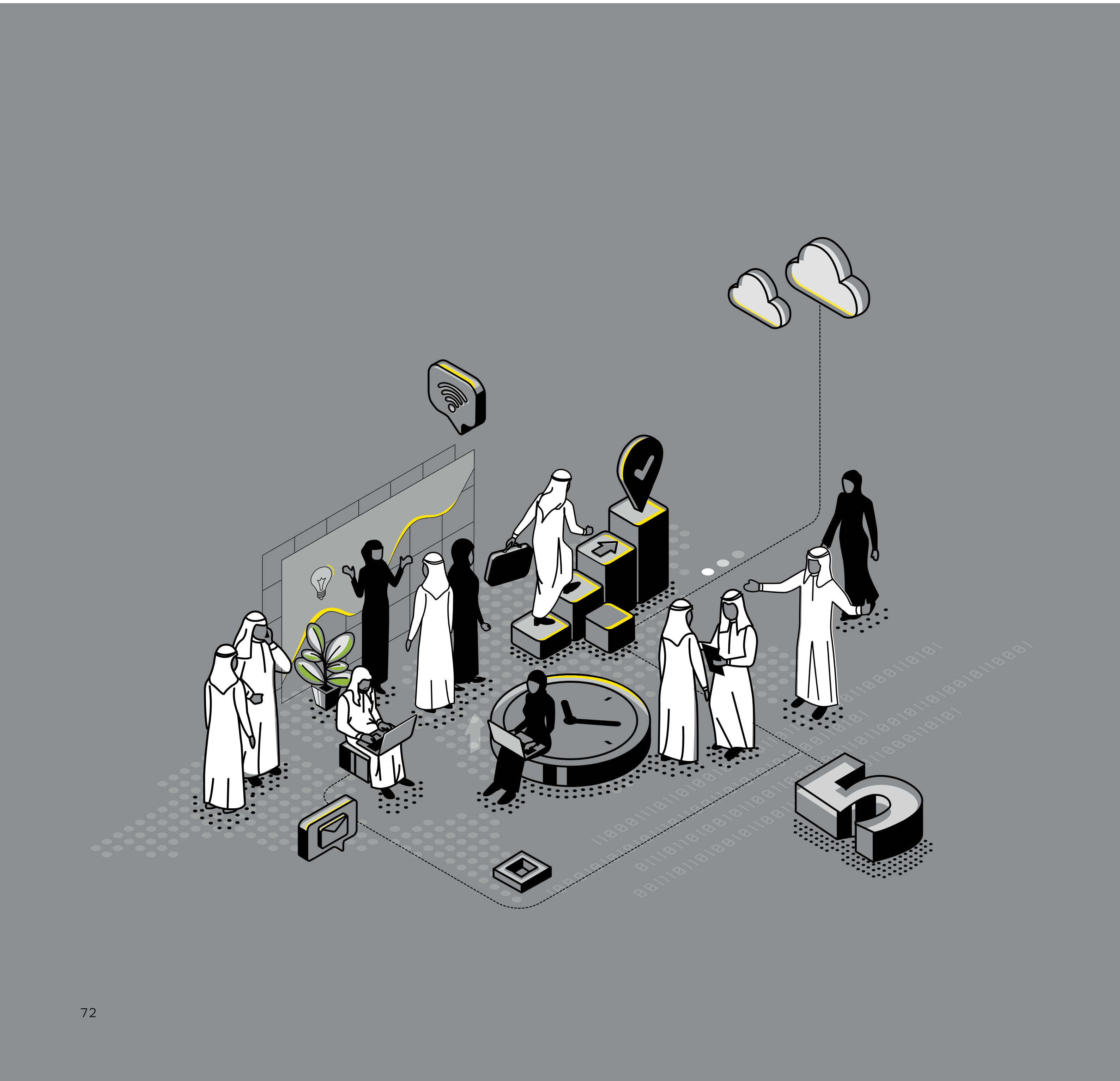
SAIB's WooW loyalty customers can also avail themselves of shopping card wallet funding with points from the WooW loyalty programme. Additionally, they can convert their WooW points into Flynas Smile points, use their WooW points as balance in the Noon online store and Mallers app, and pay their SADAD bills.

Robotic Process Automation (RPA) has been used to replace manual processes and boost speed and efficiency in routine processes. This has enabled improved functionalities in online payments, mobile payments, and e-Wallets. In terms of regulatory processes, RPA has also allowed for automated reporting to SAMA.

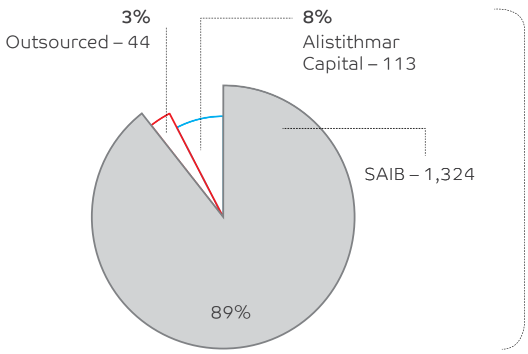
SAIB continues to explore possibilities of using technology to provide innovative services to customers, thereby tackling challenges that arise from increased demand. 'Open banking' is one of the focus areas of the Bank, enabling touch points between the Bank, potential partners, customers and Fintech companies, that will improve customer experience. Enhancing customer experience is an area that is getting continual focus from the Bank's digital function, where customers benefit from quicker resolutions and increased convenience from not having to visit branches.

Building People Skills

SAIB'S human resources planning strategy is tied to business strategies and a demand and supply analysis. The demand aspect is determined by staffing requirements which are derived from business needs at business unit levels. The supply aspect is determined by the availability of people in the market that are suitable for various roles and the possibility of training and development of existing employees to fill in gaps.



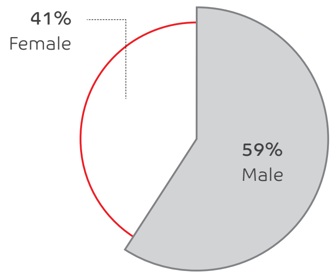
GRI 102-8, 202-2



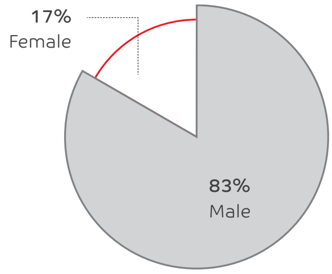
Total number of permanent employees

1,481

New hires (SAIB)



New hires (Alistithmar Capital)



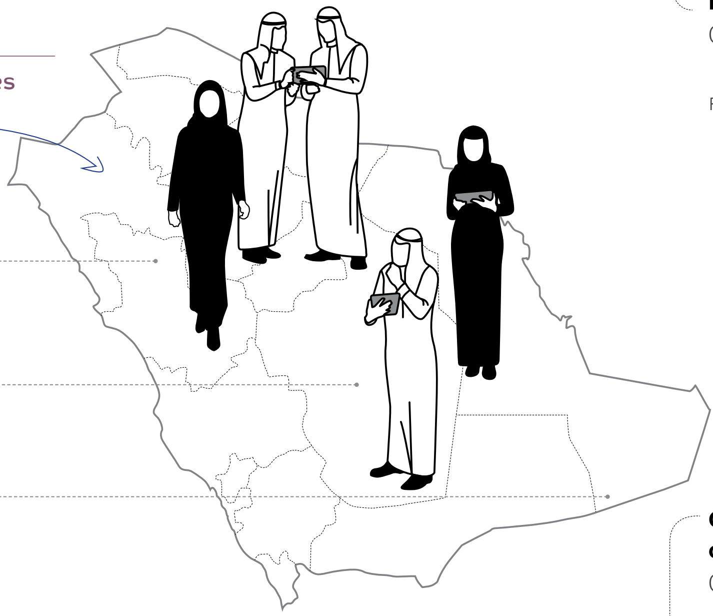
(SAIB only)

% of female employees

20.77

% of Saudi employees

87.84



Number of employees by region (SAIB only)

Western
155

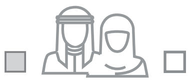
Central
1,069

Eastern
100

Age group (SAIB Only)

18-30	289	161
31-40	493	99
41-50	216	15
Over 51	51	

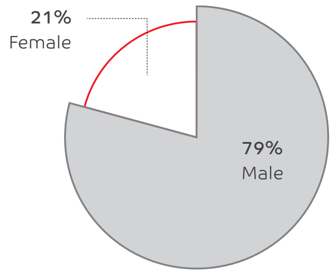
Years



Male
1,049

Female
275

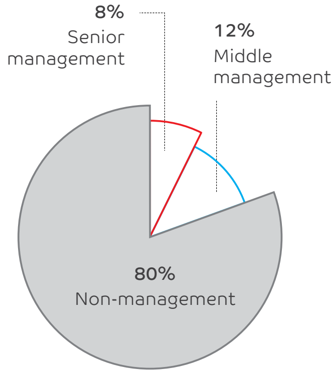
Gender analysis of employees (SAIB)



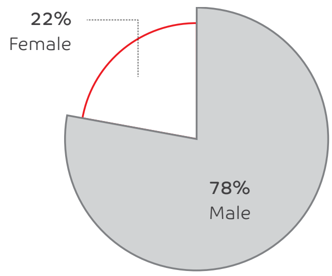
Employees training (SAIB Only)

	No. of employees	No. of person hours of training
Senior management	99	2,499
Middle management	182	3,731
Non-management	1,103	24,388

Number of person hours of training (SAIB Only)



Gender analysis of employees (Alistithmar Capital)



A HR strategy that evolves with the Bank

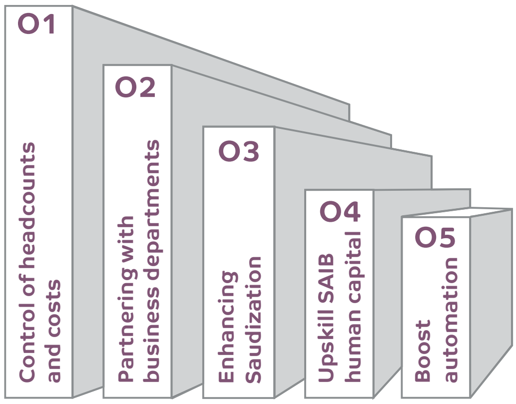
The human resource planning strategy of the Bank is closely aligned with overall business strategies and adapts as necessary to the operating environment. HR planning is based on a demand and supply basis: demand is determined by evaluating business needs in terms of numbers and roles at organization unit levels, and supply is evaluated by analyzing the availability of people by functions and levels, and how gaps can be filled through staff development and training.

Strategic Plan 2015-2019: Objectives for developing human resources

During 2015-2019, three objectives were identified for developing human resources along with several initiatives such as recruitment and training for new teams and focus areas, evaluation of centralising incentive schemes under HR, management succession plans, and training in focus areas such as cross selling.

A new strategy was developed for the Bank for the next three years, bringing along with it new business objectives and a new approach to achieving those objectives. Accordingly, the primary focus for the HR function in 2019 was to realign the HR strategy to the new strategy going forward, while also factoring in market forces, digitisation, and demographics. Emphasis was placed on employing people with special needs and ensuring that the work environment could accommodate their needs.

Strategic pillars



Control of headcounts and costs

The Bank strives to limit headcount while maximizing efficiency. Under the new strategy, revised manpower utilisation plans and department restructuring are a major focus that encourages internal mobility and the provision of a wider range of trainings. A controlled cost approach has been adopted with the support of the Finance Department.

Type	2019	2018
Headcount*	**1,481**	1,581
Total salaries and employee related expenses (SAR '000)	**626,327**	625,991

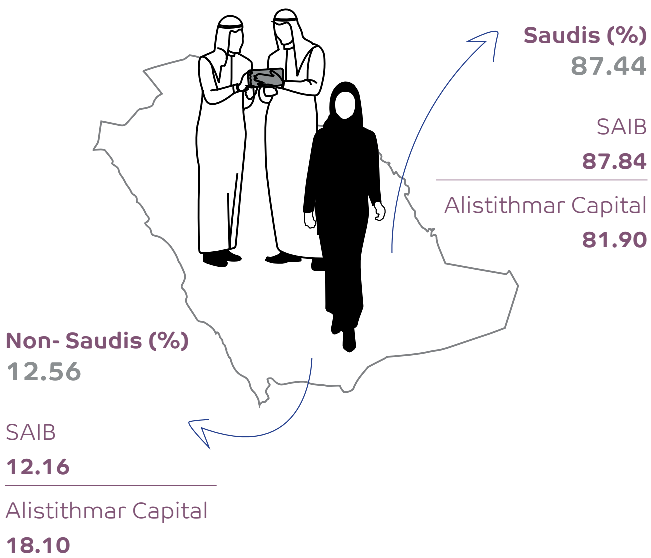
Includes 44 outsourced employees.

Partnering with Business Departments

Collaboration and communication were a key focus for HR in 2019. Cooperating with Business Departments prior to planning new strategy alignments is crucial to evaluating its impact on the department in terms of restructuring, cost, mobility, and new hires.

Enhancing Saudization

The Bank continues to drive efforts to attract and retain Saudi nationals through training and development and making the Bank a more attractive place to work. The Graduate Development Programme contributed to Saudization with the hiring of 13 highly qualified young Saudi nationals. The Bank's Learning and Development Unit also supports the Bank in the successful training of Saudi nationals, promoting productivity and efficiency.



Upskill SAIB human capital

SAIB has long given the highest importance to developing its human capital to fulfil its goals, objectives, and plans. The Bank's new strategy calls for the upskilling of current employees across all levels. To achieve this, e-learning doubled in 2019 and formal training increased by 66% for males and 34% for females. Overall, 4,543 training days were delivered in 2019, a 20% increase over 2018.

Boost automation

Automation is one of the key strategies the Bank is utilising to build its competitive advantage and boost the efficiency of its HR manpower. HR continued to automate HR processes during the year to improve internal employee experience, increase efficiency, and reduce human error. Over 40 HR processes were automated in 2019.

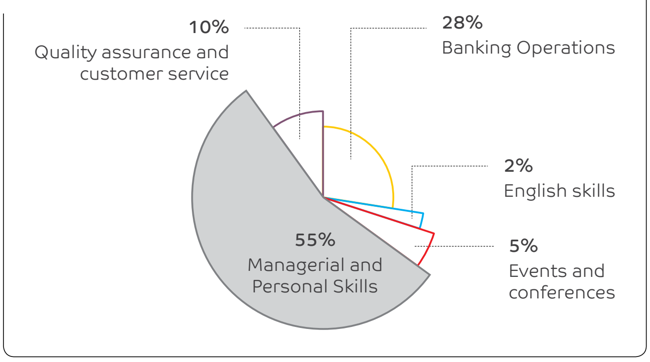
Workforce diversity and equality

SAIB is committed to engaging more females in its workforce. Employment of females increased to 20.77% in 2019, with female representation in Senior Management standing at 6.25% and 14% in middle management. The Bank promotes equal opportunity in pay structures and no gender differentiation in salary or benefits. Two of the Bank's female staff members were nominated for the "Women Leaders 2030" programme, a government initiative to empower women and develop their leadership skills in management positions.

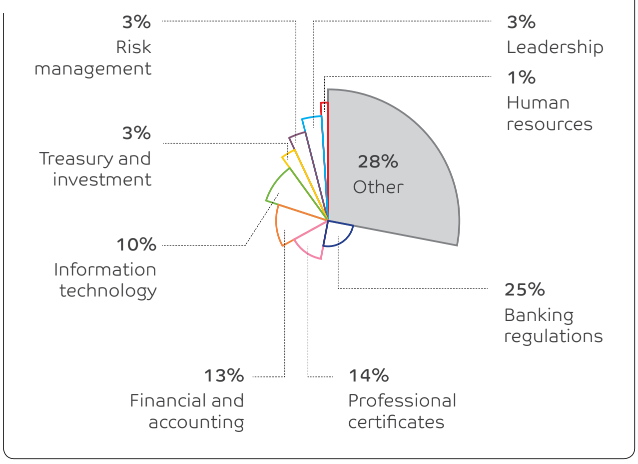
Training and skills development

SAIB places an emphasis on training and development, particularly with regard to succession planning: The Bank identifies the training requirements of Saudis who will assume leadership positions in the future and provides them with the necessary training. Of total staff trained, 97% were Saudi. During the year under review, employees were provided with a total of 30,618 formal training hours across 239 training programmes, where 947 male employees and 437 female employees underwent training. The Bank also partnered with more e-learning partners to significantly increase the amount of eLearning modules from 208 in 2018 to 1,261 modules in 2019.

Training: soft skills (SAIB only)
(Percentage of training hours per subject)

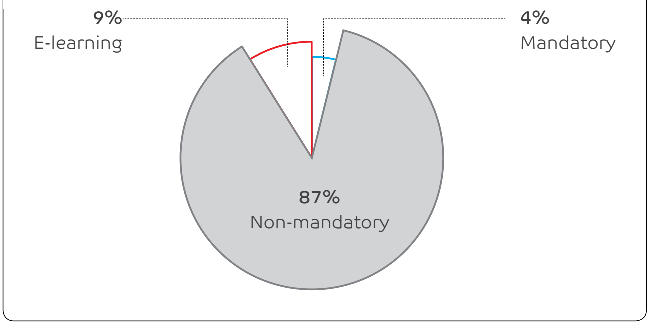


Training: technical skills (SAIB only)
(Percentage of training hours per subject)



Male:Female salary ratio	2019	2018	2017	2016	2015
Senior management	**1:0.72**	1:0.93	1:0.55	1:0.69	1:0.78
Middle management	**1:0.89**	1:0.83	1:0.76	1:0.86	1:0.96
Non-management	**1:0.91**	1:0.91	1:0.86	1:0.96	1:0.96

Number of person hours of training across training types (SAIB only)



Motivation and retention

A total of SAR 626 million was spent on salaries and benefits in 2019. Salaries accounted for 72.6% of the overall expenditure, benefits and insurance accounted for 22.8%, and social security contributions accounted for the remaining 4.6%.

SAR Million	2019	2018	2017	2016	2015
Salaries paid	**454**	452	386	274	254
Benefits paid	**116**	118	118	267	316
Social security contributions	**29**	31	51	28	27
Staff insurance	**27**	25	24	23	22
Total salaries and benefits paid	**626**	626	579	592	619

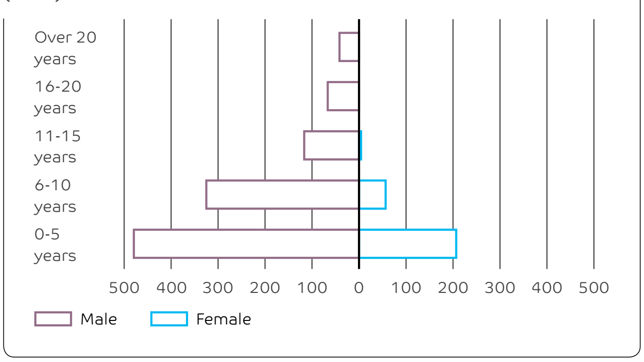
SAIB provides basic remuneration to its employees that are competitive with market rates. Additionally, the Bank provides benefits such as life insurance, medical insurance, fitness club membership, social security, loyalty programmes, and allowances for housing and transportation. Female staff members are provided assistance wherever possible to help them balance their work and family responsibilities, including paid maternity leave up to 10 weeks and up to 180 days of sick leave for pregnant women.

The Bank also provides employees with long-term benefits. Benefits which employees are entitled to during their tenure or at the conclusion of it are accrued according to Saudi Arabian labour regulations or the Bank's accounting policies. An SAR 38.4 million provision was made for employee end of service benefits during the year ended December 31, 2019. The balance of accrued benefits outstanding at the end of the year was SAR 174.5 million.

The Bank grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Bank and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan. All payments were completed during the year and there are no outstanding amounts as of December 31, 2019. The amount of provision made during the year ended December 31, 2019 for these plans was approximately SAR 5 million.

The Bank considers the non-monetary aspect of motivation and retention and understands that job satisfaction is an important factor. To avoid employees becoming discontent in their career, which could possibly lead to frustration and absenteeism, SAIB has a job rotation policy that gives employees the opportunity to change jobs and gain new knowledge, skills, and gain a broader view of the Bank's operations. The policy has the additional benefit for the Bank to rotate staff in certain critical areas periodically to mitigate risk.

Service analysis of workforce (SAIB only)
(Nos.)



	Male	Female
Number of employees who took parental leave	2	81
Number of employees who returned to work after parental leave	0	93
Number of employees who returned to work after parental leave who were still employed 12 months after return	29	93
The return to work and retention rates of employees who returned to work after parental leave ended	29	93

Occupational health and safety

SAIB takes every measure possible to protect the health and safety of its employees as part of its commitment to staff. The Bank's policies around security and safety are reinforced through branch inspections, safety sessions, and awareness programmes. During the year under review, no fatalities or injuries occurred and no absenteeism due to work-related health issues took place.

Zero
Employee and contractor fatalities

Zero
Employee and contractor total recordable injuries

Zero
Employee and contractor lost time injuries

Zero
Employee and contractor absenteeism

Staff engagement

SAIB strives to engage with its employees in a meaningful way that contributes to their motivation, satisfaction, and retention. We believe that happy employees make for better employees; the appointment of the Chief Happiness Officer reaffirms to employees that they matter to the Bank. Furthermore, an engagement officer was hired to be in charge of all engagement activities within the Bank and together with the Corporate Communications team, the HR function organized several events and employee activities that focused on themes such as the Saudi National Day, Children's Day, International Coffee Day, Alzheimer's Disease, and Breast Cancer Awareness. The Bank maintains an open dialogue between Management and staff. A biennial employee satisfaction survey helps the Bank to understand how employees perceive their working environment and their satisfaction with performance appraisal, pay and benefits, work processes, communication, and customer focus. A suggestion programme, "My Idea", allows employees to suggest ideas to the Bank's innovation centre for consideration.

Serving the Society and the Environment

Social responsibility and environmental responsibility constitute two of SAIB's sustainability pillars. The Bank has a social responsibility to support the communities it is a part of and help the disadvantaged. Moreover, the Bank believes that continued long-term value creation is dependent on conserving natural resources and minimizing its environmental footprint.

Environmental policies and systems

SAIB is conscious of protecting the environment and is keenly aware of how it impacts the environment it operates in; it is one of the Bank's five sustainability pillars, Hifth (environmental protection). The importance placed on the environment by the Bank is reflective of its commitment to Vision 2030 and the United Nations Sustainable Development Goals.

The Bank's impact on the environment occurs directly through its operations and indirectly through its value chain. The ISO 14000 standard was adopted by the Bank for the implementation of an Environmental Management System (EMS) to measure its environmental impact and improve upon it. The EMS covers a wide range of environmental issues, including protecting the environment by minimizing and mitigating adverse impact, mitigating the environment's impact on SAIB, fulfilling compliance obligations, realizing financial and operational benefits from environmentally sound alternatives, and communicating environment-related information.

The Bank has developed a Standard Accounting and Operating Procedure (SAOP) that facilitates the EMS implementation by:

- Defining the needs and expectations of stakeholders concerned with the environment
- Identifying environmental conditions that affect the Bank
- Identifying the environmental impact of SAIB's activities
- Defining the risks and opportunities that need to be considered for the management of environmental issues
- Designing a framework to implement SAIB's environmental policies and objectives
- Identifying key performance indicators (KPIs) for measuring SAIB's environmental performance

The Bank contributes to the wider issue of combatting global climate change by being a signatory to the United Nations Global Compact and regularly submits its Communication on Progress (COP) to qualify for the Global Compact Active level.

SAIB recognizes the importance of sustainability and continuously assesses new sustainable business opportunities. It proactively supports sustainable initiatives through the financing of environmentally friendly projects that centre around renewable energy, recycling, water treatment, wastewater treatment, hazardous waste disposal, and other environmental services.

Energy usage and emissions

SAIB's direct environmental impact stems from its energy consumption in its service facilities, technical infrastructure, and fuel consumption. The environmental impact can be quantified by CO_2 emissions generated by electricity and fuel consumption.

251 tonnes CO_2e

Direct GHG emissions from fuel usage (Scope 1) – 2019

2018	2017	2016	2015
255	257	264	223

17,373 tonnes CO_2e

Indirect GHG emissions from electricity usage (Scope 1) – 2019

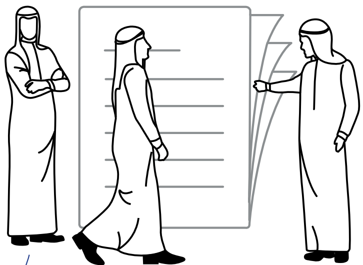
2018	2017	2016	2015
18,481	20,673	21,936	25,521

GRI 103-1, 103-2, 103-3, 203-1, 203-2, 301-2, 303-1, 306-2

Paper usage/recycling

Total paper consumption
46,325 kg
(2018 – 68,770 | 2017 – 73,995)

Paper consumption/ employee
35 kg
(2018 – 46 | 2017 – 49)

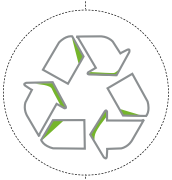


Paper recycled
8,007 kg
(2018 – 48,384 | 2017 – 9,676)

Plastics recycled
3,735 kg
(2018 – 10,788 | 2017 – 1,194)

Electronics recycled
5,560 kg
(2018 – 14,620 | 2017 – 2,010)

Clothing recycled
600 kg
(2018 – 624)



Water expenditure

Expenditure (SAR '000)
558
(2018 – 489 | 2017 – 580)

Social responsibility

The sustainability pillar of Awn (helping others) is part of SAIB's philosophy that it has a social responsibility to support the communities it is a part of and to help the disadvantaged. The Bank also strives to influence its stakeholders to adopt sustainable practices that will benefit the economy, society, and the country.

161
Volunteers
(2018 – 133 | 2017 – 126)

525
Hours volunteered
Up by 56% over 2018

32%
Female volunteers – 52

68%
Male volunteers – 109

The Bank was the 2nd runner-up in the Financial Services category at the 2019 Arabia CSR Awards. The award recognizes SAIB's continued demonstration of responsible sustainable practices and its leadership position in this field. The Bank's staff participated in many social programmes conducted during the year.


البنك السعودي للاستثمار
The Saudi Investment Bank
FLEX
BIKE
فلكس
بايك
Saudi Cycling Federation

WooW Alkhair programme

Total WooW points donated to charity

81,993,000

(2018 – 100,987,000 | 2017 – 250,430,000)

Value of WooW Alkhair points donated (SAR)

409,965

(2018 – 504,935 | 2017 – 1,027,150)

Number of participating organizations in WooW Alkhair programme

45

(2018 – 45 | 2017 – 44)

Under the WooW loyalty programme, the Bank's loyalty customers are given the option of donating the points they earn to charitable causes. A total of SAR 409,965 was donated through the WooW Alkhair programme to 45 participating organizations.

Cooperative opportunities for students

SAIB is collaborating with various universities and colleges to provide their students with cooperative opportunities to develop their skills through training and real-world work experience. Four candidates were hired through the programme during the year.

Blood donation

The Bank held a quarterly blood donation event for staff. 249 staff and volunteers donated 112,050 ml of blood.

Awareness exhibition on obesity

SAIB invited the Charitable Society for Combatting Obesity (Kayl) to its head office to raise awareness about the severity of obesity and its impact on cancer. Staff were provided with individual consultations by a health specialist.

World Tree Day

SAIB supported World Tree Day by making 200 trees available to staff to collect and plant. 22 volunteers participated in the activity that also supported the Green Riyadh Project and the UN Sustainable Development Goals of "Life on Land" and "Climate Action".

Sanad Children's Cancer Support Association

The Bank was honoured by Princess Adela bint Abdullah bin Abdulaziz, president of Sanad Children's Cancer Support Association for its continued support of the Association as its Annual Charity event.

Down Syndrome event

The Bank hosted 30 children from the Down Syndrome Society at Kidzzdom to coincide with the International Day of Down Syndrome.

Cancer patients at King Fahad Medical City

A Senior Management team visited cancer patients at King Fahad Medical City. The team provided the patients with gifts and food vouchers as part of a Ramadan initiative.

Rifqa project

SAIB supported the Rifqa project by supporting needy families with Alzheimer's. The Bank provided food vouchers and staff volunteered over 150 hours in Riyadh, Jeddah, and Al Khobar.

Benaa Association

The SAIB Volunteer Team organized an entertainment trip in the Eastern Region to Billy Beez in cooperation with Benaa. Over 30 children attended the event and received a meal and SAIB giveaways.

Al Mawadda Association

The SAIB Volunteer Team organized an entertainment trip in the Western Region to Kidzania in cooperation with Al Mawadda. Over 30 children attended the event and received a meal and SAIB giveaways.

World Cancer Day

The SAIB Volunteer Team supported the Saudi Cancer Association at their World Cancer Day event held at Riyadh Park Mall. The hours contributed by the volunteers was registered on the Ministry of Labour and Social Development Volunteering Platform to support Vision 2030 in reaching 1,000,000 volunteers by 2030.

Earth Hour

The Bank participated in Earth Hour by switching off lights at the Riyadh headquarters and regional offices in Jeddah and Al Khobar for one hour.

Awareness of Alzheimer's Disease

SAIB held an internal awareness activity to raise awareness amongst employees about Alzheimer's Disease. The Bank cooperated with the Saudi Society for Alzheimer's Disease to conduct the event.

Support for needy families

During the year, SAIB volunteers partnered with charity associations across the Kingdom to provide 2,500 school kits and 2,500 winter kits to needy families. For Ramadan, 1,500 vouchers were provided to needy families in partnership with 15 charity associations.

Breast cancer awareness

In support of Breast Cancer Awareness month, the Bank invited Zahra Breast Cancer Association to raise awareness about the disease amongst staff. The Bank also posted awareness messages on social platforms and ATMs across the country.

United Nations Global Compact status and Communication on Progress

The United Nations Global Compact (UNGC) is a voluntary initiative for organizations to implement sustainable and socially responsible policies to demonstrate their commitment to responsible behaviour in aspects such as human rights, labour, environment, and anti-corruption. The UNGC consists of 10 principles that span the four aforementioned aspects; the principles are based on the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the Rio Declaration on Environment and Development. By integrating these principles into an organization's policies, strategies, and procedures, the organization can establish an environment that encourages socially and environmentally conscious behaviour that acknowledges and upholds its responsibilities to society and the planet.

SAIB renewed its Communication on Progress (COP) with the UNGC for the next 12 months, in alignment with the Bank's commitment to the UN Sustainable Development Goals and the goals of Saudi Arabia's Vision 2030.

A summary of the community activities and sponsorships carried out by the Bank are listed below:

Activity/event	Value of sponsorship (SAR)
2,000 pieces of winter kits for needy families	66,862.49
GRI membership fees	32,746.86
Needy children's events at Kidzania	4,143.10
Needy children's event at Billy Beez (Eastern Province)	2,638.00
Flexxbike activation activity	3,362.97
UN Global Compact Membership fee	20,520.00
2,500 Children's school kits	211,409.44
Ramadan gift cards for needy families	301,958.25
International Volunteers Day	4,386.48
Financial literacy merchandise for children	11,592.84

FINANCIAL REPORTS

Auditors' Report

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

Opinion

We have audited the consolidated financial statements of The Saudi Investment Bank (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as of December 31, 2019, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes from 1 to 44.

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

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances As of December 31, 2019, the gross loans and advances of the Group were Saudi Riyals (SAR) 59,518 million against which an impairment allowance of SAR 2,406 million was maintained. We considered this as a key audit matter as the determination of expected credit losses ("ECL") involves significant management judgement and this has a material impact on the consolidated financial statements of the Group. The key areas of judgement include:	We obtained an understanding of management's process of assessment of impairment of loans and advances as required by IFRS 9 "Financial Instruments", the Group's impairment allowance policy and the ECL modelling methodology. We compared the Group's impairment allowance policy and ECL methodology with the requirements of IFRS 9. We evaluated the design and implementation, and tested the operating effectiveness of controls over:

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

Key audit matter	How our audit addressed the key audit matter
1. Categorisation of loans and advances in Stage 1, 2 and 3 based on the identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / default exposures. 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), including but not limited to assessment of the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors, etc. 3. The application of overlays, where appropriate, to model-driven ECL to reflect current or future external factors that might not be captured by the expected credit loss model. *Refer to the summary of significant accounting policies note 3(c)(vi) relating to impairment of financial assets, note 2(d)(i) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to impairment losses on financial assets and the impairment assessment methodology used by the Group, note 7 and note 32 which contains the disclosure of impairment against loans and advances and details of credit quality analysis and key assumptions and factors considered in determination of ECL.*	• the modelling process, including governance over monitoring of the models and approval of key assumptions; • the classification of borrowers into various stages, timely identification of SICR and determination of default or individually impaired exposures; and • integrity of data inputs into the ECL model. We assessed the Group's criteria for determination of SICR and identification of "default" or "individually impaired" exposures and their classification into stages. For a sample of customers, we assessed: • the internal ratings determined by the management based on the Group's internal rating model and checked that their ratings were in line with the rating used in the ECL model; • the staging as identified by management; and • management's computation of ECL. We assessed the underlying assumptions, including forward looking assumptions, used by the Group in its ECL calculation. Where management overlays were used, we assessed the appropriateness of overlays and the governance process around such overlays. We tested the completeness of data underlying the ECL calculation as of December 31, 2019. Where relevant, we involved specialists to assist us in review of ECL model including ECL calculations and data integrity.
Fees from banking services The Group charges loan processing fees up front to customers. Such fees are an integral part of generating an involvement with the resulting financial instrument, and therefore such fees are considered in making an adjustment to the effective yield, and income is recognised using that effective yield and classified as "Special Commission Income". However, due to the large volume of transactions with mostly insignificant fee amounts, management used certain thresholds and assumptions for recognition of such fees.	We evaluated the design and implementation and tested the operating effectiveness of key controls over the consistent application of management's thresholds and assumptions for recognition of such fees. We evaluated the assumptions used and thresholds established by the Group for making adjustments to the effective yield of loans and advances and recording such adjustments.

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

Key audit matter	How our audit addressed the key audit matter
We considered this as a key audit matter since the use of thresholds and assumptions could result in a material over / under-statement of the Group's profitability for the year. *Refer to the summary of significant accounting policies note 3(h)(iii) to the consolidated financial statements.*	We obtained management's assessment of the impact of the use of thresholds and assumptions and performed the following: o on a sample basis, traced the historical and current year data used by management to source documents; and o assessed management's estimation of the impact on special commission income.
Valuation of investments held as fair value through other comprehensive income (FVTOCI) which are not traded in an active market Investments held as FVTOCI comprise a portfolio of corporate bonds, Sukuk and equity instruments. These instruments are measured at fair value with the corresponding unrealized fair value changes recognised in other comprehensive income. Whilst the majority of the fair values of the Group's investments were obtained directly from active markets as of December 31, 2019, the Group held an amount of SAR 7,764 million of unquoted investments. The fair value of these investments is determined through the application of valuation techniques, which often involve the exercise of judgment by management and the use of assumptions and estimates. Estimation uncertainty exists for those investments not traded in an active market and where the internal modelling techniques use: o significant observable valuation inputs (i.e. level 2 investments); and o significant unobservable valuation inputs (i.e. level 3 investments). Estimation uncertainty is particularly high for level 3 investments. In the Group's accounting policies, management has described the key sources of estimation involved in determining the valuation of level 2 and level 3 investments, and in particular when the fair value is established using valuation techniques due to the complexity of investments or due to the lack of availability of market based data.	We evaluated the design and implementation and tested the operating effectiveness of key controls over management's processes for performing valuation of investments classified as FVTOCI which are not traded in an active market. We reviewed the methodology and assessed the appropriateness of valuation models and inputs used by management to value the investments held as FVTOCI through involving our valuation experts. We tested the valuation of a sample of FVTOCI investments not traded in an active market. As part of these audit procedures, we assessed key inputs used in the valuation, such as comparable entity data and liquidity discounts, by benchmarking them with external data.

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

Key audit matter	How our audit addressed the key audit matter
The valuation of the Group's investments held as FVTOCI in level 2 and level 3 categories is considered a key audit matter given the degree of complexity involved in valuing these investments and the significance of the judgments and estimates made by the management. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(c)(ii), note 33 which explains the investment valuation methodology used by the Group and note 2(d)(ii) which explains critical judgments and estimates for fair value measurement.*	
Valuation of derivative financial instruments The Group has entered into various commission rate swaps, commission rate options, foreign exchange forward contracts and foreign exchange options which are over the counter ("OTC") derivatives. The valuation of these contracts is subjective, and is determined through the application of valuation techniques that often involves the execrcise of judgement and the use of assumptions and estimates. The majority of these derivatives are held for trading purposes; however, certain commission rate swaps are categorized as fair value hedges in the consolidated financial statements. An inappropriate valuation of derivatives could have a material impact on the consolidated financial statements and, in the case of hedge ineffectiveness, also impact the hedge accounting. Due to the significance of the derivative financial instruments and related estimation and uncertainty, we have assessed the valuation of derivative financial insturments as a key audit matter. *Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(f) which explains derivative financial instruments and hedge accounting, note 11 which discloses the derivative positions and note 33 which explains the fair values of financial assets and liabilities.*	We assessed the design and implementation, and tested the operating effectiveness of the key controls over management's processes for valuations of derivatives. We selected a sample of derivatives and performed the following: o tested the accuracy of the particulars of derivatives by comparing the terms and conditions with relevant agreements and deal confirmations; o checked the accuracy and appropriateness of the key inputs to the valuation models; o involved our valuation experts to perform an independent valuation of the derivatives and compared the results with management's valuation; and o checked hedge effectiveness performed by the Group and the related hedge accounting.

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Key audit matter	How our audit addressed the key audit matter
Valuation of associated company put option	
The Group's derivatives as of December 31, 2019 includes a put option with a positive fair value of SAR 421 million (note 11).	We assessed the design and implementation, and tested the operating effectiveness of controls over the valuation of the associate company put option.
This put option is embedded within the agreement ("the Agreement") with the other shareholder in an associated company, and gives the Group an option to sell its share in the associated company to the other shareholder based on a strike price determined in accordance with the Agreement.	We inspected the Agreement to obtain an understanding of the principal terms of the put option. We considered the put option valuation performed by the management and assessed the methodology and key assumptions used by the management.
In accordance with the Group's accounting policy, this put option is segregated from the Agreement and is measured at its fair value.	We involved our valuation experts to assess the reasonableness of the valuation of the associated company put option provided by the management.
The Group uses an option pricing model to fair value the put option, which requires certain inputs which are not observable in the current market. These inputs include historical results of the associated company and other inputs which require management's judgement, including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment.	
This is considered as a key audit matter as the valuation of this put option, as mentioned above, requires management to exercise judgment.	
Refer to the following notes to the consolidated financial statements: summary of significant accounting policies note 3(f) which explains the accounting policy for derivative financial instruments and hedge accounting, note 11 which explains the put option positions and note 33 which explains the fair values of financial assets and liabilities.	

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

Other Information

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

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance (i.e the Board of Directors of the Bank).

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain jointly responsible for our audit opinion.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of the most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Bank is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Banking Control Law in the Kingdom of Saudi Arabia and the Bank's Articles of Association in so far as they affect the preparation and presentation of the consolidated financial statements for the year ended December 31, 2019.

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Rajab 6, 1441 H
March 1, 2020

Consolidated Statement of Financial Position

As of December 31, 2019 and 2018

	Notes	2019 SAR '000	2018 Restated SAR '000
Assets			
Cash and balances with SAMA	4 (a)	**10,218,816**	4,871,932
Due from banks and other financial institutions, net	5 (a), 33	**3,028,515**	2,917,697
Investments	6 (a), 33	**26,175,480**	24,638,113
Positive fair values of derivatives	11 (c), 33	**1,305,076**	1,245,243
Loans and advances, net	7 (a), 33	**57,112,907**	59,412,529
Investments in associates	8 (b)	**994,298**	1,012,366
Other real estate	32 (b)	**457,679**	718,724
Property and equipment, net	9 (a), 42	**1,134,495**	902,889
Information technology intangible assets, net	9 (b), 42	**254,336**	208,207
Other assets, net	10 (a), 42	**132,994**	142,208
Total assets		**100,814,596**	96,069,908
Liabilities and equity			
Liabilities			
Due to banks and other financial institutions	12 (a), 33	**13,788,191**	12,620,832
Customers' deposits	13 (a), 33	**69,058,054**	63,689,869
Negative fair values of derivatives	11 (c), 33	**315,519**	500,704
Term loans	14, 33	**2,011,626**	2,030,371
Subordinated debt	15, 33	**–**	2,005,661
Other liabilities	16 (a)	**1,634,199**	1,816,403
Total liabilities		**86,807,589**	82,663,840
Equity			
Share capital	17	**7,500,000**	7,500,000
Statutory reserve	18	**4,988,000**	4,928,000
Treasury shares	39	**(1,041,067)**	(787,536)
Other reserves	6 (h)	**329,977**	(192,056)
Retained earnings	41 (b)	**230,097**	172,660
Shareholders' equity		**12,007,007**	11,621,068
Tier I Sukuk	38	**2,000,000**	1,785,000
Total equity	41 (b)	**14,007,007**	13,406,068
Total liabilities and equity		**100,814,596**	96,069,908

The accompanying Notes 1 to 44 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Income

For the years ended December 31, 2019 and 2018

	Notes	2019 SAR '000	2018 Restated SAR '000
Special commission income	20	**3,902,488**	3,633,416
Special commission expense	20	**1,624,597**	1,345,695
Net special commission income		**2,277,891**	2,287,721
Fee income from banking services, net	21	**299,032**	295,002
Exchange income, net		**155,905**	140,625
Dividend income	22	**–**	5,407
Unrealized fair value through profit and loss		**7,350**	(20,464)
Realized fair value through profit and loss		**3,275**	4,528
Gains/(losses) on FVOCI debt securities, net	23	**43,518**	(59)
Other income (loss)		**31,257**	(30)
Total operating income		**2,818,228**	2,712,730
Salaries and employee-related expenses	24 (a)	**626,327**	625,991
Rent and premises-related expenses		**144,080**	151,954
Depreciation and amortization	9	**143,517**	103,239
Other general and administrative expenses	40 (b)	**320,322**	252,001
Operating expenses before provisions for credit and other losses		**1,234,246**	1,133,185
Provisions for credit losses and other losses	40 (a)	**1,342,637**	246,972
Total operating expenses		**2,576,883**	1,380,157
Operating income		**241,345**	1,332,573
Share in earnings of associates	8 (b)	**88,156**	111,195
Income before provisions for Zakat and Income Tax		**329,501**	1,443,768
Provisions for Zakat and Income Tax	27 (a)	**90,040**	867,871
Net income	**41 (a)**	**239,461**	575,897
Basic and diluted earnings per share (expressed in SAR per share)	**25 (b)**	**0.17**	0.65

The accompanying Notes 1 to 44 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

For the years ended December 31, 2019 and 2018

	Notes	2019 SAR '000	2018 Restated SAR '000
Net income	41 (a)	**239,461**	575,897
Other comprehensive income (loss)			
Items that cannot be reclassified to the consolidated statement of income in subsequent periods:			
Net change in fair value of equity investments held at fair value through other comprehensive income		**1,536**	6,538
Net change in present value of defined benefit obligations due to change in actuarial assumptions		**(20,689)**	–
Items that be reclassified to the consolidated statement of income in subsequent periods:			
Net change in fair value of debt securities held at fair value through other comprehensive income		**585,219**	(379,610)
Fair value (gains) losses transferred to the consolidated statement of income on disposal of debt securities	23	**(43,518)**	59
Share in other comprehensive loss of associates	8 (b)	**(515)**	(722)
Total other comprehensive income (loss)		**522,033**	(373,735)
Total comprehensive income		**761,494**	202,162

The accompanying Notes 1 to 44 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2019 and 2018

		2019 (SAR '000)							
	Notes	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the year as previously reported	41 (b)	7,500,000	4,928,000	(787,536)	(192,056)	205,268	11,653,676	1,785,000	13,438,676
Retroactive effect of other adjustments	41 (b)	–	–	–	–	(32,608)	(32,608)	–	(32,608)
Balances at the beginning of the year as restated	41 (b)	7,500,000	4,928,000	(787,536)	(192,056)	172,660	11,621,068	1,785,000	13,406,068
Net income		–	–	–	–	239,461	239,461	–	239,461
Total other comprehensive income		–	–	–	522,033	–	522,033	–	522,033
Total comprehensive income		–	–	–	522,033	239,461	761,494	–	761,494
Treasury shares purchased	39	–	–	(253,531)	–	–	(253,531)	–	(253,531)
Tier I Sukuk proceeds	38	–	–	–	–	–	–	215,000	215,000
Tier I Sukuk costs		–	–	–	–	(122,024)	(122,024)	–	(122,024)
Transfer to statutory reserve	18	–	60,000	–	–	(60,000)	–	–	–
Balances at the end of the year		7,500,000	4,988,000	(1,041,067)	329,977	230,097	12,007,007	2,000,000	14,007,007

The accompanying Notes 1 to 44 form an integral part of these Consolidated Financial Statements.

For the years ended December 31, 2019 and 2018

		2018 (SAR '000)								
	Notes	Share capital	Statutory reserve	Treasury shares	Other reserves	Retained earnings	Shares held for employee options, net	Shareholders' equity	Tier I Sukuk	Total equity
Balances at the beginning of the year		7,500,000	4,563,000	–	204,478	1,284,858	(58,269)	13,494,067	785,000	14,279,067
Effect of the adoption of IFRS 9 on January 1, 2018		–	–	–	50,603	(873,159)	–	(822,556)	–	(822,556)
Balances at the beginning of the year as adjusted		7,500,000	4,563,000	–	255,081	411,699	(58,269)	12,671,511	785,000	13,456,511
Net income	41 (a)	–	–	–	–	575,897	–	575,897	–	575,897
Total other comprehensive loss		–	–	–	(373,735)	–	–	(373,735)	–	(373,735)
Total comprehensive (loss) income		–	–	–	(373,735)	575,897	–	202,162	–	202,162
Gains on sales of FVOCI equity investments	6 (a)	–	–	–	(73,402)	73,402	–	–	–	–
Foreign shareholder income tax reimbursements		–	–	–	–	21,566	–	21,566	–	21,566
Dividends paid	26	–	–	–	–	(450,000)	–	(450,000)	–	(450,000)
Net movement in shares held for employee options	37 (b)	–	–	–	–	–	58,269	58,269	–	58,269
Treasury shares purchased	39	–	–	(787,536)	–	–	–	(787,536)	–	(787,536)
Tier I Sukuk proceeds	38	–	–	–	–	–	–	–	1,000,000	1,000,000
Tier I Sukuk costs		–	–	–	–	(94,904)	–	(94,904)	–	(94,904)
Transfer to statutory reserve	18	–	365,000	–	–	(365,000)	–	–	–	–
Balances at the end of the year	41 (b)	7,500,000	4,928,000	(787,536)	(192,056)	172,660	–	11,621,068	1,785,000	13,406,068

The accompanying Notes 1 to 44 form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the years ended December 31, 2019 and 2018

	Notes	2019 SAR '000	2018 Restated SAR '000
Operating Activities			
Net income	41 (a)	**239,461**	575,897
Adjustments to reconcile net income to net cash provided from operating activities			
Net accretion of discounts and net amortization of premiums on investments, net		**36,428**	46,095
Net change in accrued special commission income		**193,514**	(24,243)
Net change in accrued special commission expense		**(33,611)**	85,364
Net change in deferred loan fees		**27,031**	(10,300)
(Gains) losses on FVOCI debt securities, net	23	**(43,518)**	59
Unrealized fair value through profit and loss		**(7,350)**	20,464
Realized fair value through profit and loss		**(3,275)**	(4,528)
Depreciation and amortization	9	**143,517**	103,239
Loss on sales of property, equipment, and intangibles		**2,629**	30
Gain on sale of other real estate		**(33,886)**	–
Provisions for credit and other losses	40 (a)	**1,342,637**	246,972
Share in earnings of associates	8 (b)	**(88,156)**	(111,195)
Share based provisions	37 (b)	**–**	5,400
		1,775,421	933,254
Net (increase) decrease in operating assets:			
Statutory deposit with SAMA		**(221,996)**	114,975
Due from banks and other financial institutions maturing after three months from acquisition date		**(128,566)**	(53,578)
Loans and advances		**800,384**	(88,742)
Positive fair values of derivatives		**(60,822)**	(545,360)
Other real estate		**228,525**	–
Other assets		**(258,546)**	114,278
Net increase (decrease) in operating liabilities:			
Due to banks and other financial institutions		**1,177,687**	4,971,376
Customers' deposits		**5,385,416**	(3,251,040)
Negative fair values of derivatives		**(203,539)**	354,885
Other liabilities		**221,110**	115,491
		8,715,074	2,665,539
Zakat and Income Tax payments		**(476,080)**	(49,840)
Net cash provided from operating activities		**8,238,994**	2,615,699

The accompanying Notes 1 to 44 form an integral part of these Consolidated Financial Statements.

	Notes	2019 SAR '000	2018 Restated SAR '000
Investing Activities			
Proceeds from sales and maturities of investments		**1,939,699**	1,820,969
Purchases of investments		**(2,857,924)**	(5,072,207)
Dividends received from associates	8 (b)	**105,709**	93,323
Investments in associates	8 (b)	**–**	(1,876)
Acquisitions of property, equipment, and intangibles	9	**(163,646)**	(118,707)
Proceeds from sales of property, equipment, and intangibles		**7,705**	1,236
Net cash used in investing activities		**(968,457)**	(3,277,262)
Financing Activities			
Sale of shares for employee options, net	37 (b)	**–**	16,651
Dividends paid	26	**–**	(450,000)
Vesting of employee share options, net	37 (b)	**–**	36,218
Treasury shares purchased	39	**(253,531)**	(787,536)
Proceeds from Tier I Sukuk	38	**215,000**	1,000,000
Redemption of Subordinated debt	15	**(2,000,000)**	–
Tier I Sukuk costs		**(122,024)**	(94,904)
Net cash used in financing activities		**(2,160,555)**	(279,571)
Net increase/(decrease) in cash and cash equivalents		**5,109,982**	(941,134)
Cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	4 (b)	**4,503,172**	5,444,306
Net increase/(decrease) in cash and cash equivalents		**5,109,982**	(941,134)
Cash and cash equivalents at the end of the year	4 (b)	**9,613,154**	4,503,172
Supplemental special commission information			
Special commission received		**4,096,002**	3,609,173
Special commission paid		**1,661,263**	1,263,479
Supplemental non-cash information			
Total other comprehensive income (loss)		**522,033**	(373,735)
Adoption of IFRS 9 on January 1, 2018		**–**	(822,556)
Adoption of IFRS 16 on January 1, 2019	3 (a) (ii)	**246,601**	–
Other real estate	32 (b)	**121,285**	–
Zakat settlement from 2006 to 2017, net of fair value adjustment	27 (b)	**–**	711,807

The accompanying Notes 1 to 44 form an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

1. General

The Saudi Investment Bank (the "Bank"), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, corresponding to June 23, 1976 in the Kingdom of Saudi Arabia ("KSA"). The Bank operates under Commercial Registration No. 1010011570 dated 25 Rabie Awwal 1397H, corresponding to March 16, 1977 through its 52 branches (2018: 52 branches) in KSA. The address of the Bank's Head Office is as follows:

The Saudi Investment Bank
Head Office
P. O. Box 3533
Riyadh 11481, Kingdom of Saudi Arabia

The Bank offers a full range of commercial and retail banking services. The Bank also offers Shariah compliant (non-interest based) banking products and services, which are approved and supervised by an independent Shariah Board established by the Bank.

These Consolidated Financial Statements include the Financial Statements of the Bank and the Financial Statements of the following subsidiaries (collectively referred to as the "Group" in these consolidated financial statements):

(a) "Alistithmar for Financial Securities and Brokerage Company" (Alistithmar Capital), a Saudi closed joint stock company, which is registered in KSA under Commercial Registration No. 1010235995 issued on 8 Rajab 1428H (corresponding to July 22, 2007), and is 100% owned by the Bank. The principal activities of Alistithmar Capital include dealing in securities as principal and agent, underwriting, management of investment funds and private investment portfolios on behalf of customers, and arrangement, advisory and custody services relating to financial securities;

(b) "Saudi Investment Real Estate Company", a limited liability company, which is registered in KSA under Commercial Registration No. 1010268297 issued on 29 Jumada Awwal 1430H (corresponding to May 25, 2009), and is owned 100% by the Bank. The primary objective of the Company is to hold title deeds as collateral on behalf of the Bank for real estate related lending transactions;

(c) "Saudi Investment First Company", a limited liability company, which is registered in KSA under Commercial Registration No. 1010427836 issued on 16 Muharram 1436H (corresponding to November 9, 2014), and is owned 100% by the Bank. During 2019, the commercial registration of the Company has been de-registered. However, the Company is in the process of completing other formalities for certain regulatory authorities to complete the liquidation;

(d) "SAIB Markets Limited Company", a Cayman Islands limited liability company, registered in the Cayman Islands on July 18, 2017, and is 100% owned by the Bank. The objective of the Company is to conduct derivatives and repurchase activities on behalf of the Bank.

References to the Bank hereafter in these Consolidated Financial Statements refer to disclosures that are relevant only to the Bank and not collectively to the Group.

2. Basis of preparation

(a) Statement of compliance

These Consolidated Financial Statements as of and for the year ended December 31, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in KSA and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA"); and are in compliance with the provisions of the Banking Control Law, the regulations for companies in KSA, and the Bank's Articles of Association.

The Consolidated Financial Statements as of and for the year ended December 31, 2018 were prepared in accordance with IFRS as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of Zakat and Income Tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" insofar as these relate to Zakat and Income Tax) and in compliance with the provisions of the Banking Control Law, the regulations for companies in KSA, and the Bank's Articles of Association.

On July 17, 2019, SAMA issued instructions ("the SAMA Instructions") to banks in KSA to account for Zakat and Income Tax in the consolidated statement of income. This aligns with IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in KSA and with other standards and pronouncements that are issued by SOCPA (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, the Group changed its accounting treatment for Zakat and Income Tax by retroactively adjusting the impact in line with International Accounting Standard 8 – "Accounting Policies, Changes in Accounting Estimates and Errors", as disclosed in Note 3. The effects of this change are disclosed in Note 41.

(b) Basis of measurement and presentation

These Consolidated Financial Statements are prepared under the historical cost convention except for the following items in the consolidated statement of financial position:

- Derivatives are measured at fair value;
- Financial instruments designated as fair value through profit or loss ("FVTPL") are measured at fair value;

2. Basis of preparation – continued

- Investments designated as Fair Value through Other Comprehensive Income ("FVOCI") are measured at fair value;
- Recognized financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged;
- Cash settled share-based payments are measured at fair value; and
- Defined benefit obligations are recognized at the present value of future obligations using the Projected Unit Credit Method.

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

(c) Functional and presentation currency

The Consolidated Financial Statements are presented in Saudi Arabian Riyals (SAR) which is the Group's functional currency. Except as otherwise indicated, financial information presented in SAR has been rounded off to the nearest thousand.

(d) Critical accounting judgements, estimates and assumptions

The preparation of the Consolidated Financial Statements in conformity with IFRS as endorsed in KSA requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires Management to exercise its judgement in the process of applying the Group's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized 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 – "Financial Instruments" across all categories of financial assets requires judgement, and in particular, the estimation of the amount and timing of future cash flows, 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, and the changes to these factors can result in different levels of allowances.

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

- The Group's internal credit grading model, which assigns Probability of Defaults ("PDs") to individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk where 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, Exposures at Default ("EADs") and Loss Given Defaults ("LGDs"); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(ii) Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each consolidated statement of financial position date, except as disclosed in Note 33.

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

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

The principal or the most advantageous market must be accessible to or by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic 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.

2. Basis of preparation – continued

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, while 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 consolidated statement of financial position are categorized within a 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 prices in active markets for the same or identical instrument that an entity can access at the measurement date (i.e. without modification or proxy);

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.

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

The Group determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets, and for any non-recurring measurement, such as assets held for distribution in discontinued operations.

External subject matter experts are involved from time to time for the valuation of certain assets. Involvement of external subject matter experts is decided upon annually. Selection criteria include market knowledge, reputation, independence, and whether professional standards are maintained.

At each financial reporting date, the Group analyzes the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Group also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

(iii) Determination of control over investees

The control indicators set out in Note 3 (b) are subject to Management's judgement. The Group also acts as Fund Manager to several investment funds. Determining whether the Group controls individual investment funds usually focuses on the assessment of the aggregate economic interests of the Group in an individual fund (comprising any carried interests and expected management fees) and the investors' rights to remove the Fund Manager. As a result, the Group has concluded that it acts as an agent for the investors in all cases, and therefore has not consolidated the financial statements of these funds.

(iv) Going concern

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

(v) Determination of lease terms

In determining the lease terms for the purposes of calculation of lease liabilities and Right of Use ("ROU") leased assets, Management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease terms if the lease is reasonably certain to be extended (or not terminated).

The Group also reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

(vi) Depreciation and amortization

Management uses judgement when determining the periods used for purposes of calculating depreciation and amortization for property and equipment, including ROU leased assets and information technology intangible assets. The judgement includes estimates of any residual values, the estimated periods over which future economic benefits will flow to the Group, and the choice of depreciation and amortization methods.

2. Basis of preparation – continued

(vii) Provisions for liabilities and charges

The Group receives legal claims against it in the normal course of business. Management makes judgements 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.

(viii) Employee benefit plans

The Group operates an end of service benefit plan for its employees based on prevailing Saudi labour laws. Accruals are made in accordance with actuarial valuations using a projected unit credit method while the benefit payments are discharged as and when the benefit payments are due.

3. Summary of significant accounting policies

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

(a) Changes in accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2018 except for the policies explained below:

(i) Zakat and Income Tax

As described in Note 2, the basis of preparation was changed as a result of SAMA Instructions dated July 17, 2019. Previously, Zakat and Income Tax were recognized in equity as per SAMA circular No. 381000074519 dated April 11, 2017. With the issuance of the SAMA instructions, Zakat and Income tax is required to be recognized in the consolidated statement of income. The Group has accounted for this change in the accounting for Zakat and Income Tax retroactively.

The Group is subject to Zakat and Income Tax in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Provisions for Zakat and Income Tax are charged to the consolidated statement of income.

Management periodically evaluates positions taken in Zakat and Income Tax returns with respect to situations in which applicable Zakat and Income Tax regulations are subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the GAZT. Adjustments arising from final assessments are recorded in the period in which such assessments are made.

Since Zakat is not accounted for similar to Income Tax, no deferred Zakat is calculated.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Upon the retroactive application of the new Zakat and Income Tax Policy, the Group also adopted IFRIC Interpretation 23 which addresses the accounting for income tax when tax treatments involve uncertainty that affects the application of IAS 12 – "Income Taxes". It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether uncertain tax treatments are considered separately;
- The assumptions about the examination of tax treatments by taxation authorities;
- How taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates are determined; and
- How changes in facts and circumstances are considered.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty is followed.

The Group applies judgement in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Group has considered whether it has any uncertain tax positions including transfer pricing. The Group determines, based on tax compliance and transfer pricing studies that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the GAZT. The Interpretation did not have any impact on the consolidated financial statements of the Group.

(ii) IFRS 16 "Leases"

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

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after January 1, 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the consolidated statement of financial position, unless the term is 12 months or less or the lease is for a low-value asset item. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for lessees.

3. Summary of significant accounting policies – continued

For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a Right of Use ("ROU") leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and is amortized over the useful life of the leased asset.

The Group opted for the modified retroactive application (Option 2B) permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16, the leased assets were measured at the amount of the lease liabilities, using an applicable commission rate at the time of first time application. These liabilities were measured at the present value of the remaining lease terms, discounted using the Bank's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.47%.

The following is a reconciliation of the off-balance sheet lease obligations as of December 31, 2018 to the recognized lease liabilities as of January 1, 2019.

	SAR
Off-balance sheet lease obligations as of December 31, 2018	216,250
Less amounts for those leases with a lease term of 12 months or less and/or low-value leases	(20,696)
Add amounts for reasonably certain extension options	196,834
Net lease obligations as of January 1, 2019	392,388
Discounted lease liabilities due to initial application of IFRS 16 as of January 1, 2019	246,601

The Group has used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- Did not recognize ROU assets and liabilities for leases of low-value assets;
- Excluded initial direct costs from the measurement of the ROU assets at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

A number of other new standards are also effective from January 1, 2019 but they do not have a material effect on the consolidated financial statements.

(b) Basis of consolidation

These consolidated financial statements comprised the financial statements of the Bank and its subsidiaries as identified in Note 1. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. Changes are made to the accounting policies of the subsidiaries when necessary to align with the accounting policies of the Group.

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an interest, the Group considers factors such as purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee, and the size of its exposure to the variability of returns of the investee. The financial statements of any such structured entities are consolidated from the date the Group obtains control and until the date when the Group ceases to control the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect amount of its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights granted by equity instruments such as shares.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group obtains control until the date the Group ceases to control the subsidiary.

3. Summary of significant accounting policies – continued

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

All intra-group balances and any income and expenses arising from intra-group transactions, are eliminated in preparing these consolidated financial statements.

(c) Financial assets and financial liabilities

(i) Recognition and initial measurement

A financial asset or 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.

(ii) Classification of financial assets

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

Financial assets at amortized cost

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

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

Financial assets at FVOCI

Debt instruments

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

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and 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 recognized in OCI. Special commission income and foreign exchange gains and losses are recognized in the consolidated statement of income.

Equity investments

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

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual 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 Group's Management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

3. Summary of significant accounting policies – 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 Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is also based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets in the future.

Financial assets that may be held for trading and for which performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held to both collect contractual cash flows and to sell the 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. "Special commission" is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with a profit margin.

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

(iii) Classification of financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the expected special commission rate.

(iv) Derecognition

Financial assets

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

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

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

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

In certain transactions, the Group may retain the obligation to service a transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. However, 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.

3. Summary of significant accounting policies – continued

The Group may securitize various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitization vehicles and in the Bank transferring substantially all of the risks and rewards of ownership. The secularization vehicles in turn issue securities to investors. Interests in the securitized financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognized as investment securities and carried at FVOCI. Gains or losses on securitization are recorded in the consolidated statement of income.

Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated at FVOCI is not recognized in the consolidated statement of income 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.

Cumulative gains and losses recognized in OCI in respect of such equity investment securities are transferred to retained earnings on disposal.

Financial liabilities

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

(v) Modifications of financial assets and financial liabilities

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

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated statement of income. 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 an adjustment to special commission income.

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

(vi) Impairment

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

- Due from banks and other financial institutions;
- Financial assets that are debt securities;
- Loans and advances, including lease receivables;
- Loan commitments issued;
- Financial guarantee contracts issued; and
- Other financial assets.

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 equal to a 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition. (See Note 32).

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

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

Measurement of ECL

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

3. Summary of significant accounting policies – continued

- 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 to determine whether the financial asset should be derecognized and ECL is 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.

Credit impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities 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 Group 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 consumer loan that is overdue for 90 days or more is considered impaired.

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

- The market’s assessment of creditworthiness as reflected in bond yields;
- 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; and
- 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 the allowance for ECL in the consolidated statement of financial position

Allowances for credit losses are presented in the consolidated statement of financial position as follows:

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: as an allowance in other liabilities;
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as an allowance in other liabilities; and
- For debt securities measured at FVOCI, no loss allowance is recognized against financial assets because the carrying amount of these assets is considered fair value. However, the loss allowance is disclosed and is included in other reserves.

3. Summary of significant accounting policies – continued

(vii) Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated allowance for credit losses, 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 provisions for credit losses.

(viii) Offsetting financial instruments

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

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

(ix) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

“Loan commitments” are firm commitments to provide credit under prespecified terms and conditions. The Group has issued no loan commitments that are measured at FVTPL. For other loan commitments, the Group recognizes loss allowances.

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.

(d) Investments in associates

Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting. An associate is an entity in which the Bank has significant influence (but not control) over financial and operating matters and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group’s share of the net assets of the associates, less any impairment in the value of individual investments. Share in earnings of associates includes the changes in the Group’s share of the net assets of the associates. The Group’s share of its associates post-acquisition income or losses is recognized in the consolidated statement of income and its share of post-acquisition movements in other comprehensive income is recognized in other reserves included in shareholders’ equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

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

The consolidated statement of income reflects the Group’s share of the results of operations of the associates. When there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in shareholders’ equity. Unrealized gains on transactions are eliminated to the extent of the Group’s interest in the investees. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

The Group’s share of earnings in an associate is shown on the face of the consolidated statement of income, which represents the net earnings attributable to equity holders of an associate and therefore income after Zakat and Income Tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

3. Summary of significant accounting policies – continued

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

(e) Settlement date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the settlement date, i.e. the date the asset is delivered to the counterparty. When settlement date accounting is applied, the Bank accounts for any change in the fair value 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 regulation or convention in the market place.

(f) Derivative financial instruments and hedge accounting

As permitted by IFRS 9 – "Financial Instruments", the Group has elected to continue to apply the hedge accounting requirements of IAS 39 – "Financial Instruments: Recognition and Measurement".

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

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

(i) Derivatives held for trading

Any changes in the fair value of derivatives that are held for trading purposes are taken directly to the consolidated statement of income and disclosed in trading income. 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 Group accounts for an embedded derivative separately from the host contract when:

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

Separate embedded derivatives are measured at fair value, with all changes in fair value recognized in the consolidated statement of income unless they form part of qualifying cash flow or net investment hedging relationship in which case all changes in fair value are recognized in the consolidated statement of comprehensive income.

(iii) Hedge accounting

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships to manage exposures to interest rates, foreign currency, and credit risks, including exposures arising from highly probable forecasted transactions and firm commitments. In order to manage a 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 recognized asset or liability, (or assets or liabilities in the case of portfolio hedging), or an unrecognized 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 are either attributable to a particular risk associated with a recognized 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 risk, 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 the risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge.

3. Summary of significant accounting policies – continued

At each hedge effectiveness assessment/reporting date, each hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness if significant is recognized in the consolidated statement of income. For situations where the hedged item is a forecasted transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

Fair value hedges

When a derivative is designated as a hedging instrument in the hedge of a change in fair value of a recognized asset or liability or a firm commitment that could affect the consolidated statement of income, any gain or loss from remeasuring the hedging instruments to fair value is recognized immediately in the consolidated statement of income together with the change in the fair value of the attributable hedged risk in special commission income.

For hedged items measured at amortized 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 amortized over the remaining term of the original hedge using the effective interest rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated statement of income.

Cash flow hedges

When a derivative is designated and qualified as a hedging instrument in the hedge of a variability of cash flows attributable to a particular risk associated with a recognized asset or a liability or a highly probable forecasted transaction that could affect the consolidated statement of income, the portion of the gain or loss on the hedging instrument that is determined to be an effective portion is recognized directly in other comprehensive income and the ineffective portion, if any, is recognized in the consolidated statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the consolidated statement of income in the same period in which the hedged transaction affects the consolidated statement of income. However, if the Bank expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassifies into the consolidated statement of income as a reclassification adjustment the amount that is not to be recognized.

Where the hedged transaction results in the recognition of a non-financial asset or a non-financial liability, then at the time such asset or liability is recognized, the associated gains or losses that had previously been recognized directly in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of such asset or liability.

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

(g) Foreign currencies

Transactions in foreign currencies are translated into SAR at the exchange rates prevailing at transaction dates. Monetary assets and liabilities at year-end, denominated in foreign currencies, are translated into SAR at the exchange rates prevailing at the consolidated statement of financial position date.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for effective interest rates and payments during the year, and the amortized 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 consolidated statement of income, with the exception of differences of foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. Foreign exchange gains or losses on translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income except for differences arising on the retranslation of equity instruments or when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges to the

3. Summary of significant accounting policies – continued

extent hedges are effective. Translation gains or losses on non-monetary items carried at fair value are included as part of the fair value adjustment on investment securities available for sale, unless the non-monetary items have an effective hedging strategy.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of 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.

(h) Revenue/expense recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Special commission income and expense

Special commission income and expense for all special commission earning/bearing financial instruments are recognized in the consolidated statement of income on the effective special commission rate basis. The effective special commission rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective special commission rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The carrying amount of a financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective special commission rate and the change in carrying amount is recorded as special commission income or expense.

If the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, special commission income continues to be recognized on the effective special commission rate basis, based on the asset's carrying value net of impairment provisions.

The calculation of the effective special commission rate considers all contractual terms of the financial instruments (prepayment, options etc.) and includes all fees paid or transaction costs, and discounts or premiums that are an integral part of the effective special commission rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or 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 special commission income and expense, the effective special commission rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

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

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

Rendering of services

The Group provides various services to its customers. These services are either rendered separately or bundled together with the rendering of other services.

Revenue from rendering of services related to share trading and fund management, trade finance, corporate finance and advisory and other banking services, are recognized at the point when services are rendered i.e. when performance obligation is satisfied. Whereas for free services related to credit cards, the Group recognizes revenue over the period of time.

(ii) Exchange income/loss

Exchange income/loss is recognized when earned/incurred and in accordance with the principles included in Note 3 (g).

(iii) Fee income from banking services

Fees that are considered an integral to the effective special commission rate are deferred and included in the measurement of the relevant assets.

3. Summary of significant accounting policies – continued

Fees from banking services that are not an integral component of the effective special commission rate calculation on a financial asset or liability are generally recognized on an accrual basis when the related service is provided.

Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis.

Fees received on asset management, custody services and other similar services that are provided over an extended period of time, are recognized over the period when the service is being provided.

Performance linked fees or fee components are recognized when the performance criteria is fulfilled.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred, together with the investment costs, and recognized as an adjustment to the effective special commission rate on the loan. When a loan commitment is not expected to result in the draw down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, and are recognized as expenses as the services are received or the transaction is completed.

(iv) Dividend income

Dividend income is recognized when the right to receive payment is established.

(v) Day 1 profit or loss

Where a transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in the consolidated statement of income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable, or when the instrument is derecognized.

(vi) Customer loyalty programmes

The Group offers customer loyalty programmes referred to as reward points, which allows customers to earn points that can be redeemed through certain partner outlets. The Group allocates a portion of the transaction price to the reward points awarded to members, based on estimates of costs of future redemptions. The amount of expense allocated to reward points is charged to the consolidated statement of income with a corresponding liability recognized in other liabilities. The cumulative amount of the liability related to unredeemed reward points is adjusted over time based on actual redemptions and current trends with respect to future redemptions.

(i) Repurchase agreements and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repurchase agreements) continue to be recognized in the consolidated statement of financial position as the Group retains substantially all of the risks and rewards of ownership, and are measured in accordance with related accounting policies for investments. The transactions are treated as a collateralized borrowing and the counterparty liability for amounts received under these agreements is included in due to banks and other financial institutions or customer deposits, as appropriate. The difference between the sale and repurchase price is treated as special commission expense and recognized over the life of the repurchase agreement on an effective yield basis.

Underlying assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognized in the consolidated statement of financial position, as the Group does not obtain control over the underlying assets. Amounts paid under these agreements are included in cash and balances with SAMA. The difference between the purchase and resale price is treated as special commission income and recognized over the life of the reverse repurchase agreement on an effective yield basis.

(j) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that non-financial assets may be impaired. If any indication exists, or when periodic impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining an asset's fair value less costs to sell, an appropriate valuation model is used. These model calculations are corroborated by valuation multiples, or other available fair value indicators.

3. Summary of significant accounting policies – continued

(k) Other real estate

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

Subsequent to initial recognition, any subsequent write down to fair value, less costs to sell, are charged to the consolidated statement of income. Any subsequent gain in the fair value less costs to sell of these assets to the extent this does not exceed the cumulative write down is recognized together with any gain/loss on disposal in the consolidated statement of income.

(l) Property, equipment, and Information technology intangible assets

Property, equipment, and information technology intangible assets are stated at cost and presented net of accumulated depreciation and amortization. Freehold land is not depreciated. The costs of other property, equipment, and information technology intangible assets are depreciated or amortized using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20 to 30 years
Leasehold improvements	Over the lease period or 5 years, whichever is shorter
Furniture, equipment and vehicles	4 to 5 years
Information technology intangible assets	8 years

The assets' residual values, useful lives, and depreciation or amortization methods are reviewed and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the consolidated statement of income.

Other expenditures are capitalized only when it is probable that the future economic benefit of the expenditure will flow to the Group. Ongoing repairs and maintenance costs are expensed when incurred.

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.

(m) Leases

Policy applicable from January 1, 2019

At the inception of a contract, the Group 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. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- The contract involves the use of an identified asset this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

Right-of-use (ROU) leased assets

The Group recognizes an ROU leased asset and a lease liability at the lease commencement date. The ROU leased asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU leased asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of ROU leased asset or the end of the lease term. The estimated useful lives of ROU leased assets are determined on the same basis as those of property and equipment. In addition, the ROU leased asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

3. Summary of significant accounting policies – continued

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

A lease liability is measured at amortized cost using the effective special commission rate method increasing the carrying amount to reflect special commission on the lease liability and reducing the carrying amount to reflect the lease payments made including prepayments.

The lease liability 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 Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in consolidated statement of income if the carrying amount of ROU asset has been reduced to zero.

The Group presents ROU leased assets in "Property and equipment" and lease liabilities in "Other liabilities" in the consolidated statement of financial position.

Leases of low-value assets

The Group has elected not to recognize ROU leased assets and lease liabilities for leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before January 1, 2019

Leases entered into by the Group as a lessee, were classified as operating leases because the leases do not transfer all risks and rewards of ownership. Payments made under operating leases were charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty was recognized as an expense in the period in which termination takes place.

The Group also evaluates any non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

(n) Provisions

Provisions are recognized for on and off-balance sheet items when a reliable estimate can be made by the Group for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

(o) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are defined as those amounts included in cash and balances with SAMA excluding statutory deposits, and due from banks and other financial institutions maturing within three months from the date of acquisition which are also subject to insignificant risk of changes in their fair value.

(p) Zakat, Income Tax, and Value Added Tax

The Group is subject to Zakat and Income Tax in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Provisions for Zakat and Income Tax are charged to the consolidated statement of income.

Management periodically evaluates positions taken in Zakat and Income Tax returns with respect to situations in which applicable Zakat and Income Tax regulations are subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the GAZT. Adjustments arising from final assessments are recorded in the period in which such assessments are made.

Since Zakat is not accounted for similar to Income Tax, no deferred Zakat is calculated.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

Upon the retroactive application of the new Zakat and Income Tax Policy, the Group also adopted IFRIC Interpretation 23 which addresses the accounting for income tax when tax treatments involve uncertainty that affects the application of IAS 12 – "Income Taxes". It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether uncertain tax treatments are considered separately;
- The assumptions about the examination of tax treatments by taxation authorities;

3. Summary of significant accounting policies – continued

- How taxable profit, tax bases, unused tax losses, unused tax credits and tax rates are determined; and
- How changes in facts and circumstances are considered.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty is followed.

The Group applies judgement in identifying uncertainties over Income tax treatments. Upon adoption of the Interpretation, the Group has considered whether it has any uncertain tax positions including transfer pricing. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the GAZT. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Value Added Tax ("VAT")

The Group collects VAT from its customers for qualifying services provided, and makes VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the GAZT representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Group and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

(q) Short-term employees' benefits and employee end of service benefit plan

Short-term employees' benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Group operates an end of service benefit plan for its employees based on prevailing Saudi labour laws. Accruals are made in accordance with actuarial valuations using a projected unit credit method while the benefit payments are discharged as and when the benefit payments are due.

(r) Asset management services

The Group offers asset management services to its customers, which include management of certain investment funds in consultation with professional investment advisors. The Group's share of these funds is included in investments and fees earned are included in fee income from banking services, net. The Group's share of investment in these funds is included in the FVTPL investments and fees earned are disclosed under related party transactions.

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated financial statements.

(s) Non-interest based banking products

In addition to conventional banking, the Group offers to its customers certain non-interest based banking products, which are approved by its Shariah Board.

High level definitions of non-interest based products include:

i. Murabaha – an agreement whereby the Group sells to a customer a commodity or an asset, which the Group 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. Tawarruq – a form of Murabaha transaction where the Group 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.
iii. Istisna'a – an agreement between the Group and a customer whereby the Group sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.
iv. Ijarah – an agreement whereby the Group, acting as a lessor, purchases or constructs an asset for lease according to the customer request (lessee), based on his promise to lease the asset for an agreed rent and specific period that could end by transferring the ownership of the leased asset to the lessee.

All non-special interest based banking products are accounted for in conformity with the accounting policies described in these consolidated financial statements.

4. Cash and balances with SAMA and cash and cash equivalents

(a) Cash and balances with SAMA as of December 31, 2019 and 2018 are summarized as follows:

	2019 SAR '000	2018 SAR '000
Cash on hand	**892,087**	736,763
Reverse repurchase agreements	**6,025,000**	977,000
Other balances, net	**(137,497)**	(59,061)
Cash and balances before statutory deposit [Note 4 (b)]	**6,779,590**	1,654,702
Statutory deposit	**3,439,226**	3,217,230
Cash and balances with SAMA	**10,218,816**	4,871,932

In accordance with the Banking Control Law and regulations issued by SAMA, the Bank is required to maintain a statutory deposit with SAMA at stipulated percentages of its demand, savings, time and other deposits, calculated at the end of each month. The statutory deposit with SAMA is not available to finance the Bank's day-to-day operations and therefore do not form a part of cash and cash equivalents.

(b) Cash and cash equivalents included in the consolidated statement of cash flows as of December 31, 2019 and 2018 comprised the following:

	2019 SAR '000	2018 SAR '000
Cash and balances with SAMA excluding statutory deposit [Note 4 (a)]	**6,779,590**	1,654,702
Due from banks and other financial institutions maturing within three months from the date of acquisition	**2,833,564**	2,848,470
Cash and cash equivalents	**9,613,154**	4,503,172

5. Due from banks and other financial institutions, net

(a) Due from banks and other financial institutions, net as of December 31, 2019 and 2018 are summarized as follows:

	2019 SAR '000	2018 SAR '000
Current accounts	**373,345**	797,185
Money market placements	**2,657,258**	2,123,215
Total due from banks and other financial institutions	**3,030,603**	2,920,400
Allowance for credit losses	**(2,088)**	(2,703)
Due from banks and other financial institutions, net	**3,028,515**	2,917,697

The credit quality of due from banks and other financial institutions is managed using data from reputable external credit ratings agencies. The average S&P rating for the portfolio is an investment grade of "BBB" for 2019 (2018: "A").

(b) The movement of the allowance for credit losses for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR '000	2018 SAR '000
Balances at the beginning of the year	**2,703**	13,564
Provision for credit losses	**(615)**	(10,861)
Balances at the end of the year	**2,088**	2,703

5. Due from banks and other financial institutions, net – continued

(c) The credit quality of due from banks and other financial institutions as of December 31, 2019 and 2018 is summarized as follows:

	2019 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total
Investment grade	3,027,595	–	–	3,027,595
Non-investment grade	–	3,008	–	3,008
Total due from banks and other financial institutions	3,027,595	3,008	–	3,030,603

	2018 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total
Investment grade	2,917,319	–	–	2,917,319
Non-investment grade	–	3,081	–	3,081
Total due from banks and other financial institutions	2,917,319	3,081	–	2,920,400

(d) A reconciliation from the opening to the closing balances of the allowance for credit losses for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	2,336	367	–	2,703
Provision for credit losses – Changes in exposures and remeasurement	(606)	(9)	–	(615)
Balances at the end of the year	1,730	358	–	2,088

	2018 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	12,667	897	–	13,564
Provision for credit losses – Changes in exposures and remeasurement	(10,331)	(530)	–	(10,861)
Balances at the end of the year	2,336	367	–	2,703

6. Investments

(a) Investments as of December 31, 2019 and 2018 are summarized as follows:

	2019 (SAR '000)			2018 (SAR '000)		
	Domestic	International	Total	Domestic	International	Total
Fixed rate debt securities	15,700,184	6,745,165	22,445,349	12,935,491	7,796,720	20,732,211
Bonds	8,581,823	5,489,847	14,071,670	6,851,867	6,614,047	13,465,914
Sukuk	7,118,361	1,255,318	8,373,679	6,083,624	1,182,673	7,266,297
Floating rate debt securities	1,014,617	2,287,455	3,302,072	1,188,368	2,281,885	3,470,253
Bonds	–	2,287,455	2,287,455	–	2,281,885	2,281,885
Sukuk	1,014,617	–	1,014,617	1,188,368	–	1,188,368
Total debt securities	16,714,801	9,032,620	25,747,421	14,123,859	10,078,605	24,202,464
Equities	254,168	8,631	262,799	252,750	8,631	261,381
Mutual funds	126,224	–	126,224	131,626	–	131,626
Other securities	–	39,036	39,036	–	42,642	42,642
Investments	17,095,193	9,080,287	26,175,480	14,508,235	10,129,878	24,638,113

6. Investments – continued

Debt securities and equities are classified at FVOCI, and mutual funds and other securities are classified at FVTPL.

The Group's investments in equities include SAR 8.6 million as of December 31, 2019 (2018: SAR 8.6 million) which the Bank acquired in prior years in connection with the settlement of certain loans and advances. During the year ended December 31, 2018, the Bank sold a portion of the holdings previously held. The fair value of the shares sold totalled SAR 284.3 million, resulting in a realized gain of approximately SAR 73.4 million. The SAR 73.4 million realized gain was subsequently transferred from other reserves to retained earnings during the year ended December 31, 2018.

The Group also holds additional strategic investments in equities totalling SAR 247.5 million as of December 31, 2019 (2018: SAR 250.6 million) including the Mediterranean and Gulf Cooperative Insurance and Reinsurance Company, SIMAH (the Saudi Credit Bureau), and the Saudi Company for Registration of Finance Lease Contracts.

Investments include SAR 10.8 billion (2018: SAR 7.8 billion) in debt securities, which have been pledged under repurchase agreements with other financial institutions. Pledged assets are those financial assets that may be repledged or resold by counterparties to whom they have been transferred. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities, as well as requirements determined by exchanges on which the Bank acts as a participant. See Note 12 (b).

(b) The composition of investments as of December 31, 2019 and 2018 is as follows:

	2019 (SAR '000)			2018 (SAR '000)		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Fixed rate debt securities	**16,213,536**	**6,231,813**	**22,445,349**	14,696,443	6,035,768	20,732,211
Bonds	**9,574,192**	**4,497,478**	**14,071,670**	9,087,987	4,377,927	13,465,914
Sukuk	**6,639,344**	**1,734,335**	**8,373,679**	5,608,456	1,657,841	7,266,297
Floating rate debt securities	**1,833,548**	**1,468,524**	**3,302,072**	1,822,577	1,647,676	3,470,253
Bonds	**1,833,548**	**453,907**	**2,287,455**	1,822,577	459,308	2,281,885
Sukuk	**–**	**1,014,617**	**1,014,617**	–	1,188,368	1,188,368
Total debt securities	**18,047,084**	**7,700,337**	**25,747,421**	16,519,020	7,683,444	24,202,464
Equities	**249,525**	**13,274**	**262,799**	248,107	13,274	261,381
Mutual funds	**114,664**	**11,560**	**126,224**	131,626	–	131,626
Other securities	**–**	**39,036**	**39,036**	–	42,642	42,642
Investments	**18,411,273**	**7,764,207**	**26,175,480**	16,898,753	7,739,360	24,638,113

The unquoted debt securities above are principally comprised of Saudi Government Development Bonds, and certain Saudi corporate securities. Equities reported under FVOCI investments include unquoted shares of SAR 13.3 million (2018: SAR 13.3 million) that are carried at cost, as their fair value cannot be reliably measured. Mutual funds are considered as quoted in the table above when the daily net asset values are published on the Saudi Stock Exchange (Tadawul).

The Group's investment in mutual funds represent investment in Shariah compliant open ended investment funds for investors seeking capital appreciation and high liquidity through exposure to Shariah compliant Saudi equities and financial products. The Group has also invested in private real estate funds with the investment objective of delivering medium-term capital appreciation through development of premium residential apartments.

(c) Investments are classified by counterparty as of December 31, 2019 and 2018 as follows:

	2019 SAR '000	2018 SAR '000
Government and quasi-government	**17,348,488**	15,777,094
Corporate	**4,851,768**	4,424,299
Banks and other financial institutions	**3,975,224**	4,436,720
Total	**26,175,480**	24,638,113

6. Investments – continued

(d) The credit risk exposure of investments as of December 31, 2019 and 2018 is as follows:

	2019 SAR '000	2018 SAR '000
Investment grade	**22,577,137**	20,979,707
Non-investment grade	**1,933,924**	1,739,706
Unrated	**1,236,360**	1,483,051
Subtotal	**25,747,421**	24,202,464
Equities, mutual funds, and other securities	**428,059**	435,649
Total	**26,175,480**	24,638,113

Investment grade securities generally have a minimum external rating from approved rating agencies including Standard & Poor's (BBB-), Moody's (Baa3), or Fitch (BBB-). Unrated investment securities primarily include Saudi corporate securities.

(e) The movement of the allowance for credit losses included in other reserves for the years ended December 31, 2019 and 2018 is as follows:

	2019 SAR '000	2018 SAR '000
Balance at the beginning of the year	**75,480**	64,977
Provision for credit losses	**(45,821)**	10,503
Balance at the end of the year [Note 6 (h)]	**29,659**	75,480

(f) A reconciliation from the opening to the closing balances of the allowance for credit losses for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	**71,794**	**3,686**	**–**	**75,480**
Provision for credit losses – Changes in exposures and remeasurement	**(42,135)**	**(3,686)**	**–**	**(45,821)**
Balances at the end of the year	**29,659**	**–**	**–**	**29,659**

	2018 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	64,977	–	–	64,977
Changes in exposures and remeasurement	6,828	(2,995)	–	3,833
Transfers from Stage 1 to Stage 2	(11)	6,681	–	6,670
Provision for credit losses	6,817	3,686	–	10,503
Balances at the end of the year	71,794	3,686	–	75,480

6. Investments – continued

(g) The credit quality of debt securities at FVOCI as of December 31, 2019 and 2018 is summarized as follows:

	2019 (SAR '000)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grades 1-6 and unrated	**25,747,421**	**–**	**–**	**25,747,421**
Grades 7-9	**–**	**–**	**–**	**–**
Total debt securities	**25,747,421**	**–**	**–**	**25,747,421**

	2018 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total
Grades 1-6 and unrated	24,198,778	–	–	24,198,778
Grades 7-9	–	3,686	–	3,686
Total debt securities	24,198,778	3,686	–	24,202,464

(h) Other reserves classified in shareholders' equity as of December 31, 2019 and 2018 are comprised of the following:

	2019 SAR '000	2018 SAR '000
Unrealized gains (losses) on revaluation of debt securities at FVOCI before allowance for credit losses	**358,923**	(228,599)
Allowance for credit losses on debt securities at FVOCI [Note 6 (e)]	**29,659**	75,480
Unrealized gains (losses) on revaluation of debt securities at FVOCI after allowance for credit losses	**388,582**	(153,119)
Unrealized losses on revaluation of equities held at FVOCI	**(37,656)**	(39,192)
Actuarial losses on defined benefit plans	**(20,689)**	–
Share of other comprehensive income (loss) of associates	**(260)**	255
Other reserves	**329,977**	(192,056)

7. Loans and advances, net

(a) Loans and advances, net classified as held at amortized cost as of December 31, 2019 and 2018 are comprised of the following:

	2019 (SAR '000)			
	Commercial and other	**Overdrafts**	**Consumer**	**Total**
Stage 1	**35,908,695**	**2,002,370**	**13,248,652**	**51,159,717**
Stage 2	**4,165,102**	**628,792**	**204,961**	**4,998,855**
Stage 3	**553,103**	**430,102**	**2,464**	**985,669**
Total performing loans and advances	**40,626,900**	**3,061,264**	**13,456,077**	**57,144,241**
Non-performing loans and advances	**947,868**	**1,164,385**	**261,998**	**2,374,251**
Total loans and advances	**41,574,768**	**4,225,649**	**13,718,075**	**59,518,492**
Allowance for credit losses	**(982,836)**	**(1,030,656)**	**(392,093)**	**(2,405,585)**
Loans and advances, net	**40,591,932**	**3,194,993**	**13,325,982**	**57,112,907**

7. Loans and advances, net – continued

	2018 (SAR '000)			
	Commercial and other	Overdrafts	Consumer	Total
Stage 1	34,434,670	3,547,689	14,267,187	52,249,546
Stage 2	5,171,573	906,743	189,619	6,267,935
Stage 3	1,190,635	378,987	44,128	1,613,750
Total performing loans and advances	40,796,878	4,833,419	14,500,934	60,131,231
Non-performing loans and advances	126,214	704,104	246,556	1,076,874
Total loans and advances	40,923,092	5,537,523	14,747,490	61,208,105
Allowance for credit losses	(871,262)	(459,161)	(465,153)	(1,795,576)
Loans and advances, net	40,051,830	5,078,362	14,282,337	59,412,529

(b) Loans and advances, net are comprised of the following:

	2019 SAR '000	2018 SAR '000
Conventional loans and advances	**20,520,406**	24,140,228
Non-interest based loans and advances:	**38,998,086**	37,067,877
Murabaha, including Tawarruq	**38,853,618**	36,881,386
Ijarah	**144,468**	186,491
Total loans and advances	**59,518,492**	61,208,105
Allowance for credit losses	**(2,405,585)**	(1,795,576)
Loans and advances, net	**57,112,907**	59,412,529

(c) The movement of the allowance for credit losses for the years ended December 31, 2019 and 2018 is as follows:

	2019 SAR '000	2018 SAR '000
Balances at the beginning of the year	**1,795,576**	1,718,082
Provision for credit losses	**1,270,770**	220,514
Write-offs, net	**(660,761)**	(143,020)
Balances at the end of the year	**2,405,585**	1,795,576

(d) The following tables provide a reconciliation from the opening to the closing balance of the allowance for credit losses for the year ended December 31, 2019.

	Commercial, overdrafts and others (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	**159,244**	**95,760**	**1,075,419**	**1,330,423**
Changes in exposures and remeasurement	**96,379**	**27,695**	**878,716**	**1,002,790**
Transfers from Stage 1 to Stages 2,3	**(3,858)**	**1,641**	**11,447**	**9,230**
Transfers from Stage 2 to Stage 3	**–**	**(30,668)**	**289,356**	**258,688**
Transfers from Stage 2 to Stage 1	**6,725**	**(2,790)**	**–**	**3,935**
Transfers from Stage 3 to Stages 1,2	**99**	**204**	**(2,161)**	**(1,858)**
Provision for credit losses	**99,345**	**(3,918)**	**1,177,358**	**1,272,785**
Write-offs, net	**–**	**–**	**(589,716)**	**(589,716)**
Balances at the end of the year	**258,589**	**91,842**	**1,663,061**	**2,013,492**

7. Loans and advances, net – continued

	Consumer (SAR ’000)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balances at the beginning of the year	**180,377**	**39,696**	**245,080**	**465,153**
Changes in exposures and remeasurement	**(58,973)**	**53,166**	**(48,507)**	**(54,314)**
Transfers from Stage 1 to Stage 3	**(482)**	**–**	**37,855**	**37,373**
Transfers from Stage 2 to Stage 3	**–**	**(192)**	**15,118**	**14,926**
Provision for credit losses	**(59,455)**	**52,974**	**4,466**	**(2,015)**
Write-offs, net	**–**	**–**	**(71,045)**	**(71,045)**
Balances at the end of the year	**120,922**	**92,670**	**178,501**	**392,093**

The following tables provide a reconciliation from the opening to the closing balance of the allowance for credit losses for the year ended December 31, 2018.

	Commercial, overdrafts, and others (SAR ’000)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	118,705	108,841	1,080,417	1,307,963
Changes in exposures and remeasurement	41,467	30,112	(216,290)	(144,711)
Transfers from Stage 1 to Stages 2, 3	(928)	11,283	32,258	42,613
Transfers from Stage 2 to Stage 3	–	(54,476)	276,962	222,486
Provision for credit losses	40,539	(13,081)	92,930	120,388
Write-offs, net	–	–	(97,928)	(97,928)
Balances at the end of the year	159,244	95,760	1,075,419	1,330,423

	Consumer (SAR ’000)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	176,245	15,537	218,337	410,119
Changes in exposures and remeasurement	4,222	24,605	64,103	92,930
Transfers from Stage 1 to Stage 3	(90)	–	5,937	5,847
Transfers from Stage 2 to Stage 3	–	(446)	1,795	1,349
Provision for credit losses	4,132	24,159	71,835	100,126
Write-offs, net	–	–	(45,092)	(45,092)
Balances at the end of the year	180,377	39,696	245,080	465,153

The transfer amounts in the above tables represent the net increase or decrease in the allowance for credit losses as a result of transfers between stages during the years ended December 31, 2019 and 2018.

7. Loans and advances, net – continued

(e) The credit quality of loans and advances as of December 31, 2019 and 2018 is summarized as follows:

(i) Neither past due nor credit-impaired loans and advances, are as follows:

	2019 SAR '000	2018 SAR '000
Exceptional	1,030,843	1,890,789
Excellent	4,661,323	4,669,483
Strong	6,070,450	8,251,313
Good	12,898,184	11,881,621
Acceptable	13,472,788	11,965,283
Marginal	1,803,303	2,645,529
Watch	659,279	981,574
Unrated	12,604,404	13,563,575
Total	**53,200,574**	55,849,167

The above table includes neither past due nor credit-impaired loans and advances classified as Stage 2 amounting to SAR 4.7 billion (2018: SAR 4.6 billion). These loans are classified as Stage 2 as they exhibit significant increase in credit risk due to their categorization as restructured, relative downgrade in ratings and watchlist. It also includes Stage 2 exposures which are yet to complete curing periods to be eligible to be upgraded to Stage 1.

The ratings of the loans and advances included above are described as follows:

Exceptional – leader in highly stable industry. Superior financial fundamentals and substantial cash flows. Has ready access to financial markets.

Excellent – leader in a stable industry. Better than peers' financials and cash flows. Has access to financial markets under normal market conditions.

Strong – strong market and financial position with a history of successful performance but certain exceptions exist. Financial fundamentals are still better than industry benchmarks. The entity would have access to financial markets under normal conditions.

Good – moderate degree of stability with industry or company specific risk factors. Financial fundamentals are sound and within industry benchmarks. Access to financial markets is limited and the entity is susceptible to cyclical changes.

Acceptable – minor weaknesses in industry or company specific risk factors. Some financial fundamentals are inferior to industry benchmarks. Alternative financing could be available but this might be limited to private and institutional sources only.

Marginal – unfavourable industry or company specific risk factors exist. Operating performance and financials are marginal. Alternative sources of finance are unlikely. No new business can be contemplated with this category.

Watch – unfavourable industry or company specific risk factors exist. Risk of non-payment is high. Financial fundamentals are well below industry benchmarks and alternative sources of finance are extremely limited.

Unrated – unrated loans and advances primarily consist of consumer and other retail loans with no past due balances.

7. Loans and advances, net – continued

(ii) Past due but not credit-impaired loans and advances as of December 31, 2019 and 2018 are as follows:

	2019 (SAR '000)		
	Commercial, overdrafts and others	Consumer	Total
From 1 day to 30 days	1,860,390	644,248	2,504,638
From 31 days to 90 days	248,399	204,961	453,360
Total	**2,108,789**	**849,209**	**2,957,998**

Past due but not impaired loans and advances as of December 31, 2018 are as follows:

	2018 (SAR '000)		
	Commercial, overdrafts and others	Consumer	Total
From 1 day to 30 days	61,705	703,612	765,317
From 31 days to 90 days	1,713,378	189,619	1,902,997
Total	1,775,083	893,231	2,668,314

(f) The economic sector risk concentrations as of December 31, 2019 and 2018 are as follows:

	2019 (SAR '000)					
	Performing					
	Stage 1	Stage 2	Stage 3	Non-performing	Allowance for credit losses	Loans and advances, net
Government and quasi-government	969,627	–	–	–	(10,285)	959,342
Banks and other financial services	8,179,335	110,290	42,633	–	(73,842)	8,258,416
Agriculture and fishing	80,938	–	–	–	(1,123)	79,815
Manufacturing	2,875,543	293,607	71,971	201,823	(212,895)	3,230,049
Building and construction	4,928,825	1,464,843	25,268	111,625	(121,771)	6,408,790
Commerce	8,891,055	973,746	94,981	834,023	(525,207)	10,268,598
Transportation and communication	1,598,585	615	8,616	47,682	(67,572)	1,587,926
Services	2,435,795	36,684	42,971	782	(33,821)	2,482,411
Consumer loans	13,248,652	204,961	2,464	261,998	(392,093)	13,325,982
Other	7,951,362	1,914,109	696,765	916,318	(966,976)	10,511,578
Total	**51,159,717**	**4,998,855**	**985,669**	**2,374,251**	**(2,405,585)**	**57,112,907**

7. Loans and advances, net – continued

	2018 (SAR '000)					
	Performing					
	Stage 1	Stage 2	Stage 3	Non-performing	Allowance for credit losses	Loans and advances, net
Government and quasi-government	1,600,235	–	–	–	(13,597)	1,586,638
Banks and other financial services	7,202,415	299,039	39	27,065	(46,030)	7,482,528
Agriculture and fishing	38,510	–	–	–	(248)	38,262
Manufacturing	4,632,406	495,523	12,068	131,284	(120,408)	5,150,873
Building and construction	4,049,199	1,300,706	28,328	194,155	(144,097)	5,428,291
Commerce	6,432,858	1,542,961	108,833	299,807	(317,283)	8,067,176
Transportation and communication	1,584,666	5,347	144	49,012	(50,647)	1,588,522
Services	2,051,763	25,212	80,206	785	(44,058)	2,113,908
Consumer loans	14,267,187	189,619	44,128	246,556	(465,153)	14,282,337
Other	10,390,307	2,409,528	1,340,004	128,210	(594,055)	13,673,994
Total	52,249,546	6,267,935	1,613,750	1,076,874	(1,795,576)	59,412,529

The economic sector risk concentrations as of December 31, 2018 have been reclassified to conform to changes in the sectors made during 2019.

8. Investments in associates

(a) Investments in associates as of December 31, 2019 and 2018 include the Bank's ownership interest in associated companies in KSA, as follows:

	2019	2018
American Express (Saudi Arabia) ("AMEX")	**50%**	50%
Saudi ORIX Leasing Company ("ORIX")	**38%**	38%
Amlak International for Real Estate Finance Company ("AMLAK")	**32%**	32%

AMEX is a Saudi Arabian closed joint stock company in KSA with total capital of SAR 100 million. The principal activities of AMEX are to issue credit cards and offer other American Express products in KSA.

ORIX is a Saudi Arabian closed joint stock company in KSA with total capital of SAR 550 million. The primary business activities of ORIX include lease financing services in KSA.

AMLAK is a Saudi Arabian closed joint stock company in KSA with total capital of SAR 906 million. AMLAK offers real estate finance products and services in KSA.

All of the Group's associates are incorporated in and operate exclusively in KSA.

(b) The movement of investments in associates for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR '000	2018 SAR '000
Balance at beginning of the year	**1,012,366**	993,340
Share of earnings	**88,156**	111,195
Dividends	**(105,709)**	(93,323)
Share of other comprehensive loss	**(515)**	(722)
Investments	**–**	1,876
Balance at end of the year	**994,298**	1,012,366

8. Investments in associates – continued

(c) The following table summarizes the associates' assets, liabilities, and equity as of December 31, 2019 and 2018, and income and expense for the years then ended:

	2019 (SAR '000)			2018 (SAR '000)		
	AMEX	ORIX	AMLAK	AMEX	ORIX	AMLAK
Total assets	**943,217**	**1,142,551**	**3,405,214**	838,183	1,211,992	3,256,983
Total liabilities	**517,095**	**313,287**	**2,281,694**	418,341	353,758	2,101,814
Total equity	**426,122**	**829,264**	**1,123,520**	419,842	858,234	1,155,169
Total income	**405,324**	**113,182**	**200,002**	394,519	123,056	174,655
Total expenses	**279,346**	**71,654**	**129,107**	242,876	65,620	76,809

(d) The following table reconciles the summarized financial information to the carrying amount of the Bank's investments in associates:

	2019 (SAR '000)				2018 (SAR '000)			
	AMEX	ORIX	AMLAK	Total	AMEX	ORIX	AMLAK	Total
Net assets	**426,122**	**829,264**	**1,123,520**	**2,378,906**	419,842	858,234	1,155,169	2,433,245
Group's share of net assets	**213,061**	**315,120**	**362,032**	**890,213**	209,921	326,129	372,231	908,281
Goodwill	**94,210**	**9,875**	**–**	**104,085**	94,210	9,875	–	104,085
Carrying amount of interest	**307,271**	**324,995**	**362,032**	**994,298**	304,131	336,004	372,231	1,012,366

9. Property and equipment, and Information Technology intangible assets, net

(a) Property and equipment, net as of December 31, 2019 and 2018 is summarized as follows:

	2019 (SAR '000)				
	Land and buildings	Leasehold improvements	Furniture, equipment, and vehicles	Projects pending completion	Total
Cost					
Balance at the beginning of the year	**1,072,952**	**159,745**	**489,581**	**5,211**	**1,727,489**
Effect of the adoption of IFRS 16 on January 1, 2019	**175,070**	**–**	**92,870**	**–**	**267,940**
Additions	**50,287**	**18,171**	**14,213**	**–**	**82,671**
Disposals	**–**	**–**	**(104,631)**	**–**	**(104,631)**
Transfers	**1,404**	**–**	**–**	**(1,404)**	**–**
Balance at the end of the year	**1,299,713**	**177,916**	**492,033**	**3,807**	**1,973,469**
Accumulated depreciation and amortization					
Balance at the beginning of the year	**329,118**	**118,503**	**376,979**	**–**	**824,600**
Charge for the year	**50,106**	**17,470**	**41,095**	**–**	**108,671**
Disposals	**–**	**–**	**(94,297)**	**–**	**(94,297)**
Balance at the end of the year	**379,224**	**135,973**	**323,777**	**–**	**838,974**
Net book value	**920,489**	**41,943**	**168,256**	**3,807**	**1,134,495**

9. Property and equipment, and Information Technology intangible assets, net – continued

The above line items include ROU leased assets, net as follows:

	2019 (SAR '000)		
	Buildings	Equipment and vehicles	Total
Cost	219,268	87,621	306,889
Accumulated depreciation	(13,484)	(16,236)	(29,720)
Net book value	205,784	71,385	277,169

The lease term of leases included in ROU assets range from 2 years to 27 years. The payment for rentals is made on a monthly, quarterly, and annual basis and is paid in advance or arrears.

	2018 (SAR '000)				
	Land and buildings	Leasehold improvements	Furniture, equipment, and vehicles	Projects pending completion	Total
Cost					
Balance at the beginning of the year	1,009,043	145,725	468,027	50,425	1,673,220
Additions	13,624	14,020	22,820	5,071	55,535
Disposals	–	–	(1,266)	–	(1,266)
Transfers	50,285	–	–	(50,285)	–
Balance at the end of the year	1,072,952	159,745	489,581	5,211	1,727,489
Accumulated depreciation and amortization					
Balance at the beginning of the year	295,993	101,653	351,333	–	748,979
Charge for the year	33,125	16,850	26,876	–	76,851
Disposals	–	–	(1,230)	–	(1,230)
Balance at the end of the year	329,118	118,503	376,979	–	824,600
Net book value	743,834	41,242	112,602	5,211	902,889

(b) Information Technology intangible assets, net as of December 31, 2019 and 2018 is summarized as follows:

	2019 (SAR '000)		
	Software	Projects pending completion	Total
Cost			
Balance at the beginning of the year	315,901	44,694	360,595
Additions	13,885	67,090	80,975
Transfers	75,039	(75,039)	–
Balance at the end of the year	404,825	36,745	441,570
Accumulated amortization			
Balance at the beginning of the year	152,388	–	152,388
Charge for the year	34,846	–	34,846
Balance at the end of the year	187,234	–	187,234
Net book value	217,591	36,745	254,336

9. Property and equipment, and Information Technology intangible assets, net – continued

	2018 (SAR '000)		
	Software	Projects pending completion	Total
Cost			
Balance at the beginning of the year	255,094	42,329	297,423
Additions	60,807	2,365	63,172
Balance at the end of the year	315,901	44,694	360,595
Accumulated amortization			
Balance at the beginning of the year	126,000	–	126,000
Charge for the year	26,388	–	26,388
Balance at the end of the year	152,388	–	152,388
Net book value	163,513	44,694	208,207

10. Other assets, net

(a) Other assets, net as of December 31, 2019 and 2018 are summarized as follows:

	2019 SAR '000	2018 SAR '000
Customer and other receivables	**31,736**	40,849
Prepaid expenses	**50,932**	69,542
Others	**50,712**	32,383
Total other assets	**133,380**	142,774
Less: allowance for credit losses	**(386)**	(566)
Other assets, net (Note 42)	**132,994**	142,208

(b) The movement of the allowance for credit losses for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR '000	2018 SAR '000
Balances at the beginning of the year	**566**	276
Provision for credit losses	**(180)**	290
Balances at the end of the year	**386**	566

11. Derivatives

(a) In the ordinary course of business, the Bank utilizes the following derivative financial instruments for trading and hedging purposes:

(i) Swaps

Swaps are commitments to exchange one set of cash flows for another. For special commission rate swaps, counterparties generally exchange fixed and floating rate commission payments in a single currency without exchanging notional amounts. For cross-currency special commission rate swaps, notional amounts, and fixed and floating special commission payments are exchanged in different currencies. The notional amounts can also vary based upon the agreed terms in the case of variable notional swaps.

(ii) 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 market. Foreign currency and special commission rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are settled daily.

(iii) Forward rate agreements

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

(iv) 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 a fixed future date or at any time during a specified period, a specified amount of a currency, commodity, or financial instrument at a predetermined price.

(b) The derivative financial instruments are either held for trading or held for hedging purposes as described below:

(i) 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 profit from favourable movements in prices, rates, or indices. Arbitrage involves identifying, with the expectation of profit from price differentials, between markets or products.

(ii) Held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. The risk management process involves managing the Bank's exposure to fluctuations in currency and special 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 routinely monitored and hedging strategies are used to ensure positions are maintained within the established limits. The Board of Directors has established the level of special commission rate risk by setting limits on special commission rate gaps for stipulated periods. Asset and liability special commission rate gaps are reviewed on a periodic basis and hedging strategies are periodically used to manage special commission rate gap within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to optimize its own exposure to currency and special commission rate risks. This is generally achieved by hedging specific transactions. The Bank uses forward foreign exchange contracts to also apply various hedging strategies against specifically identified currency risks. In addition, the Bank uses special commission rate swaps to hedge against the special commission rate risk arising from specifically identified fixed special commission-rate exposures.

11. Derivatives – continued

(c) The tables below summarize the positive and negative fair values of derivative financial instruments, together with the notional amounts, analyzed by the term to maturity and monthly average. The notional amounts, which provide an indication of the volumes of the transactions outstanding at each year-end, do not necessarily reflect the amounts of future cash flows involved. The notional amounts are not indicative of the Bank's exposure to credit risk which is generally limited to the net positive fair values of derivatives, nor market risk.

Derivative financial instruments as of December 31, 2019 and 2018 are summarized as follows:

	Notional amounts by term to maturity 2019 (SAR '000)							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	4,193	2,684	2,368,748	683,015	–	1,685,733	–	4,064,698
Foreign exchange options	267	267	750,320	–	750,320	–	–	1,006,076
Commission rates swaps	124,364	123,861	7,260,075	100,000	1,680,820	3,505,956	1,973,299	7,856,102
Commission rate options	278,528	278,521	9,080,979	–	–	7,581,840	1,499,139	8,692,327
Held as fair value hedges:								
Commission rate swaps	–	591,114	12,835,216	–	93,790	5,045,902	7,695,524	13,780,733
Associated company put option [Note 11 (f)]	421,243	–	–	–	–	–	–	–
Subtotal	828,595	996,447	32,295,338	783,015	2,524,930	17,819,431	11,167,962	35,399,936
CSA/EMIR cash margins	476,481	(680,928)	–	–	–	–	–	–
Total [Note 32 (k)]	1,305,076	315,519	32,295,338	783,015	2,524,930	17,819,431	11,167,962	35,399,936

	Notional amounts by term to maturity 2018 (SAR '000)							
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	Over 5 years	Monthly average
Held for trading:								
Forward foreign exchange contracts	9,781	6,802	2,919,605	2,919,605	–	–	–	4,012,207
Foreign exchange options	4,408	4,408	848,020	98,020	–	750,000	–	1,135,816
Commission rates swaps	198,425	199,306	9,152,106	–	254,000	7,521,528	1,376,578	13,577,210
Commission rate options	187,979	187,979	6,896,619	–	–	5,397,520	1,499,099	4,706,477
Held as fair value hedges:								
Commission rate swaps	242,456	102,209	12,252,404	–	–	4,107,892	8,144,512	7,310,805
Associated company put option [Note 11 (f)]	417,991	–	–	–	–	–	–	–
Subtotal	1,061,040	500,704	32,068,754	3,017,625	254,000	17,776,940	11,020,189	30,742,515
CSA/EMIR cash margins	184,203	–	–	–	–	–	–	–
Total [Note 32 (k)]	1,245,243	500,704	32,068,754	3,017,625	254,000	17,776,940	11,020,189	30,742,515

11. Derivatives – continued

(d) The table below is a summary of the Bank's fair value hedges and hedged portfolios as of December 31, 2019 and 2018, which includes the description of the hedged items and related fair values, the nature of the risk being hedged, and the hedging instruments and related fair values.

	December 31, 2019 (SAR '000)					
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument used	Positive fair value	Negative fair value
Fixed commission rate investments	**14,203,427**	**12,174,376**	**Fair value risk**	**Commission rate swaps**	**–**	**591,114**

	December 31, 2018 (SAR '000)					
	Hedged items			Hedging instruments		
	Current fair value	Inception fair value	Hedged risk	Instrument used	Positive fair value	Negative fair value
Fixed commission rate investments	11,938,600	12,349,164	Fair value risk	Commission rate swaps	242,456	102,209

The net losses during the year on hedging instruments for fair value hedges were SAR 710.2 million (2018: gains of SAR 41.1 million). The net gains on hedged items attributable to hedged risk were SAR 710.2 million (2018: losses of SAR 41.1 million). The net positive fair value of all derivatives is approximately SAR 989.6 million (2018: SAR net positive 744.5 million). Approximately 59% (2018: 57%) of the positive fair value of the Bank's derivatives are entered into with financial institutions, and 28% (2018: 23%) of the positive fair value contracts are with any single counterparty at the consolidated statement of financial position date. Derivative activities are mainly carried out under the Bank's treasury segment.

(e) The Bank, as part of its derivative management activities, has entered into a master agreement in accordance with the International Swaps and Derivative Association (ISDA) directives. Under this agreement, the terms and conditions for derivative products purchased or sold by the Group are unified. As part of the master agreement, a credit support annex (CSA) has also been signed. The CSA allows the Group to receive improved pricing by way of exchange of mark to market amounts in cash as collateral whether in favour of the Bank or the counterparty.

For commission rate swaps entered into with European counterparties, the Bank and the European counterparty both comply with the European Market Infrastructure Regulation (EMIR). EMIR is a body of European legislation for the central clearing and regulation of Over the Counter (OTC) derivatives. The regulation includes requirements for reporting of derivatives contracts and implementation of risk management standards, and establishes common rules for central counterparties and trade repositories. Accordingly, all such standardized OTC derivatives contracts are traded on exchanges and cleared through a Central Counter Party (CCP) through netting arrangements and exchanges of cash to reduce counterparty credit and liquidity risk.

As of December 31, 2019, the CSA and EMIR net cash collateral amounts held by counterparties in favour of the Bank totalled SAR 1,157 million (2018: SAR 184 million). The EMIR net cash margins include initial margin payments made to the counterparties.

The positive and negative fair values of derivatives including CSA and EMIR cash margins have been netted/offset when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the assets and settle the liability simultaneously. See Note 32 (k).

(f) The Bank has a put option arising from an existing master agreement entered into by the Bank relating to an associated company, the estimated value of which is included in Note 11 (c). The terms of the agreement give the Bank a put option and give the counterparty a call option that is exercisable for the remaining term of the agreement. The Bank has valued only the put option, as the call option is deemed to be out of the money. The put option, once exercised, grants the Bank the right to receive a payment in exchange for its shares one year after the exercise, based on predetermined formulas included in the agreement.

12. Due to banks and other financial institutions

(a) Due to banks and other financial institutions as of December 31, 2019 and 2018 is summarized as follows:

	2019 SAR '000	2018 SAR '000
Current accounts	8,918	16,073
Repurchase agreements [Note 12 (b)]	10,323,011	7,656,065
Money market deposits	3,456,262	4,948,694
Total	**13,788,191**	12,620,832

(b) Debt securities pledged under repurchase agreements with other banks include corporate, bank, and non-government bonds. The fair values of assets pledged as collateral with other financial institutions as security and the related balances of the repurchase agreements as of December 31, 2019 and 2018 are as follows:

	December 31, 2019 (SAR '000)		December 31, 2018 (SAR '000)	
	Pledged assets	Repurchase agreements	Pledged assets	Repurchase agreements
Debt securities	10,762,422	10,323,011	7,813,034	7,656,065

13. Customers' deposits

(a) Customers' deposits as of December 31, 2019 and 2018 are summarized as follows:

	2019 SAR '000	2018 SAR '000
Murabaha commodity deposits	35,620,301	33,383,265
Conventional time deposits	4,349,043	3,654,726
Time deposits	39,969,344	37,037,991
Savings deposits	1,698,795	1,529,185
Total special commission bearing deposits	**41,668,139**	38,567,176
Demand deposits	25,865,987	24,113,708
Other deposits	1,523,928	1,008,985
Customers' deposits	**69,058,054**	63,689,869

Other deposits include SAR 606.4 million (2018: SAR 601.0 million) of margin deposits held for irrevocable commitments.

Customers' deposits above include Sharia compliant and demand deposits totalling SAR 61.4 billion (2018: SAR 57.4 billion).

(b) The above amounts include foreign currency deposits (equivalent to Saudi Arabian Riyals) as of December 31, 2019 and 2018 as follows:

	2019 SAR '000	2018 SAR '000
Demand	1,509,633	1,775,379
Savings	780,715	1,161,374
Time	8,829,588	6,092,931
Other	69,795	103,407
Total	**11,189,731**	9,133,091

14. Term loans

On June 19, 2016, the Bank entered into a five-year medium-term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility has been fully utilized and is repayable on June 19, 2021. On September 26, 2017, the Bank entered into another five-year medium-term loan facility agreement for an amount of SAR 1.0 billion for general corporate purposes. The facility was fully utilized on October 4, 2017 and is repayable on September 26, 2022.

The term loans bear commission at market based variable rates. The Bank has an option to effect early repayment of the term loans subject to the terms and conditions of the related facility agreements. The facility agreements above include covenants which require maintenance of certain financial ratios and other requirements, with which the Bank is in compliance. The Bank also has not had any defaults of principal or commission on the term loans.

15. Subordinated debt

On June 5, 2014 the Bank concluded the issuance of a SAR 2.0 billion subordinated debt issue through a private placement of a Shariah compliant Tier II Sukuk in KSA.

The Sukuk carried a half yearly profit equal to six month SIBOR plus 1.45%. The Sukuk had a tenor of ten years with the Bank retaining the right to call the Sukuk at the end of the first five-year period, subject to certain regulatory approvals. The Bank has not had any defaults of principal or commission on the subordinated debt.

Where the original maturity date for the Sukuk was June 5, 2024, the Bank redeemed the Sukuk at the optional dissolution date of June 5, 2019 after receiving all required regulatory approvals.

16. Other liabilities

(a) Other liabilities as of December 31, 2019 and 2018 are summarized as follows:

	Notes	2019 SAR '000	2018 Restated SAR '000
Zakat settlement liability, net	27 (b)	453,801	711,807
Lease liabilities	16 (d)	253,715	–
Allowance for credit losses for financial guarantee contracts	16 (c)	217,397	165,320
Employee end of service benefits	37 (a)	174,512	165,120
Accrued Zakat and Income tax		88,486	195,364
Accrued expenses and other provisions		98,477	103,172
Accrued salaries and other employee related benefits		93,311	191,687
Customer related liabilities		80,632	174,435
Allowance for legal proceedings	19 (a)	73,528	55,240
Deferred fee income		12,095	13,422
Others		88,245	40,836
Total		**1,634,199**	**1,816,403**

(b) The movement of the allowance for credit losses for financial guarantee contracts for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR '000	2018 SAR '000
Balances at the beginning of the year	165,320	138,794
Provision for credit losses	52,077	26,526
Balances at the end of the year	217,397	165,320

16. Other liabilities – continued

(c) A reconciliation from the opening to the closing balances of the allowance for credit losses for financial guarantee contracts for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	104,039	31,138	30,143	165,320
Changes in exposures and remeasurement	8,774	(13,420)	(28,611)	(33,257)
Transfers from Stage 1 to Stage 2, 3	(4,462)	13,068	65,568	74,174
Transfers from Stage 2 to Stage 3	–	(2,323)	14,584	12,261
Transfers from Stage 2 to Stage 1	984	(1,832)	–	(848)
Transfers from Stage 3 to Stage 2	–	44	(297)	(253)
Provision for credit losses	5,296	(4,463)	51,244	52,077
Balances at the end of the year	109,335	26,675	81,387	217,397

	2018 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total
Balances at the beginning of the year	98,681	14,676	25,437	138,794
Changes in exposures and remeasurement	8,775	2,030	(58,350)	(47,545)
Transfers from Stage 1 to Stage 2, 3	(3,417)	19,204	16,291	32,078
Transfers from Stage 2 to Stage 3	–	(4,772)	46,765	41,993
Provision for credit losses	5,358	16,462	4,706	26,526
Balances at the end of the year	104,039	31,138	30,143	165,320

The transfer amounts in the above tables represent the net increase or decrease in the allowance for credit losses as a result of transfers between stages during the years ended December 31, 2019 and 2018.

(d) The maturity analysis of contractual undiscounted lease liabilities is summarized as follows:

	2019 SAR '000
Less than one year	33,664
One to five years	92,411
More than five years	80,225
Total undiscounted lease liabilities as of December 31, 2019	206,300
Add amounts for reasonably certain extension options	107,200
Undiscounted lease liabilities as of December 31, 2019	313,500
Lease liabilities as of December 31, 2019 [Note 16 (a)]	253,715

17. Share capital

As of December 31, 2019, the authorized, issued and fully paid share capital of the Bank consists of 750 million shares of SAR 10 each (2018: 750 million shares of SAR 10 each). The ownership of the Bank's share capital as of December 31, 2019 and 2018 is as follows in SAR millions:

	2019		2018	
	Amount	**%**	Amount	%
Saudi shareholders	**6,750.0**	**90.0**	6,750.0	90.0
Foreign shareholders:				
Mizuho Corporate Bank Limited	**–**	**–**	187.5	2.5
Treasury shares (Note 39)	**750.0**	**10.0**	562.5	7.5
	7,500.0	**100.0**	7,500.0	100.0

18. 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 60 million has been transferred from 2019 net income (2018: SAR 365 million from income before provisions for Zakat and Income Tax). The statutory reserve is not currently available for distribution.

19. Commitments, contingencies, and financial guarantee contracts

(a) Legal proceedings

As of December 31, 2019, there were 163 legal proceedings outstanding against the Group (2018: 118). No provision has been made in cases where professional legal advice indicates that it is not probable that any significant loss will arise. However, provisions are made for legal cases where management foresees the probability of an adverse outcome based on professional advice.

The movement of allowance for such legal cases, included in other liabilities, for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 **SAR '000**	2018 SAR '000
Balance at beginning of the year	**55,240**	8,071
Additions during the year	**20,966**	68,705
Utilized during the year	**(2,678)**	(21,536)
Balance at end of the year [Note 16 (a)]	**73,528**	55,240

(b) Capital commitments

As of December 31, 2019, the Group had capital commitments of SAR 212.1 million (2018: SAR 65.3 million) for property, equipment and Information Technology Intangible assets.

(c) Credit related commitments and contingencies

The Group enters into certain credit related facilities to ensure that funds are available to a customer as required.

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

19. Commitments, contingencies, and financial guarantee contracts – continued

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

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

Commitments to extend credit represent the unused portion of authorizations to extend credit, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss 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.

For issued financial guarantee contracts and loan commitments, the maximum amount is allocated to the earliest period in which the guarantee could be called, as the Group has the right to recall financial guarantee contracts and loan commitments prior to their maturity.

(i) The contractual maturity structure for the Group's credit-related commitments and contingencies as of December 31, 2019 and 2018 are as follows:

	2019 (SAR '000)				
	Within 3 months	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Letters of credit	**1,272,099**	**1,090,873**	**305,787**	**–**	**2,668,759**
Letters of guarantee	**2,215,603**	**4,211,313**	**2,426,542**	**63,218**	**8,916,676**
Acceptances	**438,520**	**393,205**	**–**	**–**	**831,725**
Total financial guarantee contracts	**3,926,222**	**5,695,391**	**2,732,329**	**63,218**	**12,417,160**
Irrevocable commitments to extend credit	**–**	**44,742**	**268,480**	**379,854**	**693,076**
Credit-related commitments and contingencies	**3,926,222**	**5,740,133**	**3,000,809**	**443,072**	**13,110,236**

	2018 (SAR '000)				
	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Letters of credit	1,325,620	578,465	286,262	–	2,190,347
Letters of guarantee	2,141,354	4,900,113	1,595,453	311,486	8,948,406
Acceptances	402,192	255,513	222	–	657,927
Total financial guarantee contracts	3,869,166	5,734,091	1,881,937	311,486	11,796,680
Irrevocable commitments to extend credit	–	34,049	204,162	320,731	558,942
Credit-related commitments and contingencies	3,869,166	5,768,140	2,086,099	632,217	12,355,622

The movement of the allowance for credit losses for financial guarantee contracts is summarized in Note 16 (b).

The outstanding unused portion of commitments as of December 31, 2019 which can be revoked unilaterally at any time by the Group, amounts to SAR 22.0 billion (2018: SAR 23.5 billion).

19. Commitments, contingencies, and financial guarantee contracts – continued

(ii) The analysis of commitments and contingencies by counterparty as of December 31, 2019 and 2018 is as follows:

	2019 SAR '000	2018 SAR '000
Government and quasi-government	**449,506**	351,624
Corporate	**11,555,884**	10,853,644
Banks and other financial institutions	**887,693**	820,633
Other	**217,153**	329,721
Total	**13,110,236**	12,355,622

The analysis by counterparty as of December 31, 2018 has been reclassified to conform to changes in classification made during 2019.

(d) Operating lease commitments

The future minimum lease payments under non-cancelable operating leases where the Group was the lessee as of December 31, 2018 were as follows:

	2018 SAR '000
Less than 1 year	47,698
1 to 5 years	93,152
Over 5 years	75,400
Total	216,250

(e) Zakat and Income Tax

Note 27 provide information regarding the current status of the Group's Zakat and Income Tax positions.

(f) Credit quality of financial guarantee contracts

The following table sets out information about the credit quality of financial guarantee contracts as of December 31, 2019 and 2018:

	2019 (SAR '000)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Financial guarantee contracts	**11,366,900**	**664,557**	**385,703**	**12,417,160**

	2018 (SAR '000)			
	Stage 1	Stage 2	Stage 3	Total
Financial guarantee contracts	10,838,500	622,477	335,703	11,796,680

20. Special commission income and expense

Special commission income and expense for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR '000	2018 SAR '000
Special commission income:		
– Loans and advances	2,903,791	2,796,235
– Investments	889,127	770,591
– Banks and other financial institutions	109,570	66,590
Total	3,902,488	3,633,416
Special commission expense:		
– Customer deposits	1,081,093	926,894
– Banks and other financial institutions	391,339	268,248
– Term loans	74,562	70,978
– Subordinated debt	39,612	79,575
– Lease liabilities	16,835	–
– Zakat settlement liability	21,156	–
Total	1,624,597	1,345,695

21. Fee income from banking services, net

Fee income from banking services, net for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR '000	2018 SAR '000
Fee income:		
– Share trading and fund management	118,164	149,057
– Trade finance	104,097	104,279
– Corporate and retail finance	15,695	19,059
– Other banking services	183,100	175,970
Total fee income	421,056	448,365
Fee expense:		
– Custodial services	40,789	86,716
– Other banking services	81,235	66,647
Total fee expense	122,024	153,363
Fee income from banking services, net	299,032	295,002

22. Dividend income

Dividend income for the year ended December 31, 2018 is summarized as follows:

	2018 SAR '000
Dividend income from FVOCI equity investments	5,407

23. Gains (losses) on FVOCI debt securities, net

Gains (losses) on the sale of FVOCI debt securities, net for the years ended December 31, 2019 and 2018 are summarized as follows:

	2019 SAR '000	2018 SAR '000
Losses on the sale of FVOCI debt securities	(246)	(458)
Gains on the sale of FVOCI debt securities	43,764	399
Total	**43,518**	(59)

24. Compensation and related governance and practices

(a) As required by SAMA, the following table summarizes the Group's employee categories defined in accordance with SAMA's rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2019 and 2018.

		2019 (SAR '000)			
			Variable compensation paid		
Category	Number of employees	Fixed compensation paid	Cash	Shares	Total
Senior executives requiring SAMA no objection	21	32,878	11,307	–	11,307
Employees engaged in risk taking activities	197	78,796	14,181	–	14,181
Employees engaged in control functions	266	75,337	9,405	–	9,405
Other employees	953	195,166	18,132	–	18,132
Outsourced employees	44	7,849	1,070	–	1,070
Totals	**1,481**	**390,026**	**54,095**	–	**54,095**
Variable compensation accrued		82,000			
Other employee benefits and related expenses		154,301			
Total salaries and employee related expenses		**626,327**			

		2018 (SAR '000)			
			Variable compensation paid		
Category	Number of employees	Fixed compensation paid	Cash	Shares	Total
Senior executives requiring SAMA no objection	23	42,063	15,047	4,609	19,656
Employees engaged in risk taking activities	130	56,463	11,323	3,547	14,870
Employees engaged in control functions	228	61,567	5,784	2,969	8,753
Other employees	1,150	248,614	25,460	10,995	36,455
Outsourced employees	50	8,629	1,137	130	1,267
Totals	1,581	417,336	58,751	22,250	81,001
Variable compensation accrued		70,000			
Other employee benefits and related expenses		138,655			
Total salaries and employee related expenses		625,991			

24. Compensation and related governance and practices – continued

(b) The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which consists of five Board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation of members of the Board of Directors', and overseeing the Bank's employee compensation system's design.

The Committee is also responsible to recommend to the Board of Directors the approval of the Bank's Compensation Policy and any amendments thereto, to ensure that the Bank's remuneration policies are in compliance with SAMA Rules on Compensation Practices and the Financial Stability Board's (FSB) Principles for Sound Compensation Practices, to periodically review the Bank's Compensation Policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Compensation Policy is designed to attract, retain and motivate high performing and high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives, which is monitored/measured via a robust performance management system. The grant of the variable component of the reward, both cash and shares, is strictly dependent on the achievement of set targets, both financial and non-financial, level of achievements and the Bank's overall performance, including key risk indicators. Higher achievements will warrant a better performance rating and higher variable compensation. The Balanced Scorecard concept is used as a performance management tool and performance objectives are typically categorized into four segments including financial, customer, process, and people.

Financial and non-financial metrics are used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, quality assurance, employee development and engagement, workforce diversity, sustainable business practices, lending guidelines, internal controls, compliance with regulations, and business systems and processes. Effective risk management is emphasized to maintain a strong and secure operating platform. A Risk Appetite Framework Policy has been established and compliance with the annual Risk Appetite Statement is key to all remuneration decisions including variable pay arrangements.

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Variable remuneration is linked to long-term value creation and risk horizons. It is also based on individual, business segment and Bank performance criteria. Accordingly, for certain variable remunerations, a portion of the incentive earned for the annual performance bonus programme and the employee stock grant plan programme are deferred in line with long-term risk realization. The vesting is subject to clawback mechanisms.

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

The total amount of compensation paid to key management for the year ended December 31, 2019 was SAR 44.1 million (2018: SAR 61.7 million). The post employment benefits accrued or paid to key management for the year ended December 31, 2019 was SAR 5.3 million (2018: SAR 4.3 million).

The total end of service payments made for all employees who left their employment with the Group during the year ended December 31, 2019 totalled SAR 49.7 million (2018: SAR 20.7 million). These payments were made to 241 beneficiaries (2018: 121). The highest payment to a single individual in 2019 was SAR 17.8 million (2018: SAR 3.4 million).

25. Basic and diluted earnings per share

(a) Basic and diluted earnings per share is calculated by dividing net income adjusted for Tier I Sukuk costs by weighted average of the issued and outstanding shares after giving effect to the purchase of 56.2 million and 18.7 million Treasury shares on September 27, 2018 and May 28, 2019 respectively.

25. Basic and diluted earnings per share – continued

(b) Details of basic and diluted earnings per share are as follows:

	2019 SAR '000	2018 SAR '000
Net income	**239,461**	575,897
Tier I Sukuk costs	**(122,024)**	(94,904)
Net income adjusted for Tier I Sukuk costs	**117,437**	480,993
Weighted average number of outstanding shares (in '000)	**682,607**	735,052
Basic and diluted earnings per share (SAR)	**0.17**	0.65

26. Dividends

In 2018, the Board of Directors proposed a cash dividend of SAR 450 million equal to SAR 0.60 per share, net of Zakat to be withheld from the Saudi shareholders. The proposed cash dividend was approved by the Bank's shareholders in an Extraordinary General Assembly Meeting held on April 24, 2018 (corresponding to 8 Shaban 1439H). The net dividends were paid to the Bank's shareholders thereafter.

27. Zakat and Income Tax

(a) The Bank has filed the required Zakat and Income Tax returns with the GAZT which are due on April 30 each year, through the year ended December 31, 2018. The Bank's Zakat and Income Tax calculations and corresponding accruals and payments for Zakat and Income Tax are based on the ownership percentages disclosed in Note 17.

On March 14, 2019, the GAZT published Rules (the "Rules") for the computation of Zakat for companies engaged in financing activities and licensed by SAMA. The Rules are issued pursuant to the Zakat Implementing Regulations and are applicable for the periods beginning January 1, 2019. In addition to providing a new basis for calculation of the Zakat base, the Rules have also introduced a minimum floor and maximum cap at four times and eight times respectively of net income. The Zakat liability for the Saudi shareholders will continue to be calculated at 2.5% of the Zakat base but it will not fall below the minimum floor nor would exceed the maximum cap as prescribed by the Rules.

The Bank has provided for Zakat for the year ended December 31, 2019 on the basis of the Bank's understanding of these rules.

As described in Notes 2 (a), 3 (a) (i) and 41, the Group retroactively amended its accounting policy relating to Zakat and Income Tax. The new policy requires provisions for Zakat and Income Tax to be recognized in the consolidated statement of income. Provisions for Zakat and Income Tax for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR '000	2018 SAR '000
Provisions for Zakat		
– For current period	**76,809**	89,305
– For 2006 to 2017, net of fair value adjustment [Note 27 (b)]	**–**	711,807
– For 2005 [Note 27 (b)]	**–**	38,699
– For subsidiaries, 2011 to 2017	**3,300**	–
Provisions for Income Tax		
– For current period	**1,800**	28,060
– For prior periods	**8,131**	–
Provisions for Zakat and Income Tax	**90,040**	867,871

27. Zakat and Income Tax – continued

(b) In December 2018, the Bank agreed with the GAZT to a settlement of Zakat assessments for the years 2006 to 2017 for SAR 775.5 million. The discounted Zakat liability of SAR 711.8 million was fully provided for through a charge to the consolidated statement of income with the corresponding liability included in other liabilities as of December 31, 2018. The Bank has paid SAR 155 million and SAR 124 million on January 1, 2019 and December 1, 2019 respectively, as per the settlement agreement. The undiscounted Zakat settlement liability remaining to be paid and the net discounted Zakat liability is as follows:

	2019 SAR '000	2018 SAR '000
January 1, 2019	–	155,089
December 1, 2019	–	124,072
December 1, 2020	124,072	124,072
December 1, 2021	124,072	124,072
December 1, 2022	124,072	124,072
December 1, 2023	124,072	124,072
Undiscounted Zakat settlement liability	496,288	775,449
Less: Discount	(42,487)	(63,642)
Net discounted Zakat liability	453,801	711,807

The Zakat settlement also included provisions for the Bank to calculate the Zakat liability for the year ended December 31, 2018 using the same methodology as was agreed in the settlement for the prior years. The 2018 Zakat was calculated based on this method and was also charged to the consolidated statement of income in 2018 and was settled by April 30, 2019.

The Zakat settlement also did not include the year 2005. However, the Bank provided for an additional Zakat liability for 2005 amounting to SAR 38.6 million which was charged to the consolidated statement of income in 2018 and was settled in 2019.

(c) Certain Income Tax and Withholding Tax assessments are outstanding for the years 2005 to 2009. The Bank, in consultation with its professional tax and Zakat advisors, has filed appeals for the above assessments with the GAZT, and while Management is confident of a favourable outcome on the basis of the appeals filed, it is awaiting responses and final decisions from the appeal and other available processes.

28. Operating segments

(a) Operating segments are identified based on internal reports about components of the Group that are regularly reviewed by the Bank's Board of Directors in its function as the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. Performance is measured based on segment profit, as management believes that this indicator is the most relevant in evaluating the results of segments relative to other entities that operate within these sectors.

Transactions between the operating segments are on normal commercial terms and conditions as approved by Management. The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated statement of income. Segment assets and liabilities are comprised of operating assets and liabilities. The Group's primary business is conducted in KSA.

There has been no change to the measurement basis for the segment profit or loss during 2019. The segment assets, liabilities, and income and expense for December 31, 2018 have been reclassified to conform to changes in the basis of segmentation made during 2019.

(b) The Group's reportable segments are as follows:

- **Retail banking:** Loans, deposits, and other credit products for individuals and small to medium-sized businesses.
- **Corporate banking:** Loans, deposits and other credit products for corporate and institutional customers.
- **Treasury and Investments:** Money market, investments and treasury services, and investments in associates and related activities.
- **Asset management and brokerage:** Dealing, managing, advising and custody of securities services.
- **Other:** Support functions, special credit, and other management and control units.

28. Operating segments – continued

Commission is charged to operating segments based on Funds Transfer Price (FTP) rates. The net FTP contribution included in the segment information below includes the segmental net special commission income after FTP asset charges and liability credits (FTP net transfers). All other segment income is from external customers.

(c) The segment information provided to the Bank's Board of Directors for the reportable segments for the Group's total assets and liabilities as of December 31, 2019 and 2018, and its total operating income, expenses, and, income before provisions for Zakat and Income Tax for the years then ended, are as follows:

	2019 (SAR '000)					
	Retail banking	Corporate banking	Treasury and investments	Asset management and brokerage	Other	Total
Total assets	20,790,582	36,304,956	40,884,425	405,546	2,429,087	100,814,596
Total liabilities	19,590,724	7,879,088	58,636,077	16,830	684,870	86,807,589
Net special commission income (loss)	745,454	1,856,746	(330,027)	22,543	(16,825)	2,277,891
FTP net transfers	(104,274)	(670,191)	782,632	–	(8,167)	–
Net FTP contribution	641,180	1,186,555	452,605	22,543	(24,992)	2,277,891
Fee income (loss) from Banking services, net	37,229	127,351	71,049	79,232	(15,829)	299,032
Other operating income (loss)	84,891	48,474	202,783	3,540	(98,383)	241,305
Total operating income (loss)	763,300	1,362,380	726,437	105,315	(139,204)	2,818,228
Direct operating expenses	309,866	66,586	39,449	71,661	36,467	524,029
Indirect operating expenses	305,394	142,044	262,779	–	–	710,217
Provisions for credit and other losses	770,999	552,602	(47,192)	(178)	66,406	1,342,637
Total operating expenses	1,386,259	761,232	255,036	71,483	102,873	2,576,883
Operating income (loss)	(622,959)	601,148	471,401	33,832	(242,077)	241,345
Share in earnings of associates	–	–	88,156	–	–	88,156
Income (loss) before provisions for Zakat and Income Tax	(622,959)	601,148	559,557	33,832	(242,077)	329,501
Property, equipment, and intangibles additions	72,219	1,021	30	855	89,521	163,646
Depreciation and amortization	47,331	632	135	4,957	90,462	143,517

	2018 (SAR '000)					
	Retail banking	Corporate banking	Treasury and investments	Asset management and brokerage	Other	Total
Total assets	23,677,143	35,870,049	34,007,092	421,161	2,094,463	96,069,908
Total liabilities	22,382,297	6,088,379	53,127,242	57,425	1,008,497	82,663,840
Net special commission income (loss)	810,919	1,724,805	(290,699)	23,446	19,250	2,287,721
FTP net transfers	64,575	(818,614)	762,928	–	(8,889)	–
Net FTP contribution	875,494	906,191	472,229	23,446	10,361	2,287,721
Fee income (loss) from Banking services, net	129,563	112,565	69,920	64,644	(81,690)	295,002
Other operating income (loss)	67,250	49,397	127,396	(5,322)	(108,714)	130,007
Total operating income (loss)	1,072,307	1,068,153	669,545	82,768	(180,043)	2,712,730

28. Operating segments – continued

	2018 (SAR '000)					
	Retail banking	Corporate banking	Treasury and investments	Asset management and brokerage	Other	Total
Direct operating expenses	387,140	70,890	37,528	71,869	–	567,427
Indirect operating expenses	229,697	124,467	211,594	–	–	565,758
Provisions for credit and other losses	208,009	38,894	(223)	292	–	246,972
Total operating expenses	824,846	234,251	248,899	72,161	–	1,380,157
Operating income (loss)	247,461	833,902	420,646	10,607	(180,043)	1,332,573
Share in earnings of associates	–	–	111,195	–	–	111,195
Income (loss) before provisions for Zakat and Income Tax	247,461	833,902	531,841	10,607	(180,043)	1,443,768
Property, equipment, and intangibles additions	88,795	384	35	937	28,556	118,707
Depreciation and amortization	45,831	1,045	168	2,527	53,668	103,239

(d) The Group's credit exposure by business segment as of December 31, 2019 and 2018 is as follows:

	2019 (SAR '000)					
	Retail banking	**Corporate banking**	**Treasury and investments**	**Asset management and brokerage**	**Other**	**Total**
Consolidated statement of financial position assets	**19,222,854**	**36,303,903**	**39,486,757**	**335,618**	**1,171,516**	**96,520,648**
Commitments and contingencies	**1,416,768**	**7,216,363**	**645,647**	**–**	**–**	**9,278,778**
Derivatives	**–**	**–**	**1,674,044**	**–**	**–**	**1,674,044**
Totals	**20,639,622**	**43,520,266**	**41,806,448**	**335,618**	**1,171,516**	**107,473,470**

	2018 (SAR '000)					
	Retail banking	Corporate banking	Treasury and investments	Asset management and brokerage	Other	Total
Consolidated statement of financial position assets	22,488,511	35,867,577	32,541,629	349,650	665,735	91,913,102
Commitments and contingencies	4,254,721	3,929,374	523,599	–	–	8,707,694
Derivatives	–	–	1,971,687	–	–	1,971,687
Totals	26,743,232	39,796,951	35,036,915	349,650	665,735	102,592,483

Consolidated statement of financial position credit exposure is comprised of the carrying value of consolidated statement of financial position assets excluding cash on hand, property, equipment, and Information Technology intangible assets, investments in associates, investments in equities, mutual funds, and other securities, other real estate, and other assets. The credit equivalent value of commitments, contingencies and derivatives are also included in the table above.

29. Geographical concentration

(a) The distribution by geographical region for assets, liabilities, and for commitments, contingencies, and derivatives as of December 31, 2019 and 2018 is as follows:

	2019 (SAR '000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Assets							
Cash and balances with SAMA:							
Cash in hand	892,087	–	–	–	–	–	892,087
Balances with SAMA	9,326,729	–	–	–	–	–	9,326,729
Due from banks and other financial institutions, net:							
Current accounts	–	74,770	225,898	51,974	948	17,826	371,416
Money market placements	2,529,764	25,511	43,256	–	–	58,568	2,657,099
Investments:							
Held as FVTPL	126,224	16,498	–	22,283	255	–	165,260
Held as FVOCI	16,968,969	6,382,025	1,182,067	1,296,848	180,311	–	26,010,220
Positive fair values of derivatives:							
Held for trading	117,129	1,551	227,898	–	–	60,774	407,352
Associated company put option	–	421,243	–	–	–	–	421,243
CSA/EMIR cash margins	(19,300)	–	495,781	–	–	–	476,481
Loans and advances, net:							
Commercial and others	40,591,932	–	–	–	–	–	40,591,932
Overdrafts	3,194,993	–	–	–	–	–	3,194,993
Consumer	13,325,982	–	–	–	–	–	13,325,982
Investments in associates	994,298	–	–	–	–	–	994,298
Other real estate	457,679	–	–	–	–	–	457,679
Property and equipment, net	1,134,495	–	–	–	–	–	1,134,495
Information Technology intangible assets, net	254,336	–	–	–	–	–	254,336
Other assets, net	132,994	–	–	–	–	–	132,994
Total	90,028,311	6,921,598	2,174,900	1,371,105	181,514	137,168	100,814,596
Liabilities							
Due to banks and other financial institutions:							
Current accounts	–	6,521	1,265	–	–	1,132	8,918
Money market deposits and repurchase agreements	2,825,033	5,948,256	5,005,984	–	–	–	13,779,273
Customer deposits:							
Time	39,969,344	–	–	–	–	–	39,969,344
Savings	1,698,795	–	–	–	–	–	1,698,795
Demand	25,865,987	–	–	–	–	–	25,865,987
Other	1,523,928	–	–	–	–	–	1,523,928
Negative fair values of derivatives:							
Held for trading	237,400	345	76,619	–	–	90,969	405,333
Held as fair value hedges	10,959	123,584	456,571	–	–	–	591,114
CSA/EMIR cash margins	(4,349)	(124,077)	(552,502)	–	–	–	(680,928)
Term loans	2,011,626	–	–	–	–	–	2,011,626
Other liabilities	1,634,199	–	–	–	–	–	1,634,199
Total	75,772,922	5,954,629	4,987,937	–	–	92,101	86,807,589

29. Geographical concentration – continued

	2019 (SAR '000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Commitments and contingencies							
Letters of credit	2,593,800	72,573	2,386	–	–	–	2,668,759
Letters of guarantee	8,184,619	195,070	478,683	23,742	6,600	27,962	8,916,676
Acceptances	830,882	843	–	–	–	–	831,725
Irrevocable commitments to extend credit	693,076	–	–	–	–	–	693,076
Maximum credit exposure (stated at credit equivalent amounts) Commitments and contingencies							
Letters of credit	2,530,345	70,798	2,328	–	–	–	2,603,471
Letters of guarantee	5,366,442	127,902	313,860	15,567	4,327	18,333	5,846,431
Acceptances	828,036	840	–	–	–	–	828,876
Derivatives							
Held for trading	278,357	116,168	376,129	–	–	–	770,654
Held as fair value hedges	173,144	62,108	246,895	–	–	–	482,147
Associated company put option	–	421,243	–	–	–	–	421,243

	2018 (SAR '000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Assets							
Cash and balances with SAMA:							
Cash on hand	736,763	–	–	–	–	–	736,763
Balances with SAMA	4,135,169	–	–	–	–	–	4,135,169
Due from banks and other financial institutions, net:							
Current accounts	–	69,660	252,178	455,048	2,870	16,362	796,118
Money market placements	1,649,902	258,701	212,976	–	–	–	2,121,579
Investments:							
Held as FVTPL	131,626	–	254	42,388	–	–	174,268
Held as FVOCI	15,404,960	5,912,945	1,236,263	1,731,190	–	178,487	24,463,845
Positive fair values of derivatives:							
Held for trading	37,651	–	252,625	110,317	–	–	400,593
Held as fair value hedges	18,504	112,757	111,195	–	–	–	242,456
Associated company put option	–	417,991	–	–	–	–	417,991
CSA/EMIR cash margins	–	–	184,203	–	–	–	184,203
Loans and advances, net:							
Commercial and others	40,051,830	–	–	–	–	–	40,051,830
Overdrafts	5,078,362	–	–	–	–	–	5,078,362
Consumer	14,282,337	–	–	–	–	–	14,282,337
Investments in associates	1,012,366	–	–	–	–	–	1,012,366
Other real estate	718,724	–	–	–	–	–	718,724
Property and equipment, net	902,889	–	–	–	–	–	902,889
Information Technology intangible assets, net	208,207	–	–	–	–	–	208,207
Other assets, net	142,208	–	–	–	–	–	142,208
Total	84,511,498	6,772,054	2,249,694	2,338,943	2,870	194,849	96,069,908

29. Geographical concentration – continued

	2018 (SAR '000)						
	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other countries	Total
Liabilities							
Due to banks and other financial institutions:							
Current accounts	–	7,940	6,665	–	–	1,468	16,073
Money market deposits and repurchase agreements	4,528,124	2,835,145	5,241,490	–	–	–	12,604,759
Customer deposits:							
Time	37,037,991	–	–	–	–	–	37,037,991
Savings	1,529,185	–	–	–	–	–	1,529,185
Demand	24,113,708	–	–	–	–	–	24,113,708
Other	1,008,985	–	–	–	–	–	1,008,985
Negative fair values of derivatives:							
Held for trading	114,373	9,953	118,801	155,368	–	–	398,495
Held as fair value hedges	2,195	17,429	82,585	–	–	–	102,209
Term loans	2,030,371	–	–	–	–	–	2,030,371
Subordinated debt	2,005,661	–	–	–	–	–	2,005,661
Other liabilities	1,816,403	–	–	–	–	–	1,816,403
Total	74,186,996	2,870,467	5,449,541	155,368	–	1,468	82,663,840
Commitments and contingencies							
Letters of credit	989,529	129,131	237,366	4,075	24,277	805,969	2,190,347
Letters of guarantee	8,163,093	166,470	508,308	25,213	6,600	78,722	8,948,406
Acceptances	653,360	2,444	–	–	–	2,123	657,927
Irrevocable commitments to extend credit	558,942	–	–	–	–	–	558,942
Maximum credit exposure (stated at credit equivalent amounts) Commitments and contingencies							
Letters of credit	942,484	122,992	226,082	3,882	23,123	767,652	2,086,215
Letters of guarantee	5,441,101	110,960	338,812	16,806	4,399	52,472	5,964,550
Acceptances	652,369	2,440	–	–	–	2,120	656,929
Derivatives							
Held for trading	270,904	–	516,748	234,289	–	–	1,021,941
Held as fair value hedges	35,529	212,207	284,019	–	–	–	531,755
Associated company put option	–	417,991	–	–	–	–	417,991

The credit equivalent of commitments and contingencies and derivatives is calculated according to methodology prescribed by SAMA.

30. Market risk

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

(a) Market risk-trading book

The Board of Directors has set limits for the acceptable level of risks in managing the trading book. The Group currently has trading book exposures in foreign exchange contracts and commission rate swaps. Market risk management uses the estimation of Value at Risk (VaR) tool for all transactions included in the trading portfolios. VaR is estimated for a specified period based on adverse market fluctuations.

(b) Market risk-banking book

Market risk in the banking book mainly arises from commission rate risk, liquidity risk, currency risk, and equity price risk.

(i) Commission rate risk

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

The following table depicts the sensitivity to a reasonably possible change in commission rates, with other variables held constant, on the Group's consolidated statement of income or shareholders' equity. The reasonably possible change is estimated based on the relevant commission rate movements during the last five years (2015-2019) (2018: 2014-2018). A positive effect shows a potential net increase in the consolidated net income or shareholders' equity, whereas a negative effect shows a potential net reduction in consolidated net income or shareholders' equity.

The sensitivity of net special commission income is the effect of the assumed changes in commission rates on the net special commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of December 31, 2019 and 2018, including the effect of hedging instruments.

The sensitivity of equity is calculated by revaluing the fixed rate FVOCI debt securities, including the effect of any associated hedges as of December 31, 2019 and 2018 for the effect of assumed changes in commission rates. The sensitivity of shareholders' equity is analyzed by maturity of the asset or swap. The entire banking book exposures are monitored and analyzed by currency and relevant sensitivities and are disclosed in SAR thousands. For presentation purposes in the tables below, short-term fixed rate deposit liabilities are treated as variable rate deposits.

		2019 (SAR '000)	2019 Sensitivity of equity (SAR '000)				
Commission rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SIBOR	+35/-187	-33,920/+183,106	–	-2,939/+15,863	-42,485/+229,349	-1,258/+6,791	-46,682/+252,003
LIBOR	+50/-208	-84,854/+354,381	-110/+460	-12,592/+52,587	-362,381/+1,513,435	-1,077,224/+4,498,874	-1,452,307/+6,065,356
EURIBOR	+43/-9	-7/+2	–	–	–	–	–

		2018 (SAR '000)	2018 Sensitivity of equity (SAR '000)				
Commission rate	Increase (decrease) in basis	Sensitivity of net special commission income	6 months or less	6 to 12 months	1 to 5 years	Over 5 years	Total
SIBOR	+53/-168	-62,917/+199,434	–	-2,589/0	-176,552/+270,543	-216,588/+21,790	-395,729/+292,333
LIBOR	+52/-208	+8,429/-33,718	-3,218/+12,869	-6,238/+24,955	-373,467/+1,493,872	-1.022,103/+4,088,416	-1,405,026/+5,620,112
EURIBOR	+167/-1	+2,296/-14	–	–	–	–	–

30. Market risk – continued

The Group manages exposure to the effects of various risks associated with fluctuations in prevailing levels of market special commission rates on its financial position and cash flows. The Board of Directors also sets limits on the level of mismatch of special commission rate re-pricing that may be undertaken, which is monitored by the Treasury unit.

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

The tables below summarise the Group's exposure to special commission rate risks as of December 31, 2019 and 2018. Included in the tables are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	2019 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash on hand	–	–	–	–	892,087	892,087
Balances with SAMA	6,025,000	–	–	–	3,301,729	9,326,729
Due from banks and other financial institutions, net						
Current accounts	–	–	–	–	371,416	371,416
Money market placements	2,541,378	115,721	–	–	–	2,657,099
Investments:						
Held as FVTPL	–	–	–	–	165,260	165,260
Held as FVOCI	3,278,182	2,601,982	11,041,261	8,825,996	262,799	26,010,220
Positive fair values of derivatives						
Held for trading	–	–	–	–	407,352	407,352
Associated company put option	–	–	–	–	421,243	421,243
CSA/EMIR cash margins	–	–	–	–	476,481	476,481
Loans and advances, net						
Commercial and others	21,506,016	16,485,551	2,495,655	104,710	–	40,591,932
Overdrafts	3,194,993	–	–	–	–	3,194,993
Consumer	1,630,091	3,744,503	6,650,984	1,300,404	–	13,325,982
Investments in associates	–	–	–	–	994,298	994,298
Other real estate	–	–	–	–	457,679	457,679
Property and equipment, net	–	–	–	–	1,134,495	1,134,495
Information Technology intangible assets, net	–	–	–	–	254,336	254,336
Other assets, net	–	–	–	–	132,994	132,994
Total	38,175,660	22,947,757	20,187,900	10,231,110	9,272,169	100,814,596

30. Market risk – continued

	2019 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	8,918	8,918
Money market deposits and repurchase agreements	9,530,281	4,248,992	–	–	–	13,779,273
Customer deposits						
Time	35,837,305	3,541,189	590,850	–	–	39,969,344
Savings	1,698,795	–	–	–	–	1,698,795
Demand	–	–	–	–	25,865,987	25,865,987
Other	–	606,457	–	–	917,471	1,523,928
Negative fair values of derivatives						
Held for trading	–	–	–	–	405,333	405,333
Held as fair value hedges	–	–	–	–	591,114	591,114
CSA/EMIR cash margins	–	–	–	–	(680,928)	(680,928)
Term loans	2,011,626	–	–	–	–	2,011,626
Other liabilities	–	–	–	–	1,634,199	1,634,199
Total equity	–	–	–	–	14,007,007	14,007,007
Total	49,078,007	8,396,638	590,850	–	42,749,101	100,814,596
Special commission rate sensitivity – on-balance sheet	(10,902,347)	14,551,119	19,597,050	10,231,110	(33,476,932)	–
Special commission rate sensitivity – off-balance sheet	12,835,216	(93,790)	(5,045,902)	(7,695,524)	–	–
Total special commission rate sensitivity gap	1,932,869	14,457,329	14,551,148	2,535,586	(33,476,932)	–
Cumulative special commission rate sensitivity gap	1,932,869	16,390,198	30,941,346	33,476,932	–	–

	2018 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Assets						
Cash and balances with SAMA						
Cash on hand	–	–	–	–	736,763	736,763
Balances with SAMA	977,000	–	–	–	3,158,169	4,135,169
Due from banks and other financial institutions, net						
Current accounts	796,118	–	–	–	–	796,118
Money market placements	2,053,990	67,589	–	–	–	2,121,579
Investments:						
Held as FVTPL	–	–	–	–	174,268	174,268
Held as FVOCI	3,270,117	1,411,887	11,405,053	8,115,407	261,381	24,463,845

30. Market risk – continued

	2018 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-commission bearing	Total
Positive fair values of derivatives						
Held for trading	–	–	–	–	400,593	400,593
Held as fair value hedges	–	–	–	–	242,456	242,456
CSA/EMIR cash margins	–	–	–	–	184,203	184,203
Associated company put option	–	–	–	–	417,991	417,991
Loans and advances, net						
Commercial and others	26,339,578	13,156,867	440,267	115,118	–	40,051,830
Overdrafts	5,078,362	–	–	–	–	5,078,362
Consumer	3,744,555	2,417,134	7,347,915	772,733	–	14,282,337
Investments in associates	–	–	–	–	1,012,366	1,012,366
Other real estate	–	–	–	–	718,724	718,724
Property and equipment, net	–	–	–	–	902,889	902,889
Information Technology intangible assets, net	–	–	–	–	208,207	208,207
Other assets, net	–	–	–	–	142,208	142,208
Total	42,259,720	17,053,477	19,193,235	9,003,258	8,560,218	96,069,908
Liabilities and equity						
Due to banks and other financial institutions						
Current accounts	–	–	–	–	16,073	16,073
Money market deposits and repurchase agreements	7,076,990	5,527,769	–	–	–	12,604,759
Customer deposits						
Time	21,696,731	15,341,260	–	–	–	37,037,991
Savings	1,529,185	–	–	–	–	1,529,185
Demand	–	–	–	–	24,113,708	24,113,708
Other	–	600,745	–	–	408,240	1,008,985
Negative fair values of derivatives						
Held for trading	–	–	–	–	398,495	398,495
Held as fair value hedges	–	–	–	–	102,209	102,209
Term loans	30,371	2,000,000	–	–	–	2,030,371
Subordinated debt	5,661	2,000,000	–	–	–	2,005,661
Other liabilities	–	–	–	–	1,816,403	1,816,403
Total equity	–	–	–	–	13,406,068	13,406,068
Total	30,338,938	25,469,774	–	–	40,261,196	96,069,908
Special commission rate sensitivity – on-balance sheet	11,920,782	(8,416,297)	19,193,235	9,003,258	(31,700,978)	–
Special commission rate sensitivity – off-balance sheet	12,252,404	–	(4,107,892)	(8,144,512)	–	–
Total special commission rate sensitivity gap	24,173,186	(8,416,297)	15,085,343	858,746	(31,700,978)	–
Cumulative special commission rate sensitivity gap	24,173,186	15,756,889	30,842,232	31,700,978	–	–

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

30. Market risk – continued

(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 of Directors has set limits on currency positions, which are monitored daily. Hedging strategies are also used to ensure that positions and market risks are maintained within the limits.

The table below shows the currencies to which the Group has a significant exposure as of December 31, 2019 and 2018, on its banking book assets and liabilities and forecasted cash flows. The table depicts the effect of a reasonably possible movement of the currency rates against the SAR based on historical currency rate movements, with other variables held constant, on the consolidated statement of income (due to the change in the fair value of the currency sensitive banking book assets and liabilities). The reasonably possible change is estimated based on the relevant foreign exchange rate movements during the last five years (2015-2019) (2018: 2014-2018). A positive effect shows a potential net increase in the consolidated statement of income, whereas a negative effect shows a potential net reduction in consolidated statement of income.

Currency exposures as of December 31, 2019	**Change in currency rate in %**	**Effect on income before provisions for Zakat and Income Tax SAR '000**
USD	**+0.28/-0.15**	**+432/-232**
EUR	**+11.70/-7.20**	**+9/-5**
GBP	**+24.36/-5.81**	**+90/-21**

Currency exposures as of December 31, 2018	Change in currency rate in %	Effect on income before provisions for Zakat and Income Tax SAR '000
USD	+0.28/-0.10	+3,097/-1,100
EUR	+18.00/-12.01	-954/+636
GBP	+29.64/-9.75	-268/+91

(iii) Currency position

The Group manages the 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. As of December 31, 2019 and 2018, the Group had the following significant net exposures denominated in foreign currencies:

	2019 SAR '000 Long/(short)	2018 SAR '000 Long/(short)
US Dollar	**155,075**	1,120,449
Euro	**74**	(5,299)
Pound Sterling	**369**	(936)
Japanese Yen	**242**	201
UAE Dirham	**8,791**	964
Others	**33,709**	15,747

30. Market risk – continued

(iv) Equity price risk

Equity price risk refers to the risk of a decrease in fair values of equities and mutual funds in the Group's investment portfolio as a result of reasonably possible changes in levels of equity indices and the value of individual investments.

The following table depicts the effect on the Group's investments in equities and mutual funds from a reasonably possible change in relevant indices, with other variables held constant, and the related effect on the Group's net income and shareholders' equity as of December 31, 2019 and 2018. The reasonably possible changes in relevant indices are estimated based on the relevant indices movements during the last five years (2015-2019) (2018: 2014-2018). A positive effect shows a potential increase in consolidated shareholders' equity, whereas a negative effect shows a potential decrease in consolidated shareholders' equity.

	2019		
Market Indices	**Change in equity price %**	**Effect on Income before provisions for Zakat and Income Tax SAR '000**	**Shareholders' equity Effect SAR '000**
TADAWUL	**+16.71%/-35.72%**	**+19,162/-40,957**	**+60,859/-130,087**
Unquoted	**+5.00%/-5.00%**	**+578/-578**	**+1,241/-1,241**

	2018		
Market Indices	Change in equity price %	Effect on Income before provisions for Zakat and Income Tax SAR '000	Shareholders' equity Effect SAR '000
TADAWUL	+41.82%/-31.10%	+44,109/-32,799	+116,281/-86,465
Unquoted	+5.00%/-5.00%	-/-	+232/-232

31. Liquidity risk

Liquidity risk is the risk that the Group 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 perspective. Management therefore maintains a healthy balance of cash, cash equivalents, and readily marketable securities as of part of its high liquid assets. Management also monitors the asset and liability 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 the Asset Liability Committee. A summary report, including any exceptions and remedial actions taken, is submitted regularly to the Asset Liability Committee.

In accordance with the Banking Control Law and the regulations issued by SAMA, the Group maintains a statutory deposit with SAMA equal to 7% (2018: 7%) of total demand deposits and 4% (2018: 4%) of saving and time deposits. In addition to the statutory deposit, the Group also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and balances with SAMA, Saudi Government Development Bonds, or other assets which can be converted into cash within a period not exceeding 30 days. The Group has the ability to raise additional funds through repo facilities with SAMA against Saudi Government Development Bonds up to 98% of the nominal value of Saudi Riyal denominated bonds held.

The Bank has an established Liquidity Risk Appetite that is approved by Board of Directors and that is reviewed monthly through ALCO and with quarterly reports to the Board Risk Committee (BRC). The Risk Appetite statement is based on a range of key monitoring metrics, including the short-term Liquidity Coverage Ratio and the long-term Net Stable Funding Ratio along with Liquidity Gap limits giving due consideration to stress factors relating to both the market in general and Bank specific conditions. The Bank has also established a comprehensive Contingency Funding Plan (CFP) using early warning monitoring metrics to forewarn Senior Management of impending stress and which establishes a clear allocation of roles and clear lines of management responsibility to address any liquidity stress situations.

31. Liquidity risk – continued

(a) Contractual maturity profile of assets and liabilities

The tables below summarize the contractual maturity profile of the Group's assets, liabilities, and equity as of December 31, 2019 and 2018. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date, and do not take into account the effective maturities as indicated by the Group's deposit retention history. The amounts disclosed for derivatives, and commitments and contingencies are not indicative of future payment obligations.

	2019 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/ on demand	Total
Assets						
Cash and balances with SAMA						
Cash on hand	–	–	–	–	892,087	892,087
Balances with SAMA	6,025,000	–	–	–	3,301,729	9,326,729
Due from banks and other financial institutions, net						
Current accounts	–	–	–	–	371,416	371,416
Money market placements	2,541,378	115,721	–	–	–	2,657,099
Investments:						
Held as FVTPL	–	–	–	–	165,260	165,260
Held as FVOCI	687,856	2,821,188	12,811,321	9,427,056	262,799	26,010,220
Positive fair values of derivatives						
Held for trading	–	407,352	–	–	–	407,352
Associated company put option	–	–	–	–	421,243	421,243
CSA/EMIR cash margins	–	476,481	–	–	–	476,481
Loans and advances, net						
Commercial and others	11,666,019	14,723,860	7,639,305	6,562,748	–	40,591,932
Overdrafts	3,194,993	–	–	–	–	3,194,993
Consumer	4,399,511	2,000,560	5,680,478	1,245,433	–	13,325,982
Investments in associates	–	–	–	–	994,298	994,298
Other real estate	–	–	–	–	457,679	457,679
Property and equipment, net	–	–	–	–	1,134,495	1,134,495
Information Technology intangible assets, net	–	–	–	–	254,336	254,336
Other assets, net	–	132,994	–	–	–	132,994
Total	28,514,757	20,678,156	26,131,104	17,235,237	8,255,342	100,814,596

31. Liquidity risk – continued

	2019 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/ on demand	Total
Liabilities and equity						
Due to banks and other financial institutions						
Current Accounts	–	–	–	–	8,918	8,918
Money market deposits and repurchase agreements	9,530,280	4,248,993	–	–	–	13,779,273
Customer deposits						
Time	32,987,305	2,741,189	4,240,850	–	–	39,969,344
Savings	–	–	–	–	1,698,795	1,698,795
Demand	–	–	–	–	25,865,987	25,865,987
Other	–	–	–	–	1,523,928	1,523,928
Negative fair values of derivatives						
Held for trading	–	405,333	–	–	–	405,333
Held as fair value hedges	–	591,114	–	–	–	591,114
CSA/EMIR cash margins	–	(680,928)	–	–	–	(680,928)
Term loans	11,626	–	2,000,000	–	–	2,011,626
Other liabilities	217,397	899,462	386,456	33,463	97,421	1,634,199
Total equity	–	–	–	–	14,007,007	14,007,007
Total	**42,746,608**	**8,205,163**	**6,627,306**	**33,463**	**43,202,056**	**100,814,596**
Derivatives, commitments and contingencies	**4,709,237**	**8,265,063**	**20,820,240**	**11,611,034**	**–**	**45,405,574**

	2018 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/ on demand	Total
Assets						
Cash and balances with SAMA						
Cash on hand	–	–	–	–	736,763	736,763
Balances with SAMA	977,000	–	–	–	3,158,169	4,135,169
Due from banks and other financial institutions, net						
Current accounts	–	–	–	–	796,118	796,118
Money market placements	2,053,990	67,589	–	–	–	2,121,579
Investments:						
Held as FVTPL	–	–	–	–	174,268	174,268
Held as FVOCI	431,306	1,036,468	14,070,094	8,664,596	261,381	24,463,845
Positive fair values of derivatives						
Held for trading	–	400,593	–	–	–	400,593
Held as fair value hedges	–	242,456	–	–	–	242,456
CSA/EMIR cash margins	–	184,203	–	–	–	184,203
Associated company put option	–	–	–	–	417,991	417,991

31. Liquidity risk – continued

	2018 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/ on demand	Total
Loans and advances, net:						
Commercial and others	19,647,774	14,300,442	4,298,864	1,804,750	–	40,051,830
Overdrafts	5,078,362	–	–	–	–	5,078,362
Consumer	3,744,555	2,417,134	7,347,915	772,733	–	14,282,337
Investments in associates	–	–	–	–	1,012,366	1,012,366
Other real estate	–	–	–	–	718,724	718,724
Property and equipment, net	–	–	–	–	902,889	902,889
Information Technology intangible assets, net	–	–	–	–	208,207	208,207
Other assets, net	–	142,208	–	–	–	142,208
Total	31,932,987	18,791,093	25,716,873	11,242,079	8,386,876	96,069,908
Liabilities and equity						
Due to banks and other financial institutions						
Current Accounts	–	–	–	–	16,073	16,073
Money market deposits and repurchase agreements	7,076,990	5,527,769	–	–	–	12,604,759
Customer deposits						
Time	21,466,166	12,789,360	2,782,465	–	–	37,037,991
Savings	–	–	–	–	1,529,185	1,529,185
Demand	–	–	–	–	24,113,708	24,113,708
Other	–	600,745	–	–	408,240	1,008,985
Negative fair values of derivatives						
Held for trading	–	398,495	–	–	–	398,495
Held as fair value hedges	–	102,209	–	–	–	102,209
Term loans	30,371	–	2,000,000	–	–	2,030,371
Subordinated debt	5,661	2,000,000	–	–	–	2,005,661
Other liabilities	–	1,320,115	496,288	–	–	1,816,403
Total equity	–	–	–	–	13,406,068	13,406,068
Total	28,579,188	22,738,693	5,278,753	–	39,473,274	96,069,908
Derivatives, commitments and contingencies	6,886,791	6,022,140	19,863,039	11,652,406	–	44,424,376

Assets available to meet all the liabilities and to cover outstanding loan commitments include cash and balances with SAMA, due from banks and other financial institutions, investments, and loans and advances. The Group regularly monitors the maturity profile to ensure adequate liquidity is maintained. The cumulative maturities of commitments and contingencies is disclosed in Note 19 (c).

(b) Analysis of financial liabilities by remaining undiscounted maturities

The tables below summarize the estimated maturity profile of the Group's financial liabilities as of December 31, 2019 and 2018 based on contractual undiscounted future repayment obligations. As special commission payment estimates up to the contractual maturities are included in the tables, the totals do not match the amounts included in the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Group expects that many customers will not request repayment on the earliest date that the Group could be required to pay and the tables therefore do not reflect the expected cash flows indicated by the Group's deposit retention history.

31. Liquidity risk – continued

The undiscounted maturity profile of financial liabilities is as follows:

	2019 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed Maturity/ on demand	Total
Due to banks and other financial institutions:						
Current Accounts	–	–	–	–	8,918	8,918
Money market deposits and repurchase agreements	9,563,630	4,307,827	–	–	–	13,871,457
Customer deposits:						
Time	33,110,463	2,781,715	4,682,107	–	–	40,574,285
Savings	–	–	–	–	1,698,795	1,698,795
Demand	–	–	–	–	25,865,987	25,865,987
Other	–	–	–	–	1,523,928	1,523,928
Negative fair values of derivatives:						
Held for trading	–	405,333	–	–	–	405,333
Held as fair value hedges	–	591,114	–	–	–	591,114
CSA/EMIR cash margins	–	(680,928)	–	–	–	(680,928)
Term loans	20,980	37,200	2,186,000	–	–	2,244,180
Total	42,695,073	7,442,261	6,868,107	–	29,097,628	86,103,069
Derivatives	107,242	408,911	1,492,088	1,034,564	–	3,042,805
Total	42,802,315	7,851,172	8,360,195	1,034,564	29,097,628	89,145,874

	2018 (SAR '000)					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No fixed maturity/ on demand	Total
Due to banks and other financial institutions:						
Current Accounts	–	–	–	–	16,073	16,073
Money market deposits and repurchase agreements	7,100,795	5,602,623	–	–	–	12,703,418
Customer deposits:						
Time	21,543,176	12,972,887	2,982,107	–	–	37,498,170
Savings	–	–	–	–	1,529,185	1,529,185
Demand	–	–	–	–	24,113,708	24,113,708
Other	–	600,745	–	–	408,240	1,008,985
Negative fair values of derivatives:						
Held for trading	–	398,495	–	–	–	398,495
Held as fair value hedges	–	102,209	–	–	–	102,209
Term loans	48,971	55,800	2,055,800	–	–	2,160,571
Subordinated debt	5,661	2,000,000	–	–	–	2,005,661
Total	28,698,603	21,732,759	5,037,907	–	26,067,206	81,536,475
Derivatives	191,000	543,121	2,213,078	413,257	–	3,360,456
Total	28,889,603	22,275,880	7,250,985	413,257	26,067,206	84,896,931

32. Credit and financial risk management

The Group's Board of Directors is responsible for establishing corporate governance processes and approving the risk appetite and related risk management framework. It is also responsible for approving and implementing policies to ensure compliance with SAMA guidelines, accounting and reporting standards and best industry practices including Basel guidelines. The Board of Directors has approved the Group's Risk Management Guide Policy as an overarching risk policy under which the Group has a suite of policies including a Risk Appetite Framework Policy, Credit Policy Guide, Treasury Policy Guide, Stress Test Policy, Internal Capital Adequacy Assessment Plan Policy, Operational Risk Policy, Fraud Risk Policies, Information Security Policies, among others.

The Board of Directors has also approved the Group's comprehensive IFRS 9 Governance Framework Policy, addressing the Group's IFRS 9 Approach and Methodology Policy, which is supplemented with additional management level policies including an IFRS 9 Data Management and Control Framework Policy, and the IFRS 9 Governance Framework, along with related accounting and operating procedures.

The Board of Directors is supported by the Board Risk Committee, a committee of the Board, responsible for recommending policies for Board approval and for monitoring risks within the Group. At the management level, the Group operates various committees including an Enterprise Risk Management Committee, a Credit Committee, and an Asset Liability Committee (ALCO), which are responsible for various areas of risk management. A management level Expected Credit Loss (ECL) Committee linked to the Group's IFRS 9 Governance and Framework Policy also operates which is responsible for all aspects of IFRS 9 including expected credit losses.

Other management level committees include the Operational Risk Management Committee, Stress Testing Committee, Financial Fraud Control Committee, Business Continuity Management Committee, Information Security Steering Committee, and the Structured Solution Approval Committee.

At the departmental level, the Group has a Risk Management Group headed by a Chief Risk Officer who is assisted by assistant general managers in charge of Risk Management, Credit Risk Review, Credit Administration, Collections and other functions.

(a) Credit risk

The Group manages its 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 customer lending activities that lead to loans and advances, and other investment activities. There is also credit risk in off consolidated statement of financial position financial instruments, such as loan commitments and financial guarantee contracts. The Group assesses the Probability of Default (PD) of counterparties using internal rating tools which can be mapped to external ratings where available. The Group's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfil their obligation, and to control the level of credit risk taken. The Group assesses wholesale counterparties using the same techniques as for its lending activities to clients.

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

The Group has a comprehensive Board approved framework for managing credit risk which includes an independent credit risk review function and credit risk monitoring process. The Group seeks to control credit risk by monitoring credit exposures, limiting concentration risks, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are regularly monitored. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

32. Credit and financial risk management – continued

(b) Credit risk management

The Group seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations, businesses, or economic sectors. Economic sector risk concentrations are provided in Note 7 (f).

The Group uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. It maintains classification grades that differentiate between portfolios and allocates expected credit loss allowances. The Group determines each individual borrower's grade based on specific objective and subjective financial and business assessment criteria covering debt service, profitability, liquidity, capital structure, industry, management quality, and company standing. The Group conducts a periodic quality classification exercises over all of its existing borrowers and the results of this exercise are validated by the independent risk management unit established for that purpose. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products, external economic environment, emerging best practices, and regulatory guidance. Information on the credit quality for loans and advances is provided in Note 7 (e).

The Group in the ordinary course of lending activities holds collateral as security for Credit Risk Mitigation (CRM) on its loans and advances. The collateral includes primarily time, demand, and other cash deposits, financial guarantees, local and international equities, real estate, and other assets. The collateral is held mainly against commercial and similar loans and is managed against relevant exposures at their net realizable value. Management monitors the market value of collateral, requests additional collateral in accordance with underlying agreements, and assesses the adequacy of the allowance for credit losses. The Group also seeks additional collateral from counterparties when impairment indicators are observed.

The estimated fair value of collateral held as CRM by the Group for total loans and advances is approximately SAR 47.3 billion (2018: SAR 49.4 billion). The amount of real estate, local and international equities and other cash deposits held as CRM for Stage 3 exposures is as follows:

	Exposure SAR '000	Credit risk mitigation SAR '000	ECL SAR '000
December 31, 2019	**3,359,920**	**2,662,795**	**1,841,562**
December 31, 2018	2,690,624	2,802,158	1,320,499

The Group, in the ordinary course of business, acquires real estate against settlement of loans and advances. The Group acquires the real estate with an intention to sell. The real estate acquired is presented as 'Other real estate' in the consolidated statement of financial position. The movement of Other real estate for the years ended December 31, 2019 and 2019 is summarized as follows:

	2019 SAR '000	2018 SAR '000
Balance at the beginning of the year	**718,724**	718,724
Acquisitions during the year	**121,285**	–
Disposals during the year	**(315,924)**	–
Write-offs (Note 40)	**(66,406)**	–
Balance at the end of the year	**457,679**	718,724

The debt securities included in the investment portfolio are due mainly from corporates, banks, financial institutions, and sovereigns. An analysis of the Group's investments by type of counterparty and credit risk exposure is included in Note 6 (c).

The Group's credit quality of due from banks and other financial institutions is included in Note 5 (c).

The Group's credit risk relating to derivative financial instruments is included in Notes 11 and 29.

Information on the Group's financial guarantee contracts is included in Note 19 (c).

The Group's credit exposure by business segment is included in Note 28 (d).

The Group's distribution of geographic concentration is provided in Note 29.

The Group's total credit risk exposure and the relative risk weighted assets is included in Note 35 (a).

32. Credit and financial risk management – continued

Credit analysis of investments held at FVTPL
The Group's investments held at FVTPL are comprised of Mutual fund investments and other securities which are unquoted and unrated.

(d) Credit risk grades

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

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

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

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

(e) Generating the term structure for the Probability of Default (PD)

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

The Group employs models developed based on the analysis of the data collected and generates estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time due to the impact of macroeconomic factors. This analysis includes the identification and calibration of relationships between changes in default rates and macroeconomic factors. For most exposures, key macroeconomic indicators include GDP growth and oil prices.

Based on a variety of external actual and forecasted information, the Group formulates a base case view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts to adjust its estimates of PD term-structures.

32. Credit and financial risk management – continued

(f) Determining whether credit risk has increased significantly

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and credit assessments, including forward-looking information.

The criteria for determining whether credit risk has increased significantly varies by portfolio and includes quantitative as well as qualitative factors, including a backstop based on delinquency. One of the key quantitative indicators used by the Group is the relative downgrade of the internal rating of a borrower since origination and thereby the consequent change in the PD.

Using credit judgement and, where possible, relevant historical experience, the Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and for which the effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. The qualitative indicators include specific high risk rating grades, cross facility defaults, and forbearance.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify 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 the expected credit loss allowance resulting from transfers between 12-month PD (Stage 1) and lifetime PD (Stages 2 or 3).

The Group uses three main components to measure ECL, which are Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). The Group has leveraged existing regulatory practices and SAMA guidance to develop the methodology for model inputs which are adjusted when and where necessary to comply with IFRS 9 requirements.

Financial Assets reflecting a significant increase in credit risk are classified in Stage 2 and the Group recognizes loss allowances at an amount equal to lifetime expected credit losses, reflecting a lifetime expected PD that represents the probability of default over the remaining life of the financial asset. The allowances for Stage 2 are higher than for Stage 1, reflecting the impact of a longer time horizon compared to a 12-month horizon used for the allowance in Stage 1.

(g) Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days.

Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default the Group considers indicators that are:

- qualitative, e.g. breaches of covenants;
- quantitative, e.g. overdue status and non-payment of another obligation of the same borrower; and
- based on data developed internally and obtained from external sources.

32. Credit and financial risk management – continued

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. IFRS 9 does not define the term “default”, but instead requires each entity to do so. In this regard, the Group ensures that it is in alignment with the SAMA definition of default and also that it follows a common definition for regulatory and financial reporting.

The Group recognizes a loss allowance at an amount equal to lifetime expected credit losses, reflecting a PD of 100% and recoverable cash flows on the asset. These financial assets are credit impaired and are classified under Stage 3.

(h) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention, and other factors not related to a current or potential credit deterioration of the credit of the customer. An existing loan for which the terms have been modified may be derecognized and the renegotiated loan is recognized as a new loan at fair value in accordance with the Group’s policies.

The Group may also renegotiate loans to customers in financial difficulty (referred to as forbearance activities) to maximize collection opportunities and minimize the risk of default. Loan forbearance is granted on a selective basis:

- if there is a high risk of default; or
- if there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually can include extending the maturity, changing the timing of commission and/or principal payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified, the estimate of PD reflects whether the modification has improved or restored the Group’s ability to collect special commission and principal and the Group’s previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower’s payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk. A customer needs to demonstrate consistently good payment behaviour over a period of time before the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to a 12-month ECL. The Group considers a period of 12 months as a curing period to move assets from loss allowance measurement at Lifetime ECL (Stage 2 and 3) to a 12-month ECL (Stage 1).

(i) Incorporation of forward looking information

Based on a consideration of a variety of external actual and forecasted information, the Group formulates a base case view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities and selected private sector forecasters.

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

The Group identifies 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 macroeconomic variables and credit risk and other credit losses.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data from 2013 to 2018. During 2019, no changes have occurred in underlying assumptions and the defined economic variables. Moreover, a sensitivity analysis has been conducted on the macroeconomic scenarios including GDP and oil prices in order to assess the potential change in ECL. The more optimistic sensitivity scenario would reduce ECL by 5 basis points (2018: 4 basis points), while the more pessimistic scenario would increase the ECL by 4 basis points (2018: 5 basis points).

32. Credit and financial risk management – continued

(j) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of Default (PD);
- Loss given Default (LGD); and
- Exposure at Default (EAD).

These parameters are generally derived from internally developed models and external benchmarks. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on internal rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this can lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated repayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties as well as external benchmarks. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry, and the net recovery amount of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For retail overdrafts and other facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period which may be longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect. This contractual right may not be enforced in the normal day-to-day management but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These can include a reduction in limits, or cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped based on shared risk characteristics that include the instrument type, credit risk rating, time to maturity, collateral type, industry; and geographic location of the borrower. Regular reviews are also conducted to ensure that exposures within a particular portfolio remain appropriately homogeneous.

For portfolios where the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

	PD	LGD
Due from banks and other financial institutions	Moody's default study	SAMA LGD Estimates
Investments	Moody's default study	SAMA LGD Estimates

32. Credit and financial risk management – continued

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime PD at the reporting date with the remaining lifetime PD for the point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

(k) Offsetting financial assets and financial liabilities

The table set out below include financial assets and financial liabilities as at December 31, 2019 and 2018 that are offset in the Group's consolidated statement of financial position or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

	2019 (SAR '000)		
	Gross assets/ (liabilities) before offset	Offset with gross (assets)/ liabilities	Net assets/ (liabilities) recognized
Positive fair values of derivatives [Note 11 (c)]	2,205,598	(900,522)	1,305,076
Negative fair values of derivatives [Note 11 (c)]	(1,216,041)	900,522	(315,519)
Total	**989,557**	**–**	**989,557**

	2018 (SAR '000)		
	Gross assets/ (liabilities) before offset	Offset with gross (assets)/ liabilities	Net assets/ (liabilities) recognized
Positive fair values of derivatives [Note 11 (c)]	6,901,249	(5,656,006)	1,245,243
Negative fair values of derivatives [Note 11 (c)]	(6,156,710)	5,656,006	(500,704)
Total	744,539	–	744,539

(l) Summary of financial assets and financial liabilities

The following tables summarizes the balances of financial and other assets and financial and other liabilities by measurement category in the consolidated statement of financial position as of December 31, 2019 and 2018:

	2019 SAR '000				
	Amortized cost	Mandatorily at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total carrying amount
Financial and other assets:					
Cash and balances with SAMA	10,218,816	–	–	–	10,218,816
Due from banks and other financial institutions, net	3,028,515	–	–	–	3,028,515
Investments	–	165,260	262,799	25,747,421	26,175,480
Positive fair values of derivatives	–	1,305,076	–	–	1,305,076
Loans and advances, net	57,112,907	–	–	–	57,112,907
Other assets, net	132,994	–	–	–	132,994
Total financial and other assets	**70,493,232**	**1,470,336**	**262,799**	**25,747,421**	**97,973,788**
Financial and other liabilities:					
Due to banks and other financial institutions	13,788,191	–	–	–	13,788,191
Customers' deposits	69,058,054	–	–	–	69,058,054
Negative fair value of derivatives	–	315,519	–	–	315,519
Term loans	2,011,626	–	–	–	2,011,626
Other liabilities	1,634,199	–	–	–	1,634,199
Total financial and other liabilities	86,492,070	315,519	–	–	86,807,589

32. Credit and financial risk management – continued

	2018 (SAR '000)				
	Amortized cost	Mandatorily at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total carrying amount
Financial and other assets:					
Cash and balances with SAMA	4,871,932	–	–	–	4,871,932
Due from banks and other financial institutions, net	2,917,697	–	–	–	2,917,697
Investments	–	174,268	261,381	24,202,464	24,638,113
Positive fair values of derivatives	–	1,245,243	–	–	1,245,243
Loans and advances, net	59,412,529	–	–	–	59,412,529
Other assets, net	142,208	–	–	–	142,208
Total financial and other assets	67,344,366	1,419,511	261,381	24,202,464	93,227,722
Financial and other liabilities:					
Due to banks and other financial institutions	12,620,832	–	–	–	12,620,832
Customers' deposits	63,689,869	–	–	–	63,689,869
Negative fair value of derivatives	–	500,704	–	–	500,704
Term loans	2,030,371	–	–	–	2,030,371
Subordinated debt	2,005,661	–	–	–	2,005,661
Other liabilities	1,816,403	–	–	–	1,816,403
Total financial and other liabilities	82,163,136	500,704	–	–	82,663,840

33. Fair values of financial assets and liabilities

(a) The Group uses the fair value hierarchy disclosed in Note 2 (d) (ii) for determining and disclosing the fair value of financial instruments. The following table shows an analysis of financial assets and liabilities recorded at fair value as of December 31, 2019 and 2018 by level of the fair value hierarchy.

	2019 (SAR '000)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	**–**	**883,833**	**421,243**	**1,305,076**
Investments at FVOCI	**18,296,609**	**7,246,430**	**467,181**	**26,010,220**
Investments at FVTPL	**114,664**	**–**	**50,596**	**165,260**
Total	**18,411,273**	**8,130,263**	**939,020**	**27,480,556**
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	**–**	**315,519**	**–**	**315,519**
Total	**–**	**315,519**	**–**	**315,519**

	2018 (SAR '000)			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Derivative financial instruments at FVTPL	–	827,252	417,991	1,245,243
Investments at FVOCI	16,767,127	7,224,135	472,583	24,463,845
Investments at FVTPL	131,626	–	42,642	174,268
Total	16,898,753	8,051,387	933,216	25,883,356
Financial liabilities carried at fair value:				
Derivative financial instruments at FVTPL	–	500,704	–	500,704
Total	–	500,704	–	500,704

33. Fair values of financial assets and liabilities – continued

The value obtained from any relevant valuation model may differ with a transaction price of a financial instrument. The difference between the transaction price and the model value is commonly referred to as “day one profit and loss”. It is either amortized over the life of the transaction, deferred until the instrument’s fair value can be determined using market observable data, or realized through disposal. Subsequent changes in fair value are recognized immediately in the consolidated statement of income without reversal of deferred day one profits and losses.

The total amount of the changes in fair value recognized in the consolidated statement of income for the year ended December 31, 2019 which was estimated using valuation models, is a gain of SAR 3.2 million (2018: a loss of SAR 17.3 million).

Level 2 investments include debt securities which are comprised of Saudi corporate and bank securities, and Saudi Arabian Government Securities. These securities are generally unquoted. In the absence of a quoted price in an active market, these securities are valued using observable inputs such as yield information for similar instruments or last executed transaction prices in securities of the same issuer or based on indicative market quotes. Adjustments are also considered as part of the valuations when necessary to account for the different features of the instruments including difference in tenors. Because the significant inputs for these investments are observable, the Bank categorizes these investments within Level 2.

Level 2 derivative financial instruments include various derivatives contracts including forward foreign exchange contracts, foreign exchange options, and commission rate swaps. These derivatives are valued using widely recognized valuation models. The most frequently applied valuation techniques include the use of forward pricing standard models using present value calculations and well-recognized Black-Scholes option pricing models. These models incorporate various market observable inputs including foreign exchange rates, forward rates, and yield curves, and are therefore included within Level 2.

Level 3 investments include Gulf Cooperation Council Government securities, and also investments in hedge funds, private equity funds and certain unquoted strategic investments in equities. These securities are generally not quoted in an active market, and therefore are valued using indicative market quotes from an issuer/counterparty or valued at cost in the absence of any such alternative reliable indicative estimate.

Level 3 derivative financial instruments include the embedded derivative put option arising from the existing master agreement entered into by the Bank relating to its investment in an associated company [see Note 11 (f)]. For purposes of determining the fair value of the put option, the Bank uses a well-recognized and frequently used Binomial Option Pricing Model. This model requires certain inputs which are not observable in the current market place. Certain inputs are specifically stated within the master agreement with the associated company. Other inputs are based on the historical results of the associated company. These other inputs may require Management’s judgement including estimations about the future results of the associated company, the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and an estimate of the fair value of the underlying investment. Several of the inputs are also interdependent.

Should the significant estimations of inputs vary by plus or minus 10%, the fair value could increase or decrease by approximately SAR 90.4 million (2018: SAR 97.7 million) due to estimating operating results of the associated company, could increase or decrease by approximately SAR 41.6 million (2018: SAR 44.6 million) due to estimating the detrimental effects on the operating results of the associated company which may arise from an exercise of the option, and could increase or decrease by approximately SAR 37.4 million (2018: SAR 27.5 million) due to estimating the fair value of the underlying investment.

In all respects, the Group’s significant estimates are based on experience and judgement relevant to each input, and in all cases, due care is taken to ensure that the inputs are prudent to ensure that the estimation of fair value is reasonable in the circumstances. However, any amounts which may be realized in the future may differ from the Bank’s estimates of fair value.

(b) The following table summarizes the movement of the Level 3 fair values for the years ended December 31, 2019 and 2018:

	2019 SAR ’000	2018 SAR ’000
Fair values at the beginning of the year	**933,216**	948,687
Net change in fair value	**10,406**	(11,811)
Investments sold	**(4,602)**	(3,660)
Fair values at the end of the year	**939,020**	933,216

33. Fair values of financial assets and liabilities – continued

There were no transfers from either Level 1 or Level 2 to either Level 2 or Level 3 during the years ended December 31, 2019 and 2018.

(c) The following table summarizes the estimated fair values of financial assets and financial liabilities as of December 31, 2019 and 2018 that are not carried at fair value in the consolidated financial statements, along with the comparative carrying amounts for each.

December 31, 2019	Carrying values SAR '000	Estimated fair values SAR '000
Financial assets:		
Due from banks and other financial institutions, net	3,028,515	3,028,515
Loans and advances, net	57,112,907	60,151,426
Total	60,141,422	63,179,941
Financial liabilities:		
Due to banks and other financial institutions	13,788,191	13,788,191
Customers' deposits	69,058,054	68,224,293
Term loans	2,011,626	2,011,626
Total	84,857,871	84,024,110

December 31, 2018	Carrying values SAR '000	Estimated fair values SAR '000
Financial assets:		
Due from banks and other financial institutions, net	2,917,697	2,917,697
Loans and advances, net	59,412,529	60,622,336
Total	62,330,226	63,540,033
Financial liabilities:		
Due to banks and other financial institutions	12,620,832	12,620,832
Customers' deposits	63,689,869	62,332,038
Term loans	2,030,371	2,030,371
Subordinated debt	2,005,661	2,005,661
Total	80,346,733	78,988,902

The estimated fair values of loans and advances, net are calculated using market based discounted cash flow models of individual loan portfolios using the weighted average estimated maturities of each individual loan portfolio. The estimated fair values of customers' deposits are calculated using market based discounted cash flow models of individual deposit classes using the weighted average estimated maturities of each individual deposit class. These fair value estimates would be considered as Level 3 in the fair value hierarchy.

The fair values of other financial instruments that are not carried in the consolidated financial statements at fair value are not significantly different from the carrying values. The fair values of term loans, subordinated debt, and due from and due to banks which are carried at amortized cost, are not significantly different from the carrying values included in the consolidated financial statements, since the current market special commission rates for similar financial instruments are not significantly different from the contractual rates, and because of the short duration of due from and due to banks and other financial institutions.

34. Related party transactions

(a) In the ordinary course of its activities, the Group transacts business with related parties. Related parties, balances, and transactions are governed by the Banking Control Law and other regulations issued by SAMA. During 2014, SAMA issued an update to its Principles of Corporate Governance for banks operating in Saudi Arabia and during 2019, SAMA issued rules on banks exposures to related parties. These updates specify the definitions of related parties, the need to process the related transactions fairly and without preference, addresses the potential conflicts of interests involved in such transactions, and mandates transaction disclosure requirements pertaining to the related parties.

The Bank's related party identification and disclosure of transactions complies with the guidelines issued by SAMA, and has been approved by the Bank's Board of Directors. These guidelines include the following definitions of related parties:

- Management of the Bank, their relatives and/or their affiliated entities;
- Principal shareholders of the Bank and/or their relatives;
- Affiliates of the Bank, entities for which the investment is accounted for using the equity method of accounting, their management and relatives;
- Trusts for the benefit of the Bank's employees such as pension or other benefit plans that are managed by the Bank; and
- Any other parties whose management and operating policies can be directly or indirectly significantly influenced by the Bank.

Management of the Bank includes those persons who are responsible for achieving the objectives of the Bank and who have the authority to establish policies and make decisions by which those objectives are pursued. Management therefore includes the members of the Bank's Board of Directors, and members of the Bank's Management that require a no objection approval from SAMA.

Principal shareholders include those owners of record of more than 5% of the Bank's voting ownership and/or voting interest of the Bank.

Relatives include spouses, children, parents, grandparents, siblings, grandchildren, and offspring to whom a member of management of either the Bank, principal shareholder, or affiliate, might control or influence or by whom they might be controlled or influenced, because of the family relationship.

(b) The balances as of December 31, 2019 and 2018, resulting from such transactions included in the consolidated statement of financial position are as follows:

	2019 SAR '000	2018 SAR '000
Management of the Bank, their relatives and/or their affiliated entities:		
Loans and advances	**363,327**	97,154
Customers' deposits	**1,084,621**	401,349
Tier I Sukuk	**7,000**	2,000
Commitments and contingencies	**88,145**	6,067
Investments	**400,727**	–
Principal shareholders of the Bank and/or their relatives:		
Customer deposits	**2,448,755**	5,965,847
Subordinated debt	**–**	700,000
Affiliates of the Bank, entities for which the investment is accounted for using the equity method of accounting, their management and relatives:		
Loans and advances	**873,967**	654,756
Customers' deposits	**63,155**	144,669
Tier I Sukuk	**2,000**	–
Commitments, contingencies and derivatives	**62,764**	101,458
Trusts for the benefit of the Bank's employees such as pension or other benefits plans that are managed by the Bank:		
Customers' deposits and other liabilities	**176,722**	62,093

34. Related party transactions – continued

(c) Income and expense for the years ended December 31, 2019 and 2018, pertaining to transactions with related parties included in the consolidated statement of income are as follows:

	2019 SAR '000	2018 SAR '000
Management of the Bank and/or members of their immediate family:		
Special commission income	6,258	3,655
Special commission expense	2,873	96
Fee income from banking services	111	45
Principal shareholders of the Bank and/or members of their immediate family:		
Special commission expense	13,864	27,914
Fee income from banking services	–	2
Rent and premises-related expenses (Building rental)	7,758	7,758
Affiliates of the Bank and entities for which the investment is accounted for using the equity method of accounting:		
Special commission income	31,143	29,743
Special commission expense	373	1,304
Fee income from banking services	3,328	4,436
Board of Directors and other Board Committee member remuneration	7,118	7,051

The information presented for 2018 does not reflect the requirements of the new related party rules issued during 2019 and therefore is not comparable to the information presented for 2019.

During the year ended December 31, 2018, the Bank purchased 56,245,350 Shares of the Bank owned by J.P. Morgan International Finance Limited – one of the principal shareholders of the Bank – for SAR 13.50 per share. See Note 39.

All related party transactions are conducted on an arm's length basis.

The total amount of compensation charged or paid to management personnel during the year is included in Note 24.

35. Capital adequacy

(a) The Group's objectives when managing capital are to comply with the capital requirements set by SAMA to safeguard the Group's ability to continue as a going concern, and to maintain a strong capital base.

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

The following table summarizes the Bank's Pillar I Risk Weighted Assets (RWA), Tier I and Tier II Capital, and corresponding Capital Adequacy Ratio percentages as of December 31, 2019 and 2018. The Tier I capital amount as of December 31, 2018 presented below has been restated for the retroactive application of the new Zakat and Income Tax Policy as disclosed in Notes 2 (a), 3 (a) (i) and 41. The Tier I and Tier I plus Tier II ratios as of December 31, 2018 have also been adjusted accordingly.

35. Capital adequacy – continued

	2019 SAR '000	2018 SAR '000
Credit Risk RWA	**76,419,416**	79,561,316
Operational Risk RWA	**5,061,360**	4,794,695
Market Risk RWA	**1,380,148**	2,062,510
Total Pillar I RWA	**82,860,924**	86,418,521
Tier I Capital	**14,482,246**	14,045,818
Tier II Capital	**648,296**	2,649,509
Total Tier I plus II Capital	**15,130,542**	16,695,327
Capital Adequacy Ratios:		
Tier I Ratio (%)	**17.48**	16.25
Tier I + Tier II Ratio (%)	**18.26**	19.31

The Tier I and Tier II capital as of December 31, 2019 and 2018 is comprised of the following:

	2019 SAR '000	2018 SAR '000
Total Equity	**14,007,007**	13,406,068
IFRS 9 five-year transitional adjustment	**493,534**	658,045
Goodwill adjustment	**(18,295)**	(18,295)
Tier I Capital	**14,482,246**	14,045,818
Tier II Subordinated debt	**–**	2,000,000
Qualifying general provisions, net	**648,296**	649,509
Tier II Capital	**648,296**	2,649,509
Tier I plus Tier II Capital	**15,130,542**	16,695,327

Capital adequacy and the use of regulatory capital are regularly monitored by the Bank's Management. SAMA requires the Bank to hold a minimum level of regulatory capital and maintain a ratio of total regulatory capital to Risk Weighted Assets (RWA) at or above the requirement of 10.5%, which includes additional buffers as required by the Basel Committee on Banking Supervision.

As of December 31, 2019 and 2018, the RWA, Tier I and Tier II capital, and capital adequacy ratios are calculated in accordance with SAMA's framework and guidelines regarding implementation of the capital reforms under Basel III.

(b) The following additional disclosures are required under the Basel III framework.

- Pillar III, Qualitative disclosures (Annually)
- Pillar III, Quantitative disclosures (Annually/Semi-annually)
- Capital Structure (Quarterly)
- Liquidity Coverage Ratio (Quarterly)
- Leverage Ratio (Quarterly)

These disclosures are made available to the public on the Bank's website within the prescribed time frames as required by SAMA.

36. Asset management and brokerage services

The Group offers investment services to its customers, through a subsidiary, which include management of investment funds in consultation with professional investment advisors, with assets under management totalling SAR 18,799 million (2018: SAR 15,228 million). This includes funds managed under Shariah approved portfolios amounting to SAR 1,625 million (2018: SAR 1,462 million).

37. Employee stock option shares and employee end of service benefits

(a) The actuarial obligation amounts recognized in the consolidated statement of financial position which is included in other liabilities and the corresponding movement during the years ended December 31, 2019 and 2018 is as follows:

	2019 SAR '000	2018 SAR '000
Actuarial obligation at the beginning of the year	165,120	186,272
Current service, prior period service and net interest cost	38,429	26,726
Benefits paid	(49,726)	(20,681)
Effect of changes in actuarial assumptions	20,689	(27,197)
Actuarial obligation at the end of the year [Note 16 (a)]	174,512	165,120

The current service, prior period service and net interest cost amounts above primarily include costs for employees' current period service plus prior year service costs adjusted for any current year salary increments.

The effect of changes in actuarial assumptions for the year ended December 31, 2019 and 2018 is primarily related to the usage of a yield curve for the discount factor and the usage of the Group's empirical data for exit rates.

The principal actuarial assumptions used in the calculation of the actuarial obligations as of December 31, 2019 and 2018 are as follows:

	2019	2018
Discount rate (%)	4.35	5.05
Expected rate of salary increment (%)	2.00	2.34
Normal retirement age (years)	60	60

Should the above actuarial assumptions change in the future, the actuarial obligation could be higher or lower than the December 31, 2019 amount. The table below illustrates the sensitivity of the actuarially determined obligation as of December 31, 2019 and 2018 to the discount rate of 4.35% as of December 31, 2019 (2018: 5.05%), and the salary increment rate of 2.00% as of December 31, 2019 (2018: 2.34%).

	2019			2018		
	Impact on actuarially determined obligation increase (decrease)			Impact on actuarially determined obligation increase (decrease)		
	Change in assumption %	Increase in assumption SAR '000	Decrease in assumption SAR '000	Change in assumption %	Increase in assumption SAR '000	Decrease in assumption SAR '000
Discount rate	10	(5,283)	5,654	10	(5,613)	6,009
Salary increment rate	10	2,219	(2,596)	10	2,629	(2,537)

The above sensitivity analyzes is based on a change in a single assumption holding other assumptions constant.

37. Employee stock option shares and employee end of service benefits – continued

The approximate expected maturity analysis of the undiscounted actuarially determined obligation as of December 31, 2019 and 2018 is as follows:

	2019	2018
Less than one year	**36,042**	32,151
One to two years	**17,464**	14,547
Two to five years	**41,040**	51,543
Over five years	**119,479**	138,624
Total	**214,025**	236,865

The weighted average duration of the actuarially determined obligation is approximately 6.33 years (2018: 9.53 years).

(b) The Group managed an Employee Stock Grant Plan during 2018. Significant features of the Plan were as follows:

- Grant dates: January 1, 2014 and 2016
- Maturity dates: Between 2017 and 2018
- Vesting period: 4 years per plan
- Vesting conditions: Participating employees to remain in service
- Method of settlement: Shares
- Cost to participating employees: SAR 3.99 to SAR 4.24 per share.

There were no stock options shares outstanding as of December 31, 2019 and 2018.

The movement in the number of stock option shares for the year ended December 31, 2018 is as follows:

	2018
Stock option shares at the beginning of the year	1,836,716
Shares vested during the year	(1,736,178)
Withdrawals during the year	(100,538)
Stock option shares at the end of the year	–

In 2018, The Group vested 50% of the shares granted in January 2014, and 75% of the shares granted in January 2016 equivalent to 1,736,178 shares with an estimated cost of SAR 24.5 million.

The Group also managed an Employee Contributory Share Option Plan during 2018. The following table summarizes the movement in the number of subscribed shares for the years ended December 31, 2018.

	2018
Subscribed shares at the beginning of the year	3,731,175
Shares granted during the year	(3,495,032)
Withdrawals during the year	(236,143)
Subscribed shares at the end of the year	–

In connection with the Group's Employee Stock Grant Plan and Employee Contributory Share Option Plan, the Group purchased and sold shares as required for the respective final share vesting and subscription requirements through the end of 2018. The following table summarizes the movement in the cost of the shares acquired/sold by the Group net of the share based provision movement for the year ended December 31, 2018.

37. Employee stock option shares and employee end of service benefits – continued

	Cost of shares SAR '000	Share based provisions SAR '000	Total SAR '000
Balances as of December 31, 2017	(82,446)	24,177	(58,269)
Shares sold	16,651	–	16,651
Share based provisions	–	5,400	5,400
Share based vesting/granting movement, net	65,795	(29,577)	36,218
Net movement in share based provision	82,446	(24,177)	58,269
Balances as of December 31, 2018	–	–	–

38. Tier I Sukuk

The Bank completed the establishment of a Shariah compliant Tier I Sukuk Programme (the Program) in 2016. The Programme was approved by the Bank's regulatory authorities and shareholders. The Bank has issued the following Tier I Sukuk securities under the programme on the dates indicated as of December 31, 2019 and 2018:

	2019	2018
November 16, 2016	**500,000**	500,000
June 6, 2017	**285,000**	285,000
March 21, 2018	**1,000,000**	1,000,000
April 15, 2019	**215,000**	–
Total	**2,000,000**	1,785,000

The Tier I Sukuk securities are perpetual with no fixed redemption dates and represent an undivided ownership interest in the Sukuk assets, constituting an unsecured conditional and subordinated obligation of the Bank classified under equity. However, the Bank has the exclusive right to redeem or call the Tier I Sukuk debt securities in a specific period of time, subject to the terms and conditions stipulated in the Programme.

The applicable profit rate on the Tier I Sukuk is payable in arrears on each periodic distribution date, except upon the occurrence of a non-payment event or non-payment election by the Bank, whereby the Bank may at its sole discretion (subject to certain terms and conditions) elect not to make any distributions. Such a non-payment event or non-payment election are not considered to be an event of default and the amounts not paid thereof shall not be cumulative or compound with any future distributions.

39. Treasury shares

On June 14, 2018, the Bank entered into a Share Purchase Agreement with J.P. Morgan International Finance Limited (J.P. Morgan), to purchase 56,245,350 shares of the Bank owned by J.P. Morgan for SAR 13.50 per share equal to SAR 759.3 million, exclusive of transaction costs and estimated Income Tax. The Bank subsequently received all required regulatory approvals and the agreement to purchase the shares was approved in an Extraordinary General Assembly Meeting held on 16 Muharram 1440H, corresponding to September 26, 2018. On September 27, 2018, the Bank completed the purchase. The Treasury shares purchased include transaction costs and estimated income tax for a total cost of SAR 787.5 million.

On November 29, 2018, the Bank entered into a Share Purchase Agreement with Mizuho Bank Ltd. (Mizuho), to purchase another 18,749,860 shares of the Bank owned by Mizuho for SAR 13.50 per share equal to SAR 253.1 million, exclusive of transaction costs and estimated Income Tax. The Bank received all regulatory approvals for the purchase, and the agreement to purchase the shares was approved in an Extraordinary General Assembly Meeting held on 21 Rajab 1440H, corresponding to March 28, 2019. On May 28, 2019, the Bank completed the purchase. The Treasury shares purchased include transaction costs for a total cost of SAR 253.5 million.

The share capital of the Bank has not been reduced as a result of these transactions with the cost of the shares purchased totalling SAR 1,041.1 million presented as a reduction of shareholders' equity.

40. Operating expenses

(a) Provisions for credit and other losses for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019 SAR '000	2018 SAR '000
Provisions for credit losses:		
Due from banks and other financial institutions [Note 5 (b)]	**(615)**	(10,861)
Investments [Note 6 (e)]	**(45,821)**	10,503
Loans and advances [Note 7 (c)]	**1,270,770**	220,514
Financial guarantee contracts [Note 16 (b)]	**52,077**	26,526
Other assets [Note 10 (b)]	**(180)**	290
Provisions for credit losses	**1,276,231**	246,972
Provisions for real estate losses [Note 32 (b)]	**66,406**	–
Provisions for credit and other losses	**1,342,637**	246,972

(b) Other general and administrative expenses totalling SAR 320.3 million for the year ended December 31, 2019 include non-recurring expenses totalling approximately SAR 36.4 million (2018: NIL).

41. Effect of the retroactive application of the new Zakat and Income Tax policy and other adjustments

(a) A summary of the net effect of the retroactive application of the new Zakat and Income Tax policy, as explained in Notes 2 (a) and 3 (a) (i), made to the consolidated statement of income for the year ended December 31, 2018 is summarized below:

	2018 SAR '000
Net income as previously reported	1,458,718
Less the effect of the retroactive application of the new Zakat and Income Tax policy	(850,213)
Less the effect of other adjustments [Note 41 (b)]	(32,608)
Net income as restated	575,897

The basic earnings per share for the year ended December 31, 2018 as a result of the retroactive application of the new Zakat and Income Tax policy reduced by SAR 1.21 per share.

The change has had no impact on the consolidated statement of financial position as of January 1, 2018 as the impact of deferred tax was not considered significant. No deferred income tax was accounted for as of December 31, 2019 due to the change in ownership percentages of the Bank during the year ended December 31, 2019 (see Notes 17 and 3 (a) (i).

(b) A summary of the net effect on other liabilities, retained earnings and total equity resulting from the retroactive effect of other adjustments as of December 31, 2018 is summarized below:

	December 31, 2018		
	Other liabilities SAR '000	Retained earnings SAR '000	Total equity SAR '000
Balance as previously reported as of December 31, 2018	1,783,795	205,268	13,438,676
Retroactive effect of other adjustments as of December 31, 2018 (i)	32,608	(32,608)	(32,608)
Balances as restated as of December 31, 2018	1,816,403	172,660	13,406,068

i. Other liabilities as of December 31, 2018 were adjusted by SAR 32.6 million to reflect the prior year effect of a correction in the calculation of accrued Zakat liability for the Group and an adjustment to the Zakat liability of an associate company, which was not accounted for as at December 31, 2018, with a corresponding decrease in total equity by the same amount.

The correction of the above adjustments had no impact on the consolidated statement of financial position as of January 1, 2018.

42. Reclassifications

The Group has reclassified a component of other assets in 2019 compared to what was previously reported in 2018. Accordingly, the previously reported amounts in 2018 have been reclassified to conform to the current year presentation. Property, equipment, and intangible costs pending completion which had previously been included in other assets is now included in property and equipment and Information Technology intangible assets. This change is being made to reflect capital work in progress to their relevant line item. This change increases the previously reported property and equipment and Information Technology intangible assets and reduces other assets.

A summary of the effect on the individual components of assets for the above change as of December 31, 2018 is summarized as follows:

	Previously reported SAR '000	Reclassifications SAR '000	Adjusted SAR '000
Property and equipment, net	897,678	5,211	902,889
Information Technology intangible assets, net	163,513	44,694	208,207
Other assets, net	192,113	(49,905)	142,208

All reclassifications made for the previously reported amounts in 2018 did not affect the previously reported net income or individual components of total equity.

43. Prospective changes in the International Financial Reporting Framework

The Group has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Group's accounting years beginning on January 1, 2020.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Sale of Contribution of Assets between an Investor and its associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The Group does not anticipate that these will have a significant impact on the Group's consolidated financial statements.

44. Board of Director's approval

The consolidated financial statements were authorized for issue by the Board of Directors on 03 Rajab 1441H, corresponding to February 27, 2020.

ANNEXES

Five Year Financial Highlights

(SAR in millions)	**2019**	2018	2017	2016	2015
Operations					
Total income [(1)]	**2,906**	2,824	2,792	2,557	2,667
Total expense [(2)]	**1,234**	1,133	1,059	1,051	1,033
Operating profit before provisions	**1,672**	1,691	1,733	1,506	1,634
Provisions for credit and other losses	**1,343**	247	322	453	305
Provisions for Zakat and Income Tax [(3)]	**90**	868	–	–	–
Net income	**239**	576	1,411	1,053	1,329
Financial position					
Total assets	**100,815**	96,070	93,796	93,047	93,578
Loans and advances, net	**57,112**	59,413	59,588	60,249	60,269
Investments	**26,175**	24,638	21,714	21,448	18,983
Investments in associates	**994**	1,012	1,020	1,000	939
Term loans	**2,012**	2,030	2,015	2,032	2,011
Subordinated debt	**–**	2,006	2,003	2,002	2,000
Customer deposits	**69,058**	63,690	66,943	65,640	70,518
Shareholders' equity	**12,007**	11,621	13,494	12,834	12,036
Tier I Sukuk	**2,000**	1,785	785	500	–
Total equity	**14,007**	13,406	14,279	13,334	12,036
Key ratios					
Return on average Shareholders' equity (%)	**2.03**	4.73	10.72	8.54	11.12
Return on average assets (%)	**0.24**	0.61	1.51	1.13	1.42
Capital adequacy (%)	**18.26**	19.31	20.38	18.93	16.94
Equity to total assets (%)	**13.89**	13.95	15.22	14.33	12.86

(1) Total income includes total operating income plus share in earnings of associates.

(2) Total expense includes total operating expenses before impairment charges.

(3) The years prior to 2018 have not been adjusted for provisions for Zakat and Income Tax.

GRI 102-4

Branch Location Network

Central Region

Qassim

126	Buraidah Branch
149	Onizah Branch

Hail

153	Hail Branch

Kharj

146	Al Kharj Branch

Riyadh

101	Riyadh Branch
105	Woroud Branch
107	Takhassussi Branch
116	Malaz Branch
117	Shifa Branch
118	Al Rawabi Branch
120	Badiah Branch
122	Al-Rowda Branch
124	Nuzha Branch
127	Rayyan Riyadh Branch
128	Ghurnatah Branch
129	Suwidi Branch
130	Ghadeer Branch
132	Al Nassim Branch
133	King Fahed District Branch
134	Khurais Road Branch
137	Al-Rahmania Branch
138	AL-Wadi Branch
148	Al-Aqeeq Branch
351	HAFER ALBATEN
155	Al-zilfi Branch

Eastern Region

Al-Khobar

303	Al-Khobar Branch

Dammam

313	Dammam Branch
331	Aryan Dammam Branch
336	Qurtuba Branch
344	Uhod Branch

Jubail

319	Jubail Branch

Al-Ahsa

323	Al-Ahssa Branch

Qateef

341	Qateef Branch

Al Hofuf

342	Hofuf Branch

Western Region

Khamis M.

145	Khamis Branch

Abha

150	Abha Branch

Tabuk

152	Tabuk Branch

Jeddah

202	Jeddah Branch
212	Malik Branch
235	AlJamia District Branch
240	Pr. Majeed St Branch
247	Safa Branch
251	Al-Bawadi Branch
255	Pr. Sultan Branch

Makkah

221	Makkah Branch
225	Azizia Branch
243	Madina Branch

Al-Taif

239	Al Taif Branch

Najran

256	Njran Branch

Jezan

257	Jezan Branch

Ohad rofaidah

258	Ohad rofaidah

GRI 102-55

GRI Content Index

Content Index
The Saudi Investment Bank
May 2020
Service

For the GRI Content Index Service, GRI Services reviewed that the GRI content index is clearly presented and the references for all disclosures included align with the appropriate sections in the body of the report.

GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
GRI 101: Foundation 2016			
GRI 102: General Disclosures 2016			
Organisational profile			
102-1	Name of the organization	6	The Saudi Investment Bank
102-2	Activities, brands, products and services	6	The Saudi Investment Bank
102-3	Location of headquarters	191	Corporate information
102-4	Location of operations	181	Branch location network
102-5	Ownership and legal form	191	Corporate information
102-6	Markets served	6	The Saudi Investment Bank
102-7	Scale of the organization	6, 7 10-11	The Saudi Investment Bank Highlights of the year
102-8	Information on employees and other workers	73	Building people skills
102-9	Supply chain	68	Leveraging relationships
102-10	Significant changes to the organization and its supply chain	68	Leveraging relationships
102-11	Precautionary principle or approach	33-34	Risk Management
102-12	External initiatives	8-9	The Saudi Investment Bank
102-13	Membership of associations	69	Leveraging Relationships
Strategy			
102-14	Statement from senior decision-maker	12-13	Letter from the Chairman
Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour	7, 32	Corporate governance
Governance			
102-18	Governance structure	22	Corporate governance
102-19	Delegating authority	22	Corporate governance
Stakeholder engagement			
102-40	List of stakeholder groups	46-47	Stakeholders
102-41	Collective bargaining agreements	–	No collective bargaining approach
102-42	Identifying and selecting stakeholders	46	Stakeholders
102-43	Approach to stakeholder engagement	46-47	Stakeholders
102-44	Approach to stakeholder engagement	46-47	Stakeholders
Reporting practice			
102-45	Entities included in the consolidated financial statements	101	Notes to the consolidated financial statements
102-46	Defining report content and topic boundaries	4	About this report
102-47	List of material topics	48-49	Materiality
102-48	Restatements of information	4	About this report
102-49	Changes in reporting	4	About this report
102-50	Reporting period	4	About this report
102-51	Date of most recent report	4	About this report
102-52	Reporting cycle	4	About this report
102-53	Contact point for questions regarding the report	4	About this report

GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
102-54	Claims of reporting in accordance with the GRI Standards	4	About this report This Report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI content index	182-187	GRI content index
102-56	External assurance	–	No external assurance obtained
GRI 200: Economic			
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	38-39	Business model
103-2	The management approach and its components	38-39	Business model
103-3	Evaluation of the management approach	38-39	Business model
GRI 201: Economic performance 2016			
201-3	Defined benefit plan obligations and other retirement plans	102	Notes to the consolidated financial statements
201-4	Financial assistance received from government	–	No financial assistance received from the Government
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	70-71	Broadening product and market portfolio
103-2	The management approach and its components	70-71	Broadening product and market portfolio
103-3	Evaluation of the management approach	70-71	Broadening product and market portfolio
GRI 202: Market presence 2016			
202-2	Proportion of senior management hired from the local community	73	Building people skills
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	38-39	Business model
103-2	The management approach and its components	38-39	Business model
103-3	Evaluation of the management approach	38-39	Business model
GRI 203: Indirect economic impacts 2016			
203-1	Infrastructure investments and services supported	79-84	Serving society and the environment
203-2	Significant indirect economic impacts	79-84	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	68	Leveraging relationships
103-2	The management approach and its components	68	Leveraging relationships
103-3	Evaluation of the management approach	68	Leveraging relationships
GRI 204: Procurement practices 2016			
204-1	Proportion of spending on local suppliers	68	Leveraging relationships
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	35	Compliance
103-2	The management approach and its components	35	Compliance
103-3	Evaluation of the management approach	35	Compliance
GRI 205: Anti-corruption 2016			
205-1	Operations assessed for risks related to corruption	35	Compliance
205-2	Communication and training about anti-corruption policies and procedures	35	Compliance
205-3	Confirmed incidents of corruption and actions taken	–	No confirmed incidents of corruption

GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
GRI 300: Environmental			
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	79	Serving society and the environment
103-2	The management approach and its components	79	Serving society and the environment
103-3	Evaluation of the management approach	79	Serving society and the environment
GRI 301: Materials 2016			
301-2	Recycled input materials used	80	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	79	Serving society and the environment
103-2	The management approach and its components	79	Serving society and the environment
103-3	Evaluation of the management approach	79	Serving society and the environment
GRI 302: Energy 2016			
302-1	Energy consumption within the organisation	79	Serving society and the environment
302-4	Reduction of energy consumption	79	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	79	Serving society and the environment
103-2	The management approach and its components	79	Serving society and the environment
103-3	Evaluation of the management approach	79	Serving society and the environment
GRI 303: Water 2016			
303-1	Water withdrawal by source	80	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	79	Serving society and the environment
103-2	The management approach and its components	79	Serving society and the environment
103-3	Evaluation of the management approach	79	Serving society and the environment
GRI 305: Emissions 2016			
305-1	Direct (Scope 1) GHG emissions	79	Serving society and the environment
305-2	Energy indirect (Scope 2) GHG emissions	79	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	79	Serving society and the environment
103-2	The management approach and its components	79	Serving society and the environment
103-3	Evaluation of the management approach	79	Serving society and the environment
GRI 306: Effluents and waste 2016			
306-2	Waste by type and disposal method	80	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	79	Serving society and the environment
103-2	The management approach and its components	79	Serving society and the environment
103-3	Evaluation of the management approach	79	Serving society and the environment
GRI 307: Environmental compliance 2016			
307-1	Non-compliance with environmental laws and regulations	–	No non-compliance with environmental laws and regulations reported

GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	68	Leveraging relationships
103-2	The management approach and its components	68	Leveraging relationships
103-3	Evaluation of the management approach	68	Leveraging relationships
GRI 308: Supplier environmental assessment 2016			
308-1	New suppliers that were screened using environmental criteria	68	Leveraging relationships
GRI 400: Social			
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	74-75	Building people skills
103-2	The management approach and its components	74-75	Building people skills
103-3	Evaluation of the management approach	74-75	Building people skills
GRI 401: Employment 2016			
401-1	New employee hires and employee turnover	74	Building people skills
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	76	Building people skills
401-3	Parental leave	76	Building people skills
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	77	Building people skills
103-2	The management approach and its components	77	Building people skills
103-3	Evaluation of the management approach	77	Building people skills
GRI 403: Occupational health and safety 2016			
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	77	Building people skills
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	74-75	Building people skills
103-2	The management approach and its components	74-75	Building people skills
103-3	Evaluation of the management approach	74-75	Building people skills
GRI 404: Training and education 2016			
404-1	Average hours of training per year per employee	75	Building people skills
404-2	Programs for upgrading employee skills and transition assistance programs	75	Building people skills
404-3	Percentage of employees receiving regular performance and career development reviews	75	Building people skills
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	74-75	Building people skills
103-2	The management approach and its components	74-75	Building people skills
103-3	Evaluation of the management approach	74-75	Building people skills
GRI 405: Diversity and equal opportunity 2016			
405-1	Diversity of governance bodies and employees	74-75	Building people skills
405-2	Ratio of basic salary and remuneration of women to men	75	Building people skills

GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	74-75	Building people skills
103-2	The management approach and its components	74-75	Building people skills
103-3	Evaluation of the management approach	74-75	Building people skills
GRI 406: Non-discrimination 2016			
406-1	Incidents of discrimination and corrective actions taken	–	No incidents of discrimination were reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	74-77	Building people skills
103-2	The management approach and its components	74-77	Building people skills
103-3	Evaluation of the management approach	74-77	Building people skills
GRI 408: Child labor 2016			
408-1	Operations and suppliers at significant risk for incidents of child labor	–	No operations and suppliers at significant risk for incidents of child labour reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	74-77	Building people skills
103-2	The management approach and its components	74-77	Building people skills
103-3	Evaluation of the management approach	74-77	Building people skills
GRI 409: Forced or compulsory labor 2016			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	–	No operations and suppliers at significant risk for incidents of forced or compulsory labour reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	74-77	Strategic framework
103-2	The management approach and its components	74-77	Strategic framework
103-3	Evaluation of the management approach	74-77	Strategic framework
GRI 412: Human rights assessment 2016			
412-2	Employee training on human rights policies or procedures	75	Building people skills
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	80	Serving society and the environment
103-2	The management approach and its components	80	Serving society and the environment
103-3	Evaluation of the management approach	80	Serving society and the environment
GRI 413: Local communities 2016			
413-1	Operations with local community engagement, impact assessments, and development programs	82-84	Serving society and the environment
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	68	Leveraging relationships
103-2	The management approach and its components	68	Leveraging relationships
103-3	Evaluation of the management approach	68	Leveraging relationships
GRI 414: Supplier social assessment 2016			
414-1	New suppliers that were screened using social criteria	68	Leveraging relationships

GRI Standard/Disclosure		Page No.	Report commentary title/Remarks
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	63-68	Leveraging relationships
103-2	The management approach and its components	63-68	Leveraging relationships
103-3	Evaluation of the management approach	63-68	Leveraging relationships
GRI 417: Marketing and labeling 2016			
417-2	Incidents of non-compliance concerning product and service information and labeling	–	No incidents of non-compliance concerning product and service information and labelling reported
417-3	Incidents of non-compliance concerning marketing communications	–	No incidents of non-compliance concerning marketing communications reported
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	63-64	Leveraging relationships
103-2	The management approach and its components	63-64	Leveraging relationships
103-3	Evaluation of the management approach	63-64	Leveraging relationships
GRI 418: Customer privacy 2016			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	64	Leveraging relationships
GRI 103: Management approach 2016			
103-1	Explanation of the material topic and its boundary	43-45	Strategic framework
103-2	The management approach and its components	43-45	Strategic framework
103-3	Evaluation of the management approach	43-45	Strategic framework
GRI 419: Socioeconomic compliance 2016			
419-1	Non-compliance with laws and regulations in the social and economic area	–	No incidents of non-compliance concerning marketing communications reported

Corporate Information

GRI 102-3, 102-5

Name

The Saudi Investment Bank

Commercial registration

1010011570

Registered logo

البنك السعودي للاستثمار
The Saudi Investment Bank

Legal form

The Saudi Investment Bank (the Bank), a Saudi joint stock company, was formed pursuant to Royal Decree No. M/31 dated 25 Jumada II 1396H, (corresponding to June 23, 1976) in the Kingdom of Saudi Arabia.

Stock exchange listing

The shares of the Bank are listed on the Saudi Stock Exchange (Tadawul)
Stock code: 1030

Auditors

Deloitte and Touche & Co.
KPMG Al Fozan & Partners

Head office/Registered office

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Web: www.saib.com.sa

SCAN to view the online version
www.saib.com.sa/integratedreport2019

Subsidiary and associate companies

Name of Subsidiary	Country of operation	Country of establishment
Alistithmar for Financial Securities and Brokerage Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Investment Real Estate Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Investment First Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
SAIB Markets Limited Company	Kingdom of Saudi Arabia	Cayman Islands

Name of Associate	Country of operation	Country of establishment
American Express (Saudi Arabia)	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Saudi Orix Leasing Company	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia
Amlak International for Finance and Real Estate Development Co.	Kingdom of Saudi Arabia	Kingdom of Saudi Arabia

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